

Sustained Infrastructure Holding Co. (SISCO Holding)

Equity Research Update

Sector – Industrials

Multi-port operator era begins

Ports segment goes international & gets stronger! Retain Outperform

We are positive on the Patenga Container Terminal (PCT) signing by RSGTI- SISCO Holding's portfolio company, as it transforms the company into a multi-port operator. The transaction allows SISCO Holding's strongest segment in terms of revenue contribution and margins to achieve further scale and provides stability of LT cashflows, that are typical for port concessions. Further, we expect the signing to significantly contribute to SISCO Holding's 6x26 strategy targets of growing consolidated revenues to SAR 2 Bn, while achieving a significantly higher IRR than the target of 12%. The company also mentioned that it is currently engaged in advanced negotiations with several other international ports and has built an extensive project pipeline. We therefore reiterate our Outperform rating on SISCO Holding, as we remain optimistic on the company's capabilities to bolster its new LT investments, monetize, and recycle returns. Moreover, we continue to expect the company's existing portfolio to display peak performances in 2024E, and comfortably achieve group level GP margins of 52%-53% over 2024E-25E. The higher KPIs for 2024 should provide additional flexibility to pursue further M&A opportunities via RSPDI and GDI without having to exhaust 100% of its cash at the center and affiliates, in our view.

RSGTI signing of Patenga Container Terminal lucrative on many levels

Transaction: SISCO Holding announced in Dec-2023 that its portfolio company Red Sea Gateway Terminal International Limited (RSGTI) has signed a 22-year concession with the Chittagong Port Authority to develop and operate Patenga Container Terminal (PCT) in Chittagong, Bangladesh's primary port. Under the new concession agreement, RSGTI will develop and operate a 500k TEU facility at PCT. SISCO will participate through its investment vehicle RSPDI (60.6%) and have an effective shareholding of 36.36% in RSGTI. The concession has been signed in partnership with the Public Investment Fund (PIF), a 40% shareholder in RSGTI to accelerate the company's global expansion efforts. **Terminal KPIs:** The PCT terminal reportedly serves as the gateway for 90% of Bangladesh's import and export activities. Further, the management expects gateway volumes to contribute +90% of the total volumes at the terminal and expects an annual gateway volume growth rate of 7% per annum. Capex is guided to be USD 170 Mn, which includes development capex, concession fees and is expected to be funded through debt and equity. **Kamco Invest Research valuation:** We spoke to the management and modeled terminal's CFs until 2045. We build in a capacity ramp up over the first year that would reach ~250k TEUs by end of 2024E, with the terminal thereafter developing capacity to eventually reach 500k TEUs by 2028E. Our estimates suggest that full potential revenues at 95% capacity utilization rates by 2028E could begin at over USD 62 Mn. We utilize a preliminary gateway pricing of ~USD100/TEU (excluding services revenue) which is comparable to RSGT (JIP) rates for gateway revenues, 40% EBITDA margins, and phase capex over 3-4 years. A WACC of 16% was assumed and was based on 70:30 split between debt: equity, with SISCO's equity contribution of SAR 105 Mn. We arrive at a total valuation of USD 224.5 Mn (SAR 842 Mn) for the PCT terminal and expect SISCO Holding to achieve an impressive IRR of ~19% on its investment. While we include PCT in our valuation, we aim to include our terminal forecasts into consolidated financials for 2024E and 2025E once we achieve more clarity on recognition for SISCO Holding by Q1/Q2-2024E.

Valuation & Risks – TP raised to SAR 32.50 (Previous: SAR 29.70)

Our revised TP represents a 10.4% 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) Geopolitical risks impacting each segment's demand and disrupting 9M-2023 momentum; 2) Challenges in the global container market due to closure of trade lanes; 3) Leaner importer inventory strategies leading to lower bonded warehouses demand.

Outperform

CMP 04-Jan-24: SAR 29.45

Target Price (TP): SAR 32.50

Upside: +10.4%



Price Perf.	1M	3M	12M
Absolute	5.8%	18.2%	40.0%
Relative	-3.2%	5.4%	24.7%

Stock Data

Bloomberg Ticker	SISCO AB
Tadawul Ticker	2190
Last Price (SAR)	29.45
MCap (SAR Mn)	2,505
MCap (USD Mn)	668
EV (SAR Mn)	3,571
Stock Performance - YTD (%)	-4.1%
PE - 2024E (x)	18.6
EV/EBITDA - 2024E (x)	5.5
Dividend yield - 2024E (%)	2.7%
52-Week Range (SAR)	20.92/31.45

Sources: Kamco Invest Research & Bloomberg

SISCO Financials	2022	2023E	2024E
Revenue* (SAR Mn)	855	1092	1253
GP margins (%)	48.7%	52.6%	52.7%
EBITDA (SAR Mn)	458	564	646
EPS (SAR/share)	0.51	1.04	1.58
EV/EBITDA (x)	7.3	6.5	5.5
Div Yield (%)	3.9%	2.6%	2.7%

Source: Kamco Invest Research, SISCO Holding, * excluding construction revenue

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Valuation and Risks

TP raised to SAR 32.90/share; maintain 'Outperform' rating

We have updated our valuation for Sustained Infrastructure Holding Co. (formerly known as Saudi Industrial Services Company) with our valuation for its portfolio company Red Sea Gateway Terminal International Limited (RSGTI). RSGTI has signed a 22-year concession with the Chittagong Port Authority to develop and operate Patenga Container Terminal (PCT) in Chittagong, Bangladesh. SISCO Holding will participate through its investment vehicle RSPDI (60.6%) and have an effective shareholding of 36.36% in RSGTI. With the inclusion of RSGTI's PCT terminal, we raise our target price (TP) to SAR 32.50/share (Previous: SAR 29.70/share), and the TP represents a 10.4% upside to SISCO Holding's current share price and is based on sum-of-the-parts (SotP) valuation.

SISCO Holding SotP Valuation

(Individual segments valued based on 70:30 blend between DCF & EV/EBITDA)	Valuation (SAR Mn)	SISCO Holding's effective shareholding	SISCO Holding's share	Notes
RSGT	4,171.3	36.36%	1,516.7	Avg. EBITDA margins of 56%, WACC of 11.75%, concession term until 2049; 2023 EV/EBITDA of 8.8x
RSGTI - Patenga Container Terminal	737.5	36.36%	268.2	Avg. EBITDA margins of 40%, WACC of 16.0%, concession term until 2045
Total Port development and operations	4,908.8	36.36%	1,784.8	
Logistics parks and support services (LogiPoint & ISNAD)	374.2	76%	284.4	Avg. EBITDA margins of 44%, WACC of 8.5% with a term until 2039 for JIP & Modon and 2053 for Khumrah; 2023 EV/EBITDA of 8.5x
Water desalination and distribution (Kindasa)	302.8	65%	196.8	Avg. EBITDA margins of 32%, WACC of 12.0% and terminal growth of 1.5%; 2023 EV/EBITDA of 17.2x
EV of operations	5,585.8		2,266.0	
Associates			450.6	Tawzea (50%) - 2024 P/E of 20x; SA Talke (33.3%) - 2024 P/E of 10x; WESSCO (31.85%), Xenmet (19%) & Green Dome (24%) each at P/B - 1x
Cash at centre			428.7	as of 9M-2023
Other assets SISCO center			22.0	as of 9M-2023
Other liabilities at SISCO center			-57.6	as of 9M-2023
Equity value prior to complexity discount			3,109.8	
Holding company complexity discount			15%	
SISCO Holding SotP equity value (SAR Mn)			2,643.3	
SISCO Holding equity value per share (SAR)			32.50	
Current Price			29.45	
Upside (%)			10.4%	

Sources: Kamco Invest Research

We retain our forecasts for SISCO Holding's current operating holdings and expect 1) RSGT to achieve higher gateway volumes share and average gateway/total volumes of ~1.58 Mn/~3.7 Mn TEUs (previous ~1.56 Mn/~3.7 Mn TEUs) over 2023E-25E, with average gateway pricing of over SAR 489/TEU (previous SAR 485/TEU) over 2023E-25E and comfortably achieving the mix of transshipment to gateway to 55:45; 2) Optimized ratio of open yard to warehouses and higher warehouse capacity should drive segment revenues to grow at a CAGR of ~21% (Previous CAGR of 17.7%) over 2022-25E and achieve an average GP margin of 50% over the period; 3) Water segment revenues to reflect better revenue mix of volumes sold while pricing should contribute to strong GP margins of ~49% over 2023E-25E.

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 Holding'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 its respective concession terms. For associates' valuation, we value each associate based on P/E or P/B multiples. We further apply a 15% 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.

PCT to achieve an IRR of ~19% for SISCO Holding as per our initial estimates

We spoke to the management and modeled terminal's CFs until 2045. We build in a capacity ramp up over the first year that would reach ~250k TEUs by end of 2024E, with the terminal thereafter developing capacity to eventually reach 500k TEUs by 2028E. Our estimates suggest that full potential revenues at 95% capacity utilization rates by 2028E could begin at over USD 62 Mn. We utilize a preliminary gateway pricing of ~USD100/TEU (excluding services revenue) which is comparable to RSGT (JIP) rates for gateway revenues, 40% EBITDA margins, and phase capex over 3-4 years. A WACC of 16% was assumed and was based on 70:30 split between debt: equity, with SISCO's equity contribution of SAR 105 Mn. We arrive at a total valuation of USD 224.5 (SAR 842 Mn) for the PCT terminal and expect SISCO Holding to achieve an impressive IRR of ~19% on its investment. While we include PCT in our valuation, we aim to include our terminal forecasts into consolidated financials for 2024E and 2025E once we achieve more clarity on recognition for SISCO Holding by Q1/Q2-2024E.

We do not assume any further upgrades to the terminal beyond the 500k TEUs signing, and any extensions beyond the concession term in our valuation. While we include PCT in our valuation, we hope to include our terminal forecasts into consolidated financials for 2024E and 2025E, and fine tune our valuation beyond the initial guidance once we achieve more clarity on recognition for SISCO Holding in Q1/Q2-2024E.

Downside risks to our valuation & forecasts include:

- Geopolitical risks impacting each segment's demand and disrupting momentum witnessed in 2023.
- Challenges in global container market due to closure of trade lanes.
- Port tariffs being adjusted downwards by port regulatory authorities.
- Competition for Ports segment from new challenger terminals impacting gateway and transshipment volumes.
- FX and unforeseen recognition & consolidation risks for newly signed concession at Patenga Container Terminal
- 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.
- 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.

SISCO Holding Financials

Balance Sheet (SAR Mn)	2021	2022	2023E	2024E	2025E
Assets					
Cash & cash equivalents	892.4	787.9	848.8	927.5	1,217.0
Receivables	161.8	155.5	220.5	252.9	279.0
Other assets	36.6	39.3	38.6	38.7	40.0
Total current assets	1,090.7	982.7	1,107.9	1,219.1	1,535.9
Net property, plant and equipment	427.1	575.0	737.8	883.4	912.6
Goodwill	8.8	8.8	8.8	8.8	8.8
Intangibles	3,052.9	3,010.7	3,041.9	2,999.4	2,921.2
Other assets	415.6	481.1	548.3	553.1	557.8
Total assets	4,995.1	5,058.3	5,444.7	5,663.8	5,936.3
Liabilities					
Liabilities	1,961.7	1,962.1	2,055.1	2,117.8	2,168.4
Total debt	736.9	780.0	996.5	1,003.2	1,009.8
Total liabilities	2,698.7	2,742.1	3,051.7	3,121.1	3,178.2
Shareholders' Equity					
Share capital	852.4	852.4	852.4	852.4	852.4
Retained earnings	202.5	170.3	191.1	254.9	358.1
Minority Interest	810.4	800.3	856.8	942.7	1,054.9
Other Equity	431.1	493.2	492.7	492.7	492.7
Total Equity	2,296.4	2,316.2	2,393.0	2,542.7	2,758.1
Total liabilities and equity	4,995.1	5,058.3	5,444.7	5,663.8	5,936.3
Income Statement (SAR Mn)					
Revenue (excluding construction revenue)	921.2	854.8	1,092.1	1,252.6	1,381.4
Cost of goods sold	-474.7	-438.7	-517.9	-592.3	-647.1
Gross profit	446.5	416.2	574.2	660.2	734.3
SG&A	-168.1	-186.1	-218.4	-250.5	-276.3
Adjustments related to non-recurring items	219.6	228.1	208.1	236.0	277.0
Reported EBITDA	490.8	456.1	561.9	645.7	735.0
Adjusted EBITDA	497.9	458.1	563.8	645.7	735.0
Depreciation and amortization	-173.7	-171.6	-189.5	-197.3	-207.0
Adjustments related to non-recurring items	-38.8	-54.5	0.0	0.0	0.0
EBIT	278.3	230.0	372.4	448.4	528.0
Finance costs	-203.5	-213.6	-254.0	-258.3	-266.6
Finance income	0.2	12.3	13.7	14.0	19.0
Share associates and other income	38.5	44.9	51.7	51.6	53.4
Net income before taxes	113.6	73.7	183.8	255.7	333.9
Provision for Income Taxes	-18.4	-18.2	-42.4	-40.9	-53.4
Net income after taxes	95.1	55.5	141.4	214.8	280.5
Minority interest	-37.2	-18.8	-56.5	-85.9	-112.2
Net income attributable to parent	57.9	36.7	84.8	128.9	168.3
Non-recurring adjustments to net income	7.1	4.8	1.2	0.0	0.0
Adjusted net income	65.0	41.5	86.1	128.9	168.3
Adjusted EPS (SAR)	0.80	0.51	1.04	1.58	2.07

Source: Kamco Invest Research and SISCO Holding

Cash Flow (SAR Mn)	2021	2022	2023E	2024E	2025E
Net cash from operating activities	236.3	213.2	416.3	551.7	620.4
Net cash (used in) from investing activities	511.4	(245.8)	(373.3)	(243.0)	(95.5)
Net cash from (used in) financing activities	(191.9)	(72.0)	17.9	(230.0)	(235.4)
Change in cash and cash equivalents	555.8	(104.5)	60.9	78.7	289.5
FX and other adjustments					
Cash and cash equivalents at the end of the year	892.4	787.9	848.8	927.5	1,217.0
Valuation & Financial Ratios	2021	2022	2023E	2024E	2025E
Asset Structure and Leverage Ratios					
Total Debt / Total Assets (x)	0.15	0.15	0.18	0.18	0.17
Total Debt / Equity (x)	0.32	0.34	0.42	0.39	0.37
Total Liabilities/Equity (x)	1.18	1.18	1.28	1.23	1.15
Profitability Ratios					
Return on Average Equity (%)	2.8%	1.8%	3.7%	5.2%	6.3%
ROIC (%)	8.6%	6.8%	9.7%	11.5%	12.6%
Margins					
Gross profit margin (%)	48.5%	48.7%	52.6%	52.7%	53.2%
EBITDA margin (%)	54.1%	53.6%	51.6%	51.6%	53.2%
EBIT margin (%)	30.2%	26.9%	34.1%	35.8%	38.2%
Net profit margin (%)	6.3%	4.3%	7.8%	10.3%	12.2%
Per Share Data and Valuation Ratios					
Enterprise Value (SAR Mn)	4,134	3,336	3,673	3,571	3,571
Earnings Per Share (SAR)	0.80	0.51	1.04	1.58	2.07
Book Value Per Share (SAR)	28.1	28.4	29.3	31.2	33.8
Dividend Per Share (SAR)	0.60	0.80	0.80	0.80	0.80
PE (x)	38.4	39.8	29.4	18.6	14.2
EV/EBITDA (x)	8.3	7.3	6.5	5.5	4.9
PB (x)	1.1	0.7	1.0	0.9	0.9
Dividend Yield (%)	2.0%	3.9%	2.6%	2.7%	2.7%

Source: Kamco Invest Research and SISCO Holding

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