

3Q 2018 Results Update

November 06, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	80.5
Target Price (SAR)	74.5
Upside/Downside (%)	(7.5%)

As of November 05th, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	27.1
52 Wk High (SAR)	87.4
52 Wk Low (SAR)	57.2
Total Outstanding shares (in mn)	417
Free Float (%)	41.89%

SAFCO vs. TASI (Rebased)

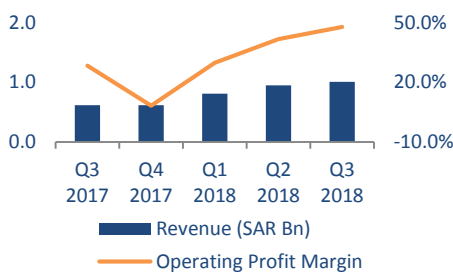


Price Performance (%)	Absolute	Relative
1m	2.9%	4.7%
6m	27.4%	31.2%
12m	47.1%	33.5%

Major Shareholders (%)

Saudi Basic Industries Corp.	42.99%
General Org For Social Insurance	10.54%
Public Pension Agency	6.87%

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 05th November 2018

Net income surges on higher revenues and increase in share of profit from associate

Saudi Arabian Fertilizer Co. (SAFCO)'s revenues surged 63.4% YoY and 6.1% QoQ in 3Q18 driven by higher urea prices and sales volumes. Gross profit more than doubled even as the cost of sales increased annually. Gross margins expanded 14.4% YoY and 5.4% QoQ to 58.0% during the quarter. Operating income rose 174.9% YoY and 21.7% QoQ, on the back of controlled operating expenses owing to SAFCO's ongoing organizational restructuring as part of its plans to address future challenges. Net income for the quarter more than doubled on a YoY basis to SAR 522mn, as higher share of profit from its associate, Ibn Al-Baytar, boosted the bottom line.

Continuing on its strong momentum from 2Q18, average global urea (Urea – US Gulf) prices rose 23.5% QoQ to USD 315 per tonne on the back of high demand from South Asia, Latin America and Southeast Asia. We believe strong demand from these countries and lower exports from China following the enforcement of environmental regulations will support the price growth in FY2018.

- Revenues advanced 63.4% YoY to SAR 1,009mn, led by increased sales volume and higher urea prices. Revenues grew 6.1% quarterly, as higher product prices more than offset a decline in volumes sold.
- Gross profit more than doubled to SAR 585mn on an annual basis, led by higher product prices, which more than offset an increase of 21.6% YoY in the cost of sales. Sequentially, gross profit rose 17.1%, supported by higher revenues and a lower cost of sales. Gross margins thus, expanded to its highest level in two years to 58.0% (3Q17: 43.5%, 2Q18: 52.5%).
- Operating profit jumped 174.9% YoY to SAR 481mn driven by higher revenues and operating efficiencies. On a QoQ basis, operating profit advanced 21.7% as operating expenses dropped slightly (-0.6% QoQ) during the quarter. Operating profit margin spiked 1,935 bps YoY and 611 bps QoQ to 47.7% in 3Q18.
- SAFCO's cash flow from operating activities increased 72.0% YoY to SAR 539mn in 3Q18 (3Q17: SAR 313mn). On a quarterly basis, it expanded 38.0% on the back of rising income before tax and lower accounts payables.
- The outlook for the fertilizer market remains positive owing to firm demand, capacities closures and declining urea exports from China. We believe, with the improvement in operating rate and urea prices, the company's operating margins will further improve in the upcoming quarters.
- Net income during the quarter surged 177.2% YoY and 27.2% QoQ, boosted by higher revenues and a jump in the company's share of profit from its associate, Ibn Al-Baytar. The share of profit from the associate increased 90.1% annually and 116.6% quarterly to SAR 43.8mn. Consequently, net income margins expanded to 51.8% (3Q17: 30.5% and 2Q18: 43.2%).

Valuation: We have revised our target price upwards with a fair value of SAR74.5 per share, after incorporating the strong 3Q18 results. We however, maintain our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	1,009	617	63.4%	3,634	2,759	31.7%
Gross Profit (SAR mn)	585	269	117.7%	1,897	1,199	58.2%
EBITDA (SAR mn)	615	287	114.0%	2,002	1,312	52.6%
Net Profit (SAR mn)	522	188	177.2%	1,530	879	74.1%
EPS (SAR)	1.3	0.5	177.2%	3.7	2.1	74.1%
Gross Margin (%)	58.0%	43.5%	14.4%	52.2%	43.5%	8.7%
EBITDA Margin (%)	61.0%	46.5%	14.4%	55.1%	47.6%	7.5%
Net Profit Margin (%)	51.8%	30.5%	21.3%	42.1%	31.8%	10.3%

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 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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