

3Q20 Results Update

November 30, 2020

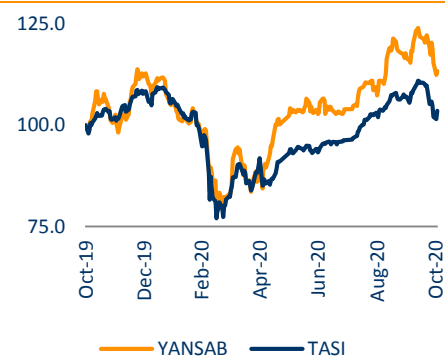
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	56.5
Target Price (SAR)	53.5
Upside/Downside (%)	(5.3%)

As of November 02, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	31.8
52-Wk High (SAR)	62.0
52-Wk Low (SAR)	38.6
Total Outstanding Shares (in mn)	562.5
Free Float (%)	41.4%

YANSAB vs. TASI (Rebased)

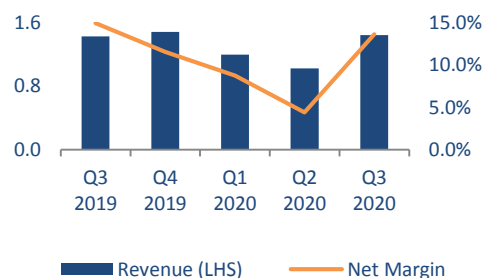


Price Performance (%)	Absolute	Relative
1m	(2.8%)	0.5%
6m	25.6%	12.8%
12m	13.5%	9.9%

Major Shareholders (%)

Saudi Basic Industries Corp	51.00%
General Organization for Social Insurance	7.64%

Revenue (SAR bn) and Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 02, 2020

Lower selling prices, higher production cost hurt 3Q20 bottom line; margins contract

Yanbu National Petrochemical Co. (Yansab)'s 3Q20 revenue increased 1.3% YoY to SAR 1.4bn due to higher sales volumes, which offset the impact of the low average selling prices of its key products. Better sales and lower SG&A expenses were offset by higher production costs; this resulted in a 2.1% YoY slump in operating profit to SAR 201.0mn. Operating margin narrowed to 14.0% in 3Q20 compared with 14.4% in 3Q19. Additionally, lower finance income and other income weighed down on net income for the quarter, which plunged 7.7% YoY to SAR 195.6mn. Consequently, net margin contracted to 13.6% in 3Q20 as against 14.9% in 3Q19.

Though Yansab reported a YoY decline in net income in 3Q20, its performance improved significantly versus the previous quarter. This was attributed to the recovery in petrochemical prices, which led to higher average selling prices of the company's products. Sales volume increased in 3Q20, indicating that demand for petrochemical products from end markets improved, despite the economic uncertainty brought about by the COVID-19 pandemic. The company remains fundamentally robust, with negligible financial leverage. The EIA forecasts demand for petrochemicals to remain low in 2020 compared with that in 2019, but to recover gradually in 2021 and lead to further improvement in petrochemical prices. However, economic uncertainty due to newer waves of COVID-19 cases worldwide and further lockdowns may impact demand and hurt the consumption of petrochemicals. Therefore, we see limited upside potential in the near term and maintain our "Neutral" rating on the stock.

- Yansab's revenue inched up 1.3% YoY to SAR 1.4bn in 3Q20 as the surge in sales volumes offset the lower average selling price of key products compared with the figures in 3Q19.
- Revenue increased 41.2% QoQ from SAR 1.0bn in 2Q20 owing to improvement in product prices in 3Q20 against prices in 2Q20.
- Gross profit for the quarter fell 6.4% YoY to SAR 277.2mn as cost of sales increased 3.3% YoY to SAR 1.2bn on higher production input costs. Gross margin for 3Q20 stood at 19.2% as against 20.8% in 3Q19.
- Operating profit (down 2.1% YoY to SAR 201.0mn) declined at a slower pace than gross profit due to the 16.0% YoY decline in Yansab's SG&A expenses to SAR 76.2mn. Nevertheless, operating margin contracted to 14.0% from 14.4% in 3Q19.
- Improvement in financial charges and zakat expense for 3Q20 were offset by lower finance income and other income, resulting in a 7.7% fall in net income to SAR 195.6mn. Thus, net income margin shrank to 13.6% for 3Q20 compared to 14.9% in 3Q19.
- EPS contracted to SAR 0.35 per share in 3Q20 versus SAR 0.38 per share in 3Q19. However, EPS expanded from SAR 0.08 per share in 2Q20.

Valuation: We revise our target price upward to a fair value of SAR 53.5 per share in view of the company's expected performance and a steady recovery in oil prices. We maintain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	1,441	1,423	1.3%	5,178	6,065	(14.6%)
Gross Profit (SAR mn)	277	296	(6.4%)	955	1,498	(36.2%)
EBIT (SAR mn)	201	205	(2.1%)	577	1,096	(47.3%)
Net Profit (SAR mn)	196	212	(7.7%)	571	1,090	(47.6%)
EPS basic (SAR)	0.35	0.38	(7.7%)	1.02	1.94	(47.6%)
Gross Margin (%)	19.2%	20.8%	(1.6%)	18.5%	24.7%	(6.3%)
EBIT Margin (%)	14.0%	14.4%	(0.5%)	11.2%	18.1%	(6.9%)
Net Profit Margin (%)	13.6%	14.9%	(1.3%)	11.0%	18.0%	(6.9%)

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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