

**FY19 Results Update**

**February 3, 2020**

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	74.0
Target Price (SAR)	77.0
Upside/Downside (%)	4.1%

As of February 3<sup>rd</sup>, 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	30.8
52 Wk High (SAR)	92.4
52 Wk Low (SAR)	72.4
Total Outstanding Shares (in mn)	417
Free Float (%)	44.3%

**SAFCO vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	(5.9%)	(3.2%)
6m	(17.1%)	(9.5%)
12m	(11.6%)	(7.0%)

**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 3<sup>rd</sup> February 2020

**SAFCO's net profit drops on lower sales volume and product prices**

Net income for FY19 shrank 15.5% YoY to SAR 1.5bn, primarily owing to a decline in the average selling price of products and lower sales volume over the comparable period. The fall in net profit for the period was contained by a reduction in Zakat provision for the previous period and the company received revised Zakat provisions up to 2017. On a quarterly basis, net profit declined due to the factors mentioned above and also owing to a drop in net income of the company's net profit share in Ibn Al-Baytar Company. Revenues declined 7.1% QoQ to SAR 846mn in 4Q19, after rising in the last two quarters. For FY19, revenues were down 14.8% YoY to SAR 3.3bn. Higher average cost of sales led to a decline of 20.8% YoY in gross profit to SAR 1.7bn in FY19. Consequently, operating income reduced 21.9% YoY to SAR 1.6bn for FY19, declining 41.0% YoY to SAR 341.2mn in 4Q19.

SAFCO's performance was dragged down by the subdued prices of urea and ammonia in 2019. Moreover, weaker-than-expected equity income from Ibn-ALBaytar remained a concern. Though we expect the operating rates to improve as the company implemented the reliability improvement project and completed several scheduled maintenance activities, the weak price forecast for the company's primary commodities may continue to keep margins under pressure in the near term. In addition, the company's capex has been considerable in view of SAFCO's scheduled enhancement projects. Thus, in view of the countervailing factors, we maintain a "Neutral" stance on the stock.

- Revenues declined 14.8% YoY to SAR 3.3bn in FY19 on lower sales volumes and selling price. Revenues were down 7.1% QoQ and 22.4% YoY to SAR 846mn in 4Q19.
- Gross profit slumped 20.8% YoY to SAR 1.7bn for FY19 owing to a rise in average input costs. Consequently, the gross margin shrank to 51.4% in FY19 from 55.2% in FY18.
- Operating profit fell 21.9% YoY to SAR 1.3bn in FY19, even as operating expense declined. As a result, the operating margin contracted to 40.3% from 43.9% in the same period.
- Net income during the year decreased 15.5% YoY to SAR 1.5bn in view of the factors mentioned above and lower equity income from the subsidiary. However, losses were trimmed due to lower Zakat provisions. The net income margin for the year remained broadly in line with the last year level at 44.7%.
- The company announced a dividend of SAR 1.5 per share for 2H19, taking the dividend for the entire year to SAR 3 per share, amounting to SAR 1.25bn.

**Valuation:** We have upwardly revised the target price to a fair value of SAR 77.0 per share. However, we maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	846	1,090	(22.4%)	3,839	3,288	16.8%
Gross Profit (SAR mn)	426	689	(38.2%)	1,954	1,689	15.7%
EBITDA (SAR mn)	481	725	(33.7%)	2,185	1,884	16.0%
Net Profit (SAR mn)	338	569	(40.5%)	1,696	1,468	15.5%
EPS (SAR)	0.81	1.36	(40.5%)	4.1	3.5	15.5%
Gross Margin (%)	50.3%	63.2%	(12.9%)	50.9%	51.4%	(0.5%)
EBITDA Margin (%)	56.8%	66.5%	(9.7%)	56.9%	57.3%	(0.4%)
Net Profit Margin (%)	40.0%	52.2%	(12.2%)	44.2%	44.7%	(0.5%)

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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