Initiation Coverage

May 27, 2022

Recommendation	**Overweight**
Current Price (SAR)	24.4
Target Price (SAR)	28.0
Upside/Downside (%)	14.9%

As of May 26th, 2022

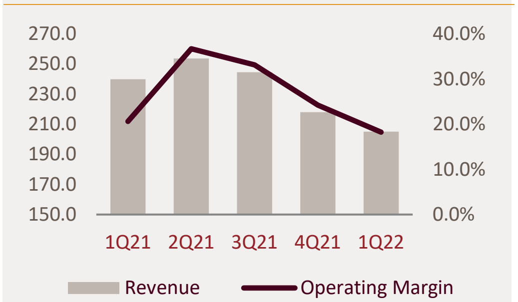
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	2.0
52-Wk High (SAR)	53.0
52-Wk Low (SAR)	23.1
Total Outstanding shares (in mn)	81.6
Free Float (%)	81.9%

SISCO Vs TASI (Rebased)

Price Performance (%)	**Absolute**	**Relative**
1m	(11.4%)	(4.2%)
6m	(18.7%)	(29.6%)
12m	(49.0%)	(68.6%)

Major Shareholders (%)	**%**
Xenel Industries Co Ltd.	14.69%

Revenue (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of 26th May 2022

Saudi Industrial Services Company (SISCO), together with its subsidiaries, undertakes capital investment in desalination plants, ports and container terminals, industrial estate development, bonded and re-export zones, and other projects in the Kingdom of Saudi Arabia. The company operates through three segments: Port Development and Operations; Logistic Parks and Support Services; and Water Desalination and Distribution, which contributed 78.6%, 11.0%, and 10.5%, respectively, to the total revenue in FY21.

SISCO's revenues dropped 3.5% YoY to SAR 985.4mn in FY21, while cost of sales declined 9.7% YoY to SAR 538.9mn. Consequently, gross profit rose 5.4% YoY to SAR 446.5mn. Operating profit climbed 8.6% YoY to SAR 278.3mn, while operating margin improved 315 bps to 28.2% in FY21. The net income declined 58.5% YoY to SAR 57.9mn in FY21, owing to higher finance cost.

We initiate SISCO with an "Overweight" rating, as the company aims to accelerate revenue growth and improve its portfolio mix amid improved market conditions after two challenging years.

Leading container operator with strong growth potential

SISCO, through its subsidiary Red Sea Gateway Terminal (RSGT), is the largest container terminal operator in Jeddah Islamic Port. The company aims to increase its capacity from 4.8mn TEUs (as of 2021) to 5.2mn TEUs by the end of 3Q22. SISCO aims to transform to a multi-port operator from a single-port operator and is widening its geographical reach by connecting more shipping line services and expanding transshipment coverage to East Africa. RSGT is prioritizing asset light, brownfield assets due to their potential to accelerate cash returns. We anticipate the company's top line to benefit from the increasing capacity and container volume traffic in the long term.

Well poised to benefit from rising demand for warehousing and logistics

SISCO is focusing on expanding its presence in the logistics segment. The segment is expected to grow significantly, supported by the Vision 2030 program, which is expected to transform KSA into a global logistic hub. The company's logistics strategy aims to expand its warehouse portfolio through investments in industrial logistics real estate projects across the bonded re-export zone (BRZ), the Jeddah Logistics Hub, and the Jeddah Logistics Park. Additionally, over the last few years, KSA has witnessed accelerated growth in the e-commerce segment, driven by a shift in consumers' purchasing behavior (from traditional hypermarkets to online shopping). SISCO's strategy to provide end-to-end solutions for the regional e-commerce sector and to expand bonded warehouse capacity is expected to boost returns.

Improving operational efficiencies, strong financial position

SISCO's operating margins rose to 28.2% in FY21 from 13.8% in FY19, driven by higher operational efficiency. The company maintains a healthy cash balance of SAR 892.4mn and intends to invest in emerging opportunities in the logistics and port segments. Due to debt repayment and sizable increase in cash, SISCO's debt-to-equity ratio improved to 0.36x in 2021 from 0.48x in 2020. The company continues to generate strong cash flow despite operating in a challenging environment; this allows it to fund its Capex plan and a growing dividend.

Valuation: We valued SISCO using the DCF approach to arrive at a fair value of SAR 28.0 per share. We considered WACC at 8.4% with a terminal growth rate of 2.0%.

	2021	**2022e**	**2023e**	**2024e**
Revenues (SAR mn)	985	911	1,046	1,158
Gross Profit (SAR mn)	446	387	450	503
EPS (SAR)	0.71	0.36	0.64	0.90
Operating Margin (%)	28.2%	22.6%	23.0%	23.4%
RoE (%)	3.9%	2.0%	3.5%	4.9%
P/E (x)	43.3x	67.0x	37.9x	26.9x

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Valuation Summary

Explanation of the valuation methodology and assumptions

We valued SISCO using the DCF approach to arrive at a fair value of SAR 28.0 per share. We considered WACC at 8.4% with a terminal growth rate of 2.0%.

In relative terms, Dur is trading at an EV/EBITDA of 6.0x, showing a discount of 43.4% to its sector peers.

SAR Mn	FY 2021A	FY 2022E	FY 2023E	FY 2024E	FY 2025E
EBIT	278	206	241	271	304
Less: Taxes	(18)	(7)	(13)	(19)	(25)
Add: Depreciation, amortization and impairment	174	169	175	185	188
Less: Changes in working capital	(203)	(22)	(28)	(44)	(80)
Less: Net capital expenditure	(113)	(117)	(138)	(165)	(195)
Free Cash Flow to firm	**117**	**228**	**237**	**228**	**192**
Discount Factor		0.9	0.9	0.8	0.7
PV of free cash flow to firm		216	207	184	143
Net Present Value (A)					**751**
PV Terminal Value (B)					**2,281**
Assumed Terminal Growth Rate					**2.0%**
Discount Rate					**8.4%**

Enterprise Value (A+B)	**3,032**
Total Cash	892
Total Debt	819
Minority Interest	810
Equity Value in SAR mn	**2,295**
Number of shares in mn	81.6
Target Price in SAR per share	**28.0**
CMP in SAR as on May 23rd 2021	**24.4**
Upside/(Downside) to current market price	**14.9%**

WACC Assumptions	
Risk free rate	3.5%
Market returns	7.5%
Beta	0.9x
Cost of equity	**10.1%**
Post tax cost of debt	**3.2%**
Weight of equity in capital structure	75.4%
Weight of debt in capital structure	24.6%
WACC	**8.4%**

Source: Company Financials, Yaqeen Capital Estimates

Risks

Upside Risks:

- Higher-than-expected recovery in gateway and transshipment volumes may significantly increase top line and bottom line.
- Rise in E-commerce activities driven by shift in purchasing behavior would positively impact the revenues of logistic players in KSA.

Downside Risks

- With 100% foreign ownership allowed in retail and wholesale sector, new entrance of global players will lead to increasing competition leading to rise in M&A, which would result in intensified competition in freight forwarding market.
- Ongoing disruptions in global supply chains due to Russia-Ukraine war would impact the company's revenue and profits.
- Weaker-than-expected container traffic volume and Wearhouse occupancy could weigh on revenue growth.

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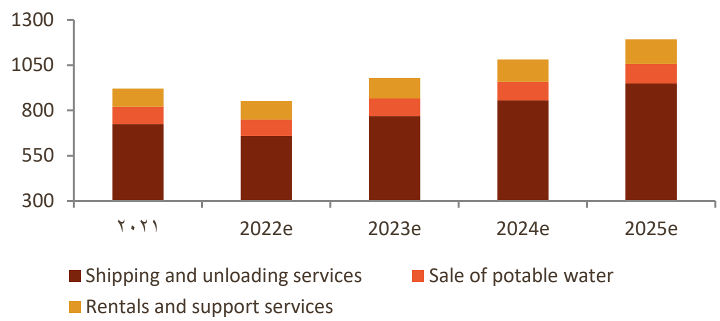
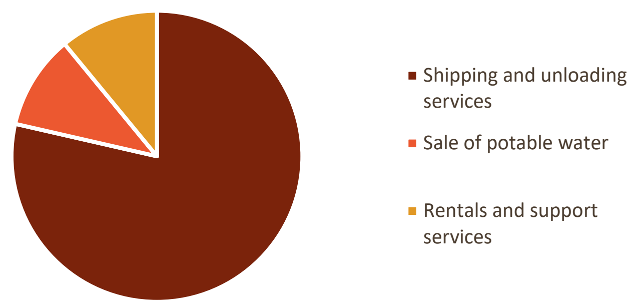
Key Charts

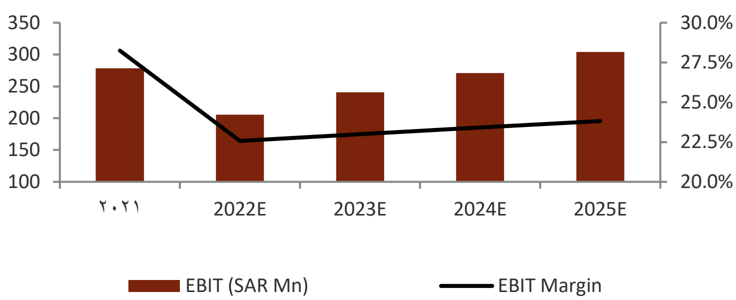
Revenue (SAR mn)



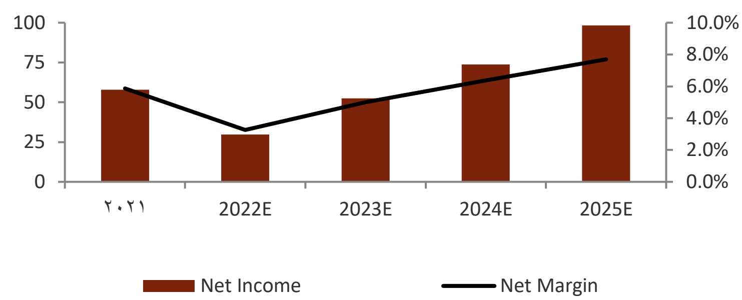
Revenue Split (2021)



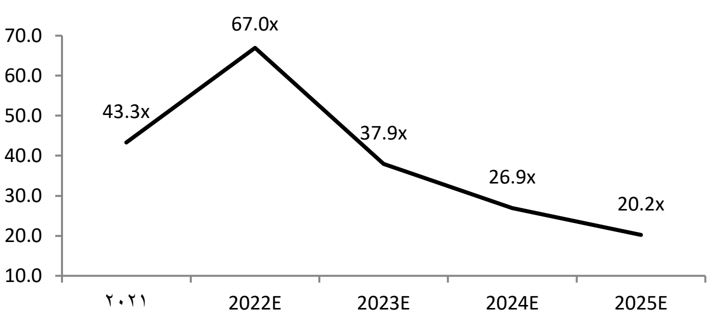
EBIT & EBIT Margin



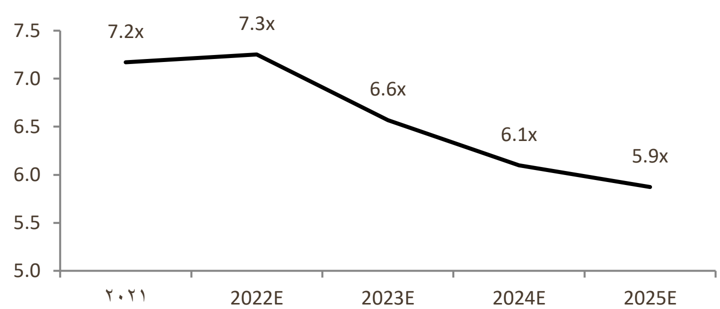
Net income & Net Margins



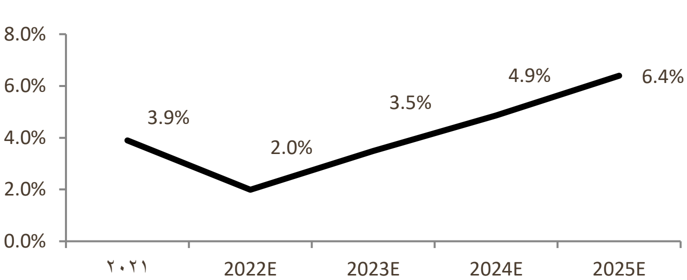
Price to Earnings



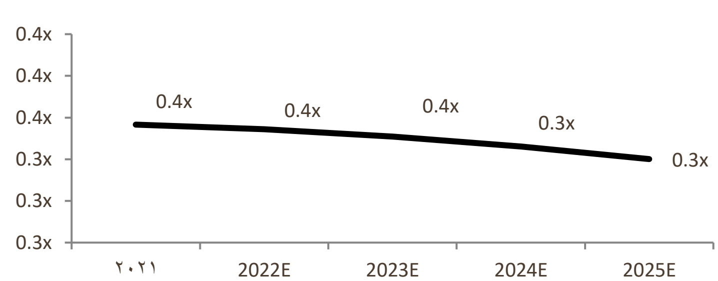
EV/EBITDA



Return on Equity



Debt/Equity



Source: Yaqeen Capital Estimates

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Summary Financials

P&L (SAR mn)	2021	2022e	2023e	2024e
Sales	985	911	1,046	1,158
Gross Profit	446	387	450	503
EBITDA	452	375	416	456
EBIT	278	206	241	271
G&A Expenses	(152)	(164)	(186)	(204)
Selling & marketing	(17)	(18)	(23)	(28)
Financial charges	(204)	(202)	(206)	(207)
Other income	15	18	21	23
PBT	114	50	88	124
Zakat	(18)	(7)	(13)	(19)
Net Income	58	30	52	74
EPS (SAR)	0.71	0.36	0.64	0.90
DPS	0.80	0.29	0.51	0.72

BS (SAR mn)	2021	2022e	2023e	2024e
Cash	892	914	926	914
Current Assets	1,091	1,105	1,153	1,182
Fixed Assets	454	448	449	453
Intangibles	3,062	3,015	2,978	2,956
Total Assets	4,995	4,987	5,031	5,078
Current Liabilities	532	502	510	507
Non-current debt	737	740	743	747
Current debt	82	81	81	81
Shareholders Equities	1,486	1,492	1,502	1,517
Total Liabilities	2,699	2,671	2,683	2,684

CF (SAR mn)	2021	2022e	2023e	2024e
Working Capital Changes	(203)	(22)	(28)	(44)
Cash Flow from Operating Activities	236	161	190	209
Capex	(113)	(117)	(138)	(165)
Cash Flow from Investing Activities	511	(118)	(139)	(166)
Changes in Debt	(21)	(10)	(10)	(10)
Dividends	(98)	(24)	(42)	(59)
Cash Flow from Financing Activities	(192)	(22)	(39)	(54)

Source: Bloomberg, Company Financials, Yaqeen Capital

Growth	2021	2022e	2023e	2024e
Revenue	-3.5%	-7.6%	14.9%	10.6%
EBITDA	7.6%	-17.1%	11.0%	9.6%
Operating profit	8.6%	-26.1%	17.0%	12.7%
PBT	-51.3%	-56.1%	76.6%	40.7%
Net Income	-58.5%	-48.7%	76.6%	40.7%

Ratios (%)	2021	2022e	2023e	2024e
Gross Margin	45.3%	42.5%	43.0%	43.4%
EBITDA Margin	45.9%	41.1%	39.7%	39.4%
EBIT Margin	28.2%	22.6%	23.0%	23.4%
Net Margin	5.9%	3.3%	5.0%	6.4%
ROE	3.9%	2.0%	3.5%	4.9%
ROA	1.2%	0.6%	1.0%	1.5%
ROCE	6.2%	4.6%	5.3%	5.9%
Debt/Equity	35.7%	35.4%	35.1%	34.6%
Net Debt/EBITDA	-16.3%	-24.8%	-24.5%	-18.8%
FCF Yield	4.7%	11.5%	11.9%	11.5%
Dividend Yield	2.6%	1.2%	2.1%	3.0%

Valuation	2021	2022e	2023e	2024e
P/E	43.3x	67.0x	37.9x	26.9x
P/B	1.7x	1.3x	1.3x	1.3x
EV/EBITDA	7.2x	7.3x	6.6x	6.1x
EV/EBIT	11.6x	13.2x	11.4x	10.3x
EV/Sales	3.3x	3.0x	2.6x	2.4x

Peer Valuations	P/E	EV/EBITDA
APM Terminals Bahrain B.S.C.	14.7x	11.7x
Hamburger Hafen und Logistik Aktiengesellschaft	13.3x	4.3x
COSCO Shipping ports	6.5x	8.0x
Salalah Port Services Company SAOG	21.0x	4.7x
Jassim Transport & Stevedoring Company K.S.C.	23.2x	7.7x
International Container Terminal Services, Inc	19.8x	9.6x
Shanghai International Port (Group) Co., Ltd	8.3x	12.0x
Adani Ports and Special Economic Zone Limited	32.7x	21.1x
Abu Dhabi Ports Company PJSC	22.6x	18.0x
Westports Holdings Bhd.	18.1x	10.6x
Port of Tauranga	37.7x	24.8x
SISCO	**40.6x**	**6.0x**
Sector Median	**19.8x**	**10.6x**
Premium/ (Discount)	**104.8%**	**-43.4%**

Yaqeen Capital Rating Methodology

Yaqeen Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from Yaqeen Capital.

Yaqeen Capital

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