

2Q22 Results Update

October 18, 2022

Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	13.8
Target Price (SAR)	18.5
Upside/Downside (%)	34.4%

As of October 17, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	9.2
52-wk High (SAR)	27.4
52-wk Low (SAR)	13.3
Total Outstanding shares (in mn)	668.9
Free Float (%)	82.9%

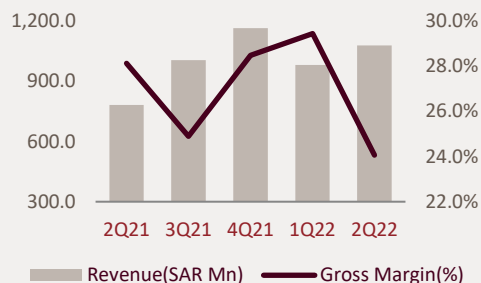
TASNEE vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(8.3%)	(6.0%)
6m	(41.9%)	(26.5%)
12m	(42.9%)	(41.1%)

Major Shareholders (%)	
Kingdom Holding Co.	6.23%

Revenue (SAR mn) and Gross Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;  
Data as of October 17, 2022

Margins hit on increase in feedstock prices in 2Q22

National Industrialization Co. (Tasnee)'s revenue rose 38.0% YoY to SAR 1.1bn in 2Q22, primarily attributable to high average selling prices of downstream products and an increase in volumetric sales of certain products during the quarter. Gross profit grew slower than the top line (up 18.1% YoY to SAR 259.1mn) due to a 45.8% YoY increase in cost of sales to SAR 818.0mn. Consequently, gross margin narrowed 406 bps YoY to 24.1%. The decline in general and administrative expenses was offset by a rise in selling and distribution expenses and fall in share of net profit from associates and joint ventures. This resulted in a 7.5% YoY fall in operating profit to SAR 563.2mn in 2Q22. Subsequently, EBIT margin contracted to 52.3%. Increase in finance cost and zakat expenses countervailed the rise in other income and led to a 16.7% YoY decline in net profit to SAR 297.1mn, while net margin shrank to 27.6% in 2Q22 from 45.7% in 2Q21.

Tasnee reported weak performance in 2Q22 as the bottom line slipped despite improvement in the company's top line. Growth in top line was driven by improved selling prices of downstream products and rise in sales volumes of certain products, which offset lower volumetric sales of some products during the quarter. The top line was also supported by high revenue contribution from the petrochemical (up 36.5% YoY to SAR 640.9mn), downstream (up 11.5% YoY to SAR 346.6mn), and chemical (additional SAR 89.7mn) segments during 2Q22. However, the company's bottom line dropped 16.7% YoY due to increase in feedstock prices and decline in the share of net profit from associates and joint ventures. The bottom line was also hit by an increase in finance cost and zakat provisions. Tasnee continues to reduce its total debt; the debt-to-equity ratio improved to 0.54x in 2Q22 from 0.67x in 2Q21. The management believes that average feedstock prices would decline in the upcoming quarter. Brent crude oil price is expected to remain elevated in FY22 due to production cut announced by OPEC and the recent lockdown in China, which will increase the product prices. In view of these factors, we revise our rating to "Overweight" on the stock.

- Tasnee's revenue increased 38.0% YoY to SAR 1.1bn in 2Q22 despite low average selling prices of some of its products. On QoQ basis, top line improved 10.0%, owing to increase in average selling prices and volumes of certain products.
- Gross profit climbed 18.1% YoY to SAR 259.1mn in 2Q22. However, gross margin contracted to 24.1% in 2Q22 from 28.1% in 2Q21 as cost of sales rose 45.8% YoY during the quarter.
- The increased selling and distribution expenses and lower profit share from associates offset the fall in general and administrative expenses. Consequently, operating profit fell 7.5% YoY to SAR 563.2mn and operating margin narrowed to 52.3% in 2Q22 from 78.0% in 2Q21.
- Increase in other income was countervailed by a rise in zakat expenses and finance cost and resulted in a 16.7% YoY fall in net profit to SAR 297.1mn in 2Q22. Consequently, net margin contracted to 27.6% in 2Q22 from 45.7% in 2Q21.
- Tasnee reported EPS of SAR 0.44 in 2Q22 compared with SAR 0.53 in 2Q21.

**Valuation:** We revise our target price to a fair value of SAR 18.5 per share and change our rating to "Overweight" on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	1,077.1	780.4	38.0%	3,907.8	3,673.1	6.4%
Gross Profit (SAR mn)	259.1	219.4	18.1%	1,055.1	987.0	6.9%
EBITDA (SAR mn)	626.7	667.6	(6.1%)	2,441.8	3,419.0	(28.6%)
Net Profit (SAR mn)	297.1	356.7	(16.7%)	1,205.9	1,356.4	(11.1%)
EPS Basic (SAR)	0.44	0.53	(16.7%)	1.80	2.03	(11.1%)
Gross Margin (%)	24.1%	28.1%	(4.1%)	27.0%	26.9%	0.1%
EBITDA Margin (%)	58.2%	85.5%	(27.4%)	62.5%	93.1%	(30.6%)
Net Profit Margin (%)	27.6%	45.7%	(18.1%)	30.9%	36.9%	(6.1%)

Source: Company Financials, Yaqeen Capital

2Q22 Results Update

October 18, 2022

## 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.

## Yaqeen Capital

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@yaqeen.sa](mailto:addingvalue@yaqeen.sa)

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, Yaqeen Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Yaqeen Capital does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. Yaqeen Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and Yaqeen Capital shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent Yaqeen Capital current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

Yaqeen Capital acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.