

2Q19 Results Update

July 31, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	87.9
Target Price (SAR)	85.1
Upside/Downside (%)	(3.2%)

As of July 31st, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	36.6
52 Wk High (SAR)	92.4
52 Wk Low (SAR)	62.7
Total Outstanding shares (in mn)	417
Free Float (%)	44.4%

SAFCO vs. TASI (Rebased)

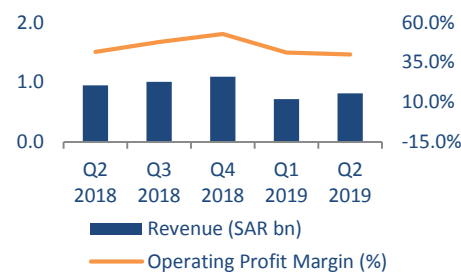


Price Performance (%)	Absolute	Relative
1m	4.9%	5.7%
6m	8.7%	6.9%
12m	37.5%	32.5%

Major Shareholders (%)

Saudi Basic Industries Corp.	42.99%
General Org For Social Insurance	8.85%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 31st July 2019

Lower sales volume contain net profit rise in 1H19

Net income for 2Q19 dropped 7.3% YoY to SAR 380mn on lower quantities sold on account of scheduled maintenance for the SAFCO 3 plant Reliability Improvement Project. The net income, however, rose 13.4% QoQ due to the higher average selling price of products, improved sales quantities, an increase in other income as a result of dividends received from available for sale investments, and a rise in the income share of Ibn Al-Baytar Company. SAFCO's revenues in 2Q19 contracted 14.4% YoY but improved 13.2% QoQ to SAR 814mn. Gross profit narrowed 15.9% YoY but rose 10.9% QoQ to SAR 420mn. Operating income decreased 17.8% YoY to SAR 325mn, as the company underwent some organizational changes thereby incurring additional costs.

SAFCO managed to maintain stable profit margins despite wide ranging fluctuations in the top line. Though the company's revenue in 1H19 missed the analysts' estimates, it can be largely attributed to the scheduled shutdown of the SAFCO 3 plant. We expect the 2H19 performance to be slightly better than 1H19 in line with the previous year trend. The World Bank's fertilizer price index is projected to increase 4.9% in 2019 on the back of strong demand and increase in MOP (potassium chloride) prices. However, the demand outlook for urea is likely to remain stagnant owing to risks, including sanctions on Iran, trade tensions, and uncertainty over agricultural production. Thus, we maintain a neutral stance on the stock.

- Revenues declined 14.4% YoY to SAR 814mn in 2Q19 as lower sales volumes and the prolonged shutdown of the SAFCO 3 plant offset the impact of the higher selling price.
- Gross profit trimmed 15.9% YoY to SAR 420m for 2Q19 owing to a rise in production costs. Consequently, the gross margin contracted to 51.6% from 52.5% in the same quarter a year ago.
- Operating profit dropped 17.8% YoY to SAR 325mn as the company underwent organizational changes. The operating margin shed to 39.9% from 41.6% in the same period.
- Net income in the quarter fell 7.3% YoY to SAR 380mn, mainly due to the decrease in quantities sold as a result of maintenance activities. The net profit margin, however, improved to 46.8% from 43.2% a year ago. Owing to higher other income and share of profit from an associate over a comparable period.
- The company resumed operations at the SAFCO 3 ammonia plant, following implementation of the reliability improvement project and scheduled maintenance. This financial impact from the plant suspension marginally rose to SAR123mn compared to the previously estimated SAR 121mn due to changes in product prices. The plant is set to add 100,000 metric tons of ammonia per year to its production capacity.

Valuation: We have revised our target price marginally upward with a fair value of SAR 85.1 per share given the improvements in the results on a quarterly basis. However, we maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	814	950	(14.4%)	3,860	3,807	1.4%
Gross Profit (SAR mn)	420	499	(15.9%)	2,133	2,136	(0.2%)
EBITDA (SAR mn)	464	519	(10.6%)	2,218	2,249	(1.3%)
Net Profit (SAR mn)	380	410	(7.3%)	1,738	1,810	(4.0%)
EPS (SAR)	0.91	0.99	(7.3%)	4.2	4.3	(4.0%)
Gross Margin (%)	51.6%	52.5%	(1.8%)	55.3%	56.1%	(1.5%)
EBITDA Margin (%)	57.1%	54.7%	4.4%	57.5%	59.1%	(2.7%)
Net Profit Margin (%)	46.8%	43.2%	8.3%	45.0%	47.6%	(5.3%)

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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