

3Q19 Results Update

December 11, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	51.5
Target Price (SAR)	54.6
Upside/Downside (%)	6.1%

As of December 11th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	29.0
52 Wk High (SAR)	75.0
52 Wk Low (SAR)	48.5
Total Outstanding shares (in mn)	562.5
Free Float (%)	39.1%

YANSAB vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(0.4%)	(4.5%)
6m	(20.7%)	(14.0%)
12m	(24.0%)	(27.6%)

Major Shareholders (%)

Saudi Basic Industries Corp	51.0%
General Organization For Social Insurance	7.6%

Revenue and Operating Profit Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 11th December, 2019

Yansab profit misses 3Q19 estimates; lower sales price and volume impact net profit

Yansab's 3Q19 net earnings fell 70.9% YoY and 32.9% QoQ to SAR 212mn, weighed by a plunge in revenues due to lower sales prices and volumes. Revenues during the quarter fell 32.6% YoY and 13.1% QoQ to SAR 1.4bn. Gross profit decreased 64.7% YoY to SAR 296mn in spite of lower prices observed for some feedstock materials. Additionally, gross profit declined sequentially, weighed by a rise in production input average costs. Therefore, operating profit fell 71.1% YoY and 37.7% QoQ to SAR 205mn, even as operating expenses declined.

The company's quarterly results disappointed, missing estimates, due to persistent weakness in key product prices and lower sales volumes. Market forecasts were weak for mono ethylene glycol (MEG) (for which the company recently expanded its production capacity). Furthermore, challenging market conditions and unfavorable oil price movement are likely to keep the company's revenue and net profit growth in check. The company, however, continues to improve its operational efficiency with lower operating expenses and boasts strong financial fundamentals with negligible debt on its balance sheets. Thus, in view of these countervailing factors, we maintain our Neutral stance on the stock.

- Yansab's revenue fell 32.6% YoY and 13.1% QoQ to SAR 1.4bn in 3Q19 as sales volumes and average selling prices declined vis-à-vis the aforementioned quarters.
- Gross profit for the quarter plummeted 64.7% YoY and 31.4% QoQ to SAR 296mn, primarily due to lower revenues recorded. Consequently, the gross margin for the quarter stood at 20.8%, compared with 26.4% and 39.8% in 2Q19 and 3Q18, respectively.
- The company managed to contain its general and operating expenses and selling and distribution expenses. The operating income however declined 37.7% QoQ and 71.1% YoY to SAR 205mn. Operating margins also shrank to 14.4% for the quarter, compared with 20.1% and 33.7% in 2Q19 and 3Q18, respectively.
- EBITDA for 3Q19 stood at SAR 473mn, compared with SAR 811mn in 2Q19 and SAR 986mn in 3Q18. EBITDA margins stood at 33.2% for the quarter, down from 49.5% in 2Q19 and from 46.7% in 3Q18.
- Net income for the quarter fell to SAR 212mn, down 32.9% QoQ and 70.9% YoY from 2Q19 and 3Q18, respectively. A surge in other income capped loss in the company's net income. The net profit margin stood at 14.9% in 3Q19, compared with 19.3% in 2Q19 and 34.5% in 3Q18.

Valuation: We revised our target price downwards, with a fair value of SAR 54.6, and maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	1,422.7	2,110.4	(32.6%)	6,200.9	7,628.5	(18.7%)
Gross Profit (SAR mn)	296.1	839.2	(64.7%)	1,723.9	2,865.4	(39.8%)
EBITDA (SAR mn)	472.8	985.8	(52.0%)	2,412.7	3,452.1	(30.1%)
Net Profit (SAR mn)	212.1	729.0	(70.9%)	1,329.6	2,414.0	(44.9%)
EPS basic (SAR)	0.4	1.3	(70.9%)	2.4	4.3	(44.9%)
Gross Margin (%)	20.8%	39.8%	(19.0%)	27.8%	37.6%	(9.8%)
EBITDA Margin (%)	33.2%	46.7%	(13.5%)	38.9%	45.3%	(6.3%)
Net Profit Margin (%)	14.9%	34.5%	(19.6%)	21.4%	31.6%	(10.2%)

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.

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