

FY19 Results Update

April 23, 2020

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	9.5
Target Price (SAR)	9.8
Upside/Downside (%)	2.6%

As of April 23rd, 2020

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	6.4
52 Wk High (SAR)	17.8
52 Wk Low (SAR)	8.2
Total Outstanding shares (in mn)	669
Free Float (%)	88.3%

TASNEE vs. TASI (Rebased)

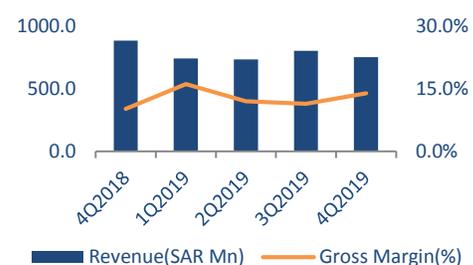


Price Performance (%)	Absolute	Relative
1m	8.5%	3.2%
6m	(26.4%)	(11.2%)
12m	(51.9%)	(23.7%)

Major Shareholders (%)

Kingdom Holding Co.	6.23%
Saudi Pharmaceutical Co.	5.24%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 23th April 2020

Tasnee swung to a net loss on revaluation of Cristal's assets sold to Tronox

National Industrialization Co. (Tasnee) recorded a net loss of SAR 1.6bn in FY19, compared with a net profit of SAR 1.2bn in FY18, primarily attributable to the remeasurement loss of SR 1.45bn on Cristal's assets sold to Tronox. Its operating profit was down 70.2% YoY to SAR 313mn as the company recorded an impairment of SAR 411mn for certain non-current assets and a lower profit share from its associates, even though the G&A expenses declined. The bottom line was also adversely impacted by financial support related to Acrylics Complex amounting to SR 219mn. The company's revenues for the period declined 1.5% YoY to SAR 3.0bn, as it recorded a lower average selling price for its products.

Following the divestment of the National Titanium Dioxide Company Ltd. (Cristal) in 2Q19, the company shed off its volatile TiO₂ business to focus on its core areas of operations — petrochemical assets and downstream business. The leaner Tasnee is expected to be able to focus on other strategic opportunities in its core business areas. However, the slowing economy pressurizes the oil demand outlook, which is, overall, expected to contract in 2020 amid the COVID-19 crisis, which has brought the transport sector and industrial activities to a standstill. The oil price outlook as per the EIA is expected to remain around USD 33 per barrel in 2020, with only a modest recovery to USD 45 per barrel in 2021. These issues have compounded the problems for the company as it struggled with topline growth when oil was priced at an average of USD 64 per barrel in 2019. Having said that, the company has made significant reductions to its operating and financing expenses and has also managed to improve its debt-to-equity ratio substantially, following the divestment of the TiO₂ business. Thus, in view of the countervailing factors, we maintain our Neutral rating on the stock.

- Tasnee's revenue declined 1.5% YoY to SAR 3.0bn in FY19, owing to the lower selling prices of its main products. On a quarterly basis, revenues were down 14.9% YoY to SAR 749.0mn.
- Even though the cost of sales declined 0.7% YoY to SAR 2.6bn, the gross profit for the period lowered 6.4% YoY to SAR 401mn. The gross margin stood at 13.3% in FY19, against 14.0% in FY18. During 4Q19, however, the gross profit was up 16.6% YoY to SAR 104mn.
- The benefits from the decline in the general and administrative expenses to SAR 641mn (9.8% YoY) was offset by lower share of profit from joint ventures and associates and higher impairment of non-current assets. Operating income shrank 70.2% YoY to SAR 313mn, and the operating margin slumped to 10.4% in FY19, compared with 34.3% in FY18.
- The company swung to a net loss of SAR 1.6bn due to the revaluation of Cristal's assets sold to Tronox, compared with a net profit of SAR 1.2bn in FY18. Part of the loss was offset by SAR 402 mn gains generated from the sale of Cristal assets and a decrease in Zakat provision.

Valuation: We reduce our target price to a fair value of SAR 9.8 per share and assign a Neutral rating to the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	749	880	(14.9%)	2,714	3,019	(10.1%)
Gross Profit (SAR mn)	104	89	16.6%	390	401	(2.9%)
Operating Profit (SAR mn)	(184)	(100)	84.2%	735	313	134.9%
Net Profit (SAR mn)	(2,077)	186	NM	201	(1,580)	NM
EPS Basic (SAR)	(3.11)	0.28	NM	0.30	(2.36)	NM
Gross Margin (%)	13.9%	10.1%	3.7%	14.4%	13.3%	1.1%
Operating Margin (%)	(24.6%)	(11.4%)	(13.2%)	27.1%	10.4%	16.7%
Net Profit Margin (%)	(277.3%)	21.1%	(298.4%)	7.4%	(52.3%)	59.7%

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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