

TASNEE



EVENT FLASH

Net losses for the 3rd consecutive quarter

Tasnee reported a net loss of SR296mn in 3Q15, against our expectation of net profit of SR105mn and the consensus estimate of a profit of SR56mn. This is the 3rd consecutive quarterly net loss. Key reasons behind the deviation are low operating rates, higher losses at the Acrylate project, weak earnings from the Industrial segment and the restructuring program.

- Tasnee reported net loss of SR296mn in 3Q15 against our expectation of net profit of SR105mn and the consensus estimate of SR56mn. The company remains in losses for the third consecutive quarter. We believe the key reasons behind weak performance are: 1) lower than expected operating rates, 2) higher than expected losses at newly started Acrylate project and 3) weaker than expected gross margins mainly at the Titanium business.
- We believe the ongoing restructuring program continues to exert pressure on Tasnee's earnings. The CEO stated in a TV interview that he expects the financial benefit of the restructuring program to be reflected on 2016E results.
- We believe the company's facilities were operating in the range of 90-95%, lower than our estimates of 95-100%. This indicates lower operating rates on YoY and QoQ basis.
- Higher than expected losses at the Acrylate project further pressured Tasnee's earnings in 3Q15. This project has been reporting losses since the commercial start in 3Q14 and requires structural changes which aim to reduce operational cost and commissions. We expect the project to breakeven in 2016E.
- We believe gross margins were 12.1% in 3Q15, the lowest since inception. This is lower than our estimate of 20.5%, 19.7% in 2Q15 and 21.1% in 3Q14. We believe lower operating rates, weaker than expected performance at start-up and poor performance at titanium business impacted gross margins.
- The company attributed the net losses to lower average selling prices of products and sales volumes. Benchmark prices of key products (PP, HDPE and LDPE) declined 9-15% QoQ and 22-29% YoY.
- Tasnee delayed the commercial startup of its Jazan ilmenite processing plant to 2H16 from 2H15. The company now expects trial runs to start in phases between 3Q15 and 1Q16. The plant has a capacity of 500,000 tons of titanium slag. We expect this facility to support industrial margins improvement to 17.4% in 2016E, from 11.3% in 2015E and 17.9% in 2014.
- We are currently Neutral on the stock with a PT of SR14.9. The stock is trading at a 2016E P/E of 11.3x, lower than the sector average of 12.9x, which we believe is justified considering the ongoing weakness in TiO₂ and petrochemical businesses and poor performance at the start-ups.

3Q15 Results Summary

SR mn	3Q15A	2Q15A	% Q o Q	3Q14A	% Y o Y	3Q15E % Var^
Gross income	401	820	(51.1)	1,185	(66.2)	747 (46.3)
Operating income	(48)	184	NM	654	NM	295 NM
Net income	(296)	(108)	NM	244	NM	105 NM
EPS (SR)	(0.44)	(0.16)	NM	0.36	NM	0.16 NM

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

Please refer to the last page for important disclaimer

NEUTRAL

Target price	14.9
Current price (SR)	14.4

STOCK DETAILS

52-week range H/L (SR)	34/12
Market cap (\$mn)	2,561
Shares outstanding (mn)	669
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.1	(25.4)	(55.7)
Rel. to market	6.0	(25.6)	(56.5)

Avg daily turnover (mn)	SR	US\$
3M	26.9	7.2
12M	66.7	17.8

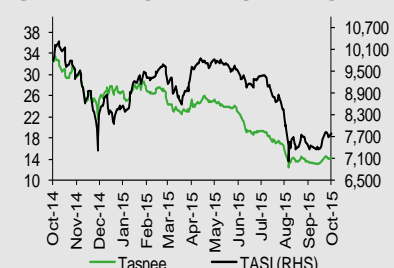
Reuters code	2060.SE
Bloomberg code	NIC AB
	www.tasnee.com

VALUATION MULTIPLES

	14A	15E	16E
P/E (x)	9.0	NM	11.3
P/B (x)	0.8	0.8	0.8
EV/EBITDA (x)	7.9	11.7	9.3
Div Yield (%)	7.0	0.0	3.5

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Ncbc Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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