

2Q20 Results Update

September 25, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	80.6
Target Price (SAR)	81.0
Upside/Downside (%)	(0.5%)

As of September 1, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	33.6
52-Wk High (SAR)	88.0
52-Wk Low (SAR)	58.0
Total Outstanding Shares (in mn)	417
Free Float (%)	48.2%

SAFCO vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	3.3%	(2.6%)
6m	24.0%	16.5%
12m	1.6%	1.8%

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 September 1, 2020

Strong growth in sales volume boosts top line in 2Q20

Saudi Arabia Fertilizers Co. (SAFCO) recorded 14.1% YoY growth in revenue to SAR 928.7mn for 2Q20 on higher sales volume, despite the reduced average selling prices of the company's products. Although gross profit rose 8.2% YoY to SAR 454.3mn during the quarter, the gross margin narrowed to 48.9% in 2Q20 from 51.6% in 2Q19. Operating profit inched up 10.8% YoY to SAR 360.0mn on a marginal improvement in SG&A expense. The company posted a 5.4% YoY decline in net profit to SAR 359.8mn for the quarter, weighed down by lower income contributions from associate companies. The net profit margin dipped to 38.7% as against 46.8% in 2Q19.

SAFCO logged an improvement in its top line in 2Q20, primarily due to higher sales volume. However, the selling prices of the company's products remained low during the quarter, as the supply-demand dynamics for urea worsened. Though urea prices recovered slightly toward the end of 2Q20, we expect margins to continue their downtrend in 2H20 owing to higher feedstock prices. EIA forecasts a gradual recovery in natural gas prices in the second half, as demand for the commodity is expected to increase toward winter. Additionally, the scheduled closure of SAFCO III and V factories and the Ibn Al Baytar plant for maintenance in 2H20 is expected to further drag down margins. Nevertheless, SAFCO's balance sheet remains strong, which bodes well for the company's growth plans. SAFCO's progress in the acquisition of SABIC Agri-Nutrients Investment Company (SANIC) also remains a key going forward. In view of these countervailing factors, we maintain our "Neutral" stance on the stock.

- SAFCO's top line improved 14.1% YoY to SAR 928.7mn in 2Q20 amid higher sales volume of the company's products. However, the average selling prices of products fell in 2Q20, consistent with the decline in urea prices. On quarterly basis, the company recorded a 27.5% rise in revenue.
- Gross profit (up 8.2% YoY to SAR 454.3mn) grew at a slower pace than revenue due to a 20.4% YoY increase in cost of sales to SAR 474.4mn. Consequently, gross margin for the quarter shrank to 48.9% as against 51.6% in 2Q19 and 50.5% in 1Q20.
- Operating profit scaled up 10.8% YoY to SAR 360.0mn in 2Q20 on account of higher revenue and a slight improvement in SG&A expense. However, the operating margin contracted to 38.8% in 2Q20 from 39.9% in 2Q19.
- Net income registered a drop of 5.4% YoY to SAR 359.8mn in 2Q20, as the lower share of income from its subsidiary, Ibn Al Baytar, and a fall in net other income weighed on the bottom line. Subsequently, the net income margin narrowed to 38.7% in 2Q20 from 46.8% in 2Q19.
- On April 5, 2020, Saudi General Authority for Competition approved SAFCO's acquisition of SABIC Agri-Nutrients Investment Co. (SANIC). SAFCO signed a deal to purchase 100.0% stake in SANIC for SAR 4.6bn through issuance of 59.4mn shares valued at SAR 77.4.

Valuation: We have revised the target price upward to a fair value of SAR 81.0 per share. However, we maintain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	929	814	14.1%	3,328	3,288	1.2%
Gross Profit (SAR mn)	454	420	8.2%	1,709	1,689	1.2%
EBITDA (SAR mn)	510	464	9.8%	1,859	1,880	(1.1%)
Net Profit (SAR mn)	360	380	(5.4%)	1,443	1,468	(1.7%)
EPS (SAR)	0.86	0.91	(5.4%)	3.5	3.5	(1.7%)
Gross Margin (%)	48.9%	51.6%	(2.7%)	51.4%	51.4%	0.0%
EBITDA Margin (%)	54.9%	57.1%	(2.2%)	55.9%	57.2%	(1.3%)
Net Profit Margin (%)	38.7%	46.8%	(8.0%)	43.4%	44.7%	(1.3%)

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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