

**2Q 2018 Results Update**
**July 25, 2018**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	21.7
Target Price (SAR)	22.7
Upside/Downside (%)	4.5%

*As of July 24, 2018*
**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	14.5
52 Wk High (SAR)	23.82
52 Wk Low (SAR)	13.22
Total Outstanding shares (in mn)	669
Free Float (%)	87.0%

**TASNEE vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	0.9%	0.3%
6m	28.8%	16.4%
12m	44.4%	28.5%

**Major Shareholders (%)**

General Organization for Social Insurance	8.69%
Kingdom Holding Co.	6.23%
Gulf Investment Corporation	5.58%

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


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 24<sup>th</sup> July 2018

**Tasnee's 2Q18 net profit more than triples on higher TiO2 prices**

National Industrialisation Co. (Tasnee) posted a more than three-fold jump in net profit to SAR 396mn in 2Q18 (323% YoY and 9.5% QoQ). This was ascribed to a rise in average sales prices of Titanium Dioxide products and lower financial charges. Growth in the company's share of net profit from associates and joint ventures, resulting from an increase in average sales prices for certain petrochemical products, further contributed to growth in net profit. However, the increase was offset by higher selling, general and administrative expenses and an increase in zakat and income tax provisions in the current quarter.

The company expects TiO2 prices to gradually decrease on subdued demand. However, the restricted supply of TiO2 in the market could hold the prices to sustain at the current levels. Meanwhile, Tasnee's titanium slag smelter facility (The Slagger) is expected to commence trial operations of the first and second furnaces over 2H18 and 1H19, respectively. This is expected to add additional feedstock capacity to the industry. In addition, most production lines of the Tasnee's manufacturing industries in Hail have commenced operations and substantial impact is expected to be visible in the company's results next year. We expect these production lines to provide added value to downstream activities.

- Revenue improved 12.1% YoY to SAR 2.9bn in 2Q18 from SAR 2.7bn in 2Q17, driven by higher sales prices of titanium dioxide and certain other petrochemical products. Sequentially, revenue improved 6.0% QoQ in 2Q18 from SAR 2.8bn in 1Q18.
- Gross profit almost doubled to SAR 871mn (+105% YoY) in 2Q18. The gross margin expanded to 29.1% in 2Q18 from 15.9% in 2Q17.
- Operating profit expanded 140% YoY to SAR 785mn in 2Q18 from SAR 327mn in 2Q17, largely driven by higher revenues and share of net profit from associates and joint ventures. Consequently, the operating margin expanded 1400bps YoY and 170bps QoQ to 26.3% in 2Q18.
- Finance charges reduced from SAR 198mn in 2Q17 to SAR 175mn in 2Q18 primarily as Tasnee lowered its total debt from SAR16.5bn to SAR14.9bn during the same period.
- Net income more than tripled to SAR 396mn in 2Q18, supported by the aforesaid reasons. The net profit margin expanded 970bps YoY to 13.2% in 2Q18 from 3.5% in 2Q17. Margins improved 40bps QoQ from 12.8% in 1Q18, as net income advanced from SAR 361mn in 1Q18.
- The cash flow from operating activities improved from an outflow of SAR 119mn in 2Q17 to an inflow of SAR372mn in 2Q18, driven by higher operating profits and improved trade receivables and inventories.
- In the latest development on the Tronox-Cristal deal, Tasnee expects the deal to be completed in 3Q18. The deal has witnessed regulatory challenges in the US and Europe on antitrust grounds. The US Federal Trade Commission (FTC) filed a complaint against the move, albeit the European Commission approved the deal, subject to Tronox divesting a paper-laminate product grade produced in the Netherlands. Subsequently, in line with the conditions set forth in the EC's approval, Tronox announced on July 16 that it would divest the product grade to UK-based Venator. Tronox entered into a binding MoU with Venator to sell Cristal's Ashtabula, Ohio, two-plant TiO2 production complex to Venator, which indicates the firm is committed to proceeding with the deal.

**Valuation:** We revise our target price slightly upwards to SAR 22.7 driven by strong first half of the year performance and improved outlook. We maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,991	2,667	12.1%	11,936	10,796	10.6%
Gross Profit (SAR mn)	871	425	104.9%	3,247	2,104	54.3%
Operating Profit (SAR mn)	786	327	140.2%	2,779	1,624	71.1%
Net Profit (SAR mn)	396	94	323.1%	1,295	716	80.8%
EPS basic (SAR)	0.59	0.14	323.1%	1.94	1.07	80.8%
Gross Margin (%)	29.1%	15.9%	13.2%	27.2%	19.5%	7.7%
Operating Margin (%)	26.3%	12.3%	14.0%	23.3%	15.0%	8.2%
Net Profit Margin (%)	13.2%	3.5%	9.7%	10.8%	6.6%	4.2%

Source: Company Financials, FALCOM Research

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**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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