

1Q20 Results Update

May 15, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	47.3
Target Price (SAR)	47.0
Upside/Downside (%)	(0.7%)

As of 12th May 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	26.6
52-Wk High (SAR)	65.9
52-Wk Low (SAR)	38.6
Total Outstanding shares (in mn)	562.5
Free Float (%)	41.4%

YANSAB vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(2.2%)	2.4%
6m	(13.3%)	1.9%
12m	(32.1%)	(7.6%)

Major Shareholders (%)

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

Revenue (SAR bn) and Operating Profit Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 12th May, 2020

Yansab's 1Q20 net profit contracts sharply in wake of lower selling prices

Yansab's 1Q20 net profit shrank by 73.3% YoY to SAR 104.5mn on lower average sales prices for all products, reduced sales volumes, and increased average prices of some feedstock materials. Net profit margin reduced by almost two thirds to 8.7% compared with 25.7% in 1Q19. The company's revenues slumped by 21.5% YoY to SAR 1.2bn, whereas gross profit was down 57.8% to SAR 199.3mn. Furthermore, rise in the SG&A expenses led to a sharp contraction in the income from its key operations, and the operating margin narrowed to 8.6% in 1Q20 compared with 24.9% in 1Q19 and 12.3% in 4Q19.

The persistent low prices for the company's key products in 1Q20 due to slowing demand from end markets amid COVID-19 concerns and the ensuing economic uncertainty led to a disappointing set of results for the quarter. The COVID-19 crisis appears to be rarely abating, adding concerns to the expected economic contraction, with subdued economic activity. IEA expects the overall demand for the oil to contract in 2020, while the oil prices may show some recovery in 2H20 from the current levels. We believe the company's current challenges are not endemic to its operational capabilities. Despite the headwinds in the sector, the company boasts of strong financial fundamentals. The company operates from a position of negligible financial leverage, as it has no long-term debt on its balance sheet, which bodes well for the company. Yansab has only contractual obligations to the lease payment, which is insignificant compared with the scale of the company's business. Thus, in view of the countervailing factors mentioned above, we maintain our "Neutral" rating on the stock.

- Yansab's revenue fell by 21.5% YoY to SAR 1.2bn in 1Q20, as the average selling prices along with the sales volumes declined. On a quarterly basis, revenues were down 19.4%.
- Gross profit for the quarter plummeted by 57.8% YoY to SAR 199.3mn due to an increase in the average cost of some feedstock materials. However, gross profit was down 33.2% QoQ. Gross margin for 1Q20 stood at 16.7%, against 31.0% in 1Q19 and 20.1% in 4Q19.
- The company's general and operating expense and selling and distribution expense also increased, which led to further decline in the operating income that plunged by 73.0% YoY to SAR 102mn on an annual basis. Operating margins for 1Q20 also shrank to 8.6% compared with 24.9% in 1Q19 and 12.3% in 4Q19.
- Net income for the year fell by 73.3% YoY to SAR 104.5mn in 1Q20 in view of the reasons mentioned above. There was a marginal improvement in income from other sources, whereas the finance income was down 30.0% YoY to SAR 20mn. Net profit margin stood at 8.7% for the quarter vis-à-vis 25.7% in 1Q19.
- Despite the decline in net profit, the company's cash and cash equivalents rose considerably during the quarter to SAR 1.3bn, with the receipt of the proceeds from maturity of short-term investment.

Valuation: We revise our target price downward to a fair value of SAR 47.0 per share in view of the company's expected performance and oil price outlook. We maintain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	1,195.0	1,522.0	(21.5%)	5,055.5	6,064.8	(16.6%)
Gross Profit (SAR mn)	199.3	472.5	(57.8%)	1,162.8	1,498.3	(22.4%)
EBIT (SAR mn)	102.4	379.0	(73.0%)	806.7	1,096.2	(26.4%)
Net Profit (SAR mn)	104.5	390.6	(73.3%)	776.2	1,089.8	(28.8%)
EPS basic (SAR)	0.2	0.7	(73.3%)	1.4	1.9	(28.8%)
Gross Margin (%)	16.7%	31.0%	(14.4%)	23.0%	24.7%	(1.7%)
EBIT Margin (%)	8.6%	24.9%	(16.3%)	16.0%	18.1%	(2.1%)
Net Profit Margin (%)	8.7%	25.7%	(16.9%)	15.4%	18.0%	(2.6%)

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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