Yanbu National Petrochemical Co.

Materials| Yansab | 2290

FY18 Results Update

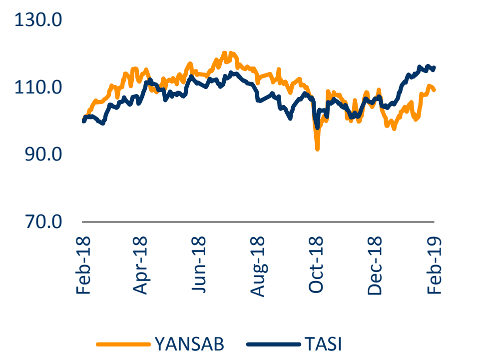
February 18, 2019

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	70.5
Target Price (SAR)	69.2
Upside/Downside (%)	-1.9%

As of February 17, 2019

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	39.7
52 Wk High (SAR)	77.5
52 Wk Low (SAR)	58.0
Total Outstanding shares (in mn)	562.5
Free Float (%)	34.9%

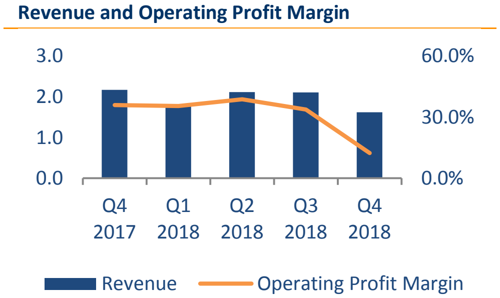
YANSAB vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	3.6%	(5.4%)
6m	(4.2%)	(10.9%)
12m	9.1%	(6.7%)

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

Revenue and Operating Profit Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 17th February 2019

FY18 bottom-line came much below consensus estimates

Yansab's net earnings grew 1.6% YoY to SAR 2,414mn, primarily driven by higher average sales prices for most products, as oil prices recovered by almost 35% during the first nine months of the year. The gains were, however, trimmed by an earnings contraction in 4Q18 (down -70.0% YoY to SAR 233mn) when oil prices dipped sharply, losing all the gains for the year. Gross margins declined -19.8% YoY and -18.2% QoQ in 4Q18, as production's average input cost remained consistent. Also, the scheduled 66-day shutdown of the ethylene glycol plant adversely impacted the production and sales quantity for the past quarter.

Yansab might continue to capitalize on the growing demand for mono ethylene glycol (MEG), which is used widely in numerous industrial applications. The MEG market is forecasted to reach USD 30–35bn by 2022 from USD 24bn in 2017, driven by the growing demand from the global textile industry. Additionally, Saudi Arabia's petrochemical industry is expected to benefit from large-scale investments in downstream projects as the government aims to reduce economic dependence on crude oil exports. However, the recent downturn in the oil prices may restrict the upside potential of the petrochemical prices which form the primary products for the company.

- Yansab's revenue grew 5.6% YoY to SAR 7.6bn in FY18, mainly due to higher average sales prices of key products. However, a drop in sales volumes on scheduled closure of the ethylene glycol plant for a maintenance and expansion limited the gains.
- Gross profit for the year remained almost flat at SAR 2.9bn as the cost of feedstock materials rose. During the past quarter, gross profit fell sharply (-61.1% YoY; -58.4% QoQ) as the average selling price for all products declined, even though average input costs remained in line. Consequently, gross margin contracted by -19.8% YoY to 22% in 4Q18 and by -2.2% to 38% for FY18.
- Operating profit declined to SAR 2.4bn (-2.2% YoY) owing to higher operating costs as selling, distribution and admin expenses as a percentage of sales rose +30bps YoY to 6.6% in FY18.
- EBITDA declined -1.5% YoY to SAR 3.5bn, while margins contracted by -327 bps to 45.3%.
- Net profit grew to SAR 2.4bn (+1.6% YoY) in FY18, driven by higher average product prices, which more than offset the increased prices of some feedstock materials. Furthermore, a SAR 26.5mn YoY drop in finance expense and a SAR 3.6mn YoY rise in other income contributed to bottom-line growth. Yansab was successful in its efforts to draw down debt and became debt free in FY18.
- On December 13, 2018, Yansab re-commenced commercial operations at its ethylene glycol plant following the 66-day shutdown since October 2018, for the usual maintenance and to expand the ethylene glycol DBN project to add 80,000 metric tons per year of capacity. A financial impact amounting to SAR 64mn would be reflected in the company's earnings for the 1Q19 quarter as we expect production rates to improve in the upcoming quarters.
- Despite an increase in production capacity and utilization rates, the declining oil price trend over the past few months coupled with lower chemical prices may pressurize the top-line growth. Although margins are expected to marginally improve on account of lower feedstock prices expected in 2019E.

Valuation: We revise our target price with a fair value of SAR 69.2, in line with the company's FY18 performance. We maintain our 'Neutral' rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	1,619	2,167	-25.3%	7,581	7,628	-0.6%
Gross Profit (SAR mn)	349	897	-61.1%	2,995	2,865	4.5%
EBITDA (SAR mn)	479	1,063	-55.0%	3,586	3,452	3.9%
Net Profit (SAR mn)	233	778	-70.0%	2,559	2,414	6.0%
EPS basic (SAR)	0.4	1.4	-70.0%	4.5	4.3	6.0%
Gross Margin (%)	21.5%	41.4%	-19.8%	39.5%	37.6%	1.9%
EBITDA Margin (%)	29.6%	49.1%	-19.5%	47.3%	45.3%	2.1%
Net Profit Margin (%)	14.4%	35.9%	-21.5%	33.8%	31.6%	2.1%

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.

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