

National Industrialization Company

Diversified Operations – Industrial

NIC AB: Saudi Arabia

الراجحي المالية
Al Rajhi Capital



US\$2.434bn

Market cap

87%

Free float

US\$4.407mn

Avg. daily volume

Target price

14.20

4.05% over current

Current price

13.65

as at 3/11/2016

Research Department

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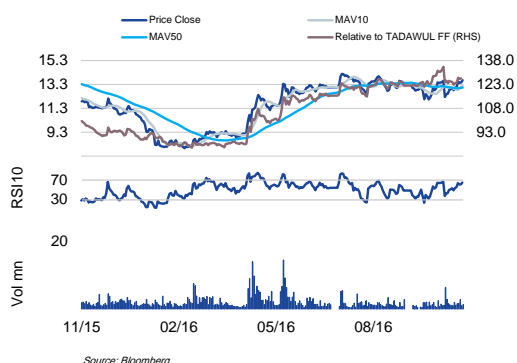
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	12/14A	12/15A	12/16E	12/17E
Revenue (mn)	18,693	15,146	15,277	16,929
Revenue Growth	2.7%	-19.0%	0.9%	10.8%
EBITDA (mn)	4,647	2,778	3,517	3,938
EBITDA Growth	-3.2%	-40.2%	26.6%	12.0%
EPS	1.82	(1.28)	0.28	0.59
EPS Growth	-11.4%	-170.1%		111.8%

Source: Company data, Al Rajhi Capital

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Remain Neutral: Lacks company specific triggers

In Q3, Tasnee's net profit continued to improve sequentially (SAR122mn, +18% q-o-q) though it came below our and consensus expectations (SAR157mn). Revenue rose 7% y-o-y and came in-line with our expectation. While we do not foresee a sharp pickup in fundamentals, we do expect a gradual improvement as the company realises cost benefits of restructuring, though most of it has already been realized. Globally, there have been three rounds of Titanium-dioxide price increases year-to-date. With only minimal net capacity additions in China, prices are expected to likely remain firm or improve, with just a moderate increase in demand. Recently, rutile (key feedstock for TiO₂) prices have increased as well. Overall we believe the upside for the stock in the near term has less to do with company specific reasons but more with upside potential in TiO₂ prices. Key downside risks are increasing financial costs due to rising SAIBOR and changes in feedstock pricing mechanism. Post our meeting with the company, we have revised our estimates and remain Neutral on the company with a TP of SAR14.2/share.

- Revenue:** NIC's revenue rose c7% y-o-y to SAR3.86bn, in line with our estimate (SAR3.83bn) as well as consensus estimate (SAR3.89bn). On a sequential basis, revenue rose c1.5%, supported by higher sales volume and better price realization for certain products.
- Profitability:** The company's gross profit more than doubled to SAR922.1mn (+129.8% y-o-y) below our SAR1,014mn estimate, boosted by the fall in average prices of raw materials propane and rutile. This led to an operating profit of SAR444.6mn (compared to a loss of SAR47.8mn) in Q3 2016. The company's net profit came in at SAR122.2mn, a sharp improvement from a loss of SAR296.3mn in Q3 2015. After a string of five quarterly losses till Q1, the company appears to be showing steady improvement in performance.
- Cash flow position stabilized:** The company has interest payments amounting to around SAR750mn annually. While exact debt repayment obligations are not known (as some loans have been negotiated for only interest payments for the next few years, we estimate it to be around SAR600-700mn. Accordingly, we estimate the company's debt related obligations at around SAR1.4bn annually. In 2015, the company generated only around SAR800mn in operating cash flows, excluding benefit from working capital improvements (the improvement in working capital was substantial though, as the company sold off inventories and improved its accounts receivables position). However, thanks to recovery in TiO₂ prices in 2016, operating cash flow has already reached SAR2.1bn for the first 9 months, meaning that the company will be able to manage its debt and capex requirements (which should reduce gradually). Thus, the company appears to be positioned comfortably in terms of cash flow and any improvement in TiO₂ prices will help pay off debt faster. We do not expect any dividend pay-outs in the near term.



- **Company specific triggers:** The company has been able to integrate its operations, therefore much of the overhead costs has been optimized. Based on our understanding, post the 25% cut in workforce globally, fixed costs are significantly lower. However, scope for further gains in employee costs may be limited, as most of these have already been realized. The key company specific trigger is the commercial launch of ilmenite processing plant at Jazan which as per some feasibility studies could benefit the company by ~USD150 per tonne, which could directly flow to the bottom line. However based on our understanding, this could take a longer period to materialize, implying lack of near term company specific triggers.
- **Industry specific triggers:** We believe that the upside for the stock in the near term has more to do with upside potential in TiO₂ prices. Utilization rates globally for TiO₂ plants are expected to rise gradually as some unprofitable plants have been shut down and there are likely to be only minimal net capacity additions in China. Even a moderate increase in demand could help boost prices. As per Bloomberg, there have already been three rounds of Titanium di-oxide price increase so far in 2016.
- **Valuation:** We revise our estimates based on the company's Q3 results and post our meeting with management. We remain Neutral on the company with a TP of SAR14.2/share, with an upside of c4% from current levels.
- **Risks:** Tasnee reported an estimated impact of SAR190mn from revision in feedstock and electricity prices (from start of 2016), which was amongst the highest for companies in the sector. Another revision in feedstock pricing mechanism could be a key downside risk for the stock. Weakness or reversal of recovery seen in TiO₂ prices, unplanned plant shutdowns are some of its key downside triggers. Upside triggers are related to faster than expected commercial launch of its Jazan plant and recovery in product prices.



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"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.

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