

3Q19 Results Update

November 26, 2019

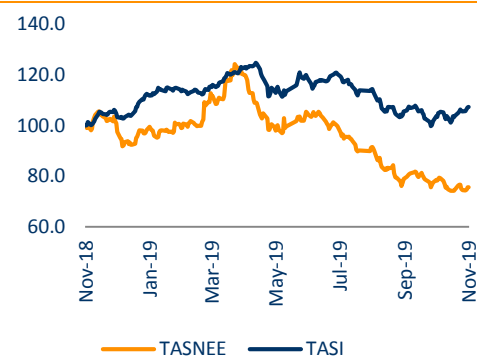
Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	12.2
Target Price (SAR)	15.1
Upside/Downside (%)	23.4%

As of November 25th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.2
52 Wk High (SAR)	21.4
52 Wk Low (SAR)	12.0
Total Outstanding shares (in mn)	669
Free Float (%)	90.8%

TASNEE vs. TASI (Rebased)

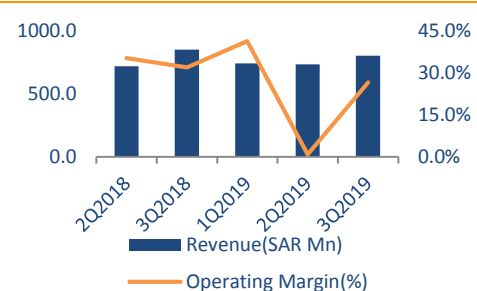


Price Performance (%)	Absolute	Relative
1m	(3.7%)	(7.2%)
6m	(22.9%)	(18.0%)
12m	(24.4%)	(31.7%)

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 25th November 2019

Note: The data 4Q18 is omitted from the graph as the restated numbers post deal are not available

Lower operating and financing cost help Tasnee to beat net profit estimates

National Industrialization Co. (Tasnee)'s net profit fell 84.1% YoY and 86.1% QoQ to SAR 41mn, driven by a lower selling price and higher cost of sales. The bottom line was also impacted by a decrease in the company's share of income from associates and joint ventures, and absence of gains from the transaction closure between Cristal and Tronox in 2Q19. Revenues declined 5.8% YoY, while improving 9.4% QoQ to SAR 800mn. The company posted decline in selling and distribution as well as general and administrative expenses in 3Q19. Additionally, the impairment of non-current assets was also lowered considerably. Finance cost declined further by 31.9% YoY and 10.5% QoQ to SAR 104mn.

Tasnee completed the divestment of its subsidiary National Titanium Dioxide Company Ltd–Cristal in 2Q19 and did not report any gains from discontinued operations in the current quarter. Margins are declining at the gross level and remain a concern, but we expect them to improve over the medium term and the company to report more stable margins after shedding the volatile TiO₂ business. On the other hand, the company has made significant reductions to its operating expenses and has also managed to improve its debt-to-equity ratio substantially, following the divestment of the TiO₂ business. Furthermore, a leaner Tasnee is likely to shift the focus to its petrochemical assets and 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.

- Revenues declined 5.8% YoY to SAR 800mn as an improvement in sales volumes was offset by lower average selling prices. On a quarterly basis, revenues were up 9.4%.
- Cost of sales increased 3.2% YoY and 10.2% QoQ to SAR 709mn. Consequently, gross profit for the period fell 44.1% YoY to SAR 91mn. The gross margin stood at 11.4% in 3Q19, against 19.1% and 12.0% in 3Q18 and 2Q19, respectively.
- General and administrative expenses declined 30.2% YoY and 13.9% QoQ to SAR 128mn. Moreover, selling and distribution expenses were down 4.2% YoY and 15.2% QoQ to SAR 35mn. In spite of this, operating income declined 21.6% YoY as the share of net profit from associates and joint ventures decreased. Thus, the operating margin stood at 26.5% in 3Q19, compared with 31.8% in 3Q18 and 0.8% in 2Q19.
- Finance charges plunged 31.9% YoY and 10.5% QoQ to SAR 104mn in 3Q19. There were no contributions from discontinued operations in the quarter. Therefore, net income attributable to equity holders dropped 84.1% YoY and 86.1% QoQ to SAR 41mn. Consequently, the net profit margin contracted to 5.2% in 3Q19, vis-à-vis 30.5% posted in 3Q18.

Valuation: We maintain our target price at a fair value of SAR 15.1 per share. We retain our "Overweight" rating on the stock.

	3Q'19 (After deal)*	3Q'18 (After deal)*	% YoY	FY19E (After deal)*	FY18 (Before Deal)
Revenues (SAR mn)	800	849	(5.8%)	3,002	11,439
Gross Profit (SAR mn)	91	163	(44.1%)	420	3,059
Operating Profit (SAR mn)	212	270	(21.6%)	814	2,748
Net Profit (SAR mn)	41	259	(84.1%)	722	1,202
EPS Basic (SAR)	0.06	0.39	(84.1%)	1.08	1.80
Gross Margin (%)	11.4%	19.1%	(7.8%)	14.0%	26.7%
Operating Margin (%)	26.5%	31.8%	(5.3%)	27.1%	24.0%
Net Profit Margin (%)	5.2%	30.5%	(25.4%)	24.0%	10.5%

Source: Company Financials, FALCOM Research

Note: *Continuing Operations

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.

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