

1Q19 Results Update

April 30, 2019

| | |
|-------------------------|----------------|
| Recommendation | Neutral |
| Previous Recommendation | Neutral |
| Current Price (SAR) | 82.0 |
| Target Price (SAR) | 83.0 |
| Upside/Downside (%) | 1.3% |

As of April 30th, 2019

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 34.2 |
| 52 Wk High (SAR) | 87.9 |
| 52 Wk Low (SAR) | 60.0 |
| Total Outstanding shares (in mn) | 417 |
| Free Float (%) | 39.4% |

SAFCO vs. TASI (Rebased)



| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 1.6% | -4.0% |
| 6m | 2.6% | -16.3% |
| 12m | 27.7% | 14.9% |

Major Shareholders (%)

| | |
|----------------------------------|--------|
| Saudi Basic Industries Corp. | 42.99% |
| General Org For Social Insurance | 10.54% |
| Public Pension Agency | 6.87% |

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 30th April 2019

Net income rises annually on lower costs and expenses, beats consensus estimates

Saudi Arabian Fertilizer Co. (SAFCO)'s revenues fell 11.4% Y/Y to SAR 719mn in 1Q19, weighed by lower sales quantities as the company is executing the SAFCO 3 plant Reliability Improvement Project. Gross profit was up 5.6% YoY to SAR 378mn owing to decline in cost of sales. Operating income increased 22.4% YoY to SAR 296mn, ascribed to lower general and administrative expenses and the absence of organizational restructuring that had resulted in cost increase at that time. Net income for the quarter rose 41.4% YoY to SAR 335mn on increased profit contribution from associate Ibn Al-Baytar. On a quarterly basis, revenues declined on lower sales quantities and lower selling price, resulting in lower operating and net profit compared to 4Q18.

SAFCO's efforts to control expenses through a cost restructuring program continue to prove fruitful, as evident from decline in general and admin expenses. The outlook for the fertilizer market remains positive on strong demand, capacity closure, and declining urea exports from China, which would limit supply in the market. The World Bank's fertilizer price index is projected to increase 2% in 2019, following an expected rise of 9% in 2018. For SAFCO, however, gains from improved selling prices may be offset by long shutdown of the SAFCO 3 plant, which may trim FY19 earnings.

- Revenues declined 11.4% YoY to SAR 719mn in 1Q19 as lower sales volumes and long shutdown of the SAFCO 3 plant offset the impact of a marginal increase in selling price. On a quarterly basis, revenues declined 34.1% QoQ due to the previously stated reason and lower selling prices.
- Gross profit grew 5.6% YoY to SAR 378m for 1Q19, owing to decline in cost of sales. Consequently, gross margin improved to 52.6% from 44.2% during this period. Sequentially, the gross profit margin was down from 63.4% in 4Q18 due to a fall in selling price.
- Operating profit jumped 22.4% YoY to SAR 296mn as general and administration cost declined following organizational restructuring, which led to an increase in cost in 1Q18. The operating margin spiked to 41.1% from 29.8% in 1Q18.
- Net income during the quarter surged 41.4% YoY to SAR 335mn, owing to overall improvement in the company's performance and higher profit contribution from its associate, Ibn Al-Baytar.
- On April 8, 2019, SAFCO's shareholders approved 15% cash dividend for 2H18, amounting to 625mn for 416.7mn of its outstanding shares.
- As part of SAFCO's 2025 strategy, the company implemented regular maintenance at the ammonia and urea facilities at the SAFCO 3 ammonia plant. This was aimed at boosting the annual production capacity by 100,000 metric tons; the related financial impact would be reflected in 1H19.

Valuation: We have revised our target price upward, with a fair value of SAR 83.0 per share, in view of the results from 1Q19 and the sector outlook. However, we maintain our "Neutral" rating on the stock.

| | 1Q'19 | 1Q'18 | % YoY | FY19E | FY18 | % YoY |
|-----------------------|-------|-------|--------|-------|-------|-------|
| Revenues (SAR mn) | 719 | 811 | -11.4% | 3,860 | 3,967 | 2.8% |
| Gross Profit (SAR mn) | 378 | 358 | 5.6% | 2,133 | 2,193 | 2.8% |
| EBITDA (SAR mn) | 426 | 363 | 17.4% | 2,218 | 2,297 | 3.6% |
| Net Profit (SAR mn) | 335 | 237 | 41.4% | 1,738 | 1,821 | 4.7% |
| EPS (SAR) | 0.8 | 0.6 | 41.4% | 4.2 | 4.4 | 4.7% |
| Gross Margin (%) | 52.6% | 44.2% | 8.4% | 55.3% | 55.3% | 0.0% |
| EBITDA Margin (%) | 59.3% | 44.8% | 14.5% | 57.5% | 57.9% | 0.4% |
| Net Profit Margin (%) | 46.7% | 29.3% | 17.4% | 45.0% | 45.9% | 0.9% |

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 $\geq 10\%$.

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 $\geq 10\%$.

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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