

2Q21 Results Update

August 6, 2021

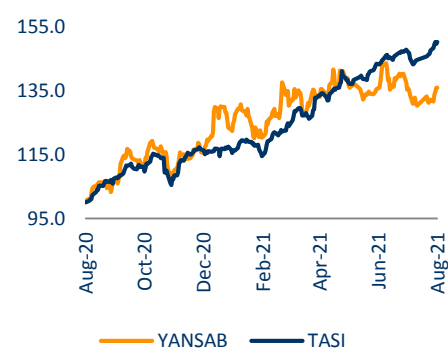
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	70.4
Target Price (SAR)	72.0
Upside/Downside (%)	2.3%

As of August 5, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	39.6
52-Wk High (SAR)	75.0
52-Wk Low (SAR)	51.7
Total Outstanding Shares (in mn)	562.5
Free Float (%)	41.4%

YANSAB vs. TASI (Rebased)

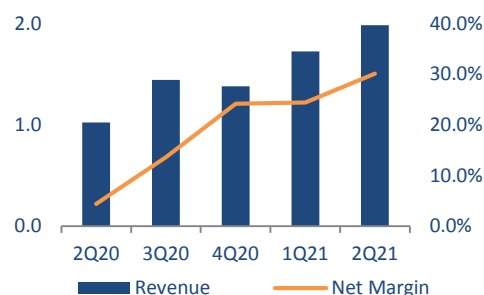


Price Performance (%)	Absolute	Relative
1m	0.4%	(1.5%)
6m	13.0%	(18.2%)
12m	35.9%	(14.4%)

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 August 5, 2021

Surge in top line in 2Q21 on higher average selling price of products

Yanbu National Petrochemical Co. (Yansab)'s revenue increased 94.3% YoY to SAR 2.0bn in 2Q21 due to higher average selling price of its products during the quarter. This offset the rise in cost of sales and resulted in a 463.0% YoY rise in gross profit to SAR 772.1mn. Subsequently, gross margin expanded 2,550 bps YoY to 38.9% in 2Q21. Operating profit was up 1,109.4% YoY to SAR 639.8mn, while operating margin widened 2,708 bps to 32.3% in 2Q21. Higher other income resulted in a 1,230.4% YoY surge in net income to SAR 596.4mn and a 2,568 bps YoY increase in net margin to 30.1% in 2Q21.

Yansab reported a surge in performance in 2Q21 as higher demand for petrochemicals during the period resulted in higher average selling prices of the company's products. Though YoY growth in top line was accelerated in 2Q21 as the COVID-19 pandemic weighed on the company's 2Q20 financials, Yansab recorded its highest revenue and bottom line in the last 11 quarters during 2Q21. This led the company to record significant improvement in profit margins during the quarter. The company remains fundamentally strong, with negligible financial leverage, steady cash flows, and healthy historical dividend payout rates. The EIA forecasts the global consumption of petrochemicals to increase in FY21 as economic activity continues to pick up and rollout of vaccine increases worldwide. These factors could boost Yansab's top line and profitability in coming quarters. However, the EIA expects rising production by the OPEC+ alliance and acceleration in tight oil inventories with non-OPEC members to outpace global consumption in FY22, contributing to a decline in oil prices. Moreover, higher average feedstock cost and unplanned shutdown of plants could create headwinds for the company. Considering these factors, we continue to maintain our "Neutral" rating on the stock.

- Yansab's revenue rose 94.3% YoY to SAR 2.0bn in 2Q21 on higher average selling price of its products during the quarter. Revenue increased 15.1% QoQ from SAR 1.7bn in 1Q21.
- Cost of sales soared 37.1% YoY to SAR 1.2bn in 2Q21 on higher average feedstock cost. However, gross profit surged 463.0% YoY to SAR 772.1mn as higher top line offset the rise in cost of sales. Subsequently, gross margin widened to 38.9% as against 13.4% in 2Q20.
- Higher gross profit offset the increase in total SG&A expenses and led to a 1,109.4% YoY rise in operating profit to SAR 639.8mn in 2Q21. Consequently, operating margin expanded to 32.3% in 2Q21 from 5.2% in 2Q20.
- Higher other income offset the increase in zakat expense and decrease in net financial income. This resulted in a 1,230.4% YoY surge in net income to SAR 596.4mn and led to the expansion of net margin to 30.1% in 2Q21 from 4.4% in 2Q20.
- On June 17, Yansab's Board recommended a cash dividend of SAR 1.5 per share for 1H21, equivalent to SAR 843.8mn (15% of Yansab's share capital).
- On July 11, Yansab had announced the temporary shutdown of operations of its plants due to technical failure. The plant was shut down for 12 days and resumed operations on July 23. The shutdown is expected to have an impact of SAR 120mn on the company's 3Q21 financials.

Valuation: We revise our target price upward to a fair value of SAR 72.0 per share and maintain "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	1,983.0	1,020.7	94.3%	6,988.1	5,034.9	38.8%
Gross Profit (SAR mn)	772.1	137.1	463.0%	2,306.1	1,088.7	111.8%
EBIT (SAR mn)	639.8	52.9	1,109.4%	1,782.0	727.6	144.9%
Net Profit (SAR mn)	596.4	44.8	1,230.4%	1,771.2	677.6	161.4%
EPS basic (SAR)	1.06	0.08	1,230.4%	3.15	1.20	161.4%
Gross Margin (%)	38.9%	13.4%	25.5%	33.0%	21.6%	11.4%
EBIT Margin (%)	32.3%	5.2%	27.1%	25.5%	14.5%	11.0%
Net Profit Margin (%)	30.1%	4.4%	25.7%	25.3%	13.5%	11.9%

Source: Company Financials, FALCOM Research

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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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