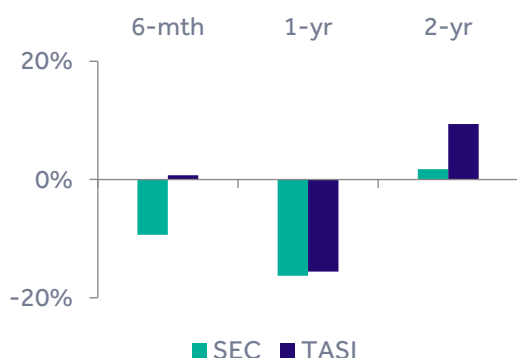


Market Data	
52-week high/low	SAR 27.50/21.04
Market Cap	SAR 95,582 mln
Shares Outstanding	4,167 mln
Free-float	18.76%
12-month ADTV	1,186,183
Bloomberg Code	SECO AB



Margins Shrink

Upside to Target Price	6.8%
Expected Dividend Yield	3.3%
Expected Total Return	10.1%

Rating	Neutral
Last Price	SAR 22.94
12-mth target	SAR 24.50

May 11, 2023

SEC	1Q2023	1Q2022	Y/Y	4Q2022	Q/Q	RC Estimate
Operating Revenue	13,379	13,531	(1%)	16,397	(18%)	14,208
Gross Profit	1,760	2,638	(33%)	3,080	(43%)	2,984
Gross Margins	13%	20%		19%		21%
Operating Profit	1,724	2,209	(22%)	2,724	(37%)	2,486
Net Profit*	480	1,517	(68%)	1,740	(72%)	1,815

(All figures are in SAR mln)

* Before deducting Mudaraba Instrument.

- SEC's operating revenues witnessed a decrease on both yearly and quarterly basis by -1% and -18%, respectively. The decrease Y/Y was on the back of lower electricity sales by SAR -439 mln due to lower volumes sold and change in the sales mix. On a quarterly basis, the volumes sold decreased due to the seasonality of sales.
- Gross margin decreased significantly to 13% this quarter from 20% last year and 19% last quarter, primarily due to higher operations and maintenance costs, which occurred prior to the summer season. In addition, the change in cost of purchased energy and fuel compared to the previous year reflects the implementation of the Energy Conversion Agreements (ECAs) and the Bulk Supply Agreement (BCA), which have been implemented in July 2022. According to the agreement, the bulk supply tariff is lower in the winter season and higher in the summer season. However, SEC applies the Bulk Supply Average tariff on an annual basis. Thus, we expect margins to jump when the volumes of electricity sold increases in the coming quarters, and lower operational costs will be another driver.
- SEC registered a decline in the bottom-line by -68% Y/Y and -72% Q/Q to SAR 480 mln. This decrease in net income was mainly a result of the increase in operational costs and higher financing cost. According to the announcement, the combined increase in these two amounted to SAR 1,243 mln.
- We maintain our target price of SAR 24.50 per share and a Neutral recommendation.

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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

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