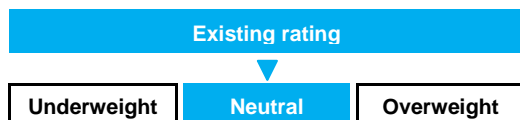




US\$4.496bn	87%	US\$19.05mn
Market cap	Free float	Avg. daily volume

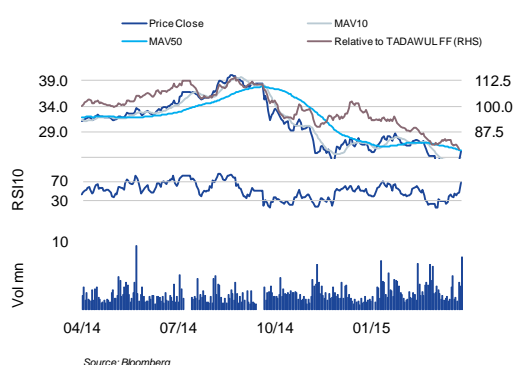
Target price	28.3	12.3% over current
Consensus price	27.5	9.1% over current
Current price	25.2	as at 19/4/2015



Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	12/13A	12/14A	12/15E	12/16E
Revenue (mn)	18,201	18,791	15,371	15,947
Revenue Growth	1.6%	3.2%	-18.2%	3.8%
EBITDA (mn)	4,469	4,400	3,819	3,901
EBITDA Growth	-18.5%	-1.5%	-13.2%	2.2%
EPS	2.05	1.69	1.13	1.32
EPS Growth	-22.2%	-17.4%	-33.0%	16.2%

Source: Company data, Al Rajhi Capital

Research Department
ARC Research Team

Tel +966 11 211 9370, devassyp@alrajhi-capital.com

NIC

Q1: In-line operating performance

NIC reported operating profit of SAR232.5mn (-72% y-o-y) that mostly matched our expectation of SAR238.6mn, although it fell short of the consensus estimate of SAR397mn. However, the company surprisingly reported net loss of 332.5mn (vs. a profit of SAR320.8 in Q1 2014) as compared to our net income estimate of SAR107.2mn. NIC attributed the net loss to higher other expenses that included the negative valuation of forex hedging contracts transacted by one of its subsidiaries. The stock price declined ~ 5% during the early hours of trade on Monday following the announcement. We will analyze the results in detail once the financials are released. For now, we continue to remain Neutral on the stock with a target price of SAR28.3 a share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues not yet released:** NIC is yet to report its Q1 revenues. Given its in-line operating performance, we expect the company's top-line number to closely match our SAR3.83bn estimate (consensus: SAR3.64bn).
- Operating performance meets estimate:** NIC's gross and operating profit of SAR706.8mn (-45.6% y-o-y) and SAR232.5mn (-72% y-o-y) closely matched our expectations of SAR702.9mn and SAR238.6mn respectively. However, the company's operating performance missed the consensus estimate by a wide margin. We had expected a steep fall in petrochemical product prices and the sluggishness in the TiO₂ market to significantly impact NIC's operating performance.
- Bottom-line misses forecast:** NIC reported net loss of SAR332.5mn as compared to a profit of SAR320.8mn in the similar quarter a year ago. The bottom-line number missed our as well as consensus estimates. The company stated that the negative valuation of forex risk-hedging derivative contracts used by one of its subsidiaries has dented its bottom-line.

Figure 1 NIC: Summary of Q1 2015 results

SAR (mn)	Q1 2014	Q4 2014	Q1 2015	y-o-y change	q-o-q change	ARC est
Revenues	4,414.5	3,676.3	NA	-	-	3,429.0
Gross profit	1,300.0	765.4	706.8	-45.6%	-7.7%	702.9
Gross margin	29.4%	20.8%	-			20.5%
Operating Profit	829.6	389.9	232.5	-72.0%	-40.4%	238.6
Net Income	320.8	97.7	-332.5	NM	NM	107.2

Source: Company data, Al Rajhi Capital



- **Valuation and conclusion:** As a producer of basic petrochemical products that have high correlation with crude prices, NIC's petrochemical segment has come under pressure due to a steep fall in oil prices. In addition, the ongoing demand slowdown in the global market has pulled down TiO₂ prices by over 12% y-o-y, thus augmenting the pressure. Though oil prices have climbed over the last couple of weeks, the price sustainability and its trickle-down effect on prices of petrochemical products is yet to be seen. Further, the margin-boosting ilmenite processing plant (in TiO₂ segment) is yet to come on stream. We will revisit our estimates once the detailed financials are released and after a discussion with the management. For now, we continue with our Neutral rating on the stock with a target price of SAR28.3 a share.

Major developments

NIC announces dividends for 2014

NIC declared an annual dividend of SAR1 a share for 2014 (SAR1.5 per share in 2013), equivalent to 10% of the face value totaling SAR668.9mn. We believe the decline in dividends was due to a 17.4% y-o-y fall in net income for 2014, which was primarily on account of a sharp decline in petrochemical product prices and demand headwinds for TiO₂.



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. 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 6-9 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 6-9 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 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair 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.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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

Pritish Devassy, CFA
Senior Research Analyst
Tel : +966 11 211 9370
Email: devassy@alrajhi-capital.com

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