

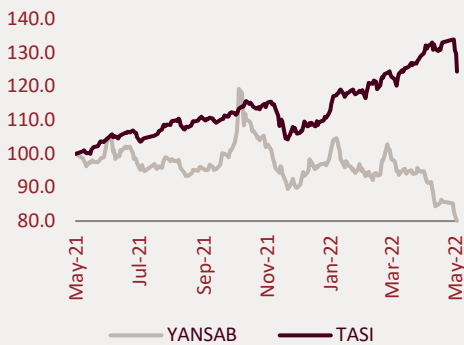
1Q22 Results Update

May 13, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	57.0
Target Price (SAR)	61.0
Upside/Downside (%)	7.0%
<i>As of May 12, 2022</i>	

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	32.1
52-wk High (SAR)	86.5
52-wk Low (SAR)	56.8
Total Outstanding shares (in mn)	562.5
Free Float (%)	49.0%

YANSAB vs. TASI (Rebased)

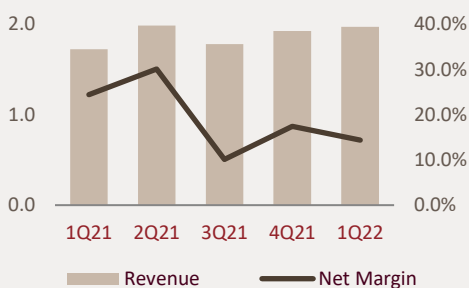


Price Performance (%)	Absolute	Relative
1m	(13.6%)	(7.7%)
6m	(22.0%)	(29.9%)
12m	(19.9%)	(44.3%)

Major Shareholders (%)

Saudi Basic Industries Corp	51.00%
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Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of May 12, 2022

Higher feedstock prices drag margin in 1Q22

Yanbu National Petrochemical Co. (Yansab)'s revenue rose 14.4% YoY to SAR 2.0bn in 1Q22, driven by higher sales volumes of its products during the year. The cost of sales went up 29.4% YoY to SAR 1.5bn, which resulted in the company's gross profit declining 19.3% YoY to SAR 428.9mn in 1Q22. Consequently, gross margin narrowed 909 bps YoY to 21.8% during the quarter. A 51.4% YoY rise in selling and distribution cost led to operating profit falling 28.4% YoY to SAR 296.2bn in 1Q22, while operating margin contracted 897 bps YoY to 15.0%. Lower other income, coupled with higher zakat expense, resulted in 32.7% YoY drop in net income to SAR 283.0mn. Consequently, net margin narrowed 1,003 bps YoY to 14.4% during the quarter.

Yansab reported weak performance in 1Q22 as the company's bottom line plummeted 32.7% during the quarter, despite higher average selling price of its products, owing to higher feedstock prices, rise in logistics cost, and operational challenges. The rise in feedstock cost was driven by higher propane prices, which accounts for approximately 40% of the feedstock mix. Consequently, Yansab's gross margin narrowed 909 bps YoY during the quarter. However, the company remains fundamentally strong, with a debt-free balance sheet, steady cash flows and healthy historical dividend payout rates. Improved market conditions and resumptions in normalized economic activities could lead to higher revenue for the company. Petrochemical prices are expected to remain high for the rest of the year, following sanctions on Russia, which could potentially lead to supply chain disruption. However, with Yansab's average selling prices remaining flat YoY, the higher feedstock prices could continue to hurt margins in the coming quarters. Considering these factors, we continue to maintain our "Neutral" rating on the stock.

- Yansab's revenue increased 14.4% YoY to SAR 2.0bn in 1Q22, led by higher volumetric sales of its products during the quarter. Revenue rose 2.5% QoQ from SAR 1.9bn in 4Q21.
- Higher production input's average cost resulted in 29.4% YoY rise in cost of sales, which led to 19.3% YoY decline in gross profit to SAR 428.9bn in 1Q22. Meanwhile, gross profit margin contracted 909 bps to 21.8% in 1Q22.
- Higher total SG&A expense, in addition to lower gross margin, resulted in 28.4% YoY drop in operating profit to SAR 296.2mn in 1Q22. Subsequently, operating margin narrowed to 15.0% YoY in 1Q22 from 24.0% in 1Q21.
- Rise in finance income was offset by lower other income and higher zakat expense, leading to 32.7% YoY fall in net income to SAR 283.0mn. Consequently, net margin narrowed to 14.4% in 1Q22 from 24.4% in 1Q21.
- On QoQ basis, net income decreased 15.5% from SAR 334.9mn in 4Q21.

Valuation: We revise our target price to a fair value of SAR 61.0 per share but maintain our "Neutral" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	1,971.1	1,723.0	14.4%	7,937.5	7,407.7	7.2%
Gross Profit (SAR mn)	428.9	531.5	(19.3%)	1,905.0	2,154.3	(11.6%)
EBITDA (SAR mn)	296.2	413.5	(28.4%)	1,365.6	1,650.9	(17.3%)
Net Profit (SAR mn)	283.0	420.3	(32.7%)	1,307.5	1,531.3	(14.6%)
EPS Basic (SAR)	0.50	0.75	(32.7%)	2.32	2.72	(14.6%)
Gross Margin (%)	21.8%	30.8%	(9.1%)	24.0%	29.1%	(5.1%)
EBITDA Margin (%)	15.0%	24.0%	(9.0%)	17.2%	22.3%	(5.1%)
Net Profit Margin (%)	14.4%	24.4%	(10.0%)	16.5%	20.7%	(4.2%)

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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