

**1Q19 Results Update**

**May 27, 2019**

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	15.8
Target Price (SAR)	18.8
Upside/Downside (%)	18.6%
<i>As of May 26<sup>th</sup>, 2019</i>	

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	10.6
52 Wk High (SAR)	23.8
52 Wk Low (SAR)	14.9
Total Outstanding shares (in mn)	669
Free Float (%)	87.0%

**TASNEE vs. TASI (Rebased)**

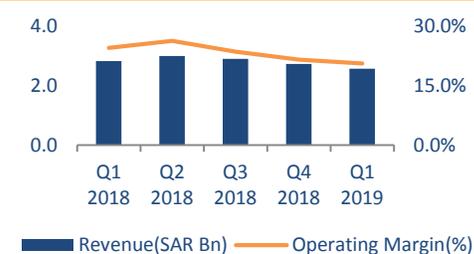


Price Performance (%)	Absolute	Relative
1m	(16.7%)	(9.7%)
6m	(1.6%)	(14.4%)
12m	(21.1%)	(27.8%)

**Major Shareholders (%)**

Kingdom Holding Co.	6.23%
Saudi Pharmaceutical Co.	5.24%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26<sup>th</sup> May 2019

**Tasnee's profit slumps in 1Q19, misses consensus estimates**

National Industrialization Co. (Tasnee)'s net profit shrank 55.9% YoY and 14.0% QoQ to SAR 160mn in 1Q19 on lower revenues and higher raw material prices. Revenues declined 8.8% YoY and 5.7% QoQ to SAR 2.6bn on lower sales volumes and realized prices for the titanium dioxide (TiO<sub>2</sub>) products. Decline in the selling, and general and administrative expenses failed to contain the slide in operating profit. The company's financial costs also rose 29.4% YoY and 19.9% QoQ to SAR 209mn, which coupled with a lower profit share from joint ventures and associates and higher Zakat expenses further exacerbated the decline in net profit.

The company received all necessary approvals for the divestment of its subsidiary National Titanium Dioxide Company Ltd-Cristal. The company is expected to report its deconsolidated financial assets with 2Q19 results. Since the past several years, the company's results have been adversely impacted by the volatile nature of the TiO<sub>2</sub> business, as seen in 1Q19 results as well. Following the divestment, we expect the company to use the proceeds from the business sale to deleverage its consolidated balance sheet and also report more stable margins henceforth. We also believe the company would be able to focus on its petrochemical assets, downstream business and explore other strategic opportunities in its core business areas. Thus, in view of the expected strong fundamentals of the company, we retain our "Overweight" rating on the stock.

- Revenue declined 8.8% YoY and 5.7% QoQ to SAR 2.6bn in wake of lower volumes of TiO<sub>2</sub> and Butanol products and lower average sales prices.
- Higher raw material prices led to decline in gross profit, which fell 29.8% YoY to SAR 574mn. Consequently, the gross margin narrowed to 22.3% in 1Q19, against 29.0% in 1Q18.
- General and administrative expenses fell 26.4% YoY to SAR 240mn, and selling and distribution expenses declined 5.4% YoY to SAR 152mn. However, operating profit declined 23.6% to SAR 529mn, largely driven by lower revenues. Thus, operating margin shrank 20.6% in 1Q19, compared with 24.5% in 1Q18.
- Finance charges sharply rose 29.4% YoY to SAR 209mn in 1Q19. Net income slipped 55.9% YoY to SAR 160mn due to the aforementioned factors and 3.9% YoY decline to SAR 347mn in the profit share from joint ventures and associates. The net profit margin contracted to 6.2% in 1Q19, compared with 12.8% in 1Q18.
- In April 2019, following the approval of the US Federal Trade Commission, Tasnee sold the TiO<sub>2</sub> business of the National Titanium Dioxide Company Ltd (Cristal) to Tronox Limited. As per the deal, Cristal will receive USD 1.7bn in cash and hold a 24% stake in Tronox. The cash consideration is expected to be used to repay Cristal's debt. The company's 2Q19 financial statements would carry the details about the deconsolidation of the Cristal assets and liabilities and be reported as an investment in an affiliate.

**Valuation:** We have revised our target price marginally upward to a fair value of SAR 18.8 per share. We retain our "Overweight" rating on the stock.

	1Q'19 (Before Deal)	1Q'18 (Before Deal)	% YoY	FY19E (Before Deal)	FY18 (Before Deal)	% YoY
Revenues (SAR mn)	2,572	2,820	(8.8%)	11,551	11,439	1.0%
Gross Profit (SAR mn)	574	818	(29.8%)	2,657	3,059	(13.2%)
Operating Profit (SAR mn)	529	692	(23.6%)	2,518	2,748	(8.4%)
Net Profit (SAR mn)	160	361	(55.9%)	1,052	1,202	(12.5%)
EPS basic (SAR)	0.24	0.54	(55.9%)	1.57	1.80	(12.5%)
Gross Margin (%)	22.3%	29.0%	(6.7%)	23.0%	26.7%	(3.7%)
Operating Margin (%)	20.6%	24.5%	(4.0%)	21.8%	24.0%	(2.2%)
Net Profit Margin (%)	6.2%	12.8%	(6.6%)	9.1%	10.5%	(1.4%)

Source: Company Financials, FALCOM Research

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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.

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