

3Q 2018 Results Update

November 28, 2018

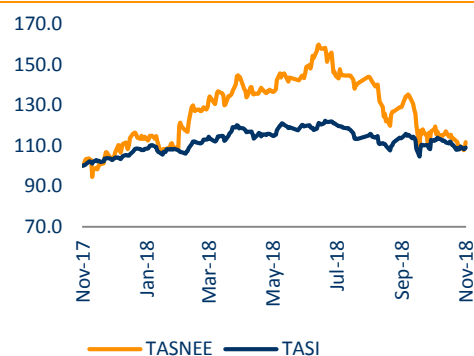
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	16.6
Target Price (SAR)	17.5
Upside/Downside (%)	5.4%

As of November 27, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	11.1
52 Wk High (SAR)	23.82
52 Wk Low (SAR)	14.04
Total Outstanding shares (in mn)	669
Free Float (%)	87.2%

TASNEE vs. TASI (Rebased)

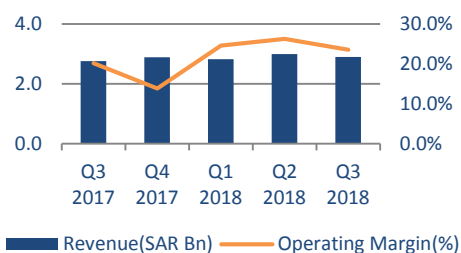


Price Performance (%)	Absolute	Relative
1m	-4.6%	-1.3%
6m	-18.2%	-13.2%
12m	11.7%	2.6%

Major Shareholders (%)

General Organization for Social Insurance	8.69%
Kingdom Holding Co.	6.23%
Saudi Pharmaceutical Co.	5.24%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 27th Nov 2018

Tasnee's 3Q18 net profit increases on higher TiO2 prices

In 3Q18, National Industrialisation Co. (Tasnee) posted net profit of SAR 259mn (35% YoY and -34% QoQ) mainly due to increase in average sales prices of Titanium Dioxide products. Decrease in selling and distribution expenses further aided the growth in profitability. However, the impact was somewhat offset by impairment charge to non-current assets by one of its subsidiaries, increase in other expenses as a result of recording a provision to fund the liabilities of one of its companies in Acrylic complex, increase in financial charges, and Zakat and income tax provisions.

We expect TiO2 and Petchem prices to continue their rise in the next quarter. The company has utilised the upturn in business cycle and continues to decrease debt. This should ultimately reflect in lower financial cost, further helping profitability. The company's CEO recently announced that the planned merger between Tronox and Cristal (a Tasnee subsidiary) is expected to be finalized in 1Q19. The deal would allow Tasnee to focus on its petrochemical assets, downstream business and other strategic business development opportunities, while substantially deleveraging its balance sheet. However the company has delayed the start-up operations of its Titanium Ilmenite Smelter Plant due to a technical issue; the company now plans to restart Furnace 1 in 2H219. Such delays are likely to affect growth in coming quarters. Furthermore, rising SAIBOR rates may limit the benefits realized from deleveraging. Given the countervailing factors, we retain our 'neutral' rating on the stock.

- Revenue improved 5.1% YoY to SAR 2.9bn in 3Q18 from SAR 2.8bn in 3Q17, driven by higher sales prices of titanium dioxide. However, sequentially, revenue declined 3.0% QoQ from SAR 3.0bn in 2Q18 due to QoQ decline in TiO2 sales prices and volume.
- Gross profit increased 44.1% YoY to SAR 773mn in 3Q18 while gross margin expanded to 26.7% in 3Q18 from 19.5% in 3Q17.
- Operating profit expanded 22.5% YoY to SAR 682mn in 3Q18 from SAR 557mn in 3Q17, largely driven by higher revenues and lower selling and distribution expenses. Operating margin expanded 333bps YoY while contracting 275bps QoQ to 23.5%.
- Finance charges increased from SAR 174mn in 3Q17 to SAR 195mn in 3Q18 despite Tasnee lowering its debt from SAR16.2bn to SAR14.5bn during the past twelve months.
- Net income increased 35.4% to SAR 259mn in 3Q18, supported by the aforesaid reasons. The net profit margin expanded 200bps YoY to 8.9% in 3Q18. However, net margin shrank 429bps QoQ due to QoQ decline in revenues and increase in finance costs and Zakat expenses.
- The cash flow from operating activities improved from SAR 166mn in 3Q17 to SAR 519mn in 3Q18, driven by lower working capital investments.
- Tasnee recently announced that the Tronox-Cristal merger is likely to be finalized in 1Q19. In July 2018, the US Federal Trade Commission (FTC) had filed a complaint against the merger. FTC had requested to sell Cristal's plant as a condition to approve the deal, while Tasnee was able to convince the federal authority that there's no need to sell a whole plant, and a part was enough. All regulatory approvals were received and the deal is pending FTC approval.

Valuation: We revise our target price to SAR 17.5 driven by third quarter performance and recent trend in TiO2 prices. We maintain our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,901	2,759	5.1%	11,936	10,796	10.6%
Gross Profit (SAR mn)	773	537	44.1%	3,247	2,104	54.3%
Operating Profit (SAR mn)	682	557	22.5%	2,779	1,624	71.1%
Net Profit (SAR mn)	259	192	35.4%	1,295	716	80.8%
EPS basic (SAR)	0.39	0.29	35.4%	1.94	1.07	80.8%
Gross Margin (%)	26.7%	19.5%	7.2%	27.2%	19.5%	7.7%
Operating Margin (%)	23.5%	20.2%	3.3%	23.3%	15.0%	8.2%
Net Profit Margin (%)	8.9%	6.9%	2.0%	10.8%	6.6%	4.2%

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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