

2Q20 Results Update

August 30, 2020

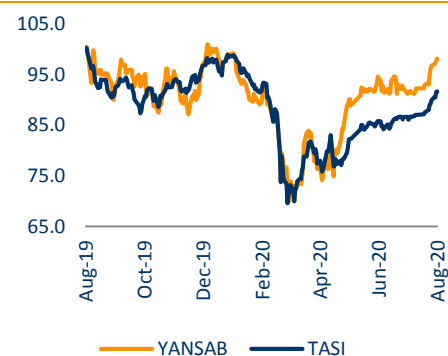
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	55.1
Target Price (SAR)	51.0
Upside/Downside (%)	(7.4%)

As of 19 August 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	31.0
52-Wk High (SAR)	57.2
52-Wk Low (SAR)	38.6
Total Outstanding Shares (in mn)	562.5
Free Float (%)	41.4%

YANSAB vs. TASI (Rebased)

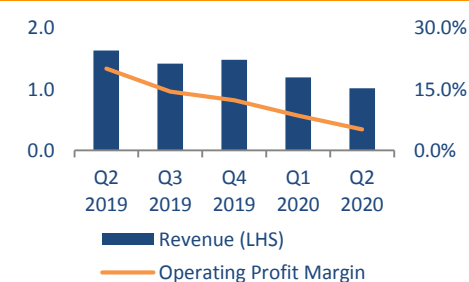


Price Performance (%)	Absolute	Relative
1m	7.6%	1.8%
6m	7.0%	8.4%
12m	(1.8%)	6.5%

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 19 August 2020

Lower revenue continues to impact the company's margins in 2Q20

Yansab's revenue for 2Q20 fell 37.7% YoY to SAR 1.0bn, as average selling prices and sales volumes across all product segments declined in the quarter. Cost of sales slumped 26.8% YoY to SAR 883.5mn due to a decline in average cost of production inputs. Despite the decline in cost of sales, gross profit narrowed 68.2% YoY to SAR 137.1mn and gross margin contracted to 13.4% in 2Q20 from 26.4% in 2Q19. Yansab's operating income also contracted during the quarter (down 83.9% YoY to SAR 52.9mn), as decline in cost of sales and total operating expenses were offset by the decline in revenue. Operating margin shrank to 5.2% in 2Q20 from 20.1% in 2Q19. In line with the factors mentioned above, net income plummeted 85.8% YoY to SAR 44.8mn. Furthermore, net margin contracted to 4.4%, as against 19.3% in 2Q19 and 8.7% in 1Q20, respectively.

Prices of the company's key products continued to fall in 2Q20. Moreover, sales volume declined in 2Q20 as demand for products from end markets remained low amid the ongoing COVID-19 crisis and subsequent economic uncertainty. EIA forecasts slight recovery in oil prices in 2H20 as OPEC eases the 2.0 million barrel per day (mbpd) production cut from August. However, it expects demand for oil to remain subdued in 2020, due to the economic headwinds, but to pick up in 2021. Despite the challenges faced by the sector, the company showcases strong financial fundamentals with negligible financial leverage. Although, margins remained low in 1H20, we expect the company's performance to slightly improve in 2H20, as product prices are expected to recover gradually. In view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Yansab's revenue fell 37.7% YoY to SAR 1.0bn in 2Q20 due to a sharp decline in average selling prices and sales volumes across all product segments. Revenue declined 14.6% QoQ from SAR 1.2bn in 1Q20.
- Gross profit for the quarter fell 68.2% YoY to SAR 137.1mn, as lower sales offset the improvement in cost of sales (down 26.8% YoY to SAR 883.5mn). Gross margin for 2Q20 stood at 13.4%, as against 26.4% in 2Q19 and 16.7% in 1Q20.
- Yansab's general and administrative expenses and selling and distribution expenses declined 15.9% YoY and 23.5% YoY, respectively, during the quarter. However, this failed to lift operating income, which plummeted 83.9% YoY to SAR 52.9mn. Operating margin contracted to 5.2% compared to 20.1% in 2Q19 and 8.6% in 1Q20.
- Net financial charges and zakat expense for 2Q20 declined 30.6% YoY and 11.0% YoY, respectively. Regardless of the improvement in these expenses, net income plunged 85.8% YoY to SAR 44.8mn. Net profit margin deteriorated to 4.4% for the quarter compared to 19.3% in 2Q19.
- Despite the decline in net profit, the company's board declared a cash dividend distribution worth SAR 703.2mn for 1H20.

Valuation: We revise our target price upward to a fair value of SAR 51.0 per share in view of the company's expected performance and oil price outlook. We maintain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	1,020.7	1,638.0	(37.7%)	4,822.9	6,064.8	(20.5%)
Gross Profit (SAR mn)	137.1	431.6	(68.2%)	964.6	1,498.3	(35.6%)
EBIT (SAR mn)	52.9	329.5	(83.9%)	624.9	1,096.2	(43.0%)
Net Profit (SAR mn)	44.8	316.1	(85.8%)	637.8	1,089.8	(41.5%)
EPS basic (SAR)	0.1	0.6	(85.8%)	1.1	1.9	(41.5%)
Gross Margin (%)	13.4%	26.4%	(12.9%)	20.0%	24.7%	(4.7%)
EBIT Margin (%)	5.2%	20.1%	(14.9%)	13.0%	18.1%	(5.1%)
Net Profit Margin (%)	4.4%	19.3%	(14.9%)	13.2%	18.0%	(4.7%)

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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