

3Q21 Results Update

November 9, 2021

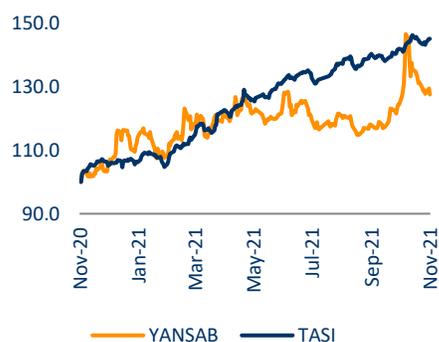
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	72.6
Target Price (SAR)	72.0
Upside/Downside (%)	(2.6%)

As of November 8, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	41.6
52-Wk High (SAR)	86.5
52-Wk Low (SAR)	58.0
Total Outstanding Shares (in mn)	562.5
Free Float (%)	37.9%

YANSAB vs. TASI (Rebased)

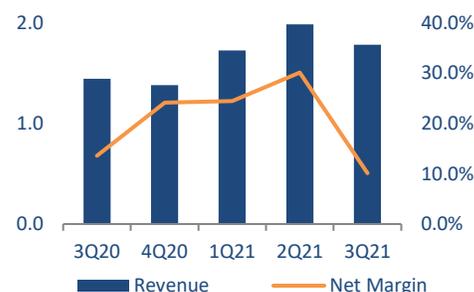


Price Performance (%)	Absolute	Relative
1m	2.6%	0.4%
6m	4.4%	(11.4%)
12m	27.6%	(17.5%)

Major Shareholders (%)

Saudi Basic Industries Corp	51.00%
General Organization for Social Insurance	11.07%

Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 8, 2021

Higher feedstock prices and unplanned shutdown weighed on the company's bottom line in 3Q21

Yanbu National Petrochemical Co. (Yansab)'s revenue rose by 23.5% YoY to SAR 1.8bn in 3Q21, driven by higher average selling price of its products during the quarter. Cost of sales rose at a similar level to the top line, as the company reported a 24.0% YoY rise in gross profit to SAR 343.6mn in 3Q21. Subsequently, gross margin marginally expanded by 7bps YoY to 19.3% in 3Q21. Operating profit was up 7.1% YoY to SAR 215.4mn in 3Q21, but operating margin contracted 185 bps YoY to 12.1% mainly due to higher SG&A expenses. Lower other income coupled with higher Zakat expense resulted in net income falling by 8.1% YoY to SAR 179.8mn, while net margin dropped 348 bps YoY to 10.1% in 3Q21.

Yansab reported higher revenue in 3Q21, driven by higher average selling price, offset by lower volume due to the unplanned shutdown during the quarter. In July 2021, the company announced a 12-day unplanned shutdown, which cost the company an estimate of SAR 120mn. Average selling price of YANSAB's key product, MEG, increased, while those of HDPE and PP marginally declined compared with the last quarter. Gross margins contracted by 1,963 bps QoQ, mainly attributed to higher feedstock cost in 3Q21. Higher-than-expected impact of shutdown and increased non-operating expenses weighed on the company's bottom line during the quarter. The company remains fundamentally strong, with negligible financial leverage, steady cash flows, and healthy historical dividend payout rates. With increasing vaccination roll out, economic activities continue to pick-up, which would boost the company's top-line going forward. However, the gas crisis will likely drive LPG feedstock higher, which would impact the company's margins and create certain headwinds. Considering the aforementioned factors, we continue to maintain our "Neutral" rating on the stock.

- Yansab's revenue rose by 23.5% YoY to SAR 1.8bn in 3Q21, driven by higher average selling price of its products during the quarter. Revenue declined by 10.3% QoQ from SAR 2.0bn in 2Q21.
- Gross profit surged by 24.0% YoY to SAR 343.6mn, as higher top-line offset the 23.4% YoY rise in cost of sales due to higher average feedstock cost during the quarter. Meanwhile, gross profit margin inched up by 7 bps to 19.3% in 3Q21.
- Higher gross profit counterbalanced the increase in total SG&A expenses and led to a 7.1% YoY rise in operating profit to SAR 215.4mn in 3Q21. However, operating margin dropped to 12.1% in 3Q21 from 14.0% in 3Q20.
- Lower other income and increase in Zakat expenses resulted in an 8.1% YoY decline in net income to SAR 179.8mn. Subsequently, net margin contracted by 348 bps YoY to 10.1% in 3Q21 from 13.6% in 3Q20.

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

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenue	1,779.6	1,440.7	23.5%	7,317.4	5,034.9	45.3%
Gross Profit (SAR mn)	343.6	277.2	24.0%	2,195.2	1,088.7	101.6%
EBIT (SAR mn)	215.4	201.0	7.1%	1,668.4	727.6	129.3%
Net Profit (SAR mn)	179.8	195.6	(8.1%)	1,604.4	677.6	136.8%
EPS basic (SAR)	0.32	0.35	(8.1%)	2.85	1.20	136.8%
Gross Margin (%)	19.3%	19.2%	0.1%	30.0%	21.6%	8.4%
EBIT Margin (%)	12.1%	14.0%	(1.9%)	22.8%	14.5%	8.3%
Net Profit Margin (%)	10.1%	13.6%	(3.5%)	21.9%	13.5%	8.5%

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, FALCOM Research.

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