

2Q21 Results Update

September 7, 2021

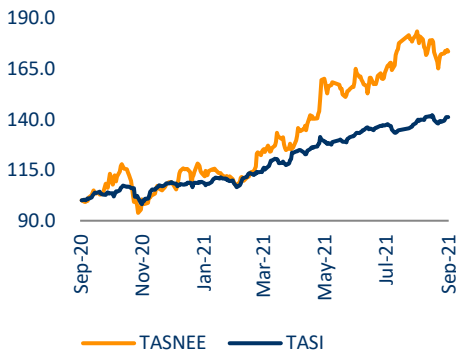
| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 20.9 |
| Target Price (SAR) | 20.0 |
| Upside/Downside (%) | -4.1% |

As of September 7, 2021

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 14.0 |
| 52-Wk High (SAR) | 22.2 |
| 52-Wk Low (SAR) | 11.1 |
| Total Outstanding shares (in mn) | 668.9 |
| Free Float (%) | 81.1% |

TASNEE vs. TASI (Rebased)

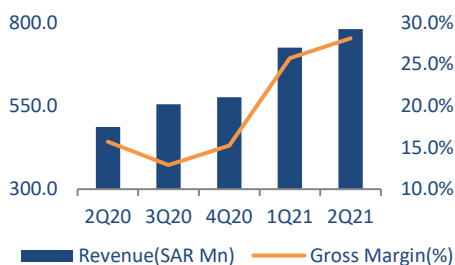


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (4.3%) | (6.1%) |
| 6m | 36.3% | 14.3% |
| 12m | 74.4% | 32.3% |

Major Shareholders (%)

| | |
|---|-------|
| General Organization For Social Insurance | 9.16% |
| Kingdom Holding Co. | 6.23% |

Revenue (SAR mn) and Gross Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 7, 2021

Higher average selling prices, share from associates boost top line

National Industrialization Co. (Tasnee)'s revenue rose 78.5% YoY to SAR 780.4mn in 2Q21, primarily driven by higher average selling prices of key products during the quarter. A slow increase in cost of sales resulted in gross profit jumping 187.3% YoY to SAR 219.4mn; meanwhile, gross margin expanded 1,065 bps YoY to 28.1%. The company reported an operating profit of SAR 608.7mn against an operating loss of SAR 149.9mn in 2Q20, mainly due to additional impairment of non-current asset in 2Q20. EBIT margin stood at 78% in the quarter. Higher top-line growth offset the rise in financial charges and fall in other income, leading Tasnee to record a net profit of SAR 356.7mn in 2Q21 as opposed to a net loss of SAR 180.2mn in 2Q20. The company's net margin stood at 45.7% in 2Q21.

Driven by higher top-line growth, Tasnee reported a good set of results in 2Q21, with the company reporting net profit during the quarter as against net loss in 2Q20. The rise in the top line was ascribed to increasing demand for oil and petrochemical products, following recovery in economic activity after the pandemic, which led to an increase in selling prices of petrochemicals globally. Consequently, revenue from the Petrochemicals segment jumped 91.2% YoY to SAR 469.4mn, while that from the Downstream segment went up 62.0% YoY to SAR 311.3mn. An increase in the share of net profit from associates and joint ventures helped Tasnee post an operating profit of SAR 608.7mn as against an operating loss of SAR 149.9mn in 2Q20. Tasnee continues to reduce its total debt, with the company's debt-to-equity ratio marginally improving to 0.67x in 2Q21 from 0.74x in 2Q20. However, in August, the ethylene and polyethylene plants of its associate company, Saudi Ethylene and Polyethylene Company, shut its 1m ton/year cracker and reduced its polyethylene output due to the power outage. Moreover, the resurgence of Covid-19 cases owing to the Delta variant could disrupt the global economy, which could further pose challenges to the company. In view of these factors, we continue to maintain our "Neutral" rating on the stock.

- Tasnee's revenue climbed 78.5% YoY to SAR 780.4mn in 2Q21 on higher average selling prices of most of its products.
- A slow rise in cost of sales led to gross profit increasing 187.3% YoY to SAR 219.4mn, while gross margin widened to 28.1% from 17.5% in 2Q21.
- A higher profit share from associates in 2Q21 as well as impairment of non-current assets in 2Q20 led to the company recording operating profit of SAR 608.7mn in 2Q21 as opposed to an operating loss of SAR 149.9mn in 2Q20. Subsequently, EBIT margin stood at 78.0% in 2Q21.
- Higher top-line growth offset the rise in finance costs and zakat expense, leading the company to record a net profit of SAR 356.7mn vis-à-vis a net loss of SAR 180.2mn in 2Q20. Consequently, net margin stood at 45.7% in 2Q21 compared to (41.2%) in 2Q20.
- Tasnee reported EPS of SAR 0.53 in 2Q21 as against loss per share of SAR 0.27 in 2Q20.

Valuation: We revise our target price to a fair value of SAR 20.0 per share and maintain our "Neutral" rating on the stock.

| | 2Q21 | 2Q20 | % YoY | FY21E | FY20 | % YoY |
|-----------------------|-------|---------|--------|---------|---------|--------|
| Revenues (SAR mn) | 780.4 | 437.3 | 78.5% | 2,914.1 | 2,271.8 | 28.3% |
| Gross Profit (SAR mn) | 219.4 | 76.4 | 187.3% | 772.2 | 329.8 | 134.1% |
| EBITDA (SAR mn) | 667.6 | 116.2 | 474.7% | 2,326.5 | 764.2 | 204.4% |
| Net Profit (SAR mn) | 356.7 | (180.2) | NM | 1,147.9 | (446.7) | NM |
| EPS Basic (SAR) | 0.53 | (0.27) | NM | 1.72 | (0.67) | NM |
| Gross Margin (%) | 28.1% | 17.5% | 10.7% | 26.5% | 14.5% | 12.0% |
| EBITDA Margin (%) | 85.5% | 26.6% | 59.0% | 79.8% | 33.6% | 46.2% |
| Net Profit Margin (%) | 45.7% | (41.2%) | NM | 39.4% | (19.7%) | NM |

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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