

FY19 Results Update

February 05, 2020

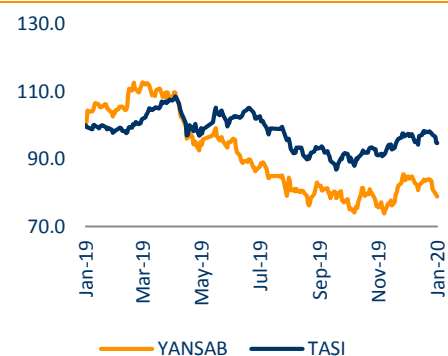
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	51.5
Target Price (SAR)	55.6
Upside/Downside (%)	8.0%

As of 03rd February 2020

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 (%)	41.3%

YANSAB vs. TASI (Rebased)

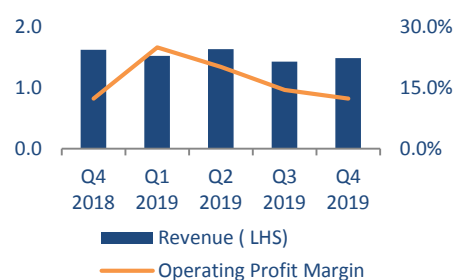


Price Performance (%)	Absolute	Relative
1m	(5.8%)	(3.5%)
6m	(10.1%)	(2.3%)
12m	(21.1%)	(15.8%)

Major Shareholders (%)

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

Revenue (SAR bn) and Operating Profit Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 3rd February, 2020

Yansab FY19 profit declines on lower selling prices

Yansab's FY19 net profit shrank 54.9% YoY to SAR 1.1bn on lower average sales prices for all products, even as sales volume improved and the prices of some feedstock materials decreased. The quarterly net profit continued its downtrend, with net profit for 4Q19 declining 26.8% YoY and 19.4% QoQ to SAR 171mn. In 4Q19, the company also recorded an impairment charge of SAR 71mn against capital work in progress. Revenue during the year fell 20.5% YoY to SAR 6.1bn in FY19 from SAR 7.6bn in FY18 when it had grown 5.6% YoY. Furthermore, gross profit in FY19 almost halved owing to a higher input average cost. The gross margin contracted to 24.7% in FY19 from 37.6% in FY18. Therefore, operating profit fell 53.6% YoY to SAR 1.1bn, even as operating expense declined.

Oil prices trended lower in 2019 due to slowing demand from end markets amid trade war concerns. Thus, persistent weakness in the prices of the company's products negated the improvement in sales volume, leading to a disappointing set of results. Though Yansab did manage to contain the operating expense, higher-than-expected cost of sales led to a decline in the gross and operating margins. We expect the oil prices to remain subdued in 2020, which will keep Yansab's revenue and net profit growth in check. However, despite the headwinds in the oil sector, the company boasts of strong financial fundamentals with negligible debt on its balance sheet. It also continues to improve its operational efficiency. Thus, in view of the countervailing factors, we maintain our "Neutral" rating on the stock.

- Yansab's revenue fell 20.5% YoY to SAR 6.1bn in FY19 as the average selling prices reduced, even as sales volumes improved. On a quarterly basis, revenues were down 8.5% YoY but rose 4.2% QoQ to SAR 1.5bn.
- Gross profit for the quarter plummeted 47.7% YoY to SAR 1.5bn as cost of sales increased due to the higher average input cost. Consequently, the gross margin for the year narrowed to 24.7% from 37.6% in FY18. For 4Q19, the gross margin stood at 20.1%.
- The company managed to contain its general and operating expense and selling and distribution expense on an annual basis. Nonetheless, owing to a decline at the gross level, operating income plunged 53.6% YoY to SAR 1.1bn in FY19. Operating margins also shrank to 18.1% for the year compared with 31.0% in FY18.
- EBITDA for the year stood at SAR 2.5bn as against SAR 3.5bn in FY18. EBITDA margins were recorded at 40.6% for FY19, down from 45.3% in FY18.
- Net income for the year fell 54.9% YoY to SAR 1.1bn in FY19 as lower net other income over the comparable period exacerbated the decline. The net profit margin stood at 18.0% for the year vis-à-vis 31.6% in FY18.

Valuation: We revise our target price to a fair value of SAR 55.6 in view of the company's expected performance and oil price outlook. We maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	1,482.1	1,619.4	(8.5%)	6,397.8	6,064.8	5.5%
Gross Profit (SAR mn)	298.1	348.8	(14.5%)	1,775.4	1,498.3	18.5%
EBITDA (SAR mn)	527.1	478.8	10.1%	2,745.2	2,462.5	11.5%
Net Profit (SAR mn)	170.9	233.5	(26.8%)	1,299.8	1,089.8	19.3%
EPS basic (SAR)	0.3	0.4	(26.8%)	2.3	1.9	19.3%
Gross Margin (%)	20.1%	21.5%	(1.4%)	27.8%	24.7%	3.0%
EBITDA Margin (%)	35.6%	29.6%	6.0%	42.9%	40.6%	2.3%
Net Profit Margin (%)	11.5%	14.4%	(2.9%)	20.3%	18.0%	2.3%

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.

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