

**3Q20 Results Update**

**December 28, 2020**

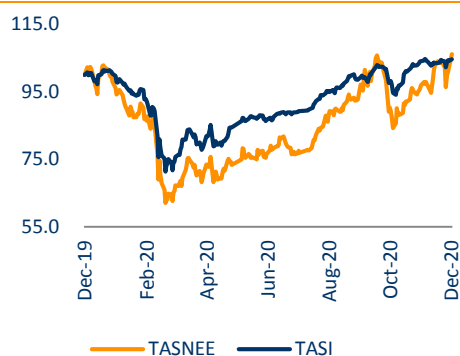
Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	14.2
Target Price (SAR)	10.2
Upside/Downside (%)	(28.7%)

As of December 27, 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	9.5
52-Wk High (SAR)	14.5
52-Wk Low (SAR)	8.2
Total Outstanding shares (in mn)	669
Free Float (%)	88.3%

**TASNEE vs. TASI (Rebased)**

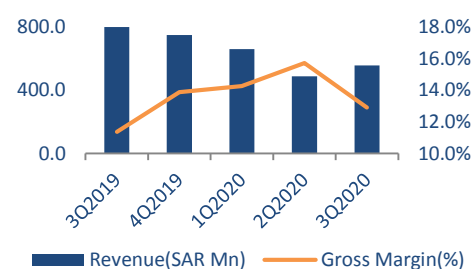


Price Performance (%)	Absolute	Relative
1m	9.5%	9.0%
6m	38.5%	17.7%
12m	6.1%	1.5%

**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 December 27, 2020

**Loss narrows in 3Q20 due to lower financial charges and higher other income**

National Industrialization Co. (Tasnee) recorded a net loss of SAR 49.2mn in 3Q20 compared with the net profit of SAR 22.4mn in 3Q19. Tasnee's revenues fell 30.5% YoY to SAR 555.3mn in 3Q20 due to a decline in the average selling prices of the company's key products. Operating profit stood at SAR 68.3mn in 3Q20 compared with net loss of SAR 169mn in the previous quarter, despite a significant jump in selling and general and administrative expenses. This was due to the inclusion of an impairment of certain assets of Tasnee's subsidiary Advanced Metal Industries Cluster Company in 2Q20. A higher net other income and significant drop in financial charges were largely offset by an increase in zakat expenses, as the company's net loss margin stood at (-)8.9% in 3Q20 against the net profit margin of 2.9% in 3Q19.

Tasnee's performance in 3Q20 was largely affected by weak demand for oil and petrochemical products during the COVID-19 pandemic. Moreover, lower average selling prices of key petrochemical products weighed on the company's top line. Petrochemical products prices recovered in 4Q20 due to strong demand from China, a key petrochemical market. Recovery in oil prices continued backed by the revived optimism on demand recovery, as several countries approved the COVID-19 vaccine. However, the EIA forecast the global oil demand to reduce by 8.8 mbpd YoY in FY20 and revised the global oil demand for FY21 down by 0.17 mbpd from the previous month's estimate. Tasnee's debt to equity ratio continued to remain at 0.7x in 3Q20 compared with 0.6x in 3Q19. Furthermore, the company's cash generation appears to be insufficient to offset the capex and finance costs in the near term. It is expected to post losses for FY20. In view of the aforesaid factors and the company's struggle to boost top-line growth, we maintain our "Underweight" rating on the stock.

- Tasnee's revenue fell 30.5% YoY to SAR 555.3mn in 3Q20, primarily due to the lower average selling prices of its key products. Sequentially, revenues were up 14.2%.
- The company's gross profit (down 21.1% YoY to SAR 71.6mn) declined at a slower pace than revenue, as a 31.8% fall in cost of sales capped some of the losses, resulting in a 154.4 bps improvement in the gross margin to 12.9% in 3Q20.
- Operating profit stood at SAR 68.3mn, down 63.7% YoY, mainly attributed to a significant 40.3% jump in selling and general and administrative expenses. The operating loss margin declined to 12.3% in 3Q20 from 23.5% in 3Q19.
- Improvement in other income (+21.3% YoY) and a 40.5% YoY reduction in financial expense failed to boost the bottom line, as the company recorded a net loss of SAR 49.2mn in 3Q20 compared with the net profit of SAR 22.4mn in 3Q19. This was mainly ascribed to a significant increase in zakat expense. Consequently, the net loss margin for the quarter stood at (-)8.9% against a net profit margin of 2.8% in 3Q19.

**Valuation:** We revise our target price to a fair value of SAR 10.2 per share and maintain our "Underweight" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	555.3	799.6	(30.5%)	2481.7	3018.9	(17.8%)
Gross Profit (SAR mn)	71.6	90.8	(21.1%)	359.9	401.3	(10.3%)
EBITDA (SAR mn)	237.2	547.5	(56.7%)	669.0	1118.2	(40.2%)
Net Profit (SAR mn)	(49.2)	22.4	NM	(103.6)	(1579.5)	NM
EPS Basic (SAR)	(0.07)	0.03	NM	(0.15)	(2.36)	NM
Gross Margin (%)	12.9%	11.4%	1.5%	14.5%	13.3%	1.2%
EBITDA Margin (%)	42.7%	68.5%	(25.8%)	27.0%	37.0%	(10.1%)
Net Profit Margin (%)	(8.9%)	2.8%	NM	(4.2%)	(52.3%)	48.1%

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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