

2Q20 Results Update

September 15, 2020

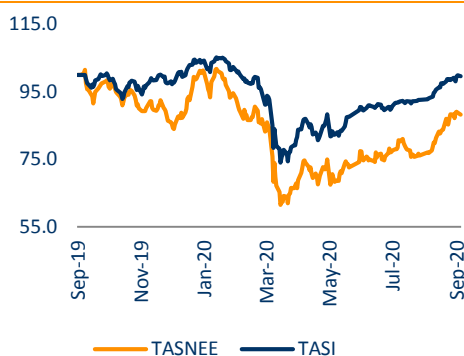
Recommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	12.0
Target Price (SAR)	10.0
Upside/Downside (%)	(16.0%)

As of September 6, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.0
52-Wk High (SAR)	13.9
52-Wk Low (SAR)	8.2
Total Outstanding shares (in mn)	669
Free Float (%)	88.3%

TASNEE vs. TASI (Rebased)

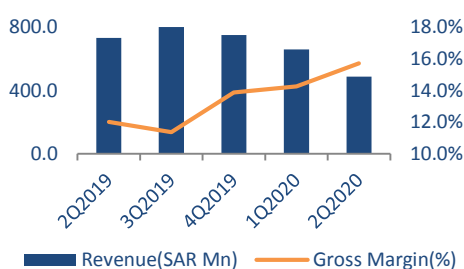


Price Performance (%)	Absolute	Relative
1m	14.8%	7.8%
6m	4.7%	(2.7%)
12m	(11.8%)	(11.4%)

Major Shareholders (%)

Kingdom Holding Co.	6.23%
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Revenue (SAR bn) and Gross Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 6, 2020

Reduced products prices and lower share of profits from associates weigh on 2Q20 bottom line

National Industrialization Co. (Tasnee) recorded a net loss attributable to the equity holders of SAR 188.8mn in 2Q20 compared with the net profit of SAR 212.1mn in 2Q19. Tasnee's revenues fell 33.5% YoY to SAR 486.3mn in 2Q20 due to a decline in the average selling prices of the company's key products, along with the slump in global oil prices. The company recorded operating loss in 2Q20 due to lower profit contribution from its joint ventures and impairment of certain assets of its subsidiary Advanced Metal Industries Cluster Company. A higher net other income and drop in financial charges were offset by the increase in zakat expense as the company's net loss margin worsened to (38.8%) in 2Q20 against the net profit margin of 29.0% in 2Q19.

Tasnee's performance in 2Q20 was largely affected by weak demand for oil and petrochemical products owing to challenges posed by the COVID-19 pandemic and the accompanying economic uncertainty. The resultant supply-demand imbalance led to lower average selling prices of petrochemical products and impacted the Saudi petrochemical sector in general. However, prices recovered slightly toward the end of the quarter and the EIA forecasts oil demand would gradually retreat upward in 2H20. Although Tasnee managed to lower its finance costs during the quarter, its debt level remained high and debt-to-equity ratio inched up to 0.7x in 2Q20 from 0.6x in 2Q19. Contribution from associates reduced in 2Q20 and could continue to cause downside risks going forward. Furthermore, the company's cash generation appears to be insufficient to offset the capex and finance costs in the near term. Thus, despite expectations of improving economics for the sector, the company's struggle to boost top line growth remains a concern. Therefore, we have revised our rating to "Underweight" on the stock.

- Tasnee's revenue fell 33.5% YoY to SAR 486.3mn in 2Q20 due to a decline in the average selling prices of its key products.
- The company's gross profit (down 13.0% YoY to SAR 76.4mn) declined at a slower pace than revenue due to the 36.3% YoY dip in cost of sales. This led to a 370.4 bps improvement in gross margin to 15.7% in 2Q20.
- Reduction in the share of net profit from joint ventures and impairment of certain assets of Tasnee's subsidiary caused the company to record an operating loss of SAR 169.2mn in 2Q20 compared with the loss of SAR 87.5mn in 2Q19. The operating loss margin worsened to (34.8%) in 2Q20 from (12.0%) in 2Q19.
- The increase in zakat expense offset the reduction in financial expenses and improvement in other income, as the company reported a net loss attributable to the equity holders (attributable to equity holders) of SAR 188.8mn in 2Q20 vis-à-vis net profit of SAR 212.1mn in 2Q19. The net loss margin for the quarter stood at (38.8%) against a net profit margin of 29.0% in 2Q19.

Valuation: We revise our target price to a fair value of SAR 10.0 per share and alter the rating to "Underweight" on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	486.3	731.2	(33.5%)	2462.0	3018.9	(18.4%)
Gross Profit (SAR mn)	76.4	87.7	(13.0%)	357.1	401.3	(11.0%)
EBITDA (SAR mn)	(169.2)	(87.5)	NM	264.2	313.1	(15.6%)
Net Profit (SAR mn)	(188.8)	212.1	(189.0%)	(25.4)	(1579.5)	NM
EPS Basic (SAR)	(0.28)	0.32	(189.0%)	(0.04)	(2.36)	NM
Gross Margin (%)	15.7%	12.0%	3.7%	14.5%	13.3%	1.2%
EBITDA Margin (%)	(34.8%)	(12.0%)	(22.8%)	10.7%	10.4%	0.4%
Net Profit Margin (%)	(38.8%)	29.0%	(67.8%)	(1.0%)	(52.3%)	51.3%

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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