

FY18 Results Update

March 7, 2019

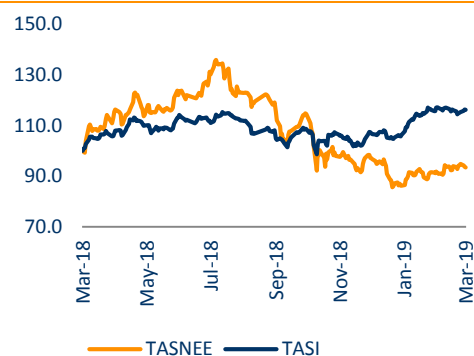
Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	16.3
Target Price (SAR)	18.5
Upside/Downside (%)	13.5%

As of March 6th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.9
52 Wk High (SAR)	23.8
52 Wk Low (SAR)	14.9
Total Outstanding shares (in mn)	669
Free Float (%)	87.0%

TASNEE vs. TASI (Rebased)

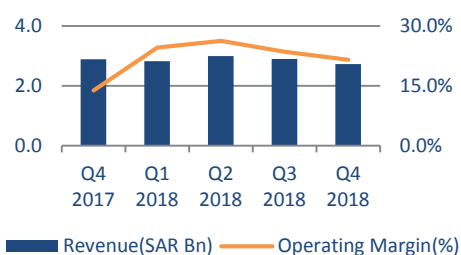


Price Performance (%)	Absolute	Relative
1m	1.7%	2.5%
6m	(19.1%)	(30.0%)
12m	(6.6%)	(22.8%)

Major Shareholders (%)

General Organization for Social Insurance	8.69%
Kingdom Holding Co.	6.23%
Saudi Pharmaceutical Co.	5.24%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 6th Mar 2019

Annual profit rises on higher revenues and share of net profit from associates

National Industrialization Co. (Tasnee)'s net profit jumped 67.9% to SAR 1.2bn in FY18, mainly due to increase in average sales prices of titanium dioxide (TiO₂) products and higher share of net profit from joint ventures and associates. Besides, the recovery in petrochemical prices for most of the year offset the rise in operating expenses and income taxes. Revenues for the year grew 6.0% to SAR 11.4bn; the cost of revenues, however, declined, boosting gross profit margin for FY18 to 26.7% from 19.5% in FY17. The company has reduced the production of TiO₂ to balance the market and maintain a reasonable price level. Tasnee has utilized the upturn in business cycle and continues to decrease debt. This should ultimately reflect in lower financial cost, further helping profitability. Meanwhile, Tasnee's titanium slag smelter facility is expected to commence commercial operations during 2H19. Besides, following the completion of the TCL4 unit, production at the titanium sponge project in Yanbu is expected to start during 1H19. This is expected to add additional feedstock capacity to the industry. In addition, production lines of the Tasnee's manufacturing industries in Hail has commenced operations and substantial impact is expected to be visible in the company's results next year. The company expects the planned merger between Tronox and Cristal (a Tasnee subsidiary) to be finalized in 1H19. We upgrade our stock rating from 'Neutral' to 'Overweight' in view of the impressive results in FY18 and the optimistic outlook for the company.

- Revenue increased 6.0% YoY to SAR 11.4bn in FY18 from SAR 10.8bn in FY17, driven by higher sales prices of TiO₂. For 4Q18, revenues declined 5.6% YoY and 6.0% QoQ to SAR 2.7bn as petrochemical prices took a downturn, losing most of the gains during the year.
- Gross profit increased 45.4% YoY to SAR 3.1bn in FY18, while gross margin expanded to 26.7% in FY18 from 19.5% in FY17.
- Operating profit advanced 69.2% YoY to SAR 2.7bn in FY18 from SAR 1.6bn in FY17, largely driven by higher revenues and increased share of net profit from associates and joint ventures. Operating margin expanded 898bps YoY to 24.0%.
- Finance charges remained almost unchanged at SAR 706mn in FY18. The company's total debt declined to SAR 14.5bn in FY18 from SAR 15.6bn in FY17, thereby reducing the debt to equity ratio to 1.13 from 1.32 for the same period.
- Net income grew 67.9% to SAR 1.2bn supported by the aforesaid reasons. Net profit margin expanded 387bps YoY to 10.5% in FY18. Furthermore, net income growth was contained by lower other income and higher Zakat expenses.
- Cash flow from operating activities improved to SAR 2.2bn in FY18 from SAR 1.5bn in FY17, driven by higher profits.
- The planned merger of Tronox and Cristal (a Tasnee subsidiary) has received almost all regulatory approvals from related parties around the world; it is expected to be finalized once approval from the Federal Trade Commission (FTC) in the US is received.
- Tasnee signed a Murabaha Facility Agreement, valued at SAR 2bn, with Banque Saudi Fransi on January 1, 2019, for the purpose of refinancing its Sukuk maturing on May 21, 2019.

Valuation: We have revised our target price upward, with a fair value of SAR 18.5 per share, considering strong performance in FY2018. We have also revised our rating on the stock to 'Overweight' from 'Neutral'.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	2,727	2,889	(5.6%)	11,551	11,439	1.0%
Gross Profit (SAR mn)	597	716	(16.5%)	2,858	3,059	(6.6%)
Operating Profit (SAR mn)	587	399	47.2%	2,719	2,748	(1.0%)
Net Profit (SAR mn)	186	328	(43.4%)	1,177	1,202	(2.1%)
EPS basic (SAR)	0.28	0.49	(43.4%)	1.76	1.80	(2.1%)
Gross Margin (%)	21.9%	24.8%	(2.9%)	24.7%	26.7%	(2.0%)
Operating Margin (%)	21.5%	13.8%	7.7%	23.5%	24.0%	(0.5%)
Net Profit Margin (%)	6.8%	11.3%	(4.5%)	10.2%	10.5%	(0.3%)

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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