Saudi Industrial Services Company (SISCO)

Initiation of Coverage | **Sector - Industrials**

De-risked & segueing to new sources of growth; Initiate with Outperform

Saudi investment holding company demonstrating full-cycle capabilities

We initiate coverage on SISCO with an Outperform rating, reflecting its capabilities to operate as a full-cycle investment holding company, and its recent track record of investing, incubating, monetizing, and recycling returns into new investment opportunities. We are also optimistic on the company's future potential to acquire trophy infrastructure assets, and thereafter find suitable adjacencies to solidify the company's moat across its investments. Further, targets set under various Saudi Vision 2030 initiatives such as the National Transport & Logistics Strategy etc. should benefit the company's respective segments. Separately, SISCO's stock is down ~45% from its 52-week highs, however the company's intention to buyback 10% of its total shares outstanding, along with its DPS guidance of SAR 0.8/share over 2022E & 2023E should protect against near-term downside, in our view.

RSGT de-risked; transitions to next leg of organic + M&A led growth

We believe that SISCO's partial monetization of its 21.2% stake in RSGT achieved various positive objectives. Firstly, the net IRR of 13.4% achieved from the divestment (based on our calculations) is strong result for concession-driven infrastructure assets like ports in emerging markets and was done prior to the decline in gateway volumes towards the region. Moreover, the transaction also brought in PIF and Cosco Shipping - two strategic investors, each with a unique set of potential benefits to strengthen the terminal's positioning and M&A pursuits. As early signs of the global container shipping congestion easing begin to emerge in H2-2022, gateway volumes towards RSGT should pick-up in our view. This should drive a Ports segment revenue growth of 10.2% over 2021-24E, reaching SAR 972 Mn by 2024E at strong GP margins of 53%, according to our forecasts. RSGT winning the bid to operate the 500k TEU Pattenga terminal at Chittagong Port further confirms the strong capabilities of RSGT's new promoter group mix.

LogiPoint's growing footprint to unlock higher services revenues

LogiPoint's bonded warehouse facilities represent the best adjacency for SISCO's ports business interests at RSGT, in our view. The strong demand for existing bonded warehouses (100% occupied), and revenues from upcoming facilities should unlock higher services revenue, and drive the Logistics segment's revenue to grow at a CAGR of 16.7% from SAR 101 Mn in 2021 to SAR 160.7 Mn in 2024E. While SISCO is expected to achieve its 2025 strategy target of SAR 2 Bn via its active M&A pursuits, we do see the target of achieving a combined 50% revenue & net income contribution from the Logistics & Water segments as challenging. This is primarily due to concerns over scaling the existing Water business at Kindasa.

Valuation & Risks –TP of SAR 29.50/share

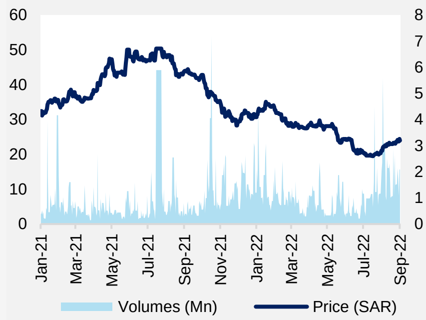
Our TP represents a 22.9% upside to SISCO's current share price and is based on SotP valuation. We value each segment individually based on a 70:30 split between DCF and EV/EBITDA multiples of its closest peers. Key downside risks: 1) Higher shipping rates from global container market congestion persisting; 2) Leaner importer inventory strategies leading to lower bonded warehouses demand.

Key Financials	2020	2021	2022E	2023E	2024E
Revenue (SAR Mn)	862	921	951	1,100	1,233
GP margins (%)	49.2%	48.5%	46.9%	47.6%	48.0%
Adjusted EBITDA (SAR Mn)	447	498	450	526	612
Adjusted EPS (SAR)	0.81	0.80	0.51	0.82	1.05
EV/EBITDA (x)	9.0	8.3	7.8	6.7	5.8
Div. yield (%)	1.9%	2.6%	3.3%	3.3%	3.3%

Sources: Kamco Invest Research, and SISCO

Outperform

CMP 01-Sept-22:	**SAR 24.00**
Target Price:	**SAR 29.50**
Upside:	**+22.9%**



Price Perf.	1M	3M	12M
Absolute	9.2%	-0.7%	-45.5%
Relative	10.6%	3.0%	-52.8%

Stock Data	
Bloomberg Ticker	SISCO AB
Tadawul Ticker	2190
Last Price (SAR)	24.00
MCap (SAR Mn)	1,958
MCap (USD Mn)	529
EV (SAR Mn)	3,524
Stock Performance - YTD (%)	-21.8%
PE - 2022E (x)	46.7
EV/EBITDA - 2022E (x)	7.8
Dividend yield - 2022E (%)	3.3%
52-Week Range (SAR)	19.48 / 44.45

Sources: KAMCO Invest Research & Bloomberg

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Valuation and Risks

Initiate with a TP of SAR 29.50/share and an 'Outperform' rating

We initiate coverage on SISCO with an Outperform rating, and a target price (TP) of SAR 29.50/share. We are optimistic on the company's future pursuit to invest into trophy infrastructure assets, transform them to achieve scale, and thereafter find suitable adjacencies to solidify the company's competitive advantage across its investments. Moreover, we are bullish on RSGT achieving organic growth for the Port's segment, as concerns over the congestion in the global container market alleviate from H2-2022 onwards. We further appreciate SISCO's penchant for acquiring port terminal concessions internationally, evidenced by the RSGT winning the bid for the 500,000 TEU Patenga Container Terminal at Chittagong Port in Bangladesh. We also consider LogiPoint's bonded warehouse facilities to be the best adjacency for SISCO's ports interests at RSGT that should additionally drive value-added services in the Logistics segment.

SISCO SotP Valuation

(Individual segments valued based on 70:30 blend between DCF & EV/EBITDA)	Valuation (SAR Mn)	SISCO's effective shareholding	SISCO's share	Notes
Port development and operations (RSGT)	3642.4	36.36%	1324.4	*Avg. EBITDA margins of 55%, WACC of 11.5% and terminal growth of 2%; 2022 EV/EBITDA of 10x*
Logistics parks and support services (LogiPoint & ISNAD)	288.12	76%	219.0	*Avg. EBITDA margins of 43%, WACC of 9.5% and terminal growth of 2%; 2022 EV/EBITDA of 10.1x*
Water desalination and distribution (Kindasa)	368.47	65%	239.5	*Avg. EBITDA margins of 32%, WACC of 11.0% and terminal growth of 2%; 2022 EV/EBITDA of 18.3x*
EV of operations	**4299.0**		**1782.9**	
Associates			412.5	*Tawzea (50%) - 2022 P/E of 20x; SA Talke (33.3%) - 2022 P/E of 10x; WESSCO (31.85%), Xenmet (19%) & Green Dome (24%) each at P/B - 1x*
Cash at center			47.9	*as of H1-2022*
ST deposits			473.3	*as of H1-2022*
Other assets SISCO center			27.9	*as of H1-2022*
Other liabilities at SISCO center			-69.8	*as of H1-2022*
Equity value prior to complexity discount			**2674.7**	
Holding company complexity discount			10%	
SISCO SotP equity value (SAR Mn)			**2407.2**	
SISCO SotP equity value per share (SAR)			**29.50**	
Current Price (as of 01 Sept 2022)			24.00	
Upside (%)			***22.9%***	

Sources: Kamco Invest Research

Our TP represents a 22.9% upside to SISCO's current share price and is based on sum-of-the-parts (SotP) valuation. We value each segment individually based on a 70:30 split between DCF and EV/EBITDA multiples of closest regional and international peers. For SISCO's individual segment DCFs, we utilize steady-state EBITDA margins, and apply segment specific WACC and net debt estimates. We model each segment's capacity progression and utilization over 10 years and assume a terminal growth rate of 2.0%. For each segment's terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC. For SISCO's associates' valuation, we value each associate based on P/E or P/B multiples. We further apply a 10% complexity discount to the aggregate equity value, as SISCO operates as a holding company, and the company's investments operate as distinct entities within its portfolio.

Pattenga terminal concession to be added to valuation once finer details are available: RSGT won the bid to be the preferred operator of the new 500,000 TEU Patenga Container Terminal at Chittagong Port on 28 July 2022. RSGT will operate the newly built USD 240 Mn terminal under the

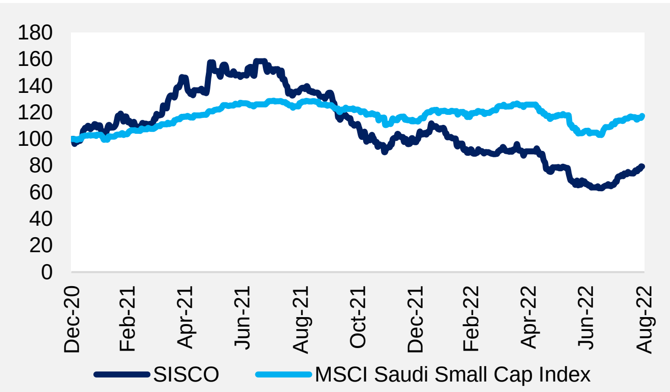
Government-to-Government (G2G) deal signed. Our primary research suggests that a broad revenue range of around USD 29 Mn – USD 46 Mn (SAR 109 Mn - SAR 173 Mn) can be achieved per annum, based on a potential steady state port utilization rate of 75%. Nevertheless, we prefer to wait for all the finer details and guidance, before including the terminals results in our model forecasts and valuation.

Tawzea IPO valuation could be in the range of SAR 202 Mn - 252 Mn: SISCO's associate Tawzea (50% stake) is finalizing procedures for listing on Saudi Exchange's Nomu-Parallel Market. Tawzea manages concessions of the operation and maintenance of Water and Wastewater facilities and the company actively bids for Saudi PPP projects mainly via consortiums of international and local players. We believe that valuing Tawzea based on a P/E multiple of 20x-25x is fair, as it adequality reflects the fundamentals of the company's growing business in wastewater treatment. The P/E multiple range is also in line with the multiples that other industry competitors in the space are trading at currently. We arrive at a total valuation range of SAR 202 Mn – 252 Mn for Tawzea, based on the aforementioned multiples. Nevertheless, for our SotP valuation, we prefer to include the lower end of the valuation range (P/E of 20x) while valuing SISCO's 50% stake in its Tawzea.

Dividend guidance and buyback intentions to support share price

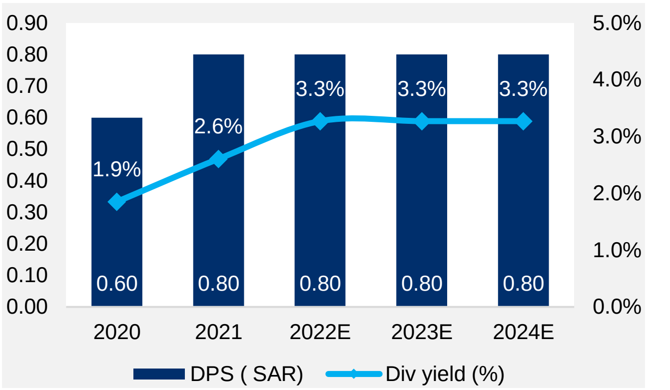
SISCO's share price underperformed the broader market and the MSCI Saudi Small Cap Index, post the sale of SISCO's 21.2% direct stake in RSGT, with current prices still ~50% lower than 2021 highs of SAR 50.4, and ~45% lower than its 52-week highs. Although the consensus view was that SISCO exited its crown jewel asset – RSGT, we believe the transaction de-risks the RSGT terminal business with the entry of strategic investors like PIF and Cosco Shipping. Moreover, we think SISCO can now utilize and reinvest returns from its RSGT divestment into key assets across its strong Ports and Logistics business lines via regional and international M&A opportunities.

SISCO vs MSCI Saudi Small Cap Index – total returns rebased to 100



Source: Kamco Invest Research, Refinitiv, Bloomberg

DPS and yield forecasts



Source: Kamco Invest Research, Bloomberg

Further, SISCO's intention to buyback 10% of the total shares outstanding in the market or 81,600 shares (announced in late Aug-2022) should protect against further share price downside over the near term. SISCO further guided for a total annual DPS of SAR 0.80/share each for 2022E and 2023E, with a semi-annual dividend payout of SAR 0.40 per share for both years. We have retained the DPS estimate for 2024E at the same levels as 2022E & 2023E, as the company's M&A pursuits should keep dividend payout lower until 2025E. Over the long term, the market is likely to focus on the company's achievements in reaching its strategic revenue target of SAR 2 Bn by 2025, recurring revenues & steady cashflows of its investments, and potential to payout 65%-75% of its net income as dividends.

Downside risks to our valuation & forecasts include:

- Declines in global GDP growth, international trade due to an economic slowdown, rising inflation and higher interest rates
- Slower non-oil GDP transformation of Saudi Arabia than outlined under the Vision 2030 plan
- Worsening of the global container market congestion, and higher resultant shipping rates
- Port tariffs being adjusted downwards by port regulatory authorities

- Competition for Ports segment from new challenger terminals impacting gateway and transshipment volumes
- Importers preferring to maintain lean inventory levels that could lead to lower import volumes, and lesser demand for bonded warehouses
- Oversupply of bonded warehouses in Saudi Arabia
- Competition in SISCO’s water segments for future desalination and wastewater treatment bids

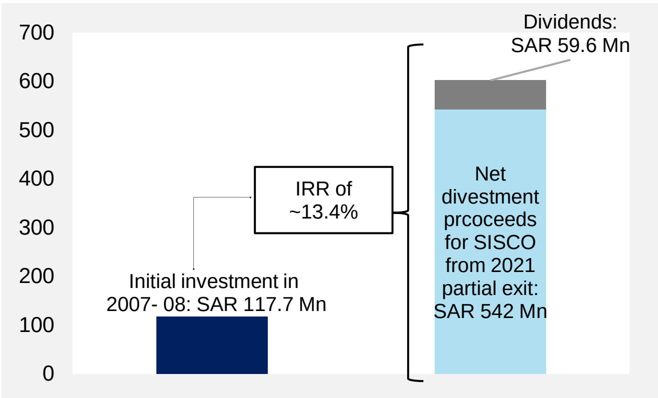
Investment Thesis

RSGT monetized and de-risked with new strategic partners

Our positive investment thesis on SISCO is derived from the company's proven capabilities to operate as a full-cycle investment holding company, given its recent track record of investing, incubating, monetizing, and recycling returns into new investment opportunities. Further, we are optimistic on the company's future potential to invest into trophy infrastructure assets, transform them achieve scale, and thereafter find suitable adjacencies to solidify the company's moat across its investments.

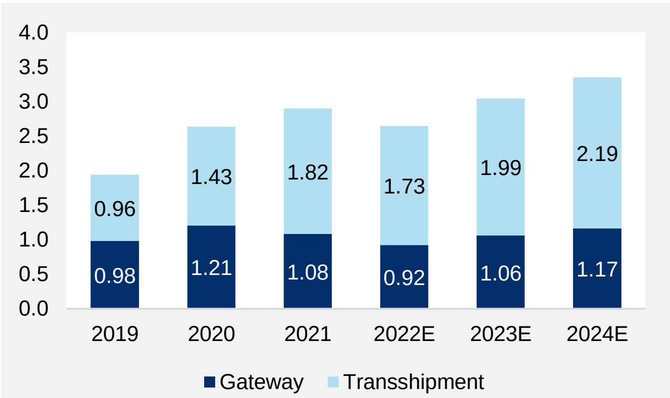
SISCO's partial RSGT exit advantageous in IRR terms: SISCO divested a 21.2% direct equity stake in its subsidiary Red Sea Gateway Terminal Limited (RSGT) at Jeddah Islamic Port (JIP) to Public Investment Fund (PIF) and COSCO SHIPPING Ports Limited (CSPL) in July-2021 and received gross proceeds of SAR 556.5 Mn. As a result, SISCO's effective shareholding currently in RSGT came down from 60.6 to 36.36%, as SISCO's effective ownership in Red Sea Port Development Company (RSPD) is 60%, which in turn owns 60% interest in RSGT. We believe that the transaction was advantageous for SISCO and its shareholders on multiple fronts. Firstly, the transaction resulted in SISCO achieving a net IRR of 13.4% based on our calculations, which is strong result for concession driven infrastructure assets like ports in emerging markets in the current landscape. Our IRR calculations are based on SISCO's initial investment of SAR 117.7 Mn in 2007-08, holding period dividends of SAR 59.6 Mn, and net divestment proceeds of SAR 542 Mn (proceeds after fees). Moreover, from a timing and valuation angle, the transaction was done broadly around when gateway volumes to the Middle East shipping lanes peaked, leaving no room for valuation adjustments in our view. Gateway volumes into Saudi as well as Western Region ports dropped due to: 1) Lower allocations of shipping lines towards the Middle East/Red Sea route driven by the container shortage from the impact of Covid-19 restrictions; 2) Significantly higher container shipping costs as middle east lanes TEU rates were up 5x-7x on average; 3) Drop in import volumes into Western Region ports such as Jeddah Islamic Port from lower number of Umrah performers and tourists due to Covid-related restrictions and upper limits on visit visas being issued (*For detailed container shipping industry overview outlook, refer page 12*).

SISCO IRR from RSGT partial exit



Source: Kamco Invest Research, SISCO

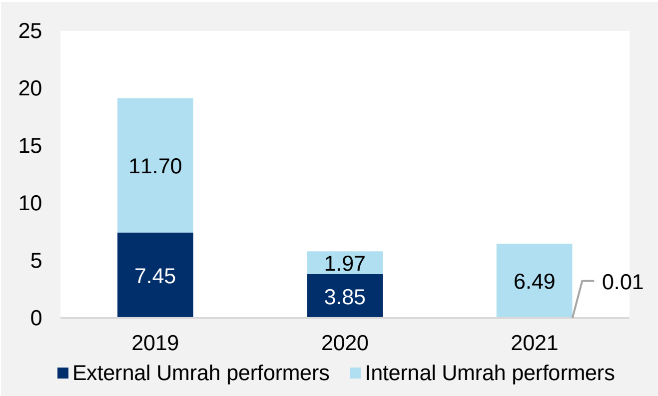
RSGT volumes (Mn TEUs)



Source: Kamco Invest Research, SISCO

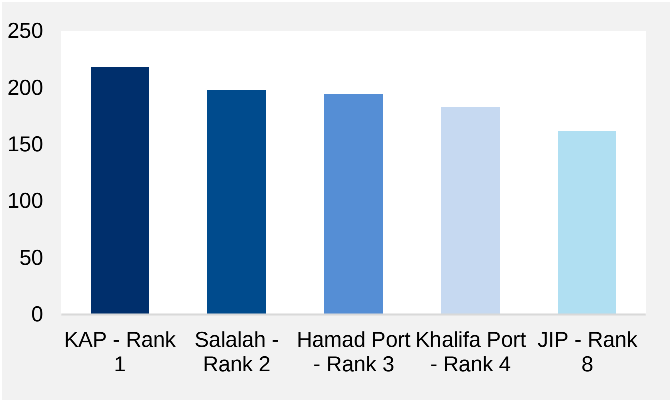
RSGT added new strategic investors for the next leg of growth: SISCO's RSGT transaction also brought in PIF and Cosco Shipping - two strategic investors, each with a unique focus and set of potential benefits to strengthen the terminal's positioning. The partnership with PIF provides synergies with the sovereign wealth fund's strong local and international investment portfolio. Cosco Shipping is an existing customer of the terminal, and amongst the fastest growing shipping lines globally which should additionally strengthen the technical expertise of the terminal. The new investors should also support RSGT in reaching key milestones set under the 30-year concession with the Saudi Ports Authority (Mawani), which was signed in 2020. Moreover, PIF and Cosco Shipping should support in the RSGT terminal staying competitive with its key competitor port in the Western Region – King Abdullah Port (KAP), as RSGT has the dominant market share of ~65% at Jeddah Islamic Port (JIP). The several bottlenecks impacting lower import volumes into JIP and RSGT seem to be easing in H2-2022, as shipping lines have begun to allocate more capacity towards the Middle East/Red Sea Lane. The easing of Covid restrictions and the lifting of visit visa quotas for Umrah performers and tourists should also aid container volumes. Further, container rates have come down 30%-40% from its peak, although they remain 2.5x higher than end 2019 spot rates. As a result, we expect total volumes at RSGT to pick up in H2-2022, and reach 2.65 Mn TEUs for full year 2022E, as the recovery in H2-2022 should bring down the y-o-y drop in volumes to single digit percentages (-8.7%). Gateway volumes which are likely to be down by around 15% y-o-y in 2022E according to our forecasts, but should recover and grow steadily in 2023E (0.92 Mn TEUs) and 2024E (1.06 Mn TEUs) by 15% and 10% respectively y-o-y. This should drive a similar growth in percentage terms for overall volumes as gateway volumes at RSGT over 2023E and 2024E, and lead to total combined transshipment and gateway volumes reaching 3.35 Mn TEUs.

Umrah performer trends (Mn)



Source: Kamco Invest Research, GASTAT

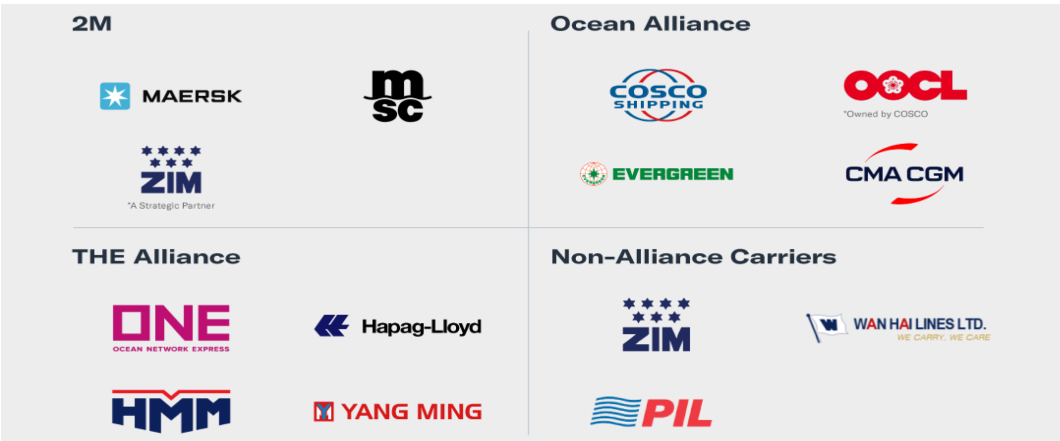
CPPI ranking of GCC container ports in global top 10 (points under administrative approach)



Source: World Bank CPPI 2021

Two-horse race between JIP and KAP for Western region container volumes leadership: King Abdullah Port (KAP) is a key competitor in the Western Region for Jeddah Islamic Port (JIP). KAP with a current capacity of 5.5 Mn TEUs, achieved 2.8 Mn TEUs of total container volumes in 2021, up 31% from 2.15 Mn TEU in 2020. Further King Abdullah Port was ranked 1st amongst the most efficient container ports in the world in the 2021 Container Port Performance Index (CPPI) report published by The World Bank and S&P Global Market Intelligence. GCC ports featured in 5 out of the top 10 global ports, with JIP ranked at 8th place.

Ocean Alliances



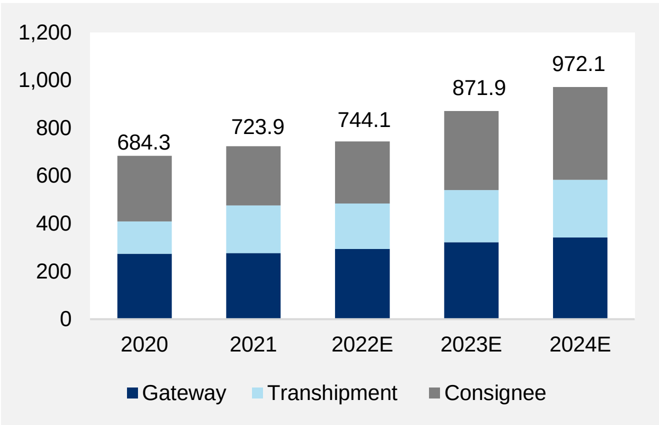
Sources: Flexport

The competition aspect between KIP and JIP and the ports' market share aspirations have various levers, of which few are temporary, while others are likely to be structural. The major shipping lines called at KAP include MSC and Maersk – the largest two shipping lines that are part of the 2M Alliance and have a combined capacity of 8.73 Mn TEUs. Shipping alliances are vessel-sharing agreements that were formed for carriers to achieve higher ocean shipping market share. As a result, bulk of the shipping capacity allocated and called at KAP is towards MSC and Maersk.

JIP on the other hand with a total capacity of ~7.6 Mn TEUs includes RSGT and DP World terminals. The higher combined terminal capacity and comparatively lower per shipping line capacity allocated allows for larger participation from more alliances beyond the dominant Ocean Alliance and the 2M alliance. Further, the higher bargaining power of shipping lines currently with importers due to the ongoing but moderating container shortage has led shipping lines to consolidate and direct shipments to specific ports. This phenomenon should be temporary and should reverse once global container volumes and freight rates normalize in our view, and container volumes should then flow to the most suitable ports for importers. Further importers will also seize the opportunity to become cost conscious about their total logistics costs once the container market recovers. Nevertheless, we do believe that both JIP and KAP will witness strong future growth of container volumes within the Western region. The two terminals are slated to be major beneficiaries of the National Transport and Logistics Strategy (NTLS), that targets a large total addressable market through a capacity of more than 40 Mn containers annually by 2030.

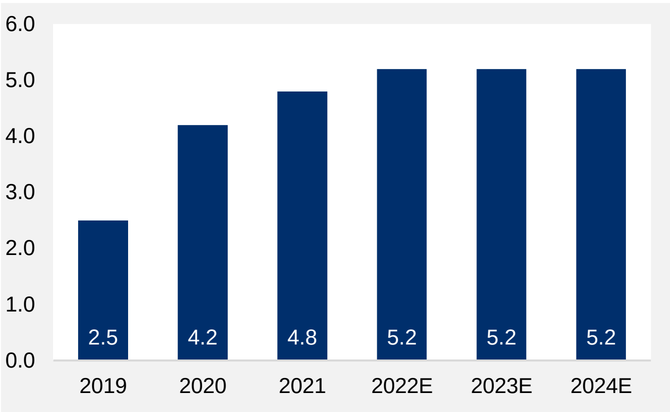
RSGT revenues to approach SAR 1 Bn by 2024-25: The RSGT terminal currently has a capacity of 4.8 Mn TEUs and is expected to reach 5.2 Mn TEUs by Q4-2022. The terminal's utilization rate reached over 77% in 2019 when the total capacity was 2.5 Mn TEU, which kicked-in the additional capex expansion plan. With 5.2 Mn TEU of capacity, the terminal's utilization rate should reach 62.3% by 2024E. Our model suggests that further expansion of the terminal would be needed by 2026E-27E, as the terminal reaches 75%-80% capacity utilization, and we expect total container volumes to grow at a CAGR of over 6% from 2021 to 2026E-27E. We do see potential to upgrade our overall container volumes forecast and gateway volumes estimates but prefer to look for more confirming evidence of the recovery in volumes in H2-2022.

RSGT revenues forecasts by segment (SAR Mn)



Source: Kamco Invest Research, SISCO

RSGT capacity upgrade development (Mn TEUs)



Source: Kamco Invest Research, SISCO

The recovery in container volumes in H2-2022 should drive RSGT revenues 2.8% y-o-y to reach SAR 744.1 Mn, driven by a higher mix of gateway and consignee revenues combined (74%) to overall revenues (excluding construction revenues). We have assumed a blended gateway + consignee rate of SAR 490/TEU over 2022E-24E, up from SAR 483/TEU in 2021, which reflects the higher mix of consignee contribution to overall revenues. The transshipment rate of SAR 110/TEU from 2021 was retained in our forecasts over 2022E-24E, as 2021 fully includes the impact of the tariff increase under the new concession signed with Mawani in 2020. We have retained our price assumptions until 2025E, after which the terminal is eligible for CPI indexed price adjustment. We have assumed an absolute increase of 7%-8% average by 2026E in our model forecasts.

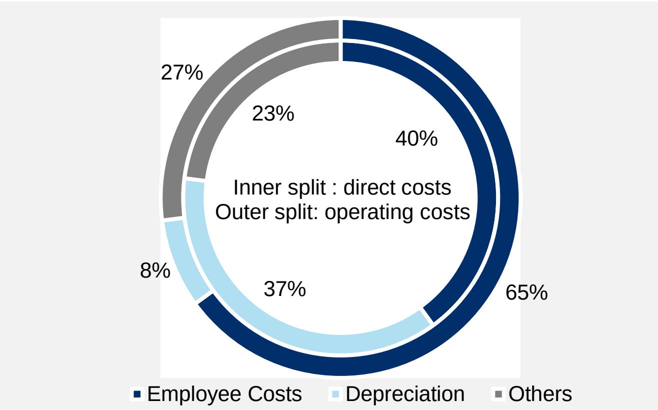
RSGT pricing and utilization rate forecast assumptions

Rate per TEU (SAR)	2019	2020	2021	2022E	2023E	2024E
Gateway + Consignee (blend)	421	455	483	490	490	490
Transshipment	95	95	110	110	110	110
Utilization rate	**77.7%**	**62.8%**	**60.5%**	**53.3%**	**56.6%**	**62.3%**

Sources: Kamco Invest Research, SISCO

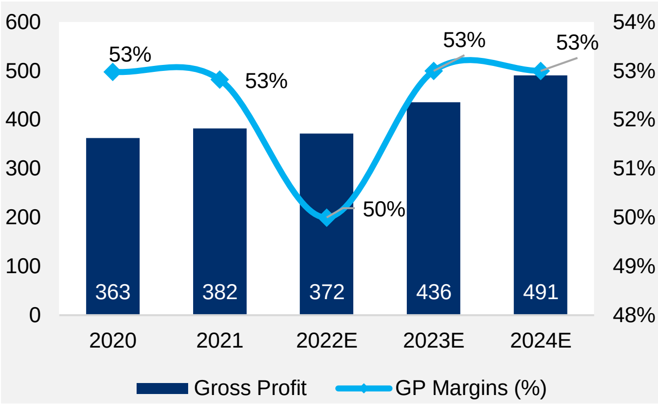
Higher consignee revenue mix to drive GP margins back to ~53%: We expect GP margins for the Ports segment to dip to 50% in 2022E, due to the margin drop-off from lower contribution of gateway revenues and consignee revenues in H1-2022. Consignee revenues which have a multiplier effect on gateway volumes were hit by the lower mix of consignments that needed more stringent inspection levels. We assumed a more normalized ratio of palletized to un-palletized containers and refrigerated containers in H2-2022E and 2023E-24E, which should contribute to higher-margin consignee revenues over our forecast period. Further, we expect RSGT's management to focus on variable costs containment as volumes increase, given that 65% of the cost base is fixed. Direct employee costs which represent ~40% of total direct costs should benefit from lower restrictions for recruiting expat employees from outside Saudi. During the onset of Covid-19, the terminal was unable to recruit expats from outside Saudi, due to travel restrictions, which in turn led to higher cost on-demand local hiring. As a result, we expect SISCO's Port segment gross profit to reach SAR 436 Mn and SAR 491 Mn respectively in 2023E and 2024E respectively, after dropping by 2.7% y-o-y to SAR 372 Mn in 2022E. GP margins are forecasted to reach 53% on average over 2023E-24E.

RSGT direct and operating costs split assumptions



Source: Kamco Invest Research, SISCO

SISCO Ports segment GP (SAR Mn) and GP margins



Source: Kamco Invest Research, SISCO

Bangladesh foray showcases RSGT's growth penchant: RSGT won the bid to be the preferred operator of the new 500,000 TEU Patenga Container Terminal at Chittagong Port on 28 July 2022, amongst several competing proposals. RSGT will operate the newly built USD 240 Mn terminal located in Bangladesh's main seaport Chittagong which is the first planned terminal at the port since New Mooring Container Terminal (NCT) in 2007. This deal is part of a Bangladesh policy that implements private-public partnership (PPP) projects through Government-to-Government (G2G). The Port of Chittagong reportedly handled a record 3.2 million TEU in FY 2021, with 4,209 vessel calls, and is the busiest port in the Bay of Bengal, serving as the gateway for 90 per cent of Bangladesh's import and export ocean cargo.

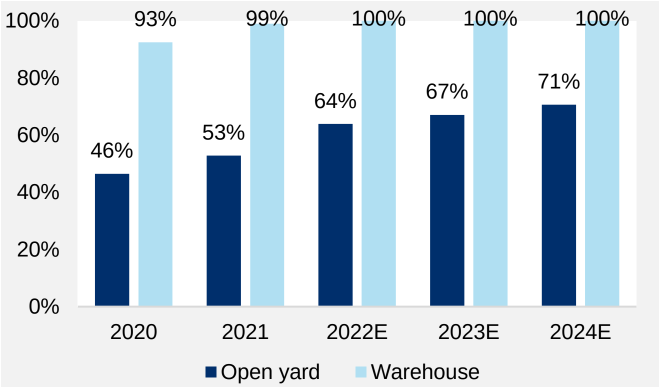
Finer details of the concession are yet to be disclosed, however SISCO guided that the terminal operates as a complete gateway port terminal which should drive margins higher on achieving further scale to the terminal's operations. Our primary research with liners that ship to Chittagong Port suggests that tariffs on containerized cargo range around USD 77/TEU – USD 125/TEU, depending on number of days of vessel berthing at the Chittagong Port. This translates into a broad revenue range of around USD 29 Mn – USD 46 Mn (SAR 109 Mn - SAR 173 Mn) based on a potential steady state port utilization rate of 75%. Nevertheless, the impact of this deal is not included in our forecasts, until details on revenues and costs are made available.

Overall, we are optimistic of RSGT achieving organic growth, as congestion in the global container market eases and more capacity is allocated towards the Middle East/Red Sea and Saudi. Moreover, the Patenga Container Terminal deal at Chittagong Port showcases SISCO's strategic decision of bringing in strategic investors like PIF and Cosco Shipping into key assets to grow at the asset level and provide SISCO's shareholders with returns from international growth opportunities. These two catalysts form the cornerstone of our bullish investment thesis on SISCO's port terminal investment into Jeddah Islamic Port's RSGT terminal.

LogiPoint's bonded facilities operate as an ideal adjacency to RSGT

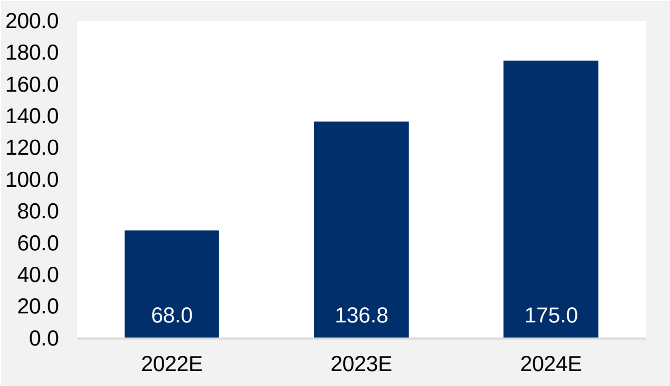
LogiPoint (SISCO ownership: 76%) primarily derives its revenues from bonded zones and bonded warehouses that are governed by the supervision of the customs department, in which the goods placed are suspended from duties and restrictions. Further if importers fail to find a domestic buyer, they can also re-export bonded merchandise and avoid duty altogether. LogiPoint operates open yards and warehouses in its bonded zones and Covid-19 had a diverse impact on both products in the company's portfolio. The open yard is primarily used for heavy machinery, construction material and automotive storage, which remains impacted by the drop in containers shipped to JIP in via container ships and RoRo vessels. As a result, the occupancy rate of the open yard fell to around 45% in H1-2022. In contrast, on the bonded warehouse side, the dynamics are quite the opposite as occupancy rates reached 100% in H1-2022, as importer patterns have changed. Importers now prefer to maintain inventories of 3-4 months, as against 2-3 months previously, and prefer to ship full containers to benefit from sequentially lower rates for future shipments.

LogiPoint occupancy rates (%)



Source: Kamco Invest Research, SISCO

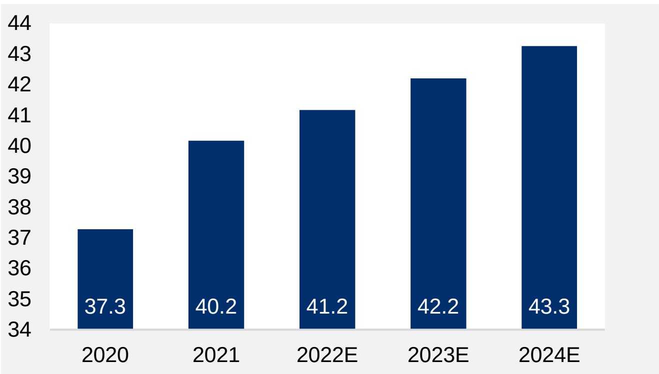
LogiPoint growth capex (SAR Mn)



Source: Kamco Invest Research, SISCO

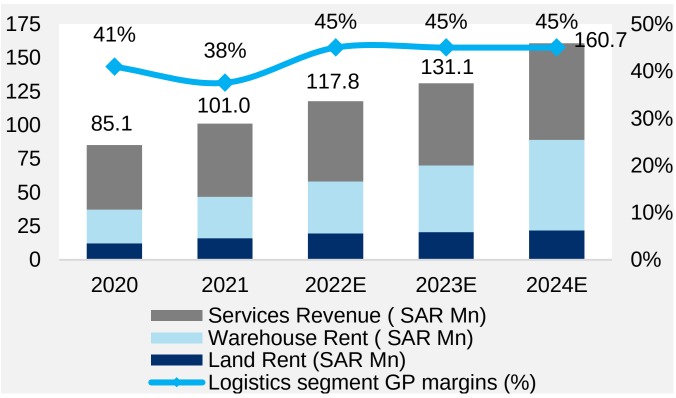
LogiPoint is building more warehouse capacity predominantly on the bonded warehouse side over 2022E-24E. Capex for the segment is expected to reach SAR 68 Mn in 2022E, based on guidance from SISCO which is attributed mainly to the construction of Warehouse 5 (25,000 sq.m). Further, capex of SAR 136.8 Mn and SAR 175 Mn are expected over 2023E and 2024E. Aramex BTS in 2023E and Project X in 2024E are upcoming bonded warehouse facilities, while the capex also constitutes JLH "UWC" and JLP infrastructure. ISNAD which provides logistics services such as city logistics, equipment rental and transportation services was also affected by the knock-on impact of lower RSGT port operations revenues and port-to-door revenues in H1-2022.

ISNAD revenues (SAR Mn)



Source: Kamco Invest Research, SISCO

SISCO Logistics segment revenues & GP margins



Source: Kamco Invest Research, SISCO

Bonded warehouse additions to have a multiplier effect on services revenue: LogiPoint should see revenues grow over 2022E-24E, as more client specified bonded warehouses are added to the portfolio, keeping occupancy rates at 100% at completion. Moreover, as concerns over port import volumes alleviate, open yards are likely to witness higher occupancy rates from heavy machinery, and automotive importers. These assumptions are reflected in our forecasts of 67% and 71% occupancy rates for 2023E and 2024E. However, it is worth noting that construction material imports are likely to lag earlier stabilized trends, due to import duties and the big drive to insource locally. In terms of rents, we forecast average rents of ~SAR 427/sq.m for bonded warehouses and SAR 74/sq/m for open yards, and rents were kept broadly stable due to longer term nature of the contracts. Nevertheless, we expect LogiPoint's bonded warehouses to continue to enjoy a premium over other non-bonded spaces in the market, where leasing activity has turn into a two-tiered market. Secondary and lower quality non-bonded assets that are not refurbished adequately are facing significant challenges in keeping occupancy rates and rents stable. Further, services revenues from SISCO's LogiPoint and ISNAD should witness a multiplier-effect that kicks in with a recovery of RSGT port volumes and higher warehouse footprint. As a result, we forecast revenues for SISCO's Logistics segment to grow at a CAGR of 16.7% from SAR 101 Mn in 2021 to SAR 160.7 Mn in 2024E, which renders the segment as strongest in terms of growth amongst SISCO's subsidiary investment interests. We also believe that the segment's bonded warehouse facilities represent the best adjacency for SISCO's ports business interests at RSGT.

Kindasa and SISCO's water offerings require more scale and integration

Kindasa (SISCO ownership: 76%) represents SISCO's investment into water desalination and sale of treated water services. Kindasa, is the first private potable water supply company engaged in seawater desalination, and distribution of potable water to Jeddah industrial estate and residential complexes in Jeddah. For 2022, the Water Solutions segment's performance was impacted by the temporary decrease in the production of the Kindasa facility for two months in Q1-2022. SISCO guides for revenues to return to normal levels for the remainder of the year.

Kindasa forecast assumptions

Volumes (Mn m3)	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Tawzea	10.2	9.7	8.8	10.3	10.6
Other Customers	6.7	7.3	7.0	6.6	6.8
Total volumes	**16.9**	**17.0**	**15.9**	**17.0**	**17.5**
Average rate (SAR)					
Tawzea	4.8	4.9	4.9	4.9	4.9
Other Customers	5.7	5.5	5.5	5.5	5.5
Revenues (SAR Mn)					
Tawzea	48.9	47.5	43.5	50.8	52.3
Other Customers	38.0	40.0	38.7	36.6	37.7
Other revenues	6.3	9.9	7.1	9.7	10.0
Total Revenues (SAR Mn)	**93.2**	**97.4**	**89.4**	**97.1**	**100.0**
GP margins (%)	*28.6%*	*27.2%*	*23.2%*	*29.0%*	*29.0%*

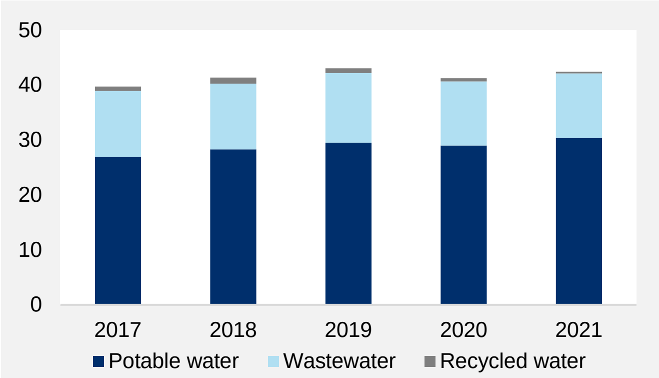
Sources: Kamco Invest Research, SISCO

Kindasa's desalination services would need more scale, and the Water Solutions segment would need more integration via M&A in our view to become more relevant for SISCO's growth ambitions, despite MEWA's directive of Saudi Arabia reaching an urban water supply mix of 90% desalinated water by 2030 from 35% in 2018. Moreover, competition from private players within Saudi also remains high with scale operators such as ACWA Power being preferred for larger contract awards from SWPC. We forecast revenues of SAR 89.4 Mn in 2022E and expect lower GP margins of 23.3%, due to the one-off temporary outage in Q1-2022. Further, we expect revenues to average around SAR 98.5 Mn over 2023E & 2024E, while GP margins should stabilize at around 29% over the period, due to Kindasa's specific pricing and stable volumes.

Potential IPO of Tawzea & newer associates make portfolio interesting

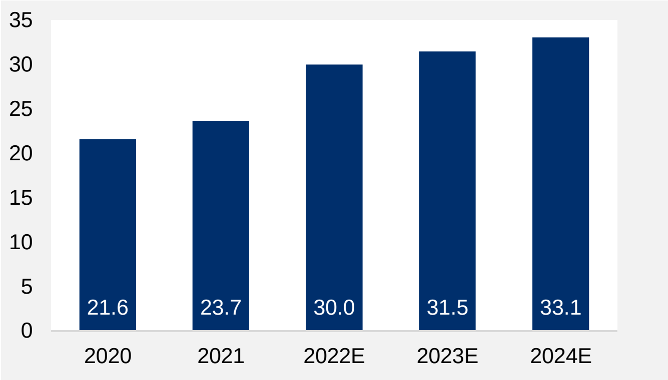
SISCO's share of income from its associate investments portfolio came in at SAR 23.7 Mn in 2021. SA Talke contributed over 63% of the SISCO's total associate income in 2021 and continues to lead other associates in H1-2022 in terms of its share of profits. Separately, Tawzea in which SISCO owns a 50% stake along with Saudi Arabian Amiantit Company, is finalizing procedures for listing on Saudi Exchange's Nomu-Parallel Market. Tawzea manages concessions of the operation and maintenance of Water and Wastewater facilities, and the company actively bids for PPP projects from Saudi Water Partnership Company, mainly via consortiums of international and local players (*For detailed Saudi water sector overview outlook, refer page 15)*. The most recent contract awarded to a consortium which included Tawzea was a SAR 400.162 Mn project with a tenure of 7 years for the operation and maintenance of water and environmental treatment services in the northern sector alongside Aqualia Spain Co and Alhaj Abdullah Ali Riza Co. “HAACO”.

Tawzea product volumes (m3)



Source: Kamco Invest Research, SISCO

Associates’ income forecasts (SAR Mn)



Source: Kamco Invest Research, SISCO

In 2022, SISCO acquired a 31.7% stake in Dubai-based Green Dome to boost its investments in the logistics sector from its subsidiary- LogiPoint through a share swap deal valued at SAR 44.5 Mn. Green Dome invests in companies that should benefit from the growing demand for integrated logistics in the wider GCC region. We expect Tawzea and SA Talke to drive SISCO’s income from associates over 2022E-24E reaching SAR 33.1 Mn by 2024E. We also believe that the potential Tawzea IPO and Green Dome investment represent interesting developments at first glance, and in the context of existing portfolio, as it characterizes SISCO’s holding company philosophy of monetizing (Tawzea) and incubating (Green Dome) its investments. Nevertheless, the final outcome of both investments and its impact to SISCO would be needed to further validate this.

SISCO’s 2025 strategy roadmap only possible via M&A

SISCO’s strategy roadmap includes *(see page 17 for details)*: 1) Doubling group revenues to SAR 2 Bn by 2025 from 2020, through organic and inorganic growth with a target ROIC of 12%; 2) Target of 50% revenue and net income contribution from Logistics and Water segments; 3) Creating shareholder value through sustainable dividend distribution from growth initiatives achieved in the future.

We are sanguine of SISCO reaching SAR 2 Bn by 2025 both via organic growth and M&A pursuits. Organic growth in the Ports segment growth should be achieved with stronger partners such as PIF and Cosco Shipping combined with a return to business-as-usual in the global container shipping market. The M&A penchant of SISCO and its partners is evident from RSGT’s Patenga Container Terminal deal at Chittagong Port in Bangladesh. Further strong growth from Logipoint and potential M&A in the segment should further advance achievements towards the strategy target. Having said that, we do see the target of achieving 50% revenue and net income contribution from the Logistics+Water segments as challenging, primarily due to concerns over scaling the Water business due to aforementioned challenges. SISCO guides that an IRR of around 8%-10 would be needed for M&A opportunities to look attractive in this segment. Nevertheless, barring the mix of revenues derived, we do not see challenges to SISCO reaching its 2025 strategy targets, and we expect the company to be able to at least payout 65%-75% of its net income as dividends post by 2025, given the longer-term nature of recurring revenues and steady cashflows of its various investment interests.

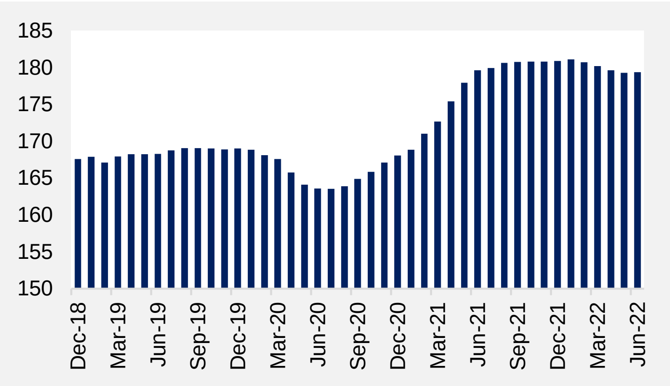
SISCO's sectors – aligned with Saudi Vision 2030

SISCO's business segments and affiliates do have idiosyncratic sectoral factors like international trade markets, competition etc. that impact their outlook. Nevertheless, we expect future demand for its services to be supported by the large total addressable markets (TAM) and targets set under the Saudi Vision 2030, along with sector focused programs such as the National Transport & Logistics Strategy, and Saudi Water Partnership Company's outlook.

Global container transport congestion shifting and alleviating moderately

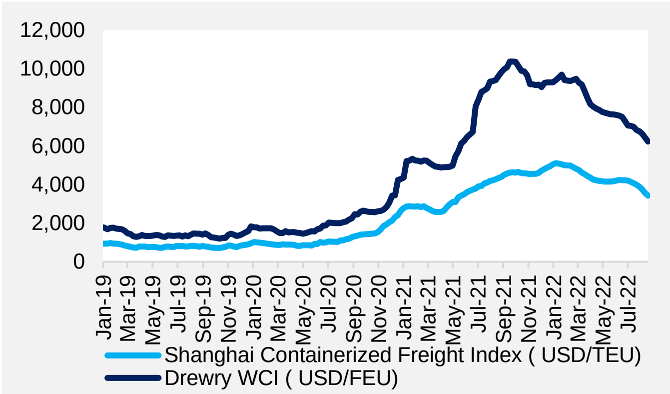
Supply chain challenges are moderating from its peak, but continue to persist, as container congestion migrates across major global ports. The congestion and shipping delays initiated by Covid-19 related lockdowns began with countries implementing national lockdowns and ceasing the production of goods and led to the ships waiting at anchorage outside the major maritime ports. As of early July-2022, global port congestion was 13% as per Linerlytica (DSV Air & Sea Market Update – July 2022), driven mainly by congestion at Chinese and select North American ports (East Coast, Gulf Coast and Pacific North West Coast). Factors that exacerbated port vessel operations also include the Russia-Ukraine war, weather related issues in both Northern and Southern China, and labor slowdowns and strikes in German and Netherland ports. While Germany's unionized port workers and the association representing the seaport operators have agreed to terms for a new contract, U.K.'s largest container port - Felixstowe, recently had 1,900 members of the Unite union walk out for eight days over failed wage negotiations.

CTS global rolling TTM container volumes (Mn TEUs)



Source: Container Trades Statistics, Kamco Invest Research, Bloomberg

SCFI and Drewry WCI spot price trends



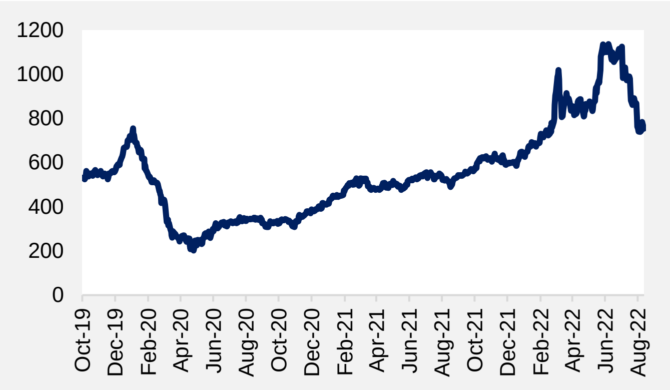
Source: Kamco Invest Research, Bloomberg

The lack of fluidity and lower vessel reliability of container transport since mid-2020 pushed importers in key markets to order, store, and build up inventories for more strategic reasons to shore up their domestic supply chains, once restrictions were progressively eased, which caused global container volumes to sore in H2-2020 and 2021. As per data from Container Trades Statistics (CTS), average rolling TTM container volumes reached above 180 Mn TEUs in 2022 compared to around 168 Mn TEUs in 2019. Further, maritime consultant Drewry highlighted that the global pool of shipping containers increased by 13% to almost 50 Mn TEUs in 2021, and growth y-o-y was 3x the growth registered in the prior year.

Global container traffic and rates normalization already underway: Early signs of container volumes normalizing seem to be emerging as the Q2-2022 average rolling TTM container volumes have dipped below 180 Mn TEUs, albeit marginally. The normalizing trend in congestion and container availability is also visible from container rates which peaked in H2-2021/Q1-2022. The Shanghai Containerized Freight Index (USD/TEU) is down ~33% from its Q1-2022 peak (~USD 5,110/TEU) and reached ~USD 3,429/TEU in Aug-2022. Further, the Drewry World Container Index dropped by 40% from its highs in H2-2021 (~USD 10,377/FEU) to USD 6,223/TEU in Aug 2022. Spot rates are however 2.5x above their pre-pandemic averages. However, spot rates only account for minimal container shipments, while bulk of the traffic is based on capacity contracts between the shipping carrier and the cargo shipper, the prices for which are still significantly higher but moderating. A potential slowdown in economic activity and end-market demand globally due to rising inflation, rising inventory-to-sales ratio are also driving the drop in surge sourcing of containers. Danish transport and logistics player DSV expects a cancellation of 10% of current purchase orders to potentially result in a 45,000 TEUs/week drop on the transpacific.

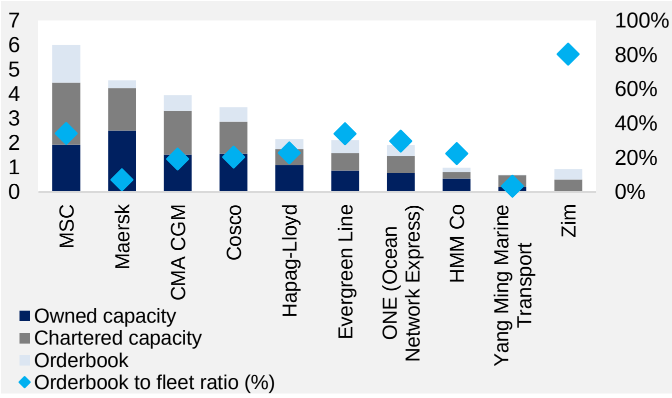
Global shipping carriers adopting various strategies to stay flexible: Lower future demand from shipping lines is visible from spot and future VLSFO bunker prices, as VLSFO spot prices at Singapore - the largest bunker hub in the world is down 34% from its peak of USD1,137/metric tonne on 10 June 2022 to USD 754/metric tonne in Aug-2022. Shipping lines had a blockbuster year in 2021 picking most profitable routes and riding the industry's high rates, as ocean carrier industry EBIT jumped from ~USD 25 Bn in 2020 to ~USD 190 Bn in 2021, reportedly as per Drewry. Profitability estimates for 2022 point towards a jump y-o-y in 2022 as well, but the consensus estimates range remains wide between USD 200-500 Bn. This is due to the uncertainties surrounding a potential global economic slowdown and the trajectory of ocean freight rates in H2-2022.

VLSFO Singapore spot bunker fuel price (USD/metric tonne)



Source: Bloomberg, Kamco Invest Research

Top 10 shipping lines capacity & order book (Mn TEU)



Source: Bloomberg, Kamco Invest Research

Shipping lines are employing a combination of strategies to cater to the higher demand environment currently prevalent, as they seek to combat the uncertainties regarding future demand and rates. MSC, now the largest shipping line globally with a combined capacity of owned and charter vessels of 4.47 Mn TEUs employs higher number of charter vessels, chartering over 57% of their total fleet capacity, and has an orderbook-to-fleet ratio of 34%. Maersk on other hand has been expanding into other logistics services such as bonded warehouses and has a low orderbook-to-fleet ratio of 7%.

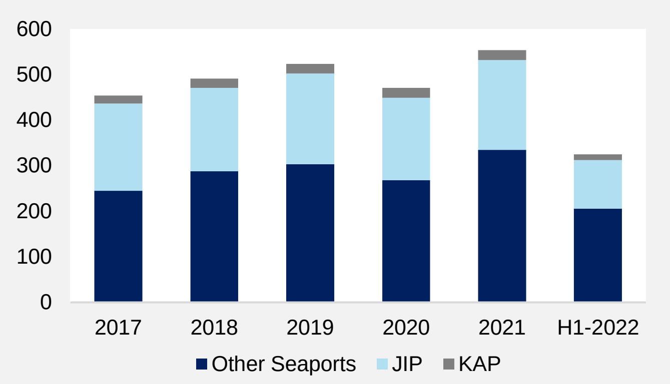
Saudi container volumes should rise as global bottlenecks ease

Container volume allocations by global shipping lines towards the Middle East/Red Sea remain low in the backdrop of more profitable routes and higher market volumes being available to them throughout 2021 in H1-2022. Higher capacity allocations from potential fleet capacity additions should result in lower container rates, and cause market volumes towards the region to pick up.

Saudi NTLS targets 40 Mn containers by 2030: In Saudi Arabia, the total value of imports was down by 9% and 2% respectively in 2020 (SAR 320.3 Bn) and 2021 (SAR 343.7 Bn), from 2019 (SAR 352.1 Bn). The container shortages and lower allocations by shipping lines towards the region have impacted import volumes into Saudi. Further importers have adjusted, and now prefer to maintain inventories of 3-4 months, as against 2-3 months and prefer to ship full containers to benefit from sequentially lower rates for future shipments. There is also a big impact on construction material being imported due to duties, and the drive to insource locally. If non-oil exports are included, Saudi's total value of imports and non-oil exports in 2021 (SAR 553.6 Bn) have grown beyond the corresponding value for 2019 (SAR 523.6 Bn), pointing towards potential for growth despite current bottlenecks in the supply chain. Once container supply shortages are alleviated, Saudi should see container volumes rise faster, as the country expects to increase its non-oil exports to account for as much as 50% of non-oil GDP by 2030 from low double-digit percentages in 2021 under objectives set under Saudi Vision 2030. Mawani aims to transform the infrastructure of Saudi ports into a global logistics hub that connects three continents by expanding shipping routes and aligning its future roadmap with the National Transport and Logistics

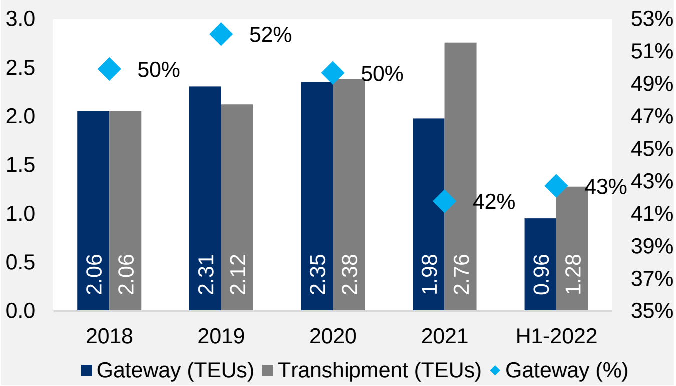
Strategy (NTLS). The strategy further targets a capacity of more than 40 Mn containers annually by 2030 from 9.5 Mn containers handled annually in 2020.

Saudi non-oil exports + imports by seaport (SAR Bn)



Source: GASTAT Saudi, Kamco Invest Research

JIP gateway and transshipment volumes



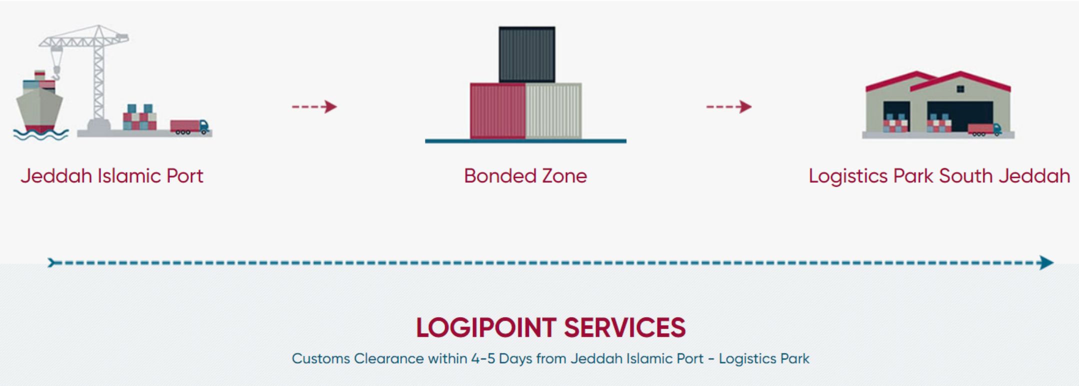
Source: Mawani, Kamco Invest Research

Jeddah Islamic Port (JIP) remains the prominent seaport in Saudi Arabia witnessing over 37% of the total combined value of non-oil exports and imports over 2019-21. King Abdullah Port (KAP) on the other hand contributed to 4.2% to the combined non-oil exports and imports in Saudi Arabia on average over 2019-21. JIP recorded total container volumes of 4.739 Mn TEUs in 2021 which was broadly flat y-o-y, impacted by lower gateway volumes (1.98 Mn TEUs) which was down almost 16% y-o-y in 2021. Lower gateway volumes y-o-y was largely driven by container shortage and lower import volumes in Saudi ports over the period. Transshipment volumes at JIP on other hand grew y-o-y in 2021 by 15.7% at 2.76 Mn TEUs. Both gateway and transshipment volumes at JIP in H1-2022 were down 10% and 5% respectively, but early signs have emerged for a recovery H2-2022 with higher allocations by shipping lines and lower shipping rates drawing in more activity from importers. Both JIP and KAP are expected to be key beneficiaries of Saudi's National Transport and Logistics Strategy, that should drive significant growth in container volumes and capacity additions at these terminals.

Saudi bonded warehouses in a sweet spot

Another key segment that SISCO is invested in is its logistics parks business and the segment predominantly derives its revenues from bonded zones and bonded warehouses. Bonded zones and warehouses are governed by the supervision of the customs department and the bonded zone operator, in which the goods placed are suspended from duties and restrictions.

Typical port, bonded warehouse, and logistics services illustration from Logipoint



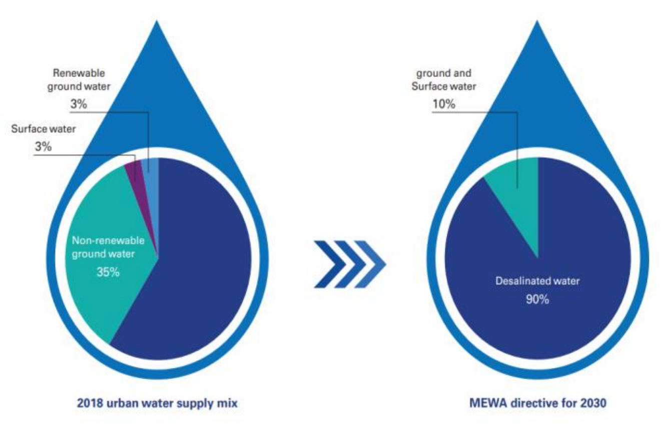
Sources: LogiPoint

Higher footprint of Saudi's bonded zones with proximity to ports will increase capabilities to clear, store and re-export to more destinations, and potentially enable the country to become one of the main centers of storage and redistribution in the region. Bonded warehouses such as in JIP enjoy higher occupancy rates (LogiPoint 99%-100%) due to importers preferring the longer-term flexibility, safety and potential savings across the supply chain by a reduction in lead time, transport cost and preventing potential damage. Bonded warehouse operators in Saudi enjoy significantly higher rents for their spaces due to the higher demand, with rent premiums easily reaching 100% over conventional warehouse spaces. Moreover, through the introduction of various initiatives such as the National Industrial Development and Logistics Program “NIDLP” under Vision 2030, Saudi is strengthening both import flexibility and export capabilities by allowing local companies to ship their national goods to the bonded zones or warehouses without specifying a destination outside KSA or generating an export manifest. Going forward, bonded zones and warehouses connected to key ports such as JIP and KAP should benefit in our view and become more specialized in their type of goods handled, driven by higher international trade and strong national focus to develop the sector.

SWPC provides the canvas for water sector privatization

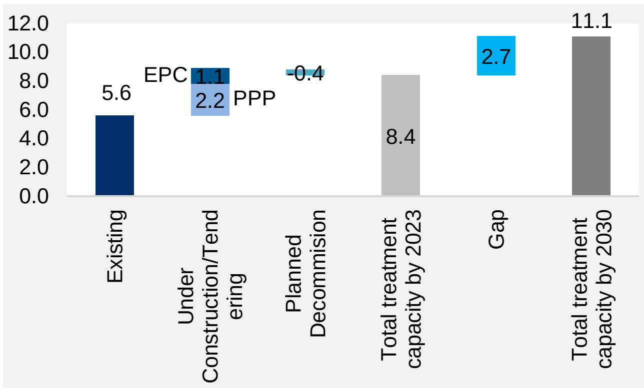
The private sector is expected to play a key role in meeting targets set by National Water Strategy 2030 in increasing demand for potable water and wastewater infrastructure. The Saudi Water Partnership Company (SWPC) oversees the PPP development of desalination and wastewater projects and has been successful in tendering independent water project (IWP) and independent sewage treatment plant (ISTP) assets. In its 2020-26 outlook, SWPC mentioned about the Ministry of Environment, Water, and Agriculture (MEWA) setting several policies and plans with the objective of curbing the national urban water per capita requirement. They expect total urban demand to increase to 14.5M m3/d by 2026, and then to decrease to 14.2M m3/d in 2030. In total, existing, under construction and under tendering water sources are expected to supply 10.1M m3/d in 2025 and 8.4M m3/d in 2030, as per the outlook, pointing towards a gap of 4.5M m3/d by 2026 at the national level. MEWA set a directive of reaching an urban water supply mix of 90% desalinated water and 10% ground and surface water by 2030. SWPC’s privatization model is key in reaching these targets, and the government continues to look for or engage in various private sector participation routes such as PPPs, outsourcing and management buyouts etc.

Saudi total water supply targets (Mn m3/d)



Source: KPMG

Saudi total wastewater treatment capacity (Mn m3/d)



Source: SWPC 7 years statement 2020-26

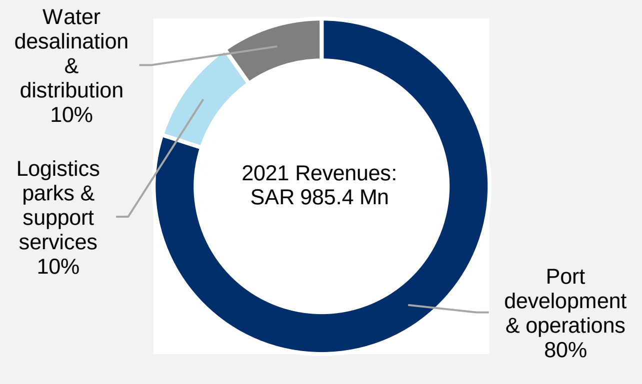
For the sewage treatment segment, SWPC in their 2020-26 outlook highlighted that the treatment capacity at the onset of the study was around 5.6M m3/d, with 3.2M m3/d under construction or under tendering and 0.4M m3/d planned for decommissioning. They further mentioned that a total of ~8.4M m3/d of capacity needs to be online by 2023 to achieve the set treatment targets and found that a capacity gap of 2.7M m3/d by 2030 could emerge, given that 11.1M m3/d of total treatment capacity would be needed by 2030. The role of the private sector via strategic partners, international and local investors will be critical in reaching the targets set by SWPC and MEWA both on the IWP and ISTP contracts and assets. Local players such as ACWA, AlKhorayef Water & Power Technologies, Kindasa and Tawzea are likely to benefit from these project awards as witnessed in the past, as they participate independently or mainly via consortiums involving local and international partners.

SISCO – Company Overview

A holding company exhibiting full-cycle transformation of its investments

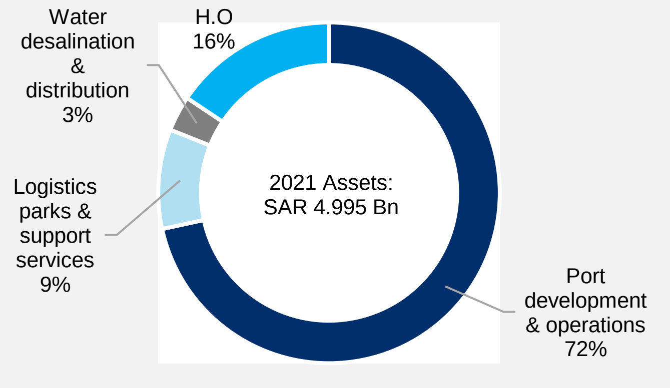
Saudi Industrial Services Company (SISCO) is an investment holding company established in 1988 and is expected to be key beneficiary of Saudi Vision 2030. The company currently owns a unique and growing portfolio of investment interests via its subsidiaries and associates. Their current investments include ports & container terminals, large-scale desalination plants, industrial estate development, and bonded & re-export zones. The key milestones of the company include setting up the first private desalinization plant in KSA, starting the first bonded and re-export zone in KSA; and establishing the first private build-and-operate container terminal in KSA. As of 2021, SISCO generated total revenues of SAR 985.4 Mn, and had total assets of SAR 4.995 Bn. The company derives its revenues from its shareholding in subsidiaries, affiliate companies and other investments.

SISCO revenue split -2021



Source: SISCO

SISCO asset split -2021

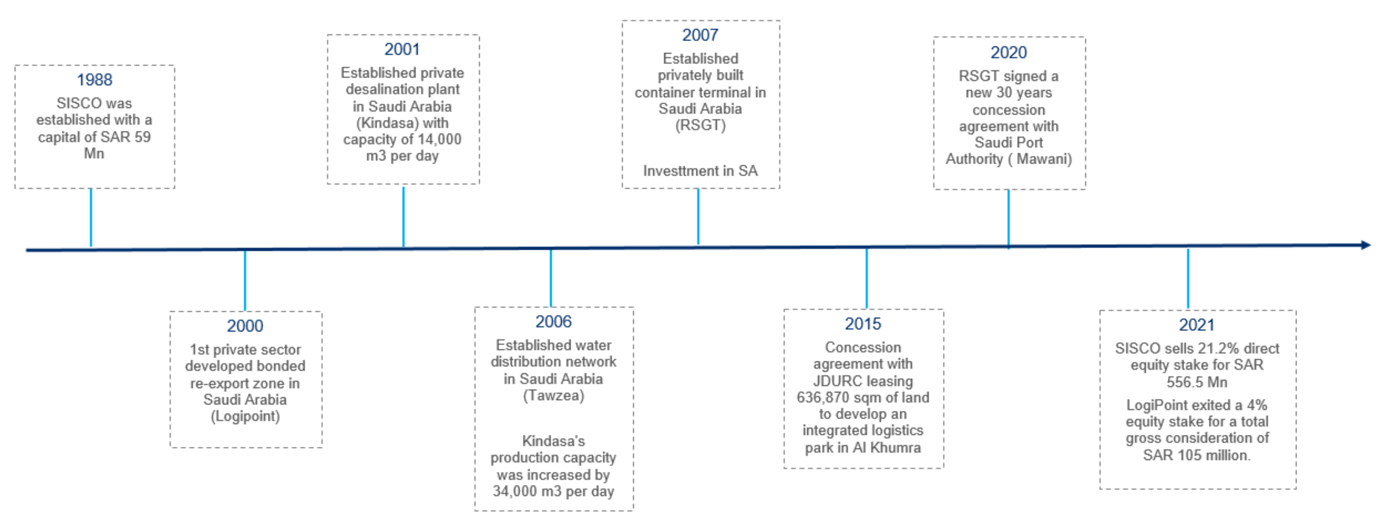


Source: SISCO

Subsidiary operations are conducted under three business segments:

1) **Port development & operations**: The segment contributes around 80% (SAR 788.09 Mn) of group revenues (2021) and is involved in operating and developing the Red Sea Gateway Terminal (RSGT) at Jeddah Islamic Port (JIP). SISCO's effective shareholding currently in RSGT is 36.36%, as SISCO effective ownership in Red Sea Port Development Company (RSPD) is 60.6% which in turn owns 60% interest in RSGT. RSGT currently operates under a 30-year concession with the Saudi Ports Authority (Mawani), which was signed in 2020. The terminal has a total current capacity of 4.8 Mn TEU, which is slated to increase to 5.2 Mn TEU by Q4-2022 and reach 8.8 Mn TEU over the concession term.

SISCO corporate timeline



Sources: SISCO, Kamco Invest Research

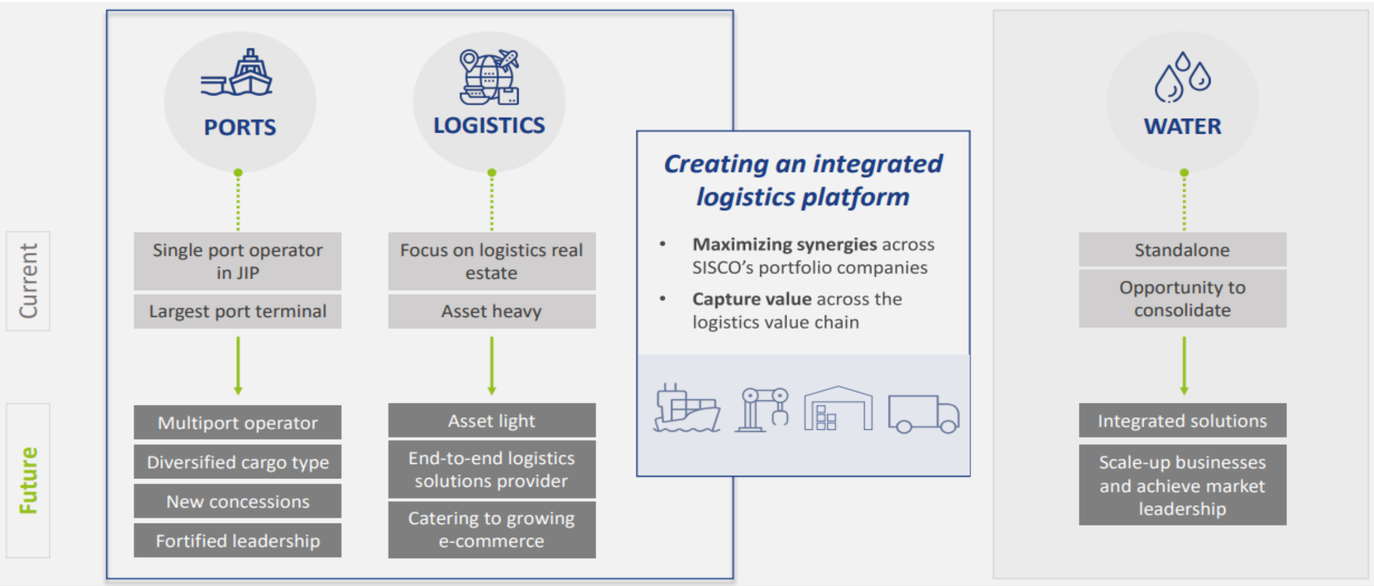
2) **Logistics parks & support services:** SISCO's logistics infrastructure and services business is done mainly via its 76% stake in subsidiary - LogiPoint. LogiPoint manages and operates the storage and re-export project situated on the land leased from JIP. LogiPoint developed KSA's "First Bonded and Re-export Zone" (BRZ), and also a distinguished multi-purpose Logistics Zone with 1 Mn sq.m of state-of-the-art logistics infrastructure in Jeddah. As of 2021, LogiPoint had total leasable land of 465,909 sq.m which was 53% occupied, and 73,878 sq.m of leasable bonded warehouses which was 99% occupied. Support services are rendered mainly via ISNAD in which SISCO owns 99.28%. ISNAD develops and operates support services for the logistics infrastructure, like development of industrial zones, construction & operation of restaurants, establishing catering and entertainment centers, construction of gas stations, providing auto maintenance services and sale or lease of additional logistics facilities. Together ISNAD and LogiPoint contributed to around 10% (SAR 100.98 Mn) of the group revenues in 2021.

3) **Water desalination and distribution:** Kindasa represents SISCO's investment into water desalination and sale of treated water services. SISCO owns 65% of Kindasa, which is the first private potable water supply company engaged in seawater desalination, and distribution of potable water to Jeddah industrial estate and residential complexes in Jeddah. The segment contributes ~10% (SAR 97.37 Mn) of group revenues.

New strategic transformation initiatives launched in 2021

SISCO launched its new set of strategic initiatives after partially monetizing one of its crown jewel assets - RSGT, as the company divested a 21.2% direct stake, and an additional 4% stake was exited via LogiPoint in 2021. The strategic initiatives included 1) Doubling group revenues to SAR 2 Bn by 2025 from 2020, through organic and inorganic growth with a target ROIC of 12%; 2) Target 50% revenue and net income contribution from Logistics and Water segments; 3) Create shareholder value through sustainable dividend distribution from growth initiatives achieved in the future.

SISCO segmental transformation



Sources: SISCO, Kamco Invest Research

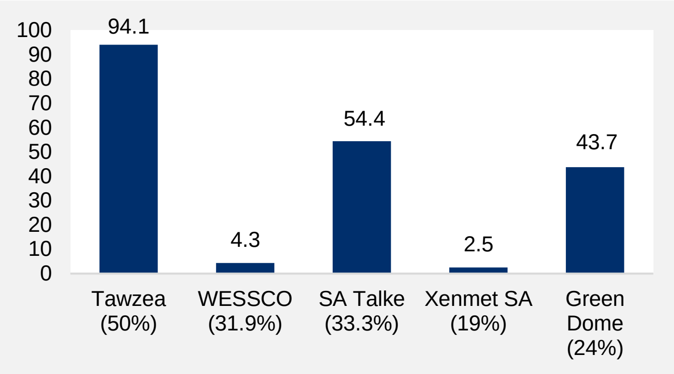
For the ports business, the transformation initiatives include the ongoing consolidation of RSGT and the North Terminal and moving from a single port operator in JIP to a multi-port operator with various concessions. RSGT's selection by Bangladeshi Ministry of Shipping as the preferred operator of the 500,000 TEU annual throughput capacity facility is a step in that direction. SISCO aims to transform its Logistics arm by further adding warehouse capacity and moving to logistics services such as 3-PL to create and integrated logistics platform. In the water segment, SISCO targets achieving significant scale towards becoming a more integrated water solutions provider across both desalination and wastewater treatment.

Affiliate partnerships are active pieces in SISCO's investment portfolio

The main investments via associates for SISCO include Tawzea, with an effective holding of 50% and carrying value of ~47% of the company's total associates' investment book. Tawzea is engaged in water/wastewater treatment, and the ease of water equipment. Tawzea is a key beneficiary of The Saudi National Water Strategy (NWS), aligned with the Vision 2030's Privatization Programme, which sets forth objectives for privatizing government assets and participates in bids mainly via consortiums. The most recent contract awarded to a consortium which included Tawzea was a SAR 400.162 Mn project with a tenure of 7 years for the operation and maintenance of water and environmental treatment services in the northern sector alongside Aqualia Spain Co and Alhaj Abdullah Ali Riza Co. "HAACO". SA Talke is another key associate investment by SISCO at 33.3% effective shareholding, and the company provides contracting & construction services, along with operation +maintenance of factories and warehouses. SA Talke contributed over 63% of the SISCO's total associate income in 2021 and continues to lead other associates in 2022 in terms of its share of profits.

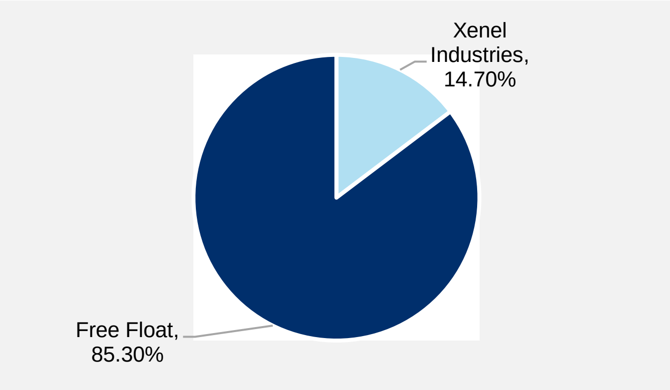
In 2022, SISCO acquired a 31.7% stake in Dubai-based Green Dome to boost its investments in the logistics sector from its subsidiary LogiPoint through a share swap deal valued at SAR 44.5 Mn. Green Dome invests in companies that should benefit from the growing demand for integrated logistics in the wider GCC region. Other associate interests owned by SISCO include WESSCO (31.9% stake) – a company that is into electrical, water and mechanical works, and related operation and maintenance, and trading and brokerage firm Xenmet (19% stake) in the Principality of Liechtenstein.

Associates carrying value on SISCO books (SAR Mn)



Source: SISCO H1-2022

SISCO shareholding pattern



Source: Bloomberg & Tadawul as of 01 Sept 2022

Xenel Industries is key shareholder

The key strategic shareholder in SISCO is Xenel Industries. Xenel through its JV partnerships and associations with global companies, has built expertise in energy, petrochemicals, construction, infrastructure development, healthcare, industrial services, IT, logistics, real estate and global investing. Xenel is invested in SISCO both directly and through its subsidiaries RSPD, LogiPoint etc.

Board of Directors & Management Team

Board of Directors	Title
Aamer A. Zenel Ali Reda	Chairman
Abdulaziz Abdullatif Jazzar	Independent Director
Saleh Ahmed A. Hefni	Non-Executive Director
Adnan Abdulfattah M. Soufi	Deputy Chairman
Muneerah Hejab AlDossary	Independent Director
Ahmed Mohammed A. Alrabiah	Non-Executive Director
Talal Naser AlDakhil	Non-Executive Director
Management	Title
Mohammed K. Mudarres	Chief Executive Officer
Mahmood Ahmed Hussain	Chief Financial Officer

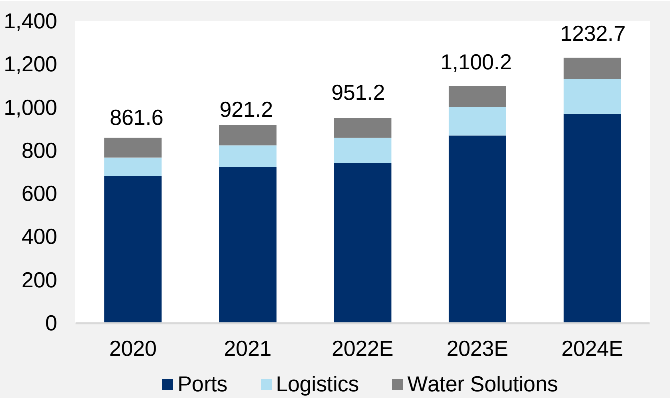
Sources: Tadawul, SISCO

Running the numbers – Group financial forecasts

Revenues and GP margins (%)

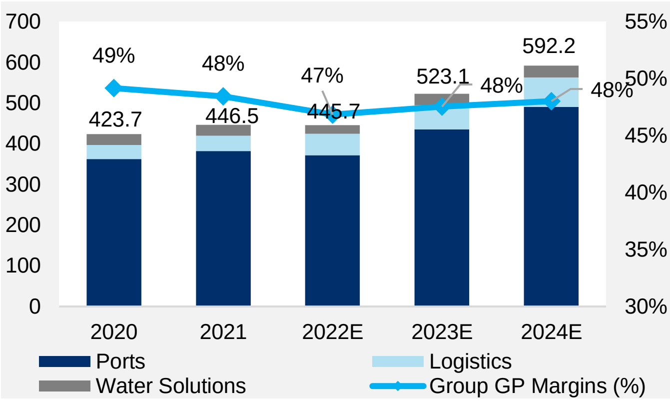
We forecast SISCO's group revenues to grow at a CAGR of 10.2% over 2021-2024E from SAR 921 Mn (excluding construction revenues) in 2021 to SAR 1.23 Bn in 2024E, driven by the growth of Ports segment revenues (10.2% CAGR) and Logistics revenues (16.7% CAGR). The Ports segment is expected to contribute around 79% of the total group revenues in our forecast period, as the RSGT terminal reaches and operates at a capacity of 5.2 Mn TEU. The strong growth of the Logistics segment is ascribed to capacity addition and is expected to increase its contribution from 11% in 2021 to 12.4% by 2024E. Water segment revenues are forecasted to average SAR 95 Mn over 2022E-24E.

Revenues by segment (SAR Mn)



Source: Kamco Invest Research, SISCO

Gross Profit (SAR Mn) and Group GP margins



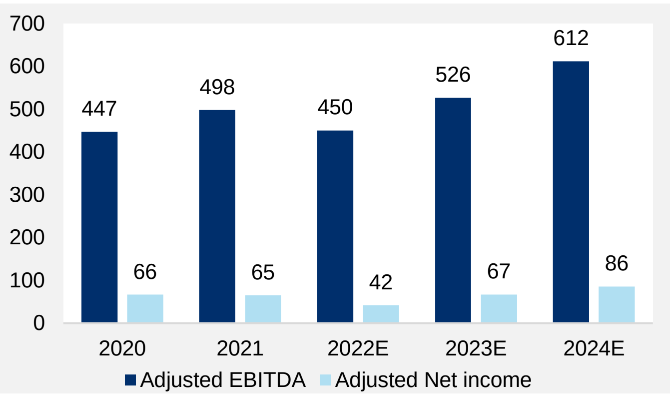
Source: Kamco Invest Research, SISCO

We expect gross margins to average around 47%-48% over 2022E-2024E. GP margins should bottom out at 47% in 2022E, as H2-2022E Ports segment revenues increase, especially in terms of gateway and consignee revenues. This should also have an impact on the services businesses of the Logistics segment as well, in our view.

Adjusted EBITDA, adjusted net income & dividends

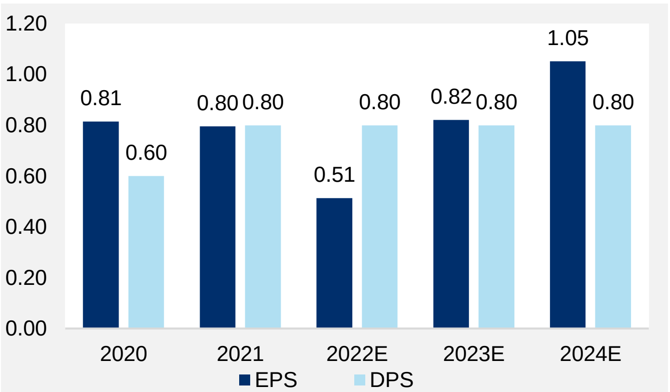
Adjusted EBITDA and adjusted net income are forecasted to come in at SAR 450 Mn and SAR 70 Mn respectively for 2022E, and SAR 526 Mn and SAR 86 Mn respectively for 2023E and 2024E. Adjusted EBITDA in 2021 included a one-off gain of SAR 7.1 Mn. There are no one-offs included in our forecasts over 2022E-24E.

Adjusted EBITDA & Adjusted net profit (SAR Mn)



Source: Kamco Invest Research, SISCO

EPS & DPS (SAR)



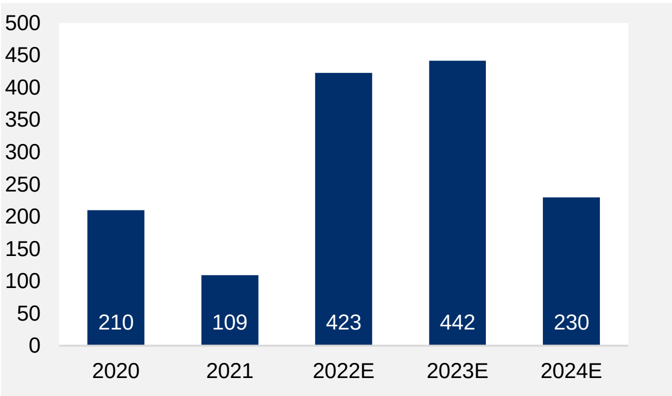
Source: Kamco Invest Research, SISCO

Group EPS is expected to come in at SAR 0.51/share in 2022E but more than double to SAR 1.05/share by 2024E driven by organic growth of both Ports and Logistics businesses. SISCO guided for a total annual DPS of SAR 0.80/share each for 2022E and 2023E, with a semi-annual dividend payout of SAR 0.40 per share for these years. We have retained the DPS estimate for 2024E at the same levels as 2022E & 2023E, as the company's M&A pursuits should keep dividend payout lower until 2025E. Nevertheless, we expect the company to at least payout 65%-75% of its net income as dividends post by 2025E, given the longer-term nature of recurring revenues, and steady cashflows of its various investment interests.

Capex and intangible assets

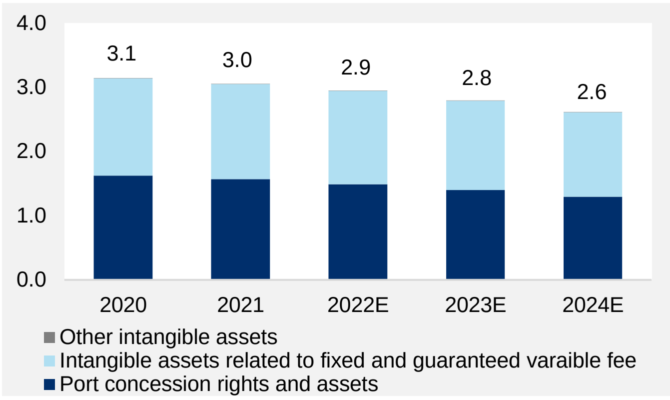
Our total capex estimates for 2022E and 2023E combined include SAR 650 Mn of capex for RSGT, and around SAR 205 Mn for LogiPoint, based on SISCO's guidance. The capex forecast for 2024E is based on SAR 175 Mn of LogiPoint capex, maintenance capex of SAR 50 Mn for RSGT, and maintenance capex of SAR 5 Mn for Kindasa.

Capex (SAR Mn)



Source: Kamco Invest Research, SISCO

Intangible assets (SAR Bn)



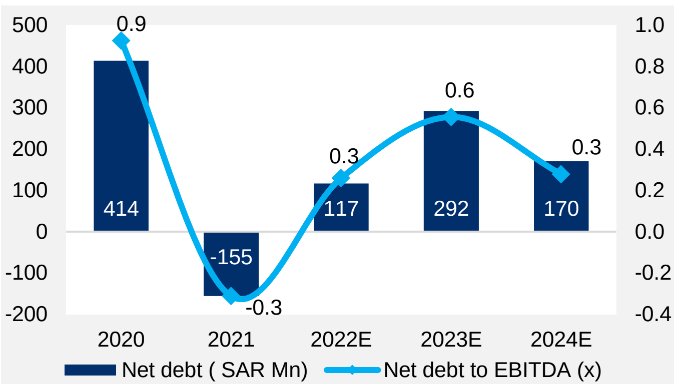
Source: Kamco Invest Research, SISCO

For intangibles, we amortize port concession rights on a straight-line basis over the concession term of 30 years and arrive at the annual port concession rights. For forecasting intangible assets related to fixed and variable fees, we arrived at the per TEU rate based on total volumes over the concession term. We then multiplied each year's volumes by the rate/TEU to arrive at the fixed and variable fees that needs to amortized to arrive at the intangible assets for the respective year. Based on our calculations, total intangible asset should decrease from SAR 3 Bn in 2021 to SAR 2.6 Bn in 2024E.

Debt and other service concession obligations management

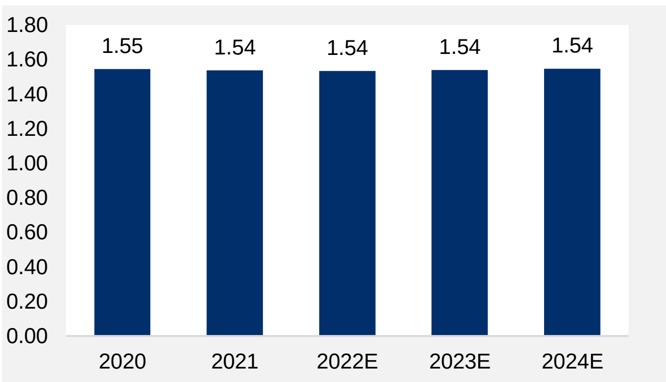
SISCO's partial divestment of its RSGT stake has resulted in the company's debt metrics becoming extremely manageable. The company can utilize debt for its M&A pursuits, as net debt-to-EBITDA over 2022E-24E remains comfortable at 0.3x to 0.6x.

Net debt and net debt-to-EBITDA



Source: Kamco Invest Research, SISCO

Obligation under service concession agreement (SAR Bn)



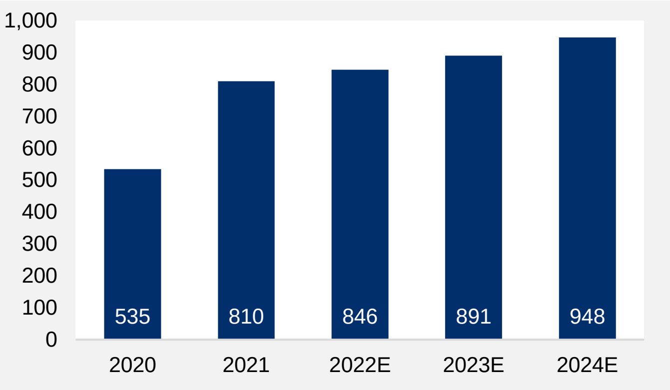
Source: Kamco Invest Research, SISCO

For the obligation under service concession agreement, we have arrived at the total fixed fees under the service commission by multiplying the rate/TEU times by the total volumes over the concession, and then capitalized the liability. We then arrive at the total variable fee obligation based on capitalizing variable fees which is roughly around 12% of revenues. Finance charges are then amortized by applying annual finance charges percentage of 11.5% per annum.

Non-controlling interests and ROIC

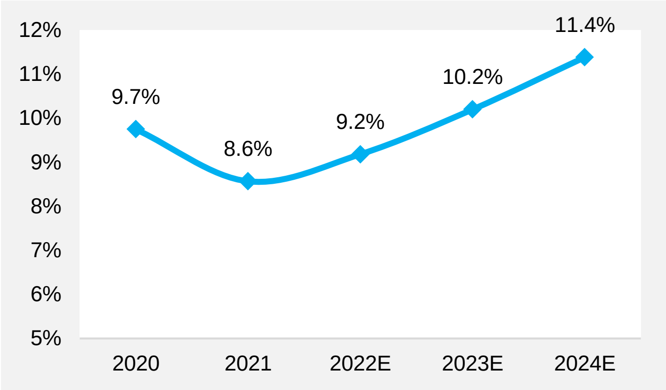
For our forecasts, we arrive at SISCO's total non-controlling interest by applying the non-controlling stake percentage of RSPD (47%), LogiPoint (24%), Kindasa (35%) and ISNAD (0.72%) to segment profits of each subsidiary, which are then aggregated. As a result, non-controlling interests are expected to reach SAR 948 Mn by 2024E from SAR 810 Mn in 2021.

Non-controlling interests (SAR Mn)



Source: Kamco Invest Research, SISCO

ROIC (%)



Source: Kamco Invest Research, SISCO

In terms of returns on capital, the return on invested capital (ROIC) is expected to recover by atleast 280 bps to 11.4% by 2024E from 8.6% in 2021, as full potential revenues and cashflows are garnered from capacity additions and stabilized operations.

SISCO Financials

Balance Sheet (SAR Mn)	2020	2021	2022E	2023E	2024E
Assets					
Cash	337	892	566	346	424
ST deposits			473	473	473
Receivables	133	162	190	220	247
Other assets	32	37	-426	-421	-416
Total current assets	**501**	**1,091**	**804**	**618**	**727**
Net property, plant and equipment	386	427	815	1,206	1,365
Goodwill	9	9	9	9	9
Intangibles	3,142	3,053	2,945	2,792	2,612
Other assets	369	416	437	458	480
Total assets	**4,407**	**4,995**	**5,009**	**5,083**	**5,193**
Liabilities					
Liabilities	1,947	1,962	1,955	2,008	2,060
Total debt	750	737	683	638	594
Total liabilities	**2,698**	**2,699**	**2,638**	**2,646**	**2,654**
Shareholders' Equity					
Share capital	852	852	852	852	852
Retained earnings	248	203	254	285	343
Minority Interest	535	810	832	866	911
Other Equity	74	431	433	433	433
Total Equity	**1,710**	**2,296**	**2,371**	**2,437**	**2,539**
Total liabilities and equity	**4,407**	**4,995**	**5,009**	**5,083**	**5,193**

Income Statement (SAR Mn)	2020	2021	2022E	2023E	2024E
Revenue (excluding construction revenue)	862	921	951	1,100	1,233
Cost of goods sold	(438)	(475)	(505)	(577)	(641)
Gross profit	**424**	**446**	**446**	**523**	**592**
SG&A	(167)	(168)	(190)	(220)	(247)
Adjustments related to non-recurring items	191	220	195	223	266
Reported EBITDA	**562**	**491**	**450**	**526**	**612**
Adjusted EBITDA	**447**	**498**	**450**	**526**	**612**
Depreciation and amortization	(164)	(174)	(191)	(227)	(274)
Adjustments related to non-recurring items	(142)	(39)	0	0	0
EBIT	**256**	**278**	**259**	**299**	**338**
Finance costs	(133)	(204)	(220)	(229)	(237)
Share associates and other income	110.3	38.8	45.1	46.6	48.1
Net income before taxes	**233**	**114**	**84**	**116**	**149**
Provision for Income Taxes	(16)	(18)	(21)	(15)	(19)
Net income after taxes	**217**	**95**	**63**	**101**	**130**
Minority interest	(77)	(37)	(22)	(35)	(44)
Net income attributable to parent	**139**	**58**	**42**	**67**	**86**
Non-recurring adjustments to net income	(73)	7	0	0	0
Adjusted net income	**66**	**65**	**42**	**67**	**86**
Adjusted EPS (SAR)	**0.81**	**0.80**	**0.51**	**0.82**	**1.05**

Source: Kamco Invest Research and SISCO

Cash Flow (SAR Mn)	2020	2021	2022E	2023E	2024E
Net cash from operating activities	356	236	545	565	656
Net cash (used in) from investing activities	(195)	511	(544)	(413)	(200)
Net cash from (used in) financing activities	(120)	(192)	(328)	(372)	(378)
Change in cash and cash equivalents	41	556	(326)	(220)	78
FX and other adjustments					
Cash and cash equivalents at the end of the year	**337**	**892**	**566**	**346**	**424**

Valuation & Financial Ratios

Ratios	2020	2021	2022E	2023E	2024E
Asset Structure and Leverage Ratios					
Total Debt / Total Assets (x)	0.17	0.15	0.14	0.13	0.11
Total Debt / Equity (x)	0.44	0.32	0.29	0.26	0.23
Total Liabilities/Equity (x)	1.58	1.18	1.11	1.09	1.05
Profitability Ratios					
Return on Average Equity (%)	3.9%	3.2%	1.8%	2.8%	3.4%
ROIC (%)	9.7%	8.6%	7.8%	9.2%	10.2%
Margins					
Gross profit margin (%)	49.2%	48.5%	46.9%	47.6%	48.0%
EBITDA margin (%)	51.9%	54.1%	47.3%	47.8%	49.6%
EBIT margin (%)	29.7%	30.2%	27.3%	27.2%	27.4%
Net profit margin (%)	16.2%	6.3%	4.4%	6.1%	7.0%
Per Share Data and Valuation Ratios					
Earnings Per Share (SAR)	0.81	0.80	0.51	0.82	1.05
Book Value Per Share (SAR)	21.0	28.1	29.1	29.9	31.1
Dividend Per Share (SAR)	0.60	0.80	0.80	0.80	0.80
PE (x)	39.8	38.6	46.7	29.2	22.8
EV/EBITDA (x)	9.0	8.3	7.8	6.7	5.8
PB (x)	1.5	1.1	0.8	0.8	0.8
Dividend Yield (%)	1.9%	2.6%	3.3%	3.3%	3.3%

Source: Kamco Invest Research and SISCO

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