

**1Q21 Results Update**

June 2, 2021

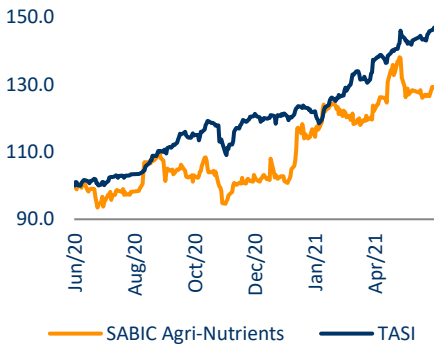
<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	<b>Underweight</b>
Current Price (SAR)	102.6
Target Price (SAR)	100.0
Upside/Downside (%)	(2.5%)

As of June 1, 2021

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	48.8
52-Wk High (SAR)	111.4
52-Wk Low (SAR)	73.5
Total Outstanding Shares (in mn)	476.0
Free Float (%)	42.2%

**SABIC AGRI-NUTRIENTS vs. TASI (Rebased)**

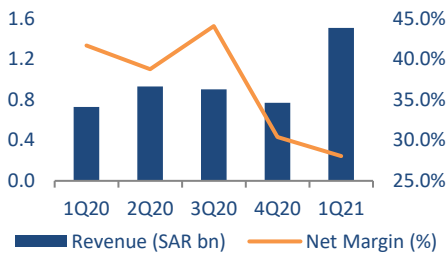


Price Performance (%)	Absolute	Relative
1m	(2.3%)	(4.0%)
6m	25.9%	4.7%
12m	29.1%	(17.9%)

**Major Shareholders (%)**

Saudi Basic Industries Corp.	50.10%
General Org for Social Insurance	7.74%

**Revenue (SAR bn) and Net Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of June 1, 2021

**Higher sales volume, selling prices of products boost 1Q21 top line and bottom line**

SABIC Agri-Nutrients Co. (SABIC Agri-Nutrients)'s revenue grew 106.8% YoY to SAR 1.5bn in 1Q21, driven by higher average selling prices of products and sales volume during the quarter. Gross profit rose 75.2% YoY to SAR 644.8mn, but gross margin narrowed 771 bps YoY to 42.8%. Operating profit increased 80.3% YoY to SAR 501.8mn, whereas operating margin tightened 490 bps YoY to 33.3%. Higher profit contribution from associates pushed net profit up 39.2% YoY to SAR 422.6mn. However, net margin contracted 1,361 bps YoY to 28.1% in 1Q20.

SABIC Agri-Nutrients recorded a strong set of results in 1Q21, with robust growth in revenues and profits during the quarter. Strong demand for and limited supply of urea and ammonia, coupled with higher feedstock prices, translated into higher selling prices and sales volume during the quarter, and led the company's top line higher in 1Q21 compared with 1Q20. Higher demand from the agriculture sector due to suitable conditions for crop cultivation also pushed global fertilizer prices higher. However, according to the World Bank, urea prices are expected to stabilize near the current levels in the medium term on global capacity addition. The company completed the acquisition of SABIC Agri-Nutrients Investment Company (SANIC) in January 2021 and is expected to benefit from the synergies through the merger in the long term. Furthermore, SABIC Agri-Nutrients is looking to expand its presence in international markets such as Africa, which could be a key catalyst for the company in the long term. However, this may also result in higher capex costs as this would require significant capital outflow from the company. Moreover, it faces several headwinds in the form of rising feedstock costs, temporary plant shutdowns, and possible demand reversal for fertilizers amid a resurgence in COVID-19 cases globally. Considering these factors, we revise our rating on the stock to "Neutral".

- SABIC Agri-Nutrients' top line soared 106.8% YoY to SAR 1.5bn in 1Q21 due to higher average selling prices of products and sales volume during the quarter.
- Gross profit (up 75.2% YoY to SAR 644.8mn) grew at a slower pace than top line due to the 139.0% YoY rise in cost of sales to SAR 861.6mn. Consequently, gross margin contracted to 42.8% in 1Q21 from 50.5% in 1Q20.
- Higher gross profit offset the increase in total SG&A expense and led to an 80.3% YoY surge in operating profit to SAR 501.8mn. However, EBIT margin shrank to 33.3% from 38.2% in 1Q20.
- Higher profit share from associates offset the rise in zakat expense and increase in allowance for obsolete and dormant inventory. Subsequently, net profit rose 39.2% YoY to SAR 422.6mn, whereas net margin fell to 28.1% in 1Q21 from 41.7% in 1Q20.
- On March 18, SABIC Agri-Nutrients' Board appointed Fahad M Al Battar as President of the company. He will succeed Ahmed M Al Jabr, who will join SABIC at a leadership level.
- On April 11, the company's shareholders approved the Board's recommendation of a SAR 1.0 per share cash dividend for 2H20, equivalent to SAR 476.0mn (10% of share capital).

**Valuation:** We revise our target price upward to a fair value of SAR 100.0 per share and update our rating on the stock to "Neutral".

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	1,506	728	106.8%	6,685	3,328	100.9%
Gross Profit (SAR mn)	645	368	75.2%	3,145	1,665	88.8%
EBITDA (SAR mn)	701	423	65.6%	3,147	1,852	69.9%
Net Profit (SAR mn)	423	304	39.2%	2,408	1,294	86.1%
EPS (SAR)	0.89	0.73	21.9%	5.1	3.1	62.9%
Gross Margin (%)	42.8%	50.5%	(7.7%)	47.0%	50.0%	(3.0%)
EBITDA Margin (%)	46.6%	58.1%	(11.6%)	47.1%	55.6%	(8.6%)
Net Profit Margin (%)	28.1%	41.7%	(13.6%)	36.0%	38.9%	(2.9%)

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.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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