

## Finance Expense Puts Pressure on Bottom-line

August 24, 2023

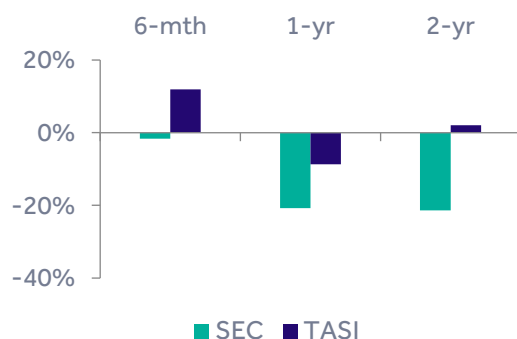
Upside to Target Price	15.4%	Rating	Buy
Expected Dividend Yield	3.8%	Last Price	SAR 20.80
Expected Total Return	19.2%	12-mth target	SAR 24.00

Market Data	
52-week high/low	SAR 27.30/20.76
Market Cap	SAR 86,674 mln
Shares Outstanding	4,167 mln
Free-float	18.76%
12-month ADTV	928,105
Bloomberg Code	SECO AB

SEC	2Q2023	2Q2022	Y/Y	1Q2023	Q/Q	RC Estimate
Operating Revenue	19,718	19,402	2%	13,379	47%	19,508
Gross Profit	6,055	6,545	(7%)	1,760	244%	6,632
Gross Margins	31%	34%		13%		34%
Operating Profit	5,834	5,861	(0%)	1,724	238%	6,577
Net Profit*	4,017	5,502	(27%)	480	737%	5,016

(All figures are in SAR mln)

\* Before deducting Mudaraba Instrument.



- SEC's revenues witnessed healthy growth of +2% Y/Y and +47% Q/Q, in-line with our expectations, despite the fact that electricity sales decreased due to implementation of the intensive consumption tariff that has been issued as per the Council of Ministers resolution.
- In 2Q, Y/Y decline in gross margin was lower as compared to the Y/Y decrease in the previous quarter. For 2Q, gross margin decreased by -303bps Y/Y versus a decrease of -635bps Y/Y in 1Q. This reflects the implementation of the Energy Conversion Agreements (ECAs), the Bulk Supply Agreement (BSA) and the transfer of Fuel Supply Agreements (mentioned in the previous report) as it is expected to increase seasonality in margins for the quarters that are affected by very high or very low electricity demanded.
- SEC registered a -27% Y/Y decline in the bottom-line to SAR 4,017 mln due to lower net margins at 20% for the quarter compared with 27% in 2Q2022. This lower net margin mainly resulted from higher finance expense, which increased by +181% Y/Y. We believe the higher finance expense will continue to put pressure on net margin going forward.
- Although there are challenges facing the Company in the coming period, we notice a continuous improvement in the Company fundamentals. While we reduce our target price slightly from SAR 24.50 to SAR 24.00 per share, we upgrade our recommendation to Buy as the stock has underperformed TASI substantially in the last 6 months.

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## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors  
For any feedback on our reports, please contact [research@riyadcapital.com](mailto:research@riyadcapital.com)

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