

3Q20 Results Update

December 01, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	80.1
Target Price (SAR)	81.0
Upside/Downside (%)	1.1%

As of November 10, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	33.4
52-Wk High (SAR)	88.0
52-Wk Low (SAR)	58.0
Total Outstanding Shares (in mn)	416.7
Free Float (%)	48.2%

SAFCO vs. TASI (Rebased)

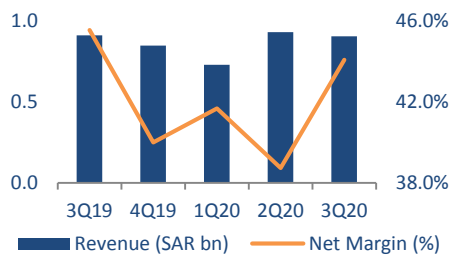


Price Performance (%)	Absolute	Relative
1m	(4.8%)	(4.7%)
6m	14.6%	(11.3%)
12m	3.4%	(3.5%)

Major Shareholders (%)

Saudi Basic Industries Corp.	42.99%
General Org for Social Insurance	8.85%

Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 10, 2020

Higher sales volume limits drop in top line during 3Q20

Saudi Arabia Fertilizers Co. (SAFCO)'s revenue fell 0.8% YoY to SAR 902.1mn in 3Q20 due to lower average selling prices of products. However, the dip in the top line was limited by robust sales volume in the quarter. Gross profit rose 4.3% YoY to SAR 485.1mn during the quarter owing to a 6.2% YoY decline in cost of sales to SAR 417.0mn. Lower SG&A expenses led to a 6.7% YoY increase in operating profit to SAR 388.0mn. However, the company recorded a 4.0% YoY dip in the net profit to SAR 397.5mn in 3Q20, due to a decline in profit contribution from its subsidiaries and higher zakat expense. As a result, net profit margin dipped to 44.1% in the quarter as against 45.5% in 3Q19.

SAFCO reported a slight decline in its top line in 3Q20, owing to lower selling prices of products compared to those in 3Q19. However, global urea prices increased 12% QoQ in 3Q20 led by strong demand from India. This uptrend in urea prices are likely to sustain the near term, supported by higher seasonal demand from India, Brazil and Europe. SAFCO possesses a robust balance sheet with negligible debt and stable cash flow generation capability, which bodes well for the company's growth plans. The company's pursuit of 100% stake in SABIC Agri-Nutrients Investment Company (SANIC) is expected to be a key factor and would contribute positively in the long term, if completed. However, the scheduled closure of factories and plants for maintenance in 4Q20 could hurt the bottom line. Moreover, higher natural gas prices could push up feedstock costs and weigh on margins. In view of these factors, we maintain "Neutral" stance on the stock.

- SAFCO's top line dipped 0.8% YoY to SAR 902.1mn in 3Q20 owing to lower average selling prices of key products. However, the decline in revenue was limited due to higher sales volume in the quarter. Revenue fell 2.9% QoQ from SAR 928.7mn in 2Q20.
- Gross profit rose 4.3% YoY to SAR 485.1mn due to a 6.2% YoY decline in the cost of sales to SAR 417.0mn. Consequently, gross margin for the quarter expanded to 53.8% as against 51.1% in 3Q19 and 48.9% in 2Q20.
- Operating profit inched up 6.7% YoY to SAR 388.0mn in 3Q20 owing to a 4.2% YoY dip in SG&A expense to SAR 97.1mn. As a result, operating margin widened to 43.0% in 3Q20 from 40.0% in 3Q19 and 38.8% in 2Q20.
- Lower profit share from subsidiary, Ibn Al Baytar, and higher zakat expense led to a 4.0% YoY decline in the net profit to 397.5mn. Subsequently, net margin narrowed to 44.1% in 3Q20 from 45.5% in 3Q19.
- On October 5, SAFCO received approval from Capital Market Authority to increase its share capital by 14.25% to SAR 4.76bn from SAR 4.17bn through the issuance of 59.4mn additional shares. The newly raised capital would be utilized to purchase 100% stake in SANIC.

Valuation: We retain the target price at a fair value of SAR 81.0 per share and maintain "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	902	910	(0.8%)	3,428	3,288	4.3%
Gross Profit (SAR mn)	485	465	4.3%	1,741	1,689	3.1%
EBITDA (SAR mn)	531	512	3.6%	1,930	1,880	2.7%
Net Profit (SAR mn)	398	414	(4.0%)	1,416	1,468	(3.6%)
EPS (SAR)	0.95	0.99	(4.0%)	3.4	3.5	(3.6%)
Gross Margin (%)	53.8%	51.1%	2.6%	50.8%	51.4%	(0.6%)
EBITDA Margin (%)	58.9%	56.3%	2.5%	56.3%	57.2%	(0.9%)
Net Profit Margin (%)	44.1%	45.5%	(1.5%)	41.3%	44.7%	(3.4%)

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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