

1Q22 Results Update

June 17, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	17.0
Target Price (SAR)	18.4
Upside/Downside (%)	8.2%
<i>As of June 16, 2022</i>	
Key Data (Source: Bloomberg)	

Market Cap (SAR bn)	11.4
52-wk High (SAR)	27.4
52-wk Low (SAR)	16.7
Total Outstanding shares (in mn)	668.9
Free Float (%)	87.9%

TASNEE vs. TASI (Rebased)

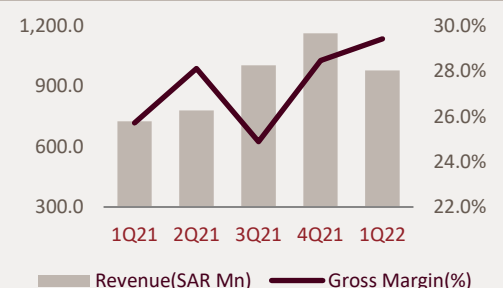


Price Performance (%)	Absolute	Relative
1m	(11.5%)	(4.6%)
6m	(19.3%)	(23.8%)
12m	(12.1%)	(21.0%)

Major Shareholders (%)

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



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of June 16, 2022

Higher feedstock prices drag down bottom line in 1Q22

National Industrialization Co. (Tasnee)'s revenue soared 35.0% YoY to SAR 979.2mn in 1Q22, primarily due to higher average selling prices of most of its products during the quarter. Cost of sales grew at a slower pace than the top line (up 28.3% YoY to SAR 691.0mn) and led to a 54.5% YoY surge in gross profit to SAR 288.2mn. Consequently, gross margin expanded 371 bps YoY to 29.4% during the quarter. However, Tasnee's operating profit declined 3.3% YoY to SAR 543.2mn due to increase in selling and distribution expenses and lower share of net profit from associates and joint ventures. Subsequently, EBIT margin narrowed to 55.5%. Despite lower finance cost and zakat expenses, net profit slipped 5.7% YoY to SAR 309.0mn, while net margin contracted to 31.6% in 1Q22 from 45.2% in the same quarter last year.

Tasnee reported slightly weaker performance in 1Q22 as the bottom line slipped despite a surge in the company's top line. The rise in topline was driven by higher selling prices of most of its products, supported by increased demand for oil and petrochemical products amid improved economic activities, which offset lower volumetric sales during the quarter. The top line was also supported by higher revenue contribution from the Petrochemical (up 50.2% YoY to SAR 579.7mn) and Downstream (up 17.7% YoY to SAR 399.5mn) segments during the quarter. However, Tasnee's bottom line declined due to a 45% YoY increase in feedstock prices and a drop in the share of net profit from associates and joint ventures. The bottom line was also hit by the supply chain crisis, which resulted in higher shipping rates due to delayed shipments. Tasnee continues to reduce its total debt; the debt-to-equity ratio improved to 0.55x in 1Q22 from 0.72x in 1Q21. Additionally, oil prices are expected to remain elevated for the rest of the year due to the full-scale invasion of Ukraine by Russia and the current supply chain crisis. However, the rise in feedstock prices could impact margins and create headwinds for the company. In view of these factors, we continue to maintain our "Neutral" rating on the stock.

- Tasnee's revenue increased 35.0% YoY to SAR 979.2mn in 1Q22 despite lower sales volumes. However, on QoQ basis, top line declined 15.8% from SAR 1.2bn, on lower average selling prices and volumes of certain products.
- Gross profit rose 54.5% YoY to SAR 288.2mn despite a rise in cost of sales. In addition, gross margin expanded to 29.4% in 1Q22 from 25.7% in 1Q21.
- The increased selling and distribution expenses and lower profit share from associates offset the fall in general and administrative expenses. This led to a 3.3% YoY fall in operating profit to SAR 543.2mn in 1Q22. Subsequently, EBIT margin narrowed to 55.5% in 1Q22 from 77.5% in 1Q21.
- Lower other income countervailed the fall in zakat expenses and finance cost and resulted in a 5.7% YoY fall in net profit to SAR 309.0mn in 1Q22. Consequently, net margin contracted to 31.6% in 1Q22 from 45.2% in 1Q21.
- Tasnee reported EPS of SAR 0.46 in 1Q22 vis-à-vis SAR 0.49 in 1Q21.

Valuation: We revise our target price to a fair value of SAR 18.4 per share and maintain "Neutral" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	979.2	725.4	35.0%	3,724.0	3,673.1	1.4%
Gross Profit (SAR mn)	288.2	186.6	54.5%	1,005.5	987.0	1.9%
EBITDA (SAR mn)	604.9	621.6	(2.7%)	2,379.9	3,419.0	(30.4%)
Net Profit (SAR mn)	309.0	327.5	(5.7%)	1,174.8	1,356.4	(13.4%)
EPS Basic (SAR)	0.46	0.49	(5.7%)	1.76	2.03	(13.4%)
Gross Margin (%)	29.4%	25.7%	3.7%	27.0%	26.9%	0.1%
EBITDA Margin (%)	61.8%	85.7%	(23.9%)	63.9%	93.1%	(29.2%)
Net Profit Margin (%)	31.6%	45.2%	(13.6%)	31.5%	36.9%	(5.4%)

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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