



## EVENT FLASH

## Lowest results on record

SAFCO reported weak set of 3Q16 results, with a net income of SR181m. This is the lowest net income on record. Earnings declined 68.0% YoY. The results came-in significantly lower than NCBC and consensus estimate of SR253mn and SR249mn, respectively. We believe this disappointment is due to weak gross margin and lower income from Ibn Al-Baytar. Gross margins stood at 29.3% in 3Q16, the lowest on record.

- SAFCO reported weak results with a net income of SR181mn in 3Q16, declining 68.0% YoY and 39.4% QoQ. This is the lowest net income on record. It is also significantly below the NCBC and consensus estimate of SR253mn and SR249mn, respectively.
- Revenues stood at SR690mn in 3Q16, down 22.2% YoY and 2.8% QoQ. This is 7.2% higher than our estimate of SR643mn and is attributed to higher than expected operating rates. Based to our calculations, SAFCO facilities operated at 107% in 3Q16, higher than 98% in 2Q16 and our estimate of 100%. We believe SAFCO sold 946,386mt of fertilizers in 3Q16 vs. 864,360mt in 2Q16 and 814,426mt in 3Q15
- Gross profit stood at SR202.4mn in 3Q16, down 64.3% YoY. This is 9.8% lower than our estimate of SR224mn. Gross margins came-in at 29.3% in 3Q16, lower than our estimate of 34.9%. This is the lowest gross margins on record and may be attributed to 1) weak urea prices (-33.3% YoY) and 2) higher production cost which is related to operational issues at SAFCO 5.
- Based on our calculations, SAFCO's share in Ibn Al-Baytar was SR20mn, lower than our estimate of SR34mn. This is also lower than SR36mn in 2Q16 and SR29mn in 3Q15. We believe weak fertilizer prices and the preparation for the shutdown in 4Q16 negatively impacted Ibn Al-Baytar performance..
- In 3Q16, urea prices declined 10.0% QoQ to US\$192, due to new capacity additions globally. Ammonia prices also fell 10.2% QoQ to US\$254. Based on Yansab, Kayan and SAFCO results, we revise our net income estimate for SABIC lower by SR12mn to SR5,069mn.
- We remain Neutral on the stock with a PT of SR63.4. The stock is trading at a 2017E P/E of 19.5x, higher than its historical average of 17.8x. We believe this is unjustified given weak urea price outlook.

## 3Q16 Results Summary

SR mn	3Q16A	2Q16A	% QoQ	3Q15A	% YoY	3Q16E	% Var^
Revenues	690	710	(2.8)	887	(22.2)	643	7.2
Gross income	202	265	(23.6)	568	(64.3)	224	(9.8)
Gross margin (%)	29.3%	37.3%	(8.0)	64.0%	(34.6)	34.9%	(5.6)
Operating income	186	248	(25.1)	551	(66.4)	208	(11.0)
Net income	181	299	(39.4)	566	(68.0)	253	(28.3)
EPS (SR)	0.44	0.72	(39.4)	1.36	(68.0)	0.61	(28.3)

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

## NEUTRAL

Target price	63.4
Current price (SR)	65.1

## STOCK DETAILS

52-week range H/L (SR)	97/58
Market cap (\$ mn)	7,238
Shares outstanding (mn)	417
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.7)	7.9	(31.1)
Rel. to market	4.5	24.6	(2.5)

Avg daily turnover (mn)	SR	US\$
3M	12.7	3.4
12M	16.9	4.5

Reuters code	2020.SE
Bloomberg code	SAFCO AB
	<a href="http://www.safco.com.sa">www.safco.com.sa</a>

## VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	12.7	24.2	19.5
P/B (x)	3.6	4.0	3.9
EV/EBITDA (x)	10.6	18.3	15.8
Div Yield (%)	4.6	4.6	4.6

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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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

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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

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