

2Q19 Results Update

September 30, 2019

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	13.3
Target Price (SAR)	15.1
Upside/Downside (%)	13.3%

As of September 30th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.9
52 Wk High (SAR)	21.4
52 Wk Low (SAR)	12.4
Total Outstanding shares (in mn)	669
Free Float (%)	90.8%

TASNEE vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(6.2%)	(3.7%)
6m	(25.3%)	(18.2%)
12m	(31.0%)	(32.7%)

Major Shareholders (%)

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 29th September 2019

Note: The data for 3Q18 and 4Q18 is omitted from the graph as the restated numbers post deal are not available

Transaction closure between Cristal and Tronox boosts Tasnee's profits for the quarter

National Industrialization Co. (Tasnee)'s net profit jumped 86.0% QoQ to SAR 297mn, driven by the transaction closure between Cristal and Tronox and lower financial costs. On annual basis, however, profit declined 25.0% owing to reduction in product prices as well as lower share from associates and joint ventures. Revenues were marginally up 2.0% YoY to SAR 731mn; however, a higher cost of sales and SG&A expense, along with impairment charges, sharply reduced the profit at the operational level. Thus, despite the lower finance cost and realized gains from discontinued operations, net profit slid on an annual basis.

Following the complete divestiture of its subsidiary National Titanium Dioxide Company Ltd–Cristal, Tasnee reported gains from the discontinued operations in the income statement and also reported its deconsolidated financial assets for the first time. The debt-to-equity ratio for the company reduced substantially, standing at 0.59 in 2Q19 compared to 1.10 in 1Q19 i.e. before the deconsolidation. Hence, with the divestment of the TiO₂ business, which was largely responsible for volatility, we expect the company to report more stable margins. Furthermore, a leaner Tasnee is likely to shift the focus to its petrochemical assets and downstream business, and also explore other strategic opportunities in its core business areas. Thus, in view of the expected strong fundamentals of the company, we retain our "Overweight" rating on the stock.

- Revenues improved 2.0% YoY to SAR 731mn on lower average sales prices but declined 1.1% QoQ.
- The increase in cost of sales led to a decline in gross profit, which fell 12.0% YoY and 26.2% QoQ to SAR 88mn. Consequently, the gross margin narrowed to 12.0% in 2Q19 against 16.1% and 13.9% in 1Q19 and 2Q18, respectively.
- General and administrative expense remained in line with last year's levels at SAR 149mn, while selling and distribution expense increased 23.4% YoY to SAR 42mn. However, operating profit slumped 97.6% to SAR 6mn as a result of the reasons mentioned above and higher impairment charges for non-current assets. Thus, the operating margin shrank to 0.8% in 2Q19 from 35.2% in 2Q18.
- Finance charges sharply declined 14.6% YoY to SAR 116mn in 2Q19, and the discontinued operations contributed SAR 580mn. However, this was not sufficient to arrest the fall in net income, which slid 25.0% YoY to SAR 297mn as the share from joint ventures and associates declined as well. The net profit margin contracted to 40.6% in 2Q19 compared to 55.2% in 2Q18.
- Recently, the company informed that the shortage for the feedstock supply from Saudi Aramco has improved, 25% as compared to 41% earlier.

Valuation: We have revised our target price marginally downward to a fair value of SAR 15.1 per share. We retain our "Overweight" rating on the stock.

	2Q'19 (After deal)*	2Q'18 (After deal)*	% YoY	FY19E (After deal)*	FY18 (Before Deal)	% YoY
Revenues (SAR mn)	731	716	2.0%	3,002	11,439	-73.8%
Gross Profit (SAR mn)	88	100	(12.0%)	420	3,059	-86.3%
Operating Profit (SAR mn)	6	252	(97.6%)	818	2,748	-70.2%
Net Profit (SAR mn)	297	396	(25.0%)	727	1202	-39.5%
EPS Basic (SAR)	0.44	0.59	(25.0%)	1.09	1.80	-39.5%
Gross Margin (%)	12.0%	13.9%	(1.9%)	14.0%	26.7%	-12.7%
Operating Margin (%)	0.8%	35.2%	(34.3%)	27.3%	24.0%	3.2%
Net Profit Margin (%)	40.6%	55.2%	(14.7%)	24.2%	10.5%	13.7%

Source: Company Financials, FALCOM Research

Note: *Continuing Operations

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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