

## 2Q22 Results Update

August 10, 2022

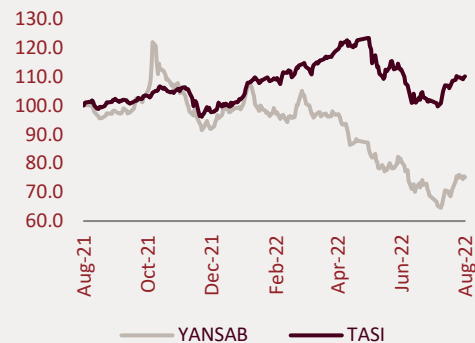
Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	52.3
Target Price (SAR)	60.1
Upside/Downside (%)	14.9%

As of August 9, 2022

### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	29.4
52-wk High (SAR)	86.5
52-wk Low (SAR)	44.6
Total Outstanding shares (in mn)	562.5
Free Float (%)	49.0%

### YANSAB vs. TASI (Rebased)

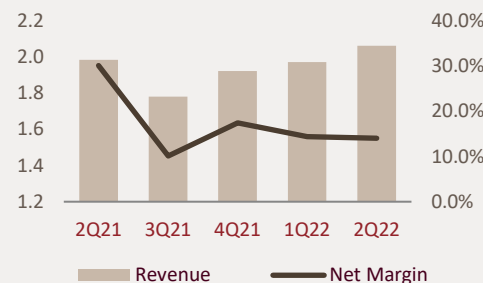


Price Performance (%)	Absolute	Relative
1m	9.1%	1.1%
6m	(22.6%)	(23.7%)
12m	(24.9%)	(35.0%)

### 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 August 9, 2022

### Higher production input cost hurt margins in 2Q22

Yanbu National Petrochemical Co. (Yansab)'s revenue increased 4.0% YoY to SAR 2.1bn in 2Q22 due to higher volumetric sales of its products during the quarter. Cost of sales surged 37.2% YoY to SAR 1.7bn, which led to a 48.2% YoY decline in the company's gross profit to SAR 399.7mn in 2Q22. Consequently, gross margin narrowed 1,954 bps YoY to 19.4% during the quarter. Despite a 24.3% YoY fall in selling and distribution cost, operating profit nosedived 56.7% YoY to SAR 276.9mn in 2Q22. Meanwhile, operating margin contracted 1,884 bps YoY to 13.4%. Lower operating income offset the rise in other income, finance income and the decline in zakat expense as Yansab's net income dropped 51.6% YoY to SAR 288.5mn in 2Q22. Consequently, net margin narrowed 1,608 bps YoY to 14.0% during the quarter. Yansab continue to report weak performance in the second quarter of 2022 as the company's bottom line dipped 51.6% YoY during the quarter, primarily due to higher feedstock prices, leading to margin pressure. The company's top line improved on YoY basis, driven by higher volumetric sale, while it increased 4.6% QoQ on higher operating rates. The rise in feedstock cost was driven by increased propane prices, which accounts for approximately 60% of the feedstock mix. Consequently, Yansab's gross margin narrowed to 19.4% during the quarter from 38.9% in 2Q21. However, the company remains fundamentally strong, with a debt-free balance sheet, steady cash flows, and healthy historical dividend payout rates. Petrochemical prices are expected to stay elevated for the rest of the year owing to low global inventories and potential supply chain disruption due to sanctions on Russia. Considering these factors, we revise our rating to "Overweight" on the stock.

- Yansab's revenue rose 4.0% YoY to SAR 2.1bn in 2Q22, led by a rise in sales volumes of its products during the quarter. Revenue grew 4.6% QoQ from SAR 2.0bn in 1Q22 on higher average selling prices of its products.
- Cost of sales climbed 37.2% YoY to SAR 1.7bn on higher production input average cost, which resulted in gross profit declining 48.2% YoY to SAR 399.7mn in 2Q22. Meanwhile, gross profit margin contracted to 19.4% in 2Q22 from 38.9% in 2Q21.
- Operating profit fell 56.7% YoY to SAR 276.9mn, despite lower total SG&A expense during the quarter. Subsequently, operating margin narrowed to 13.4% in 2Q22 from 32.3% in 2Q21.
- A rise in finance income and other income as well as a decline in zakat expense was offset by lower operating income, leading to a 51.6% YoY fall in net income to SAR 288.5mn. Consequently, net margin tightened to 14.0% in 2Q22 from 30.1% in 2Q21.
- On QoQ basis, net income increased 1.9% from SAR 283.0mn in 1Q22.
- On June 5, 2022, Yansab's board of directors recommended a 15.0% cash dividend for 1H22 at SAR 1.5 per share, totaling SAR 843.75mn.

**Valuation:** We revise our target price to a fair value of SAR 60.1 per share and revise our rating to "Overweight" on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	2,061.5	1,983.0	4.0%	7,995.6	7,407.7	7.9%
Gross Profit (SAR mn)	399.7	772.1	(48.2%)	1,902.9	2,154.3	(11.7%)
EBIT (SAR mn)	276.9	639.8	(56.7%)	1,319.6	1,650.9	(20.1%)
Net Profit (SAR mn)	288.5	596.4	(51.6%)	1,237.6	1,531.3	(19.2%)
EPS Basic (SAR)	0.51	1.06	(51.6%)	2.20	2.72	(19.2%)
Gross Margin (%)	19.4%	38.9%	(19.5%)	23.8%	29.1%	(5.3%)
EBIT Margin (%)	13.4%	32.3%	(18.8%)	16.5%	22.3%	(5.8%)
Net Profit Margin (%)	14.0%	30.1%	(16.1%)	15.5%	20.7%	(5.2%)

Source: Company Financials, Yaqeen Capital

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## 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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