

WACC Rise to 6.65% Improves Financials

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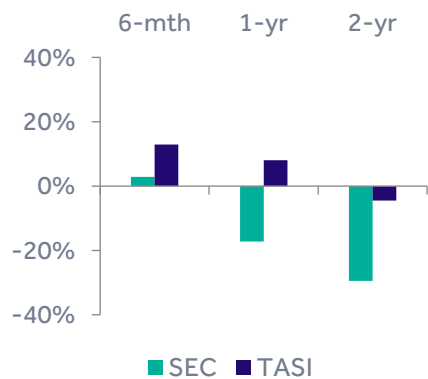
Upside to Target Price	6.2%	Rating	Neutral
Expected Dividend Yield	3.7%	Last Price	SAR 18.84
Expected Total Return	9.9%	12-mth target	SAR 20.00

Market Data	
52-week high/low	SAR 23.48/16.92
Market Cap	SAR 78,499 mln
Shares Outstanding	4,167 mln
Free-float	18.76%
12-month ADTV	881,795
Bloomberg Code	SECO AB

SEC	1Q2024	1Q2023	Y/Y	4Q2023	Q/Q	RC Estimate
Operating Revenue	15,858	13,379	19%	18,434	(14%)	13,466
Gross Profit	2,140	1,760	22%	(37)	-	1,748
Gross Margins	13%	13%		(0%)		13%
Operating Profit	2,019	1,724	17%	(577)	-	1,588
Net Profit*	897	480	87%	(91)	-	403

(All figures are in SAR mln)

* Before deducting Mudaraba Instrument.



- Revenues inclined +19% Y/Y to SAR 15.9 bln in the outgoing quarter on the back of higher required revenues (new WACC in place) coupled with growing regulated asset base (RAB); higher demand from existing customers and growth in subscribers; new revenue from development projects as well as higher revenue from Dawiyat driven by increase in FTTH subscribers. Electricity sales grew by +5.8% Y/Y led by a +4% increase in quantity sold.
- Gross profit was up +22% Y/Y to SAR 2.1 bln with gross margins returning to 13% for the quarter, similar to last year, and undoing the slight negative gross margins experienced in the previous quarter. Capex witnessed a material +48% rise Y/Y to SAR 10.5 bln for the quarter as the Company accelerates its investments in grid infrastructure to meet expected rise in demand. EBITDA went up +9.1% to SAR 6.9 bln due to higher revenues despite rising operation and maintenance costs.
- It was announced on April 29th that there has been an increase in the WACC applicable to the Company to 6.65% for the 3 years 2024 to 2026 from the previous rate of 6.0%. This revision has also caused a change in the profit margin on the Mudaraba instrument to 5.15%. We view this as a positive development for Company financials, which was eagerly anticipated.
- Net profit for the quarter of SAR 897 mln is up +87% Y/Y and beat our SAR 403 mln forecast largely due to higher revenues as the new WACC rate was applied. Post Mudaraba instrument, SEC recorded a loss of SAR 1.3 bln for the quarter. We tweak out target price to SAR 20.00 from SAR 21.00 but maintain our Neutral rating.

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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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