

July 17, 2017

Rating **Neutral**  
12- Month Target Price **SAR 53.00**

**YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)**  
2Q2017 First Look

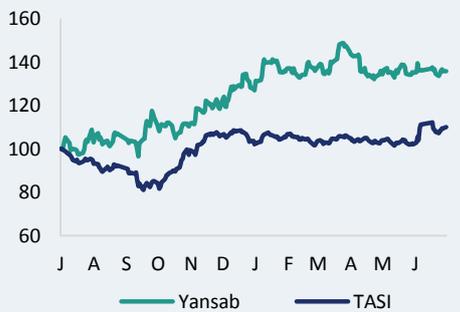
**Expected Total Return**

Price as on Jul-16, 2017	SAR 54.21
Upside to Target Price	(2.2%)
Expected Dividend Yield	4.6%
Expected Total Return	2.4%

**Market Data**

52 Week H/L	SAR 61.8/39.9
Market Capitalization	SAR 30,493 mln
Enterprise Value	SAR 29,221 mln
Shares Outstanding	562.5 mln
Free Float	35.2%
12-Month ADTV (000's)	371.1
Bloomberg Code	YANSAB AB

**1-Year Price Performance**



Source: Bloomberg

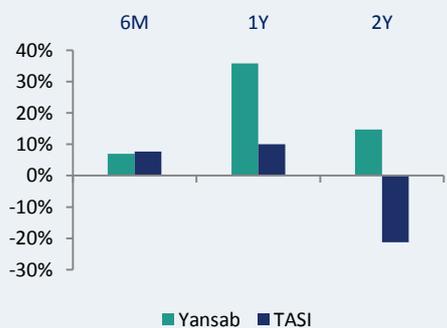


Fig in SAR mln	RC. Est	Actuals
Revenue	1,201	1,362
Gross Profit	517	562
EBIT	414	358
Net Income	356	346
EPS (SAR)	0.63	0.62

**Earnings In-line**

Yanbu National Petrochemical Company (Yansab) reported in-line 2Q2017 results, but missed street estimates. EPS of SAR 0.62 declined by -53% Y/Y and -43% Q/Q and came in close to our SAR 0.63 estimate, while it missed consensus of SAR 0.79. Yansab reported lackluster earnings in 2Q due to shut down with an impact of SAR 110 million as announced in Tadawul, in addition to fall in product prices. Margins also contracted as product spreads softened mainly in its core products PE and MEG, while the fall in utilization rates resulted in overall margin contraction in 2Q2017. We continue to highlight Yansab's FCF yields and operational stability in the preceding quarters as a positive, but on a valuation perspective, it remains expensive. 2017E P/E of 14.8x is at par to TASI's 14.9x. It has historically traded at a discount to TASI, a notable change following our estimate revision, which we believe is unwarranted and offers lesser room for a conviction. We continue to maintain our Neutral rating but revise our target price to SAR 53.00 from earlier SAR 55.00.

**Revenue came higher to our estimates**

Revenue of SAR 1.36 billion beat our SAR 1.20 billion estimate, declined by -23% Q/Q and -21% Y/Y. The decline is expected to be from the lower utilization rate and subdued volumes due to shutdowns in its core MEG plant for a period of 21 days and 10 days in its olefins plant. Additionally a Q/Q fall of -14% in MEG (China) prices and -6% in PE and -3% in PP on a combined basis have contributed to the revenue decline. We revise our estimates slightly, assuming a slow ramp-up in utilization in 2017.

**Margins contracts on dual impact of utilization and falling spreads**

Gross profit declined by -36% Q/Q and -45% Y/Y to SAR 465 million due to higher fixed costs upon lower operating rates. COGS of SAR 897 million in 2Q increased by +3% Y/Y versus a revenue decline of -21% during the same period. Yansab was unable to capitalize on a -11% Q/Q fall in propane prices for its PP segment and -9% fall in ethylene prices during 2Q. MEG (China) on the other hand has seen a relative decline of -14% Q/Q after continuously increasing in the last few quarters. Overall, the impact of low utilization has led to gross margin drop of 730 bps to 34% in 2Q2017; though Y/Y margin decline is significant after Yansab recorded 50% margin in 2Q2016.

**Earnings in-line**

Operating profit of SAR 358 million missed our estimate of SAR 414 million, declined by -43% Q/Q and -52% Y/Y due to cost pressure arising from low volumes. Operating margins declined by 920 bps from 1Q to 26% in 2Q2017, but fell lower from 43% in 2Q2016. Yansab reported in-line net profit of SAR 346 million versus our SAR 356 million estimate, but missed street estimate of SAR 447 million. Net margins declined 920 bps in 2Q2017 to 25% and were significantly lower to 43% reported in 2Q2016.

**Revise TP to SAR 53.00, but maintain Neutral**

We revise our estimates for 2017-19 and our target price to SAR 53.00 but continue to maintain Neutral for Yansab as valuations are less attractive. However, dividend yield of 4.6% is the only breather with its 2017E DPS of SAR 3.00. Valuation looks tight after revision in earnings growth. Maintain Neutral

**Key Financial Figures**

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,970	6,650	7,157
EBITDA	3,686	2,850	3,247
Net Profit	2,302	2,054	2,187
EPS (SAR)	4.09	3.65	3.89
DPS (SAR)	2.85	3.00	3.00
BVPS (SAR)	15.37	16.02	16.91

**Key Financial Ratios**

FY Dec31	2016A	2017E	2018E
ROAA	6%	5%	6%
ROAE	27%	23%	23%
P/E	13.2x	14.8x	13.9x
P/B	3.5x	3.4x	3.2x
EV/EBITDA	7.9x	10.3x	9.0x
EV/Sales	4.2x	4.4x	4.1x

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## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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