

### 2Q19 Results Update

July 24, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	57.5
Target Price (SAR)	62.0
Upside/Downside (%)	7.8%

As of July 24, 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	32.3
52 Wk High (SAR)	75
52 Wk Low (SAR)	57.2
Total Outstanding shares (in mn)	562.5
Free Float (%)	39.2%

#### YANSAB vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(5.3%)	(5.7%)
6m	(5.4%)	(11.4%)
12m	(19.3%)	(24.6%)

#### Major Shareholders (%)

Saudi Basic Industries Corp	51.0%
General Organization For Social Insurance	7.6%

#### Revenue and Operating Profit Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 24<sup>th</sup> July 2019

#### Yansab's net profit disappoints, lags behind street expectations

Yansab's 2Q19 net earnings fell 61.5% YoY and 19.1% QoQ to SAR 316mn, owing to lower average selling price and higher cost of sales. Revenues during the quarter grew 7.6% QoQ to SAR 1.6bn as sales volumes improved. The drop in the average selling price, however, led to 22.4% YoY decline in revenues. The production's input average costs rose QoQ, leading to lower gross profit for the quarter. Operating profit also declined to SAR 329mn on higher selling and distribution expenses. Furthermore, a drop in the other income pressurized net profit, which fell to SAR 316mn, thereby missing consensus estimates by a large margin.

Yansab's financial fundamentals remain strong and the company's effort to improve operational efficiency and utilization rate has resulted in higher quantities produced and sold. However, weak market forecasts for mono ethylene glycol (MEG) (for which the company recently expanded its production capacity) and the persistent weakness in other product prices are likely to keep the company's revenue growth and bottom line under pressure. Thus, in view of these countervailing factors, we maintain our Neutral stance on the stock.

- Yansab's revenue declined 22.4% YoY but improved 7.6% QoQ to SAR1.6bn in 2Q19. The average selling price was lower than the aforementioned quarters even though sales volumes improved.
- Gross profit for the quarter sharply declined 8.7% QoQ and 54.0% YoY to SAR432mn, primarily due to the higher cost of sales. Consequently, gross margin for the quarter stood at 26.4%, compared with 31.0% and 44.4% in 1Q19 and 2Q18, respectively.
- The company managed to contain its general and operating expenses, but the rise in selling and distribution expenses led to a significant drop in the operating income, which fell 13.1% QoQ and 59.6% YoY to SAR 329mn. The operating margins also shrunk to 20.1% for the quarter, compared with 24.9% and 38.7% in 1Q19 and 2Q18, respectively.
- The EBITDA for 2Q19 stood at SAR 811mn, compared with SAR 651mn in 1Q19 and SAR 1.1bn in 2Q18. EBITDA margins stood at 49.5% for the quarter, up from 42.8% in 1Q19, but down 51.6% in 2Q18.
- Net income for the quarter slumped to SAR 316mn, down 19.1% QoQ and 61.5% YoY from 1Q19 and 2Q18, respectively. Sharp decline in other income further exacerbated decline in the company's net income. The net profit margin stood at 19.3% in 2Q19, compared with 25.7% in 1Q19 and 38.9% in 2Q18.

**Valuation:** We revised our target price downwards with a fair value of SAR 62.0, in view of the dismal performance in the recent quarter. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	1,638.0	2,111.5	(22.4%)	6,995.3	7,628.5	(8.3%)
Gross Profit (SAR mn)	431.6	937.6	(54.0%)	2,378.4	2,865.4	(17.0%)
EBITDA (SAR mn)	811.3	1,089.0	(25.5%)	2,986.4	3,452.1	(13.5%)
Net Profit (SAR mn)	316.1	820.9	(61.5%)	1,942.1	2,414.0	(19.5%)
EPS basic (SAR)	0.6	1.5	(61.5%)	3.5	4.3	(19.5%)
Gross Margin (%)	26.4%	44.4%	(18.1%)	34.0%	37.6%	(3.6%)
EBITDA Margin (%)	49.5%	51.6%	(2.0%)	42.7%	45.3%	(2.6%)
Net Profit Margin (%)	19.3%	38.9%	(19.6%)	27.8%	31.6%	(3.9%)

Source: Company Financials, FALCOM Research

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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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