Sisco/Saudi Arabia

All Industries –All Sectors

SISCO AB: Saudi Arabia

19 January 2020

US$0.426bn	85%	US$1.825mn
Market cap	Free float	Avg. daily volume

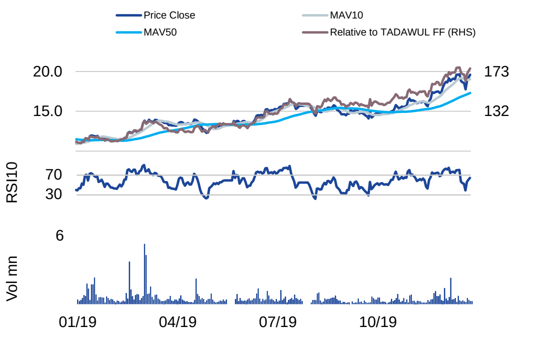
Target price	27.00	29% over current
Current price	21.00	as at 16/1/2020

Underweight | Neutral | **Overweight**

Key themes

The recent contract to operate and develop Jeddah Islamic port will almost double the capacity of the company from 2.5mn TEU to 5.2mn TEU. This will contribute to double digit revenue growth going forward as per our analysis. Also the capacity expansion in bonded warehouse and reinstatement of inspection fees will boost the net profit margins significantly.

Performance



Source: Bloomberg

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Saudi Industrial Services Co (SISCO)

Key Beneficiary of Saudi Vision 2030; Initiating coverage with a TP of SAR27/sh

We initiate coverage on SISCO with a target price of SAR27/sh based on equal weights given to DCF valuation (SAR26/sh) and P/E based relative valuation (SAR27/sh). SISCO is one of the largest players in the shipping, loading and unloading services in Saudi Arabia. The main reason why we like the company is that it aligns well with the government's initiative to make Saudi Arabia a leading regional logistic hub and increase the traffic through Red Sea as a part of Saudi vision 2030. The company recently earned a concession contract from Mawani (Saudi Port Authority) to develop and operate Jeddah Islamic Port from 2020 for a period of 30 years. As per this contract, the company will invest SAR1bn over the next three years and it will double the company's handling capacity from currently 2.5mn TEU to 5.2mn TEU by 2024e thus making it the largest port service provider on the red sea. The other key business segments of the company are logistics & parks services and water solution services which are also poised to do well in coming years. Moreover some recent developments such as reinstatement of inspection fees in 2019 and removal of expat levy fees for industrial companies from 2020 further provide a significant push to the company's net profit margin in the near term. The dividend pay-out ratio in the range of 40-50% makes it further appealing for the long term investors.

An overview of deal with Mawani: Jeddah Islamic port is on the Red sea and is the largest port of Saudi Arabia with annual volumes of over 6mn TEU (twenty-foot equivalent units). It currently handles over 60% of the total imports of the country and is strategically located connecting east and west cargo. In December 2019 RSGT (Red Sea Development Gateway Terminal) a subsidiary of SISCO signed a 30 year concession contract with Saudi Port Authority (Mawani) to develop and operate Jeddah Islamic Port (JIP). Under this deal RSGT will redevelop the northern port of JIP which will significantly increase the company's handling capacity from 2.5mn TEU currently to 4.5mn TEU by c2021e and to 5.2mn TEU by c2024e. This will make RSGT the largest container terminal in Saudi Arabia on the red sea. As a part of the deal the company will invest SAR1bn over the next three years to develop the port and will record this investment as an intangible asset in its balance sheet and amortize it over the next thirty years. As per our analysis and discussion with the company the operation of existing facilities of JIP should have a positive impact from Q2 2020 and improve the top-line as it gets the right to operate the existing facilities of the port. There will not be much increment in the fixed cost for operating the port and therefore the majority of the revenue arising from JIP will flow directly to the bottom line.

Company's ownership structure and business model:

SISCO is a Saudi conglomerate having several subsidiaries; the company has three business segments as follows:

Figure 1: Ownership Summary

Subsidiaries Ownership % (as per AR 2018)	Effective Ownership	Direct Ownership	Revenue	Net Income	Assets
Ports and Terminals					
Red Sea Ports Development Company (RSPD)	61%	53%	No Impact	No Impact	No Impact
Red Sea Gateway Terminal Company (RSGT)	61%	21%	69%	41%	69%
Logistics Segment					
Saudi Trade & Export Development Company (LOGIPOINT)	76%	76%	8%	21%	12%
Support Services Operations Co. (ISNAD)	99%	97%	7%	18%	1%
Water Segment					
Kindasa Water Services Company (Kindasa)	65%	65%	16%	11%	8%
TOTAL			**100%**	**91%**	**90%**
Associates (SAR mn)			**Revenue**	**Net Income**	**Assets**
International Water Distribution Co. (TAWZEA)		50%	257.10	15.60	266.10
Saudi Al-Jabr Talke Company (SA TALKE)		33.33%	249.70	35.40	154.80
Saudi Stork Technical Services Company		45%	Stake Sold	Stake Sold	Stake Sold

Source: Company data, Al Rajhi Capital

A) The shipping loading and unloading services- In this segment company has two key subsidiaries, the Red Sea Port Development Company and Red Sea Gateway Terminal. The main business of the company is to build operate and transfer port development agreement in Saudi Arabia. It provides trans-shipment and getaway services and facilitates export and import of goods in the country. Gateway is a higher margin segment compared to the other and the current trans-shipment to getaway ratio stands at 45:55. The tariff rates for different shipment are determined based on the size of the container by the Saudi port authority (Mawani) and it varies with CPI (consumer price index). The company inspects the consignment once it arrives at the port and receives an inspection fee for the services. The inspection fee was removed in 2018 however it was reinstated in March 2019 which along with higher capacity utilization (80%) led to a strong double digit revenue growth in 9m2019. The company currently has a total handling capacity of 2.5mn TEU (twenty-foot equivalent unit) and after the recent concession contract with Mawani to operate JIP it will reach to 5.2mn by c2023e. The company has a dominant presence in Red sea and accounts for ~38% of the total handling capacity in the western region and with the new JIP deal it will reach to ~ 50% by 2021e.

Figure 2: Shipping and Loading Segment's Volume and Price Estimate

	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Volumes (TEU '000)						
Handling Capacity	2500	3500	4500	4700	5000	5200
Trans-shipment Volume	900	1126	1438	1544	1710	1872
Gateway Volume	1100	1376	1757	1887	2090	2288
Total Containers Volume	**2000**	**2503**	**3195**	**3431**	**3800**	**4160**
Utilization (%)	80%	72%	71%	73%	76%	80%
Price (SAR)						
Trans-shipment	160	160	163	163	166	166
Gateway	320	320	326	326	333	333
Inspection	30	30	30	30	30	30

Source: Company data, Al Rajhi Capital

B) The logistics parks and Services- In the logistic segment company has two subsidiaries, Saudi Trade & Export development Co (also known as "Logipoint") and Support Services operations Co (also known as ISNAD). Under this segment company provides storage services for the goods which arrive at the port. It is the only company licensed to operate a bonded warehouse in the kingdom. It has an open yard space of 750,000 sqm and bonded warehouse space of 350,000 sqm. The company plans to expand its bonded warehouse area by another 50,000sqm in the next 12-18 months. In a bonded warehouse any third party can hold their goods without paying the custom duty and that's the reason the demand for this warehouse is higher (2018 utilization: 100%; 2019e utilization: 100%) thus providing room for premium pricing. For open yard facilities the key user has been the automobile industry in the past, however as the import of automobiles fell in 2018 especially due to expat exodus the capacity utilization was just 62% in 2018 and the revenue was impacted negatively. However the capacity utilization for open yard space has improved in the first 9M 2019 as company has started renting the open space to different industries, currently e-commerce players and other logistic companies are also occupying the open yards facilities. In future the company has plans to tie up with more e-commerce players and other industrial companies to improve the occupancy rate of open yard. The latest development in the logistics business is the construction of new warehouse in the Jeddah city with a size of 50,000 sqm. This warehouse is expected to operate in 2020 and aims to cater to small retailers in the city who don't have their own warehouse. In future SISCO has plans to open more such warehouses in main cities of the kingdom thus diversifying their presence from port to various parts of the cities.

Figure 3: Logistics Segment Capacity Utilization Estimate

	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Land Area (sqm mn)	1.78	1.78	1.78	1.78	1.78	1.78
Open Yard (sqm mn)	0.75	0.75	0.75	0.75	0.75	0.75
Open Yard Occupancy (%)	80%	80%	82%	82%	82%	82%
Open Yard Occupied (sqm mn)	0.60	0.60	0.62	0.62	0.62	0.62
Total Wearhouse Area (sqm mn)	0.35	0.40	0.40	0.40	0.40	0.40
Bonded Wearhouse	0.07	0.12	0.12	0.12	0.12	0.12
Non-Bonded Wearhouse	0.28	0.28	0.28	0.28	0.28	0.28
Wearhouse Occupancy (%)	100%	100%	100%	100%	100%	100%
Wearhouse Occupied	0.35	0.40	0.40	0.40	0.40	0.40

Source: Company data, Al Rajhi Capital

c) Water Solutions- It has a desalination plant, water distribution network and waste water treatment facilities. The revenue from this segment is highly correlated with the population growth and therefore the recent expat exodus has impacted the segment in 2017 and 2018. The leisure tourist visa scheme launched in September 2019 will increase the headcounts in the country and should improve the demand for potable water. The waste water treatment business has witnessed a marginal slowdown especially in Jeddah off late however the newly signed Taif wastewater treatment plant with Saudi water partnership Co provides room for future growth.

Figure 4: City-wise distribution capacity

	Pumping Capacity (mn m3)
Riyadh	80
Jeddah	150
Waste/Recycled Water	10

Source: Company data, Al Rajhi Capital

Figure 5: Desalination Business Performance

	As on 9M 2019
Capacity (mn cubic mtrs)	22
PW pumping capacity (m3/d '000)	220
Left in concession (m3/d '000)	72
Inhabitants served ('000)	300
Years left in concession	25
No. of concessions	5
Factories served	2700
O&M projects	9
Industrial cities managed	14

Source: Company data, Al Rajhi Capital

Key Financials

Figure 6 Income Statement (SAR mn)

	FY18	FY19E	FY20E	FY21E
Revenue	564,705	725,716	876,091	1,076,455
Revenue growth%		29%	21%	23%
Cost of Revenue	-342,639	-442,687	-534,416	-656,637
Gross Profit	**222,066**	**283,029**	**341,676**	**419,817**
Gross Profit growth%		27%	21%	23%
GP Margin %	39%	39%	39%	39%
Selling and Distribution Expense	-16,395	-18,143	-18,398	-22,606
General and Administrative Expense	-117,592	-145,143	-153,477	-170,143
Operating Income	**88,078**	**119,743**	**169,801**	**227,069**
Operating Income growth%		36%	42%	34%
OP Margin %	16%	17%	19%	21%
Depreciation & Amortization	149,866	158,165	171,276	185,852
EBITDA	**237,944**	**277,908**	**341,077**	**412,921**
EBITDA growth %		17%	23%	21%
EBITDA Margin %	42%	38%	39%	38%
Finance Cost	-50,780	-42,622	-48,872	-61,372
Finance Income	501	496	906	1,413
Other Income	8,782	8,782	8,782	8,782
Share in results from equity accounted associates	23,745	23,745	23,745	23,745
Income before Zakat and Income tax	**70,327**	**110,144**	**154,363**	**199,636**
Zakat and Income tax	-4,806	-11,014	-15,436	-19,964
Net Profit for the year	**65,520**	**99,130**	**138,926**	**179,673**
Net Profit Growth %		51%	40%	29%
Net Profit Margin %	12%	14%	16%	17%
EPS (SAR)	**0.80**	**1.21**	**1.70**	**2.20**

Source: Company data, Al Rajhi Capital

Figure 7 Cash Flow (SAR mn)

	FY18	FY19E	FY20E	FY21E
OPERATING ACTIVITIES				
Net cash from operating activities	183,951	225,729	289,546	346,560
Net cash from /(used in) investing activities	20,742	-12,094	-267,582	-274,896
Net cash (used in)/from financing activities	-174,817	-49,565	180,537	160,164
Net increase/(decrease) in cash and cash equivalent	29,876	164,071	202,501	231,828
Cash and C.E at the end of the year	180,584	344,655	547,155	778,983

Source: Company data, Al Rajhi Capital

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Figure 8 Balance Sheet (SAR mn)

	FY18	FY19E	FY20E	FY21E
Assets				
Cash and Cash Equivalent	180,584	344,655	547,155	778,983
Inventories	21,303	30,321	36,604	44,975
Trade receivables, prepayments and other receivables	108,033	139,178	168,018	206,443
Due from related parties	9,920	9,920	9,920	9,920
Total Current Assets	**319,840**	**524,074**	**761,697**	**1,040,322**
Property, plant and equipment	896,944	843,910	791,598	740,408
Intangible Assets	1,162,103	1,092,037	1,263,453	1,426,249
Investment Properties	143,016	134,439	126,036	117,869
Investment in associates	121,115	130,465	139,816	149,166
Financial assets at FVOCI	17,900	17,900	17,900	17,900
Goodwill	8,777	8,777	8,777	8,777
Trade receivables, long term	8,041	8,041	8,041	8,041
Total Non-Current Assets	**2,357,895**	**2,235,569**	**2,355,621**	**2,468,410**
TOTAL ASSETS	**2,677,735**	**2,759,644**	**3,117,318**	**3,508,732**
Current Liabilities				
Current portion of long term debt	153,414	153,414	153,414	153,414
Trade payables, accrued and other current liabilities	159,712	194,054	234,264	287,841
Due to related parties	892	892	892	892
Total Current Liabilities	**314,018**	**348,361**	**388,571**	**442,148**
Non Current Liabilities				
Long term loan and bank facilities	699,027	699,027	949,027	1,199,027
Employees' end of services benefits	27,216	25,217	23,218	21,219
Long term provisions	61,504	61,504	61,504	61,504
Derivative financial instrument	4,538	4,538	4,538	4,538
Total Non Current Liabilities	**792,284**	**790,285**	**1,038,286**	**1,286,287**
Share holders Equity				
Share Capital	816,000	816,000	816,000	816,000
Share Premium	36,409	36,409	36,409	36,409
Statutory Reserves	71,290	71,290	71,290	71,290
Other componets of Equity	5,907	5,907	5,907	5,907
Retained Earnings	158,627	179,786	209,439	247,788
Equity attributable to parent	**1,088,234**	**1,109,393**	**1,139,046**	**1,177,395**
Non Controlling Interest	483,198	511,605	551,415	602,902
Total Share holder Equity	**1,571,433**	**1,620,998**	**1,690,461**	**1,780,297**
TOTAL LIABILITIES AND EQUITY	**2,677,735**	**2,759,644**	**3,117,318**	**3,508,732**

Source: Company data, Al Rajhi Capital

Valuations table and Scenario Analysis

Figure 9 Summary of DCF valuation

		FY20E	FY21E	FY22E	FY23E	FY24E
Operating profit Before Interest and Tax		169,801	227,069	225,534	235,985	239,119
Tax rate		*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Post-tax operating profit (NOPAT)		**152,821**	**204,362**	**202,981**	**212,386**	**215,207**
Add: Depreciation & amortization		171,276	185,852	194,560	204,385	205,402
Less: Change in working capital		5,088	6,779	2,152	4,015	3,344
Less: Capex		(295,995)	(306,514)	(250,000)	(250,000)	(170,000)
Free Cash Flow to Firm		**33,191**	**90,480**	**149,692**	**170,786**	**253,953**
FCF growth		-85.1%	172.6%	65.4%	14.1%	48.7%
Discount factor		*0.92*	*0.85*	*0.79*	*0.72*	*0.67*
PV of Free Cash Flows		30,694	77,120	117,597	123,660	169,439
Sum of present values of FCFs	**518,509**					
Perpetual Growth Rate (g)	2.20%					
Free cash flow (t+1)	259,540					
Terminal value	**4,121,313**					
Present value of terminal value	**2,749,764**					
EV	**3,268,273**					
Less: Net debt	(780,289)					
Less: Minority	(501,181)					
Add: Investment in associates	133,498					
Equity value	**2,088,765**					
Shares O/s	81,600					
Fair value per share (SAR)	**26**					
Upside/Downside	21.5%					
Current Price	21					

Source: Company data, Al Rajhi Capital

Figure 10 Summary of Relative Valuation

EPS 2020e	1.70
PE Multiple (estimated)	16x
Fair value per share (SAR)	**27**

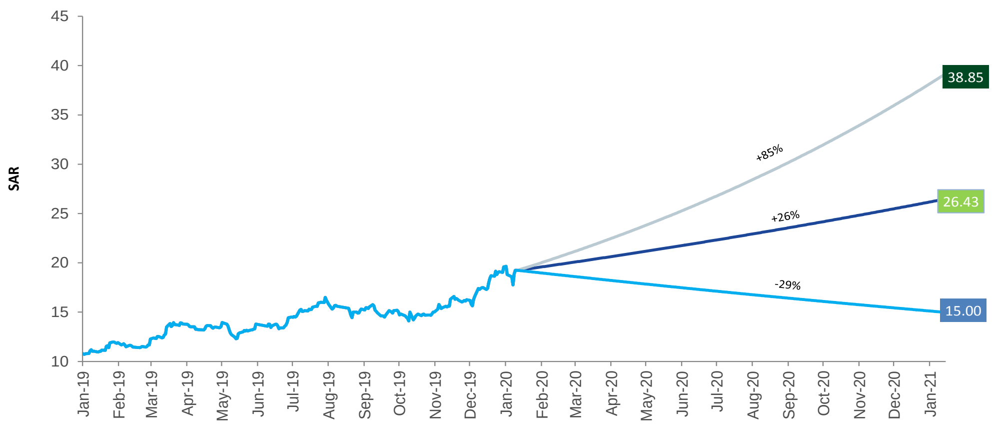
Source: Company data, Al Rajhi Capital

Figure 11 Weighted Average Target Price

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (RO)	Upside/Downside
DCF	26.00	50%	12.81	24%
Relative Valuation	27.00	50%	13.62	29%
Fair Value (SAR)			27.00	
Current Market Price			21.00	
Upside/(Downside)			29%	

Source: Company data, Al Rajhi Capital

Figure 12 Bull, Bear and Base case scenario target price



Source: Company data, Al Rajhi Capital

Key Assumption

- For calculating the port segment revenue we have assumed the total handling capacity to be 3.5mn TEU for 2020e because the additional 2mn TEU capacity will be available only for six months thereby taking an average for whole year.
- The transhipment to getaway ratio for our base case is 45:55 as was the case during the first 9m2019.
- We have converted forty-feet equivalent unit (FEU) into twenty-feet equivalent unit (TEU) in-line with the industry standards and have considered a blended price of SAR160 per container for trans-shipment and SAR320 for getaway.
- The tariffs for different containers are decided by Saudi Port authority (Mawani) and we have taken the tariff from Mawani's website after consulting with the company. The tariffs are increased based on CPI and accordingly we have increased the tariffs in c2021e and c2023e by 2%. For inspection revenue we have assumed the tariff to be SAR30 per container.
- For logistics segment we have considered the occupancy rate for open yard to be 80% as it was for the first 9m2019, since the demand for these yards have been adversely impacted by slowdown in the auto sector in the past. The pricing for open yard is SAR90 per sqm as per our calculations.
- For bonded and non-bonded warehouse the occupancy is considered to be 100% since it is in high demand mainly because bonded warehouse could be used for storing the goods without paying the custom duties for a considerable amount of time, allowing its customers to re-export the goods. The company indicated a 50,000sqm increase in capacity for these warehouses over the next 12-18 months. The pricing for bonded warehouse is considered to be SAR300 per sqm.
- For water desalination we have assumed the growth to be 3% in 2020e which is due to increase in volume. From c2021e to c2024e the growth is assumed to be nil as the growth depends on population and expats. The price is assumed to be SAR5.6/m3.
- The investment of SAR1bn for JIP deal over the next four years is treated as intangible assets, since it gives the company a concessional right to operate the port and collect the revenue for the next 30 years. Accordingly this SAR1bn investment gets amortized over the next 30 years rather than being depreciated as normal PP&E.

As per our calculations the gross margins for different segments are as follows:

Figure 13 Gross Margins segment wise

Segment Wise Margin Analysis	2018
Shipping and unloading services	388,351
Direct Cost	-238,243
Gross Profit	150,108
GM % of the segment	39%
Sale of potable water	92,920
Direct Cost	-65,309
Gross Profit	27,611
GM % of the segment	30%
Rentals and support services	83,434
Direct Cost	-39,087
Gross Profit	44,347
GM % of the segment	53%

Source: Company data, Al Rajhi Capital

Figure 14 Key Assumptions and Facts

	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Capcity							
Port							
Container Handling (TEU mn)	2,500	2,500	3,500	4,500	4,700	5,000	5,200
Logistics							
Open Yard (sqm mn)	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Weahhouse (sqm mn)	0.35	0.35	0.4	0.4	0.4	0.4	0.4
Water Solutions							
Desalination (m3 mn)	22	22	22	22	22	22	22
Sales Voulme							
Port							
Total Container Handling (TEU mn)	1,565	2,000	2,503	3,195	3,431	3,800	4,160
Trans-shipment	762	900	1,126	1,438	1,544	1,710	1,872
Gateway	803	1,100	1,376	1,757	1,887	2,090	2,288
Logistics							
Open Yard (sqm mn)	0.47	0.60	0.60	0.62	0.62	0.62	0.62
Weahhouse (sqm mn)	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Water							
Desalination (m3 mn)	17.2	17.2	17.6	17.6	17.6	17.6	17.6
Average Selling Price							
Port							
Container Handling (SAR)							
Trans-shipment	160	160	160	163	163	166	166
Gateway	320	320	320	326	326	333	333
Logistics							
Open Yard (sqm mn)	90	90	90	90	90	90	90
Wearhouse (sqm mn)	300	300	300	300	300	300	300
Water							
Desalination (m3 mn)	5.3	5.6	5.6	5.6	5.6	5.6	5.6

Source: Company data, Al Rajhi Capital

Key Investment Themes

RSGT and Mawani deal provides significant upside in port revenue: Recently RSGT (Red Sea Development Gateway Terminal) signed a 30 year concession contract with Saudi Port Authority (Mawani) to develop and operate northern region of Jeddah Islamic Port (JIP). Under this deal RSGT will redevelop the northern port of JIP which will significantly increase the company's handling capacity from 2.5mn TEU currently to 4.5mn TEU by c2021e. This will make RSGT the largest container terminal in Saudi Arabia on the red sea. Jeddah Islamic port is one of the largest port of Saudi Arabia on the red sea and it is witnessing a strong growth in import and export as it has total volume of over 6mn TEU. The contract is effective from FY2020 and will reflect from Q3 2020 in the company's financial. As per our analysis the total port revenue will increase 25% y-o-y in c2020e to SAR661mn and 30% y-o-y in c2021e to SAR861mn. As per our discussion with the company the fixed cost will be very marginal in operating the JIP initially and therefore the significant portion of top-line arising from JIP should flow directly to the net profit thus enhancing near term net margins.

Reinstatement of Inspection fees provides a big push to the net profit: The inspection fee was reinstated in 2019 which improved the top-line as well as bottom line for the company in 9M2019. The inspection fees relates to the charges for checking and verifying the goods as per the custom regulations. Since there is no additional variable cost involved the fees received directly adds to the bottom line of the company. As per our calculation the inspection fees earned in 9m2019 was SAR33mn and this will continue in future.

Expat Fee waiver provides a significant cost saving in near term: The government announced the waiver of expat levy fees for industrial company and as per our analysis it should be implemented in 2020. SISCO is one of the key beneficiaries of this regulation. The company exceeds the Saudization requirement and has in total 724 Saudis and 2542 expats employees as per our calculation. Considering the expat levy fee of SAR600 per month per employee, it will lead to a cost saving of ~SAR18mn which is ~12% of the total current SG&A and this amount will directly add to the net profits of the company once implemented.

Figure 15 Potential benefit of expat fee waiver

	FY20E	FY21E	FY22E	FY23E	FY24E
No of Employeess	3,266	3,266	3,266	3,266	3,266
Saudi	724	724	724	724	724
Non Saudi	2,542	2,542	2,542	2,542	2,542
Salaries & Wages and benefits	76,241	77,766	79,321	80,908	82,526
Expat fee waived	7200	7200	7200	7200	7200
Benefit	**18,302**	**18,302**	**18,302**	**18,302**	**18,302**
as a % of Total Salaries	24%	24%	23%	23%	22%

Source: Company data, Al Rajhi Capital

The company's business is less correlated to oil and petrochemical companies: The company's business is not much correlated to oil and petrochemical exports as its key clientele is retail, manufacturing and industrial sectors and therefore it could be the key beneficiary of the Saudi vision 2030 where the government intends to make Saudi Arabia as one of the largest and most prominent logistics hub in the GCC region. After the new capacity addition the company will become the leader on the red sea and most of the export-import taking place through the western part of Saudi Arabia will involve SISCO. We believe the company is well positioned to benefit from the increasing non-oil based exports and imports the kingdom is targeting in future. We forecast the company revenue to reach ~SAR1.3bn by c2024e driven mainly by government's continuous effort to diversify the economy from oil based to non-oil based sector.

Water business to stabilize amidst rising tourism: The sale of potable water is directly related to the population growth and the additional headcount from tourism in the country. As a part of Saudi Vision 2030 the government intends to almost double the religious tourist by 2030e and the recent launch of tourist visa for leisure tourism is expected to increase the number of tourist in the kingdom which will support the demand for drinking water. Another reason why we like SISCO is that it has state of the art desalinization water treatment plant with distribution capabilities and it will take time for the competitors to gain this expertise. For waste water treatment we believe that the current slowdown is cyclical in nature as its growth is highly correlated to the growth of manufacturing activities. Due to recent structural changes the kingdom has attracted a lot of foreign investors and we believe that this should increase the manufacturing activities in the kingdom in intermediate to long term which should drive the waste water treatment segment.

Logistics demand to improve with improving retail and e-commerce business in the kingdom: The demand for company's bonded and other warehouse is totally dependent on the growth of overall manufacturing and retail business in the kingdom. After a cyclical slowdown in 2017 and 2018 we have observed consumer spending picking up in 2019, this is one of the reason we have observed the improving capacity utilization for SISCO's business segments in 2019. Going forward we see this trend to continue as the outlook for retail and e-commerce remains positive amidst reducing unemployment, favourable demographics, rising income and increasing avenues to spend. SISCO is one of the few listed companies which will benefit a lot from e-commerce growth, the online sales in Saudi Arabia is still underpenetrated and as the online retailing grow in the kingdom it will lead to the demand of logistics and warehousing facilities. To cater to the rising demand for warehouse the company is planning to expand its bonded warehouse capacity by 50,000sqm in another 12-18 months and add a new non bonded warehouse inside the Jeddah to capture the demand of retailers and e-commerce players present in the city. The company is already having a business tie up with e-commerce giant Amazon and in future we believe this segment to significantly contribute to the company's revenue.

Valuation: We use equal mix of DCF and P/E based relative valuation to value SISCO. We are very bullish on SISCO as the company's business is one of the key areas where government focus is expected to increase as a part of Saudi vision 2030 plan. The recent contracts such as Jeddah Islamic port and Taif waste water treatment agreement provides strong revenue visibility in near term as well as long term. Our DCF based target is SAR26 and relative valuation target price based on 16x FY20E EPS stands at SAR27 and thus the equal weighted target price stands at SAR26 implying 26% upside from current market price of SAR21.

Key downside Risk

a) Any slowdown in manufacturing sector will impact the import and export and might impact the companies' port revenue negatively.

b) The port tariffs are dependent on the government; if the tariffs are reduced it will impact the top-line and consequentially the bottom-line of the company.

c) If the transhipment volume increases compared to getaway volume then the revenue growth as well net margins will have a negative impact since the pricing for transhipment is almost half the gateway.

d) If the government gives licensing to new bonded warehouses then the company will lose its monopoly status and the pricing in this segment might come down due to the competition.

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