Yanbu National Petrochemical Co.

Materials| Yansab | 2290

INTELLIGENT
INVESTMENT
IDEAS

3Q 2018 Results Update

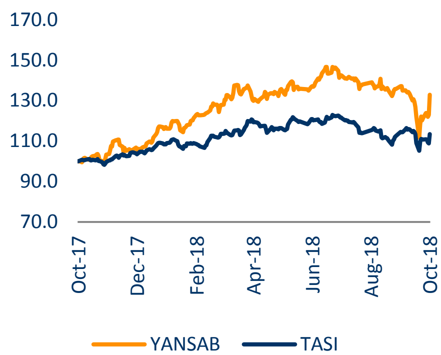
October 29, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	68.7
Target Price (SAR)	73.7
Upside/Downside (%)	7.2%

As of October 29, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	38.6
52 Wk High (SAR)	77.5
52 Wk Low (SAR)	54.0
Total Outstanding shares (in mn)	563
Free Float (%)	36.0%

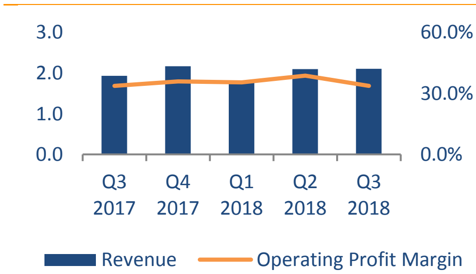
YANSAB vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.2%)	(2.3%)
6m	2.2%	7.1%
12m	32.8%	19.4%

Major Shareholders (%)	
Saudi Basic Industries Corp	51.00%
General Organization For Social Insurance	11.94%

Revenue and Operating Profit Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 29th October 2018

Net income for 3Q18 increased annually driven by higher selling prices and volumes

Yansab reported strong results in 3Q18, with net income beating consensus estimate. Net income grew to SAR 729mn (13.1% YoY) in 3Q18, mainly due to higher average sales prices for most of the products and increased sales volumes. On a quarterly basis, however, the net profits declined 11.2% due to increase in operating expenses. Average prices for petrochemicals during 3Q18 remained on an uptrend on YoY basis, in line with the oil prices. Gross margins declined on YoY and QoQ basis, as average prices for a few feedstock materials increased.

Yansab is likely to continue to capitalize on the growing demand for Mono Ethylene glycol (MEG), which contributes about 42% of the topline growth. According to ICIS, demand for MEG is expected to grow further boosted by the increasing production of polyester in China, which is the end-user market for MEG. The polyester prices have been on an uptrend since June, as higher crude values and less available inventories are pushing prices higher. The MEG market is forecasted to reach at USD30–35bn by 2022 from USD 24bn in 2017 driven by increasing demand from the global textile industry. Yansab is expected to capture this demand in part, following the start of its ethylene glycol expansion project which is expected to commence operation in 4Q18.

- Yansab's revenue grew 9.2% YoY to SAR 2.1bn, driven by higher average sales prices of key products and increased sales volume. However, average selling prices declined on QoQ basis, resulting in flat revenues, in spite of higher sales volumes.
- Gross profit rose to SAR 839mn (+7.5% YoY) in 3Q18, as increase in feedstock costs was more than offset by higher revenues. On quarterly basis, gross profits decreased 10.5%, impacted by higher feedstock prices. Consequently, gross margin contracted by 463.7 bps QoQ in 3Q18.
- Operating profit increased to SAR 711mn (+8.7% YoY) largely driven by higher sales volumes. However, operating profit margin fell on an annual as well as quarterly basis owing to higher operating costs.
- EBITDA rose 6.3% YoY to SAR986 mn, while margins contracted 125.3 bps.
- Net profit grew to SAR 729mn (+13.1% YoY) in 3Q18, driven by higher average product prices which more than offset the increase in prices of propane. Furthermore, a SAR 11.4mn YoY drop in finance expense and SAR 8.8mn YoY rise in other income also contributed to bottom-line growth. Yansab has been continuously drawing down debt in its efforts to become debt-free by 2019.
- After the scheduled maintenance commencing in October 2018, we expect the production rates to improve in the coming quarters. The expansion of Ethylene Glycol DBN project will add 80,000 metric tonnes per year of ethylene glycol capacity in 4Q18 and would translate into higher earnings growth in FY2019 and FY2020. Petrochemical prices are expected to remain strong given the rise in oil prices. However, higher oil prices would also lead to higher feedstock costs. This might limit Yansab's ability to post a growth in profit margins. Given these countervailing factors, we maintain our 'Neutral' rating on the stock.

Valuation: We revise our target price with a fair value of SAR 73.7, in-line with the 3Q18 performance. We maintain our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,110	1,933	9.2%	8,192	7,221	13.4%
Gross Profit (SAR mn)	839	780	7.5%	3,318	2,870	15.6%
EBITDA (SAR mn)	986	927	6.3%	3,921	3,504	11.9%
Net Profit (SAR mn)	729	645	13.1%	2,821	2,376	18.7%
EPS basic (SAR)	1.3	1.1	13.1%	5.0	4.2	18.7%
Gross Margin (%)	39.8%	40.4%	(0.6%)	40.5%	39.7%	0.8%
EBITDA Margin (%)	46.7%	48.0%	(1.3%)	47.9%	48.5%	(0.7%)
Net Profit Margin (%)	34.5%	33.3%	1.2%	34.4%	32.9%	1.5%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: 8004298888

Brokerage Services: 920004711

Fax or Email us at the below number:

Fax: +966 11 2032546

Email: addingvalue@falcom.com.sa

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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