

FY20 Results Update

February 08, 2020

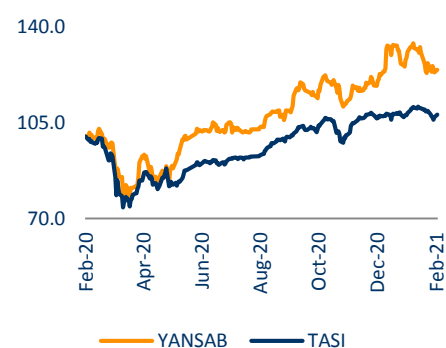
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	62.8
Target Price (SAR)	60.0
Upside/Downside (%)	(4.4%)

As of February 07, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	35.3
52-Wk High (SAR)	68.0
52-Wk Low (SAR)	38.6
Total Outstanding Shares (in mn)	562.5
Free Float (%)	41.4%

YANSAB vs. TASI (Rebased)

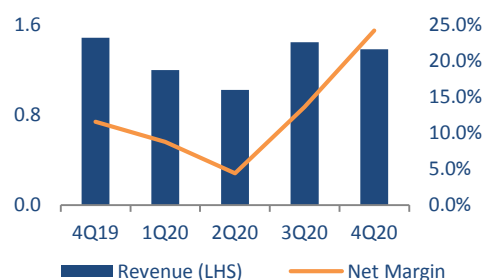


Price Performance (%)	Absolute	Relative
1m	(3.4%)	(3.6%)
6m	20.3%	4.5%
12m	24.4%	16.5%

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 February 07, 2021

Comparatively low selling prices of key products weigh on FY20 bottom line

Yanbu National Petrochemical Co. (Yansab)'s FY20 revenue decreased 17.0% YoY to SAR 5.0bn due to the comparatively low average selling price of its key products. This offset the 13.6% YoY drop in cost of sales to SAR 3.9bn and resulted in a 27.3% YoY plunge in gross profit to SAR 1.1bn. Higher selling and distribution expenses led to a 33.6% YoY downside in operating profit to SAR 727.6mn in FY20. Subsequently, operating margin narrowed to 14.5% compared with 18.1% in FY19. Additionally, higher zakat expense and lower finance income weighed down on net income for the period, which dropped 37.8% YoY to SAR 677.6mn. Consequently, net margin contracted to 13.5% compared with 18.0% in FY19.

Yansab reported a YoY fall in net income in FY20 as the pandemic-induced economic uncertainty subdued the demand for petrochemicals, leading to a sharp drop in the average selling prices of key products. However, the company recorded a 94.6% YoY and 70.0% QoQ growth in net profit in 4Q20 to SAR 332.7mn as prices of petrochemicals improved compared to those in previous quarters. The company remains fundamentally strong, with negligible financial leverage and a steady free cash flow. It has also maintained a healthy dividend payout rate historically. Furthermore, the EIA forecasts demand for petrochemicals to gradually pick up in 2021 and 2022, thus further improving petrochemical prices. This could lead to higher revenue and boost Yansab's profitability in the near term. However, economic uncertainty remains as the pandemic is yet to be contained. Moreover, the pace of recovery in petrochemical demand depends on the speed of rollout of vaccines and amount of fiscal stimulus programs by governments worldwide. In view of these factors, we maintain our "Neutral" rating on the stock.

- Yansab's revenue fell 17.0% YoY to SAR 5.0bn in FY20 as the pandemic subdued the demand for petrochemical products and caused the average selling price of key products to decline.
- Revenue fell 7.0% YoY to SAR 1.4bn in 4Q20 amid lower production and volumes sold of its products as compared to 4Q19.
- Gross profit declined 27.3% YoY to SAR 1.1bn in FY20 as the drop in top line offset the improvement in cost of sales, which dipped 13.6% YoY to SAR 3.9bn. Subsequently, gross margin for FY20 worsened to 21.6% as against 24.7% in FY19.
- Lower gross profit coupled with higher selling and distribution expenses led to a 33.6% YoY plunge in operating profit to SAR 727.6mn in FY20. Consequently, operating margin contracted to 14.5% from 18.1% in FY19.
- The lower top line coupled with higher zakat expense and reduced finance income offset the improvement in financial charges for FY20, resulting in a 37.8% YoY fall in net income to SAR 677.6mn. Thus, net margin shrank to 13.5% compared to 18.0% in FY19.
- On December 24, Yansab's Board of Directors recommended a cash dividend of SAR 1.25 per share for 2H20, equivalent to SAR 703.1mn and 12.5% of the company's share capital.
- On January 26, Yansab announced plans to shut down its ethylene glycol and olefins plants. The former would be halted for 21 days commencing February 1, while the latter would be shut for 10 days starting February 5. The maintenance work would impact Yansab's 1H21 financials by SAR 90mn.

Valuation: We revise our target price upward to a fair value of SAR 60.0 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.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	1,379	1,482	(7.0%)	6,521	5,035	29.5%
Gross Profit (SAR mn)	475	298	59.4%	1,891	1,089	73.7%
EBIT (SAR mn)	371	182	103.7%	1,402	728	92.7%
Net Profit (SAR mn)	333	171	94.6%	1,342	678	98.1%
EPS basic (SAR)	0.59	0.30	94.6%	2.39	1.20	98.1%
Gross Margin (%)	34.5%	20.1%	14.4%	29.0%	21.6%	7.4%
EBIT Margin (%)	26.9%	12.3%	14.6%	21.5%	14.5%	7.0%
Net Profit Margin (%)	24.1%	11.5%	12.6%	20.6%	13.5%	7.1%

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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