FALCOM

Yanbu National Petrochemical Co.

Materials| Yansab | 2290

INTELLIGENT INVESTMENT IDEAS

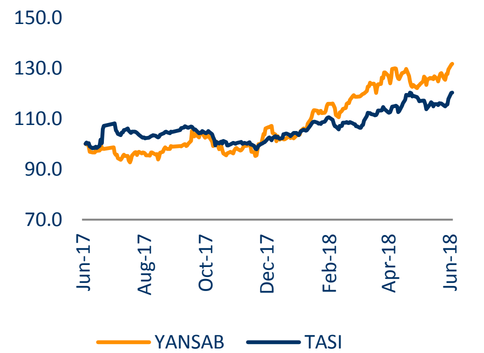
1Q 2018 Results Update **June 07, 2018**

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	72.7
Target Price (SAR)	74.0
Upside/Downside (%)	1.8%

As of June 06, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	40.9
52 Wk High (SAR)	75.70
52 Wk Low (SAR)	52.00
Total Outstanding shares (in mn)	562.5
Free Float (%)	35.6%

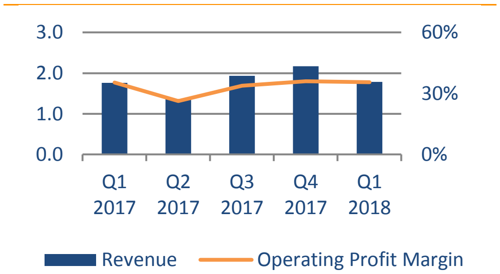
YANSAB vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	6.4%	3.6%
6m	23.5%	6.1%
12m	31.7%	11.4%

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 06th June 2018

Higher average sales price for all products drive 1Q18 results

Yansab reported a 3.7% YoY increase in net income during 1Q18, mainly due to higher average sales price for all of its products. However, the reported net income of SAR631mn was much behind the consensus expectations of SAR726mn. Higher sales price offsets the decline in sales quantities, resulting in 1.6% YoY growth in revenue for 1Q18. Both, revenue and net income were down 17.5% and 18.9%, respectively, on a quarterly basis, due to lower sales quantities. Gross margins managed to remain flat on YoY and QoQ basis, even though average prices for a few feedstock materials increased year-on-year.

A large portion of Yansab's sales come from the production of Mono Ethylene Glycol (MEG). According to ICIS, a stronger demand for MEG is expected in future, resulting from China's increased production of polyester (which uses MEG as a raw material). China is the world's largest consumer of MEG and is a major importer of the material from GCC. However, there is a potential risk of an oversupply beyond 2020, resulting from the addition of several large MEG production capacities in USA, Saudi Arabia and Malaysia in 2019-20. Petrochemical prices are expected to increase in future, given the rise in oil prices, and the fact that production from Chinese factories face intensified government action to curb air pollution. 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.

- Yansab's revenue grew 1.6% YoY to SAR 1.8bn due to higher average sales price for all products, despite a decline in sales quantities. On a QoQ basis, however, lower sales quantities led to a 17.5% decline in revenue.
- Gross profit changed by +1.7% YoY and -17.5% QoQ to SAR 740mn, as cost of sales changed in line with revenue. Consequently, gross margin remained stable on YoY as well as QoQ basis.
- EBITDA margin improved by 122bps QoQ, but remained flat YoY at 50.3%.
- Operating profit increased by 1.9% YoY to SAR 635mn. On a quarterly basis, however, the operating profits reduced by 18.6% due to higher general and administrative expense. Thus, operating margin contracted by 46bps QoQ to 35.5%.
- Net profit increased by 3.7% YoY mainly due to higher average sales price for all products. Furthermore, a SAR 7mn increase in finance income and a SAR 3mn increase in other income, added to bottom line growth.
- Yansab has recommended a 17.5% cash dividend for 1H 2018, at SAR 1.75 per share, amounting to SAR 984mn. This is in-line with our expectations of SAR 3.78/share for the full year 2018.
- Yansab's cash flow from operating activities increased by 33.3% YoY, primarily due to decline in accounts receivable.
- After suspension of production at two plants for maintenance in Q1 2018, we expect the production rates to improve in the coming quarters. Moreover, given the northward direction of oil prices, we expect petrochemical prices to follow suit.

Valuation: We have revised our target price upward with a fair value of SAR 74.0, in-line with current share price run-up and production growth expectations. We maintain our 'Neutral' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	1,787	1,759	1.6%	8,134	7,221	12.6%
Gross Profit (SAR mn)	740	728	1.6%	3,254	2,870	13.4%
EBITDA (SAR mn)	899	884	1.6%	3,861	3,504	10.2%
Net Profit (SAR mn)	631	608	3.7%	2,763	2,376	16.3%
EPS basic (SAR)	1.12	1.08	3.7%	4.91	4.22	16.3%
Gross Margin (%)	41.4%	41.4%	0.0%	40.0%	39.7%	0.3%
EBITDA Margin (%)	50.3%	50.3%	0.0%	47.5%	48.5%	-1.1%
Net Profit Margin (%)	35.3%	34.6%	0.7%	34.0%	32.9%	1.1%

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.

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

Disclaimer and Risks Warning:

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.