

3Q21 Results Update

December 6, 2021

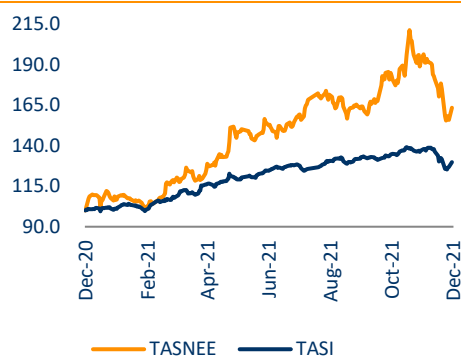
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	21.1
Target Price (SAR)	21.0
Upside/Downside (%)	1.2%

As of December 5, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	13.9
52-Wk High (SAR)	27.4
52-Wk Low (SAR)	12.5
Total Outstanding shares (in mn)	668.9
Free Float (%)	78.8%

TASNEE vs. TASI (Rebased)

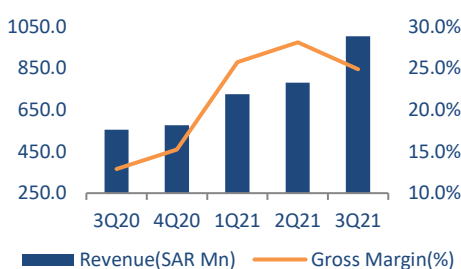


Price Performance (%)	Absolute	Relative
1m	(14.7%)	(9.5%)
6m	7.1%	2.8%
12m	63.5%	33.6%

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 December 5, 2021

Higher average selling prices boost top line; margins hit due to higher feedstock prices

National Industrialization Co. (Tasnee)'s revenue climbed 75.3% YoY to SAR 1.0bn in 3Q21, primarily driven by higher average selling prices of key products during the quarter. Cost of sales rose at a slower pace (up 50.5% YoY to SAR 754.4bn) which led to an increase in gross profit by 248.8% YoY to SAR 249.9mn; gross margin expanded 1,238 bps YoY to 24.9%. An 88.7% rise in share of net profit from associates and joint ventures during the quarter drove the operating profit higher by 517.4% to SAR 526.2mn. Meanwhile, EBIT margin stood at 52.4% in the quarter. Higher other income along with lower financial charges led Tasnee to report a net profit of SAR 333.4mn in 3Q21 as opposed to a net loss of SAR 42.3mn in 3Q20. The company's net margin stood at 33.2% in 3Q21.

Tasnee reported a strong performance in 3Q21. Higher top-line growth led the company to report a net profit during the quarter as against a net loss in 3Q20. The rise in the top line was ascribed to increasing demand for oil and petrochemical products, following recovery in economic activity, which led to an increase in selling prices of petrochemicals globally. Consequently, revenue from the Petrochemicals segment jumped 222.3% YoY to SAR 651.5mn and offset the fall in revenues from the Downstream segment (down 4.9% YoY to SAR 353.6mn). An increase in the share of the net profit from associates and joint ventures helped Tasnee post a higher operating profit of SAR 526.2mn as against SAR 85.2mn in 3Q20. Tasnee continues to reduce its total debt; the debt-to-equity ratio improved to 0.64x in 3Q21 from 0.74x in 3Q20. However, during 3Q21, profit margins were hit by a continued rise in feedstock costs due to higher oil prices as well as shipping and distribution charges amid fierce competition and a limited number of containers. Moreover, the continued uncertainty due to COVID-19 could potentially 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 grew 75.3% YoY to SAR 1.0bn in 3Q21, driven by higher average selling prices of most of its products.
- A slow rise in cost of sales led to an increase in gross profit by 248.8% YoY to SAR 249.9mn; meanwhile, gross margin expanded to 24.9% from 12.5% in 3Q20.
- A higher profit share from associates in 3Q21 coupled with lower general and administrative expenses led to an increase in operating profit to SAR 526.2mn in 3Q21 from SAR 85.2mn in 3Q20. Subsequently, EBIT margin increased to 52.4% in 3Q21 from 14.9% during 3Q20.
- Higher top-line growth along with lower finance costs helped the company report a net profit of SAR 333.4mn vis-à-vis a net loss of SAR 42.3mn in 3Q20. Consequently, net margin stood at 33.2% in 3Q21 compared to (7.4%) in 3Q20.
- Tasnee reported EPS of SAR 0.50 in 3Q21 as against loss per share of SAR 0.06 in 3Q20.

Valuation: We revise our target price to a fair value of SAR 21.0 per share and maintain our "Neutral" rating on the stock.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	1,004.3	573.0	75.3%	3,472.7	2,271.8	52.9%
Gross Profit (SAR mn)	249.9	71.6	248.8%	868.2	329.8	163.2%
EBITDA (SAR mn)	592.5	256.4	131.1%	2,457.2	764.2	221.5%
Net Profit (SAR mn)	333.4	(42.3)	NM	1,293.3	(446.7)	NM
EPS Basic (SAR)	0.50	(0.06)	NM	1.93	(0.67)	NM
Gross Margin (%)	24.9%	12.5%	12.4%	25.0%	14.5%	10.5%
EBITDA Margin (%)	59.0%	44.7%	14.3%	70.8%	33.6%	37.1%
Net Profit Margin (%)	33.2%	(7.4%)	NM	37.2%	(19.7%)	NM

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.

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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