Yanbu National Petrochemical Co.

Materials| Yansab | 2290

INTELLIGENT
INVESTMENT
IDEAS

2Q 2018 Results Update

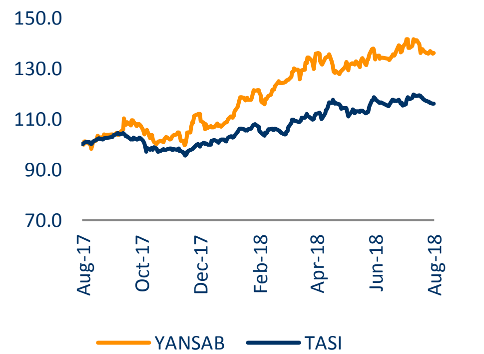
August 08, 2018

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	74.0
Target Price (SAR)	77.8
Upside/Downside (%)	5.1%

As of August 07, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	41.6
52 Wk High (SAR)	77.5
52 Wk Low (SAR)	53.4
Total Outstanding shares (in mn)	562.5
Free Float (%)	35.7%

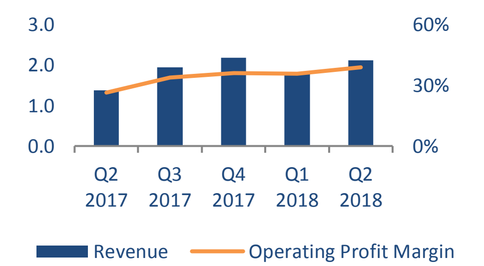
YANSAB vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	-1.7%	-2.4%
6m	13.0%	2.8%
12m	36.0%	20.0%

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 07th August 2018

Net profit for 2Q18 beats consensus on higher selling price and improved operating efficiency

Yansab reported better-than-expected results in 2Q18, with net income beating consensus estimate. Net income more than doubled to SAR 821mn (137% YoY, 30.2% QoQ) in 2Q18, despite higher prices for some feedstock materials. It improved due to higher average sales prices for most products and increased sales in the current quarter. Higher production and sales volumes due to turnaround activities during 2Q17 also contributed to growth in net income.

Average spot prices for petrochemicals during 2Q18 exhibited an uptrend on YoY basis (Ethylene 24.7%, propylene 28.5%, HDPE 26.9%, LDPE 0.7%, LLDPE 6.3%, polypropylene 24.2%, benzene 10.4%, and ethylene glycol 31.2%). Petchem prices benefited from the rebound in oil price (+47.6% YoY, +9.7% QoQ) during the same period. Furthermore, as we stated in our last report, mono ethylene glycol (MEG) accounts for a large part of Yansab's total sales (42%). According to ICIS, demand for MEG is expected to strengthen further, owing to increased polyester production in China, which uses MEG as a raw material. Besides, the MEG market, estimated at around USD 24bn in 2017, is forecast to hit USD 30–35bn by 2022, led by increasing demand for MEG in PET and polyester production. Also, rising demand for polyester fiber from the global textile industry that led to increased MEG production would be a major catalyst for growth in the MEG market.

- Yansab's revenue grew 55.0% YoY to SAR 2.1bn, driven by higher average sales prices for all products, in addition to higher production. On QoQ basis, revenue increased 18.1% in 2Q18.
- Gross profit almost doubled to SAR 938mn (+102% YoY, +27% QoQ) in 2Q18, attributed to robust top line posted in the current quarter. As a result, gross margin expanded 1,025bps YoY and 301bps QoQ in 2Q18.
- EBITDA margin improved by 538bps YoY and 130bps QoQ to 51.6%.
- Operating profit rose two fold to SAR 816mn (+128% YoY, +29% QoQ) due to improved operating efficiency achieved in the current quarter. Thus, operating margin expanded by 1,239bps YoY and 314bps QoQ to 38.7%.
- Net profit grew to SAR 821mn (+137% YoY, +30% QoQ) in 2Q18, mainly due to higher average sales price for all products and improved operating efficiency. A SAR 9.4mn YoY drop in finance expense and SAR 5.9mn YoY rise in finance income also contributed to bottom-line growth.
- Yansab has recommended a 17.5% cash dividend for 1H18, at SAR 1.75 per share (total SAR 984mn). This is in line with our expectation of SAR 3.79/share for FY18.
- We believe the expansion of Yansab's Ethylene Glycol DBN project, expected to be complete in 4Q18, would translate into higher earnings growth in FY2019 and FY2020. Expansion would increase the firm's annual MEG production capacity by 80kta. Overall, we expect petchem prices to remain stable over the next few quarters as well, given the positive demand outlook for oil in the medium term. Despite OPEC and Russia agreeing to increase production by around 1.0mn bpd, we expect the uptrend in oil prices would continue in the coming quarters. As oil supply is under pressure due to the continuing decline in Venezuelan production and US sanctions on Iran, we believe production increase by OPEC and Russia is unlikely to halt the recovery in the oil market. However, higher oil prices would push feedstock costs higher. This may limit Yansab's ability to grow profit margins. Given these countervailing factors, we maintain our 'Neutral' rating on the stock.

Valuation: We revise our target price upwards to SAR 77.8, in-line with strong 1H18 performance and margin improvement expectations. However, we retain our 'Neutral' rating on the stock due to limited upside potential from current levels.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,111	1,362	55.0%	8,147	7,221	12.8%
Gross Profit (SAR mn)	938	465	101.6%	3,422	2,870	19.2%
EBITDA (SAR mn)	1,089	629	73.1%	4,028	3,504	15.0%
Net Profit (SAR mn)	821	346	137.4%	2,921	2,376	22.9%
EPS basic (SAR)	1.5	0.6	137.4%	5.2	4.2	22.9%
Gross Margin (%)	44.4%	34.1%	10.3%	42.0%	39.7%	2.3%
EBITDA Margin (%)	51.6%	46.2%	5.4%	49.4%	48.5%	0.9%
Net Profit Margin (%)	38.9%	25.4%	13.5%	35.9%	32.9%	2.9%

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 ≥ 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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