

National Industrialization Company

Diversified Operations – Industrial

NIC AB: Saudi Arabia

الراجحي المالية
Al Rajhi Capital



Rating NEUTRAL

Target price SAR16.00 (-2.4% upside)

Current price SAR16.31

Share information

Market cap (SAR/US\$)	10.91bn / 2.909bn		
52-week range	11.14 - 18.85		
Daily avg value (US\$)	5.76mn		
Shares outstanding	668.9mn		
Free float (est)	87%		
Performance	1M	3M	12M
Absolute	-2.3%	-0.4%	43.2%
Relative to index	-2%	-0.7%	37.3%

Performance



Source: Bloomberg, Company data, Al Rajhi Capital

Research Department

Prithiv Devassy, CFA

Tel +966 11 2119370, devassyp@alrajhi-capital.com

National Industrialization Co. Fairly priced

Post Tasnee's announcement of its conditional agreement with Tronox to sell its TiO₂ business, Tasnee's share price has been bumpy in the last two months. We believe the agreement is likely to be positive for Tasnee as it will help it to transfer its complex and geographically diverse TiO₂ assets, lower debt and help the company to focus on its Petchem assets. If the agreement goes through, Tasnee's fair value may increase to SAR 17-20/share based on relative/DCF valuation methodologies respectively. Key upside risks depend on improvement in TiO₂ prices above our expectation and better than expected performance or future sale of its subsidiary Advanced Metal Industries Limited Company (AMI Ltd. Co.). Currently, we have a TP of SAR16/share and remain Neutral on the company.

The agreement: Tasnee's 79% owned subsidiary, Cristal has entered into a conditional transaction agreement to sell to Tronox (465kMT of production capacity) its domestic and international titanium dioxide business (858kMT of production capacity) in exchange for 24% (37.58mn class A shares) in pro-forma Tronox. Apart from this, Tasnee will receive SAR6.274bn (US\$1.673bn) cash, which the company will use to pay its outstanding debt associated with these assets. The deal is expected to close within 13 months but is subject to satisfaction of certain precedents, governmental and regulatory approvals, which could be time consuming in our view.

Valuation: We categorize Tasnee's assets into four parts – a) National Titanium Dioxide Ltd. (Cristal), which is part of the Industrial segment b) Petchem segment c) AMI Ltd. Co., which is related to the projects under progress and d) Other segments, which include group level assets, other industrial assets and corporate adjustments as shown in Figure 1.

- To derive the value of Tronox post the deal, we apply a forward EV/EBITDA multiple of 9.4x (based on peers – see Appendix for peer multiples) to pro-forma EBITDA post synergies.
- We value the Petrochem segment at EV/EBITDA of 8.5x, in line with Petchem peers in the Kingdom and assume a minority share of 50% for the segment.
- We derive the fair value of AMI Ltd. Co. based on proportionate book value using Tasnee's stake (58.2%).
- We assume group level debt at SAR6bn and debt pertaining to the projects under progress at SAR4bn.
- Note that Industrial segment consists of many assets –one of them being Cristal. AMI Ltd. Co., the project that is under construction with a book value of SAR5bn will continue to remain on its balance sheet under industrial assets even after the proposed sale of Cristal. We believe the company could have an option to sell this project in the future to Tronox depending on its performance. Given delays in its launch, we are cautious about the prospects of this project. The industrial segment also has other smaller divisions which are not very profitable.



Figure 1 Details in case the deal goes through, as of 2016

Segment	(After, in SARbn)	Assets	Debt	EBITDA contrib.	Profit contrib.	Book Value	Est. mkt value	MV per share	Comments
Equity investment	Tronox	-	-	-	(0.1)	2.2	2.2	3.3	Estimated value for Tronox
Industrial	Goodwill	2.9	-	-	-	2.9	-	-	Likely to be impaired in the future
	AMI*	5.0	4.0	-	-	1.0	0.6	0.9	Based on Tasnee's indirect stake in the project
Petchem	Petchem	21.4	7.9	3.2	0.7	9.9	10.2	15.3	Applying EV/EBITDA of 8.5x, 50% minority interest
Other segments**	Other segments*	4.3	6.0				(1.7)	(2.5)	Book value
		33.5	17.9	3.2	0.5	13.1	11.4	17.0	

Source: Company data, Al Rajhi Capital. * Advanced Metal Industries Ltd. ** Other segments include group level / Other industrial / Corporate adjustment

Thus based on relative valuation methodology (Figure 1), we arrive at a fair value of SAR17/share. However, if we are to use DCF valuation for the de-consolidated company, the target price could increase to around 20/share. Hence we believe the fair value of the company can improve to SAR17-20/share post agreement. The wide range is owing to many moving parts to our valuation model.

Tronox valuation:

Tronox expects synergies of USD200mn (SAR750mn) flowing into the combined entity and expects a pro-forma EBITDA of USD1bn in a few years' time. However, this EBITDA is calculated taking average EBITDA of the individual companies during the period 2011-2016. It is important to note that TiO₂ price dropped to US\$2,460/mt currently from above US\$4,100/mt in 2011 and given the industry dynamics we believe we may never witness such high prices as seen in the past. Hence using average EBITDA from 2011 to 2016 to calculate proforma EBITDA for the combined entity does not portray the right picture in our view. We take a more recent base (2016) for EBITDA. Also, notably, Tronox stock price immediately increased ~35% post the announcement of results highlighting the extent to which the deal can be positive for Tronox. The market cap has ranged from US\$1.8bn to US\$2.3bn after the deal. We value Tronox at US\$3.1bn, compared to current market cap of ~USD2bn and hence could pose a downside risk to the valuations.

With regard to industry dynamics, post-acquisition unless some of the plants of Cristal are permanently shut down by Tronox, supply of TiO₂ could remain the same irrespective of whichever firm owns the TiO₂ assets – hence while Tronox may incur some benefits in the form of synergies, upside to TiO₂ prices could mainly come from supply-demand factors. Overall we are optimistic about the improving supply-demand in the sector and believe that the deal is positive for TiO₂ prices (see our last note for detailed industry update).

Please see Figure 6 for our Pro-forma income statement post the deal, based on 2016 numbers.

Figure 2 Tasnee's 19% stake value calculation (USDbn)

	Pro forma Tronox
Tronox 2016 pro-forma EBITDA	0.65
Target EV/EBITDA multiple	9.4
Enterprise value	6.15
Less: Debt	3.0
Less: Pension and postretirement healthcare benefits	0.1
Less: Noncontrolling interest	0.1
Add: Cash	0.3
Tronox pro forma equity value	3.1
Tasnee 19% stake value in Tronox	0.6
Tasnee 19% stake value in Tronox (SARbn)	2.2
Tasnee 19% stake value per share in Tronox (SAR per share)	3.3

Source: Company data, Bloomberg, Al Rajhi Capital



Current valuation, before the deal: As for valuation of the stock before incorporating the elements of the deal into our model, our fair value is SAR16/share (Figure 3). We use book value of Cristal for valuing its stake and apply a discount of 30% to account for inefficiencies in operations. Key upside risks are related to higher than expected improvement in TiO₂ price and future sale of AMI.

Figure 3 Details before the deal, as of 2016

Segment	(Before, in SARbn)	Assets	Debt	EBITDA contrib.	Profit contrib.	Book value	Est. mkt value	MV per share	Comments
Industrial	Cristal	10.0	6.3	0.3	(0.4)	2.8	1.6	2.4	Cristal Valuation
	Goodwill	2.9	-	-	-	2.9	-	-	Likely to be impaired in the future
	AMI*	5.0	4.0	-	-	1.0	0.6	0.9	Based on Tasnee's indirect stake in the project
Petchem	Petchem	21.4	7.9	3.2	0.7	9.9	10.2	15.3	Applying EV/EBITDA of 8.5x, 50% minority interest
Other segments**	Other segments*	4.3	6.0				(1.7)	(2.5)	Book value
Total		43.5	24.2	3.5	0.25	13.7	10.7	16.0	

Source: Company data, Al Rajhi Capital. * Advanced Metal Industries Ltd. ** Other segments include group level / Other industrial / Corporate adjustment



Appendix

Peer multiples for Saudi Petchem companies and Tronox

Figure 4 Saudi petchem companies historical multiples (last three years period)

Name	1Y Fwd EV/EBITDA			Debt/Assets	1Y Fwd P/E		
	Low	High	Avg		Low	High	Avg
APPC	6.4x	12.8x	9.8x	23.9%	7.8x	15.6x	12.0x
Yansab	4.9x	11.0x	8.7x	12.9%	7.6x	15.9x	12.7x
SABIC	5.0x	8.1x	7.0x	19.7%	7.0x	16.5x	12.7x
Tasnee	6.8x	11.7x	9.1x	55.7%	7.5x	20.7x	12.9x
Sipchem	6.7x	11.0x	8.8x	48.5%	7.5x	20.7x	12.9x
Kayan	8.8x	15.3x	11.7x	63.3%	14.3x	NA	NA
SIIG	7.4x	11.2x	9.0x	43.8%	4.7x	12.0x	8.8x
SAFCO	9.7x	20.4x	14.3x	0.0%	10.2x	25.4x	15.1x
Sahara	9.5x	17.5x	12.9x	26.6%	7.2x	20.6x	13.5x
Petro Rabigh	5.9x	20.9x	14.5x	71.0%	5.8x	NA	NA
Petrochem	7.6x	12.0x	9.7x	53.3%	6.6x	15.1x	11.6x
Nama	NA	NA	NA	68.6%	NA	NA	NA
Chemanol	5.5x	11.9x	8.9x	40.6%	NA	NA	NA
Alujain	5.6x	6.6x	6.1x	29.3%	7.2x	22.2x	13.7x
Average	6.9x	13.1x	10.0x	39.8%	7.8x	18.5x	12.6x

Source: Bloomberg, Al Rajhi Capital

Figure 5 Tronox peer multiples comparison

Name	2017E EV/EBITDA	2018E EV/EBITDA	Debt to asset ratio	2017E P/E	2018E P/E
Tronox	9.8x	10.0x	61.7%	NA	NA
Chemours	8.6x	7.8x	58.5%	13.9x	11.8x
Huntsman	8.0x	7.4x	45.7%	13.5x	11.5x
Lomon Billions	12.3x	11.0x	16.4%	17.1x	15.3x
Kronos	8.8x	10.1x	28.7%	15.3x	16.5x
Average	9.5x	9.3x	42.2%	15.0x	13.8x

Source: Bloomberg, Al Rajhi Capital

Figure 6 2016 Income statement (Proforma basis)

(SAR '000)	Before deal financials	After deal financials
Sales	15,214,523	8,839,523
Cash COGS	(9,838,140)	(4,662,553)
D&A	(1,944,833)	(1,327,362)
Gross profit	3,431,550	2,849,608
Other operating expenses	(1,859,911)	(940,399)
Income/(Loss) from main operations	1,571,639	1,909,209
Financial charges	(767,087)	(595,793)
Other income/(expenses), net	214,363	171,922
Equity income	60,256	(51,556)
Net Profit before zakat and minority	1,079,171	1,433,782
Zakat and income tax	(233,257)	(207,947)
Net Profit before minority	845,914	1,225,834
Non-controlling interests	(591,321)	(689,270)
Net income / (loss)	254,593	536,565
EPS (SAR)	0.38	0.80
EBITDA	3,516,472	3,236,571

Source: Company data, Al Rajhi Capital



IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc., its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.