

**FY18 Results Update**

**February 4, 2019**

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	83.8
Target Price (SAR)	80.5
Upside/Downside (%)	(4.2%)

As of February 3<sup>rd</sup>, 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	34.9
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)**

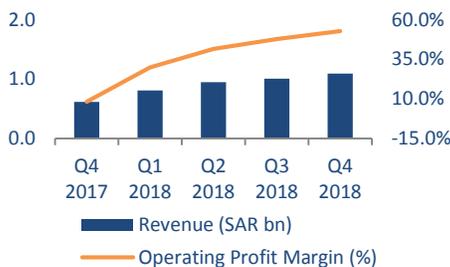


Price Performance (%)	Absolute	Relative
1m	8.7%	(2.0%)
6m	26.6%	23.3%
12m	20.8%	7.4%

**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 3<sup>rd</sup> February 2019

**Net income almost doubled for FY 2018; though slightly below consensus**

Saudi Arabian Fertilizer Co. (SAFCO)'s revenues grew 39.9% Y/Y to SAR 3.9bn in FY18, benefitting from continued improvement in average selling price, better utilization rates and sales volume. Gross profit surged 77.9% Y/Y as the cost per ton of sales declined -7.6% Y/Y to SAR 429. Operating income more than doubled as the company's cost control measures resulted in lower SG&A expense ratio. Net income for the year almost doubled to SAR 1.7bn as increased contribution of profit from associate Ibn Al-Baytar boosted the bottom line. Earnings, however, came slightly below consensus estimate.

SAFCO continues to control costs under organizational restructuring as part of its plans to address future challenges. The outlook for the fertilizer market remains positive on firm demand; capacity closures and declining urea exports from China that 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, the gains from improved selling prices may be offset by the planned shutdowns that may trim the earnings for FY19. SAFCO halted its operations at its SAFCO 3 plant during mid-Jan for 117-day scheduled maintenance and expects the related financial impact at average prices to reach ~SAR 121mn during the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2019. The company aims to enhance reliability at its SAFCO 3 ammonia plant, and implement regular maintenance at the ammonia and urea facilities.

- Revenues advanced 39.9% Y/Y to SAR 3.9bn in FY18, led by increased sales volume and higher average selling prices, when sales volume and utilization were adversely impacted by the planned shutdown of some plants. Revenues grew 77.0% Y/Y in 4Q18 owing to the implementation of planned enhancement projects and shutdown activities last year.
- Gross profit grew 77.9% Y/Y to SAR 2.1bn for FY18, led by higher product prices. Consequently, gross margin improved to 55.3% from 43.5% for the same period. During 4Q18, gross profit grew manifold on an annual basis on higher revenues and lower cost of sales from the comparable period last year.
- Operating profit more than doubled to SAR 1.7bn owing to increase in revenue and operational efficiencies. Operating margin spiked to 43.8% from 29.9% in FY17. In 4Q18, operating profit increased significantly to SAR 574mn from SAR 51mn last year in the absence of planned shutdown activities.
- Net income during the year surged 97.9% Y/Y to SAR 1.7bn owing to overall improvement in the company's performance and higher contribution of profit from its associate. Ibn Al-Baytar. Profits from the associate increased 23.6%Y/Y to SAR 116mn in FY18. Consequently, the company's net profit margin rose to 45.0% in FY18 from 31.8% in FY17.
- The company declared a dividend of SAR 3.48 per share for FY18, up from SAR 1.76 in FY17.
- SAFCO's cash flow from operating activities increased 50.0% Y/Y to SAR 2.1bn in FY18 (FY17: SAR 1.4bn). During 4Q18, it expanded 124.0% to SAR 646mn on higher income before Zakat, lower depreciation charges and higher account payables.
- In November 2018, SAFCO entered into a non-binding memorandum of understanding with SABIC; it may lead to the purchase of SABIC Agri-Nutrients Investments Company through a cash or equity offer following the proper regulatory process. Such an acquisition, we believe would further strengthen the company's production resources.

**Valuation:** We have revised our target price upward with a fair value of SAR 80.5 per share, after incorporating the strong results for FY18. However, we maintain our 'Neutral' rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	1,090	616	77.0%	3,906	3,860	1.2%
Gross Profit (SAR mn)	691	149	364.9%	2,190	2,133	2.7%
EBITDA (SAR mn)	721	214	236.7%	2,343	2,218	5.6%
Net Profit (SAR mn)	569	63	809.5%	1,804	1,738	3.7%
EPS (SAR)	1.4	0.2	809.5%	4.3	4.2	3.7%
Gross Margin (%)	63.4%	24.1%	39.3%	56.1%	55.3%	0.8%
EBITDA Margin (%)	66.1%	34.7%	31.4%	60.0%	57.5%	2.5%
Net Profit Margin (%)	52.2%	10.1%	42.0%	46.2%	45.0%	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  $\geq 10\%$ .

**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.

## 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:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

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.