

2Q22 Results Update

October 3, 2022

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	21.8
Target Price (SAR)	24.1
Upside/Downside (%)	10.8%

As of October 2, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	1.8
52-wk High (SAR)	43.0
52-wk Low (SAR)	19.4
Total Outstanding shares (in mn)	81.6
Free Float (%)	79.8%

SISCO vs. TASI (Rebased)

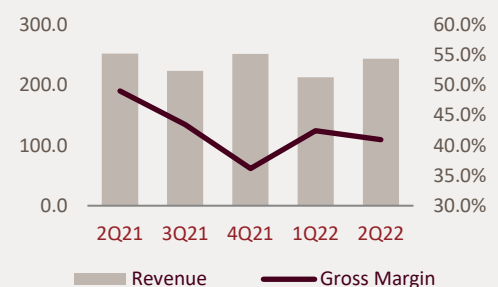


Price Performance (%)	Absolute	Relative
1m	(9.2%)	(3.9%)
6m	(23.4%)	(11.2%)
12m	(49.2%)	(49.1%)

Major Shareholders (%)

Xenel Industries Co Ltd.	14.69%
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Revenue (SAR mn) and Gross Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;  
Data as of October 2, 2022

Global supply chain disruptions drag top line in 2Q22

Saudi Industrial Service Company (SISCO)'s revenue declined 3.5% YoY to SAR 243.4mn in 2Q22 due to lower revenue contribution from shipping and unloading services, and rentals and support services. Cost of sales increased 11.8% YoY to SAR 143.7mn during the quarter. Consequently, the company's gross profit fell 19.3% YoY to SAR 99.7mn in 2Q22, while gross margin contracted 805bps YoY to 41.0%. SISCO's operating profit plunged 36.9% YoY to SAR 52.7mn during the quarter due to an increase in general and administration expenses, while selling and distribution expenses decreased. Consequently, operating margin narrowed 1,149bps YoY to 21.7% in 2Q22. Increase in finance cost and zakat expenses countervailed the rise in other income and higher share of profit of equity accounted investees. Consequently, net profit (attributable to shareholders) decreased 86.1% YoY to SAR 3.1mn in 2Q22. Meanwhile, net profit margin contracted to 1.3% in 2Q22 from 8.9% in 2Q21.

SISCO reported weak performance during the quarter, mainly as the current supply chain disruption affected the gateway and transshipment volumes in the Ports segment. Consequently, revenues from shipping and unloading services dropped 14.1% YoY to SAR 165.7mn in 2Q22. Nonetheless, the Port segment has gained momentum since 1Q22. SISCO's Water segment also witnessed improvement as production and volumes expanded following a decrease in production during 1Q22. Revenues from sale of potable water rose 14% YoY to SAR 25.4mn during the quarter. On quarterly basis, revenues from the Water segment surged 50.3% following resumption of operations at the Kindasa plant after disruptions in 1Q22. Headwinds in the global ports and logistics sectors impacted margins during the quarter as the company's gross margin slipped to 41.0% in 2Q22 from 49.0% in 2Q21. SISCO's recently acquired 31.7% direct equity stake in Green Dome Investments LLC from its subsidiary Saudi Trade & Export Development Company. This strengthens the company's strategy of growing its footprint in logistics services and maintaining its leading position with presence across the logistics value chain. The company continues to make advancements in delivering on its five-year strategy to drive long-term value creation. Additionally, the management believes gateway and transshipment volumes are displaying promising signs of recovery. Moreover, domestic consumption in Saudi Arabia is expected to be stronger in 2H22 on expected growth in Umrah activities. The supply chain pressure is estimated to ease in the second half of the year; this will positively impact the Ports and Logistics segments. Considering the above-mentioned factors, we maintain our "Overweight" rating on the stock.

- SISCO's revenue dropped 3.5% YoY to SAR 243.4mn in 2Q22 due to a decline in revenue from shipping and unloading services, and rental and support services. However, on quarterly basis, revenue rose 14.5% from SAR 212.6mn in 1Q22, driven by recovery of gateway and transshipment volumes in the Ports segment.
- Gross profit fell 19.3% YoY to SAR 99.7mn in 2Q22 as cost of sales grew 11.8% YoY during the quarter. Consequently, gross margin fell to 41.0% in 2Q22 from 49.0% in 2Q21.
- Rise in operating expenses led to a 36.9% YoY fall in operating profit to SAR 52.7mn in 2Q22. Meanwhile operating margin dropped to 21.7% in 2Q22 from 33.1% in 2Q21.
- The company reported net profit of SAR 3.1mn in 2Q22 vis-à-vis net profit of SAR 22.5mn in 2Q21, due to rise in finance and zakat expenses during the quarter. Subsequently, net margin lowered to 1.3% in 2Q22 from 8.9% in 2Q21.
- The company recorded profit per share of SAR 0.04 in 2Q22 as against EPS of SAR 0.28 in 2Q21.
- SISCO's Board of Directors declared 4% interim cash dividend for FY22 at SAR 0.4 per share amounting to SAR 32.6mn.
- On August 20, 2022, SISCO's Board of Directors recommended repurchase up to 10%, or 8.16mn ordinary shares maximum, as treasury shares.

**Valuation:** We revise our target price to a fair value of SAR 24.1 and maintain "Overweight" rating on the stock

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	243.4	252.1	(3.5%)	967.4	985.4	(1.8%)
Gross Profit (SAR mn)	99.7	123.6	(19.3%)	408.7	446.5	(8.5%)
EBITDA (SAR mn)	96.1	127.1	(24.4%)	386.2	452.1	(14.6%)
Net Profit (SAR mn)	3.1	22.5	(86.1%)	30.0	57.9	(48.1%)
EPS Basic (SAR)	0.04	0.28	(86.1%)	0.37	0.71	(48.1%)
Gross Margin (%)	41.0%	49.0%	(8.0%)	42.2%	45.3%	(3.1%)
EBITDA Margin (%)	39.5%	50.4%	(10.9%)	39.9%	45.9%	(6.0%)
Net Profit Margin (%)	1.3%	8.9%	(7.6%)	3.1%	5.9%	(2.8%)

Source: Company Financials, Yaqeen Capital

## 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  $\geq 10\%$ .

**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  $\geq 10\%$ .

**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.

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