

1Q20 Results Update

July 10, 2020

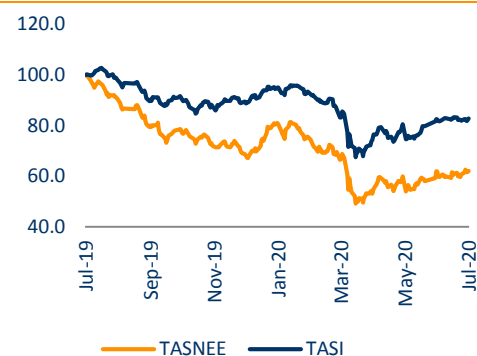
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	10.6
Target Price (SAR)	9.8
Upside/Downside (%)	(7.8%)

As of July 07th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.1
52 Wk High (SAR)	16.6
52 Wk Low (SAR)	8.23
Total Outstanding shares (in mn)	669
Free Float (%)	88.3%

TASNEE vs. TASI (Rebased)

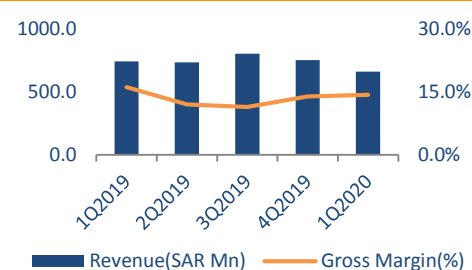


Price Performance (%)	Absolute	Relative
1m	0.2%	(0.1%)
6m	(23.0%)	(10.1%)
12m	(38.0%)	(20.7%)

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 07th July 2020

Tasnee's losses narrow owing to absence of impairment charges in 1Q20

National Industrialization Co. (Tasnee) recorded a net loss of SAR 77mn in 1Q20 compared with the net loss of SAR 1.3bn in 1Q19, which included "non-cash" loss upon re-measurement of discontinued operations of the Cristal business. On the other hand, the company's revenues declined 10.8% YoY to SAR 659.4mn in 1Q20 due to low average selling prices of all products and low demand for certain products amid the COVID-19 pandemic. The company's operating margin shrank on low operating profit due to increased selling, general, and administrative expenditures and reduced share from investments in associates and joint ventures. The company, however, recorded a decline in financial charges and zakat provisions over the comparable period last year.

With the divestment of the National Titanium Dioxide Company Ltd. (Cristal) in 2Q19, Tasnee became a leaner company after shedding off its volatile TiO₂ business. This was expected to enable the company to focus on core areas of operations — petrochemical assets and downstream business. However, the muted economic growth outlook in view of the COVID-19 pandemic is expected to pressurize oil demand outlook, which is, overall, expected to contract in 2020. Several economic sectors, including the transport sector and industrial activities, have been halted, whereas many others are operating at much lower than normal levels of utilization, as social distancing norms are being practiced in most countries. According to the EIA, the oil price outlook is expected to remain around USD 33 per barrel in 2020 and modestly recover to USD 45 per barrel in 2021. These issues have compounded the problem for the company, as it was already struggling with topline growth when oil was priced at an average of USD 64 per barrel in 2019. Having said that, the company has significantly reduced its operating and financing expenses and 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 10.8% YoY to SAR 659.4mn in 1Q20 due to declined selling prices of its key products and shrunken demand during the COVID-19 crisis. On a quarterly basis, revenues were down 12.0%.
- The company's gross profit declined 20.9% YoY to SAR 94mn due to high average cost of sales. Consequently, Tasnee's gross margin slid to 14.3% in 1Q20 compared with 16.1% in 1Q19.
- Although no impairment from non-current assets was recorded during the quarter, Tasnee's operating income slumped 87.5% YoY to SAR 38mn due to rising operating expenses and low share of net profit from associates and joint ventures. The operating profit margin narrowed to 5.7% in 1Q20 compared with 41.1% in the comparable quarter a year ago.
- Despite reduced financial expenses and decreased Zakat provisions, the company swung to a net loss before tax of SAR 28mn in 1Q20 compared with the net profit before tax of 167mn in 1Q19. Tasnee's net loss for the period, however, declined to SAR 77mn compared with SAR 1.3bn a year ago due to the revaluation of Cristal's assets sold to Tronox, which was classified as "held for sale" in Q1 2019, amounting to SAR 1.45bn.

Valuation: We maintain our target price at a fair value of SAR 9.8 per share and retain our Neutral rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	659	739	(10.8%)	2,714	3,019	(10.1%)
Gross Profit (SAR mn)	94	119	(20.9%)	390	401	(2.9%)
Operating Profit (SAR mn)	38	304	(%87.5)	735	313	134.9%
Net Profit (SAR mn)	(77)	(1,289)	(%94.1)	201	(1,580)	NM
EPS Basic (SAR)	(11)	(1.93)	(%94.1)	0.30	-2.36	NM
Gross Margin (%)	14.3%	16.1%	(1.8%)	14.4%	13.3%	1.1%
Operating Margin (%)	(5.7%)	%41.1	(35.4%)	27.1%	10.4%	16.7%
Net Profit Margin (%)	(11.6%)	%174.4	(%162.8)	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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