

**1Q21 Results Update**

June 3, 2021

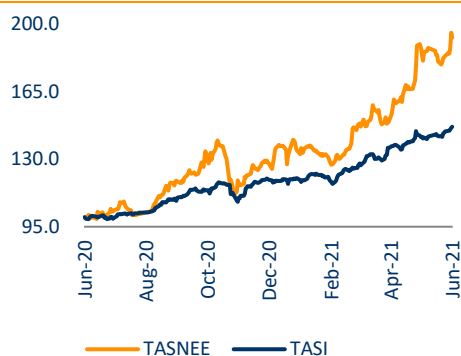
Recommendation	Neutral
Previous Recommendation	Underweight
Current Price (SAR)	19.6
Target Price (SAR)	19.0
Upside/Downside (%)	(3.2%)

As of June 3, 2021

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	13.1
52-Wk High (SAR)	20.0
52-Wk Low (SAR)	10.0
Total Outstanding shares (in mn)	668.9
Free Float (%)	81.1%

**TASNEE vs. TASI (Rebased)**

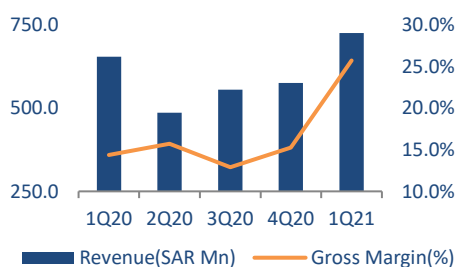


Price Performance (%)	Absolute	Relative
1m	3.0%	(0.7%)
6m	51.2%	28.1%
12m	93.1%	46.3%

**Major Shareholders (%)**

Kingdom Holding Co.	6.23%
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**Revenue (SAR bn) and Gross Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of June 3, 2021

**Higher top line, profit contribution from associates boost bottom line in 1Q21**

National Industrialization Co. (Tasnee) recorded a 10.9% YoY rise in revenue to SAR 725.4mn in 1Q21, primarily driven by higher average selling prices of key products during the quarter. A decline in cost of sales led to 98.3% YoY surge in gross profit to SAR 186.6mn; meanwhile, gross margin expanded 1,135 bps YoY to 25.7%. Operating profit soared 795.0% YoY to SAR 561.9mn, whereas EBIT margin widened 6,787 bps YoY to 77.5%. Reduction in financial charges and increase in other income led Tasnee to record a net profit of 327.5mn in 1Q21 as against a net loss of SAR 51.8mn in 1Q20. Subsequently, the net margin improved 5,306 bps YoY to 45.2% in 1Q21.

Tasnee reported a good set of results in 1Q21, with steep rise in the top and bottom line during the quarter. The rise in the top line was largely led by robust demand for oil and petrochemical products due to recovery in economic activity which resulted in a sharp rise in selling prices of petrochemicals globally. Revenue from the Petrochemicals segment increased 12.9% YoY to SAR 385.9mn, while revenue from the Downstream segment rose 8.6% YoY to SAR 339.9mn. We expect petrochemical prices to stabilize around current levels in the coming quarters, considering the anticipated increase in supply globally. Tasnee's debt-to-equity ratio improved to 0.7x in 1Q21 from 0.8x in 1Q20, owing to reduction in total debt during the period. Tasnee is not likely to further increase allocations to provisions (which were majorly accounted for losses with respect to the Titanium Sponge Project and the Jazan-based titanium slag smelter facility amid the COVID-19 pandemic) due to the improving outlook for the petrochemical sector and improvement in cash flow generation. However, scheduled shutdown of the ethylene and polyethylene plants of its associate company, Saudi Ethylene and Polyethylene Company (SEPC) for maintenance and increasing feedstock costs may create challenges for the company in the near term. In view of these factors, we continue to maintain our "Neutral" rating on the stock.

- Tasnee's revenue increased 10.9% YoY to SAR 725.4mn in 1Q21 due to higher average selling prices of petrochemical products. Revenue rose 26.0% QoQ from SAR 575.8mn in 4Q20.
- The company's gross profit (up 98.3% YoY to SAR 186.6mn) grew at a faster pace than the top line due to the 3.8% YoY drop in cost of sales to SAR 538.8mn. Simultaneously, gross margin expanded to 25.7% from 14.4% in 1Q21.
- Operating profit surged 795.0% YoY to SAR 561.9mn in 1Q21 due to higher profit share from associates. Subsequently, EBIT margin widened to 77.5% from 9.6% in 1Q20.
- Lower finance costs and higher other income offset the rise in zakat expense and led the company to record a net profit of SAR 327.5mn vis-à-vis a net loss of SAR 51.8mn in 1Q20. Consequently, net margin stood at 45.2% in 1Q21 compared to (7.9%) in 1Q20.
- Tasnee reported an EPS of SAR 0.49 in 1Q21 as against a loss per share of SAR 0.08 in 1Q20.
- On April 14, Tasnee announced shutdown of ethylene and polyethylene plants of its affiliate company, SEPC. Operations at the plant will be halted for maintenance for 27 days beginning May 23; the temporary shutdown is expected to have a SAR 90mn impact on Tasnee's 2Q21 and 3Q21 financials.

**Valuation:** We revise our target price to a fair value of SAR 19.0 per share and maintain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	725.4	654.4	10.9%	2,922.7	2,271.8	28.7%
Gross Profit (SAR mn)	186.6	94.1	98.3%	701.5	329.8	112.7%
EBITDA (SAR mn)	621.6	132.2	370.3%	2,078.7	764.2	172.0%
Net Profit (SAR mn)	327.5	(51.8)	NM	977.4	(446.7)	NM
EPS Basic (SAR)	0.49	(0.08)	NM	1.46	(0.67)	NM
Gross Margin (%)	25.7%	14.4%	11.3%	24.0%	14.5%	9.5%
EBITDA Margin (%)	85.7%	20.2%	65.5%	71.1%	33.6%	37.5%
Net Profit Margin (%)	45.2%	(7.9%)	53.1%	33.4%	(19.7%)	53.1%

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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