

1Q19 Results Update

June 11, 2019

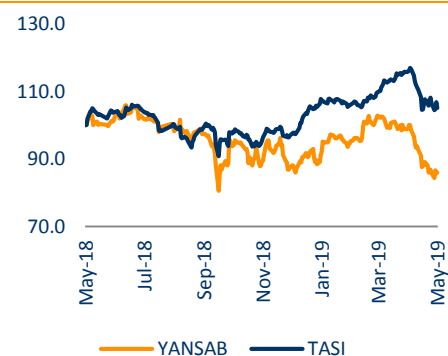
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	64.7
Target Price (SAR)	66.1
Upside/Downside (%)	2.1%

As of June 10, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	36.4
52 Wk High (SAR)	77.5
52 Wk Low (SAR)	58.0
Total Outstanding shares (in mn)	562.5
Free Float (%)	34.9%

YANSAB vs. TASI (Rebased)

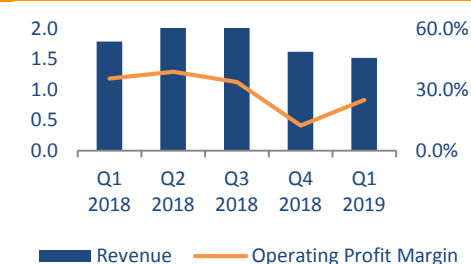


Price Performance (%)	Absolute	Relative
1m	(13.4%)	(4.1%)
6m	(3.8%)	(13.1%)
12m	(14.0%)	(19.2%)

Major Shareholders (%)

Saudi Basic Industries Corp	51.00%
General Organization For Social Insurance	7.64%

Revenue and Operating Profit Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 10th June 2019

Yansab's bottom line shrinks on lower product prices, misses the street estimates by a huge margin

Yansab's 1Q19 net earnings fell 38.1% YoY to SAR 391mn, driven by lower product prices that offset the improvements in its production and sales quantity and lower feedstock prices. Gross profit declined 36.1% YoY in 1Q19, as production's average input cost remained consistent. Operating profit fell 40.3% YoY in 1Q19, although the company managed to contain its administrative expense. Improvement in other income and net finance charges helped in containing a drop in the net profit.

Yansab's operational capabilities remain strong with a healthy balance sheet and robust cash flow. Besides, Yansab expanded its production capacity in mono ethylene glycol (MEG), which is a widely-used commodity in varied industrial applications and its market is forecast to reach USD 30–35bn by 2022. The company's operating rates and profit margins are likely to improve given the focus on cost optimization. We expect Saudi Arabia's petrochemical industry to benefit from large-scale investments in downstream projects as the kingdom continues to boost its capacity to meet growing demand; Yansab may, however, find it difficult to truly capitalize on its operational efficiencies in the weak pricing environment.

- Yansab's revenue declined 14.8% YoY and 6.0% QoQ to SAR 1.5bn in 1Q19 mainly due to lower average sales prices for all its products, although the production and sales quantities improved.
- Gross profit for the quarter sharply declined 36.1% YoY to SAR 472mn as the proportional cost of sales remained high. On a quarterly basis, however, the company managed to reduce its cost of sales by 17.4% QoQ to SAR 1.1bn. Consequently, gross margin for the quarter stood at 31.0% compared with 41.4% and 21.5% in 1Q18 and 4Q18, respectively.
- Operating income fell to SAR 379mn compared with SAR 635mn in 1Q18; it was however, 89.8% YoY higher than that in 4Q18. General and administrative expenses witnessed a sharp decline over the comparable period. Operating profit margin stood at 24.9% in 1Q19 compared with 35.5% in 1Q18 and 12.3% in 4Q18.
- EBITDA declined 27.5% YoY to SAR 651mn, while its 1Q19 margins contracted to 42.8% compared with 50.3% in 1Q18.
- Net profit declined 38.1% YoY to SAR 391mn, driven by lower average sales prices for all of its products despite a higher production and sales volume and lower average prices of some of its feedstock materials. Higher other income and net finance income helped it contain the drop in profits. Net profit margin stood at 25.7% in 1Q19 compared with 35.3% in 1Q18.
- During 1Q19, the company added lease liabilities amounting to SAR 166mn. It has no other form of debt on its balance sheet.
- In May 2019, Yansab was included in the MSCI Emerging Markets Index.
- Yansab's Board of Directors approved a dividend of SAR 2 per share for 2H18, amounting to SAR 1.125bn for its 562.6mn shareholders. The Board also proposed a dividend of SAR 1.75, amounting to SAR 984.4mn for 1H19.

Valuation: We revise our target price downwards with a fair value of SAR 66.1, in line with the company's 1Q19 performance. We maintain our 'Neutral' rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	1,522	1,787	(14.8%)	7,467	7,628	(2.1%)
Gross Profit (SAR mn)	472	740	(36.1%)	2,880	2,865	0.5%
EBITDA (SAR mn)	651	899	(27.5%)	3,441	3,452	(0.3%)
Net Profit (SAR mn)	391	631	(38.1%)	2,392	2,414	(0.9%)
EPS basic (SAR)	0.7	1.1	(38.1%)	4.3	4.3	(0.9%)
Gross Margin (%)	31.0%	41.4%	(10.4%)	38.6%	37.6%	1.0%
EBITDA Margin (%)	42.8%	50.3%	(7.5%)	46.1%	45.3%	0.8%
Net Profit Margin (%)	25.7%	35.3%	(9.6%)	32.0%	31.6%	0.4%

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

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, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM 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. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's 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.

FALCOM 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.