July 25, 2017

الرياض المالية
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Rating	Neutral
12- Month Target Price	SAR 65.00

SAUDI ARABIAN FERTILIZER COMPANY (SAFCO)

2Q2017 First Look

Expected Total Return	
Price as on July-24, 2017	SAR 64.82
Upside to Target Price	0.3%
Expected Dividend Yield	3.9%
Expected Total Return	4.1%

Market Data	
52 Week H/L	SAR 82.0/58.5
Market Capitalization	SAR 27,004 mln
Shares Outstanding	416.6 mln
Free Float	39.95%
12-Month ADTV	178,396
Bloomberg Code	SAFCO AB

1-Year Price Performance

Source: Bloomberg

Fig in SAR mln	RC Est.	Actuals
Sales	686	679
Gross Profit	384	289
Net Income	302	204
EPS (SAR)	0.72	0.49

EPS Halves Q/Q

Safco posted lackluster financials for the second quarter with a net income of SAR 204 million, down -32% Y/Y and less than half of first quarter. 2Q was a victim of lower urea prices Y/Y coupled with decline in sales quantities. In addition, Ibn Al-Baytar did not contribute as much to the bottom line. Contrary to 1Q, margins have shrunk across the board. Gross margin at 42% is down from 57% in the first quarter while net margins took an even greater hit to 30%. Switching to IFRS reporting, some financial heads have been reclassified making like for like comparison difficult. Dividend yield under 4% is nothing to write home about and investor interest in the stock has dwindled noticeably. We maintain our target price of SAR 65.00 and Neutral rating; do not see any near-term triggers for Safco.

Revenue falls -20% Q/Q

Revenues dropped -4% Y/Y and -20% Q/Q to SAR 679 million. Depressed volumetric sales combined with decline in urea prices is the likely cause. International urea prices averaged USD 214/ton in 1Q. They are down -1% Y/Y but substantially -21% over the first quarter. After rising in 4Q2016 and 1Q2017, urea prices have again witnessed some downside in the outgoing quarter but are still above the lows of USD 190/ton witnessed in 3Q2016.

Gross margins shrink to 42%

Gross margins have suffered coming in at 42% contracting from 57% in 1Q. However, 2Q2016 gross margins were lower at 37%. Lower product prices and higher cost of sales on inventory costs is stated to be responsible. Gross profit is down -12% Y/Y and a whopping -41% Q/Q to SAR 289 million.

Operating expenses rise

Operating expenses have grown considerably from SAR 85 million in the preceding quarter to SAR 101 million this quarter. With the reclassification due to IFRS, this is difficult to readily explain. Contribution of Ibn Al-Baytar to Safco's bottomline has also been weaker this quarter. As a result, only about SAR 21 million net were likely added between EBIT and pre-Zakat income, in our view.

Net margins decline to 30%

Net income has taken a beating to SAR 204 million versus our stronger forecast of SAR 302 million. SAR 0.49 EPS is -32% lower Y/Y and -52% Q/Q. Net margins have massively declined to 30% as compared to 42% last year and 50% last quarter. Dividend yield under 4% at current prices does not seem appealing to investors. The stock has remained listless at the Tadawul this year, dropping by –13.2% as compared to a rise in TASI of +0.6%. Trading at a 2017E P/E of 24.8x, Safco still trades at a premium to market's P/E of 14.7x. We do not expect any near-term triggers for the stock. Trading close to our SAR 65.00 target price, we recommend a Neutral.

Key Financial Figures

FY Dec31 (SAR bln)	2016A	2017E	2018E
Revenue	2.86	2.94	3.15
EBITDA	1.09	1.41	1.47
Net Profit	1.05	1.09	1.17
EPS (SAR)	2.52	2.62	2.81
DPS (SAR)	2.50	2.50	3.00

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	16.74	21.29	20.91
ROAE	15.1%	12.3%	13.4%
ROAA	12.6%	13.2%	14.4%
EV/EBITDA	24.6x	18.3x	17.6x
P/E	25.7x	24.8x	23.1x

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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*

For any feedback on our reports, please contact research@riyadcapital.com

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