



EVENT FLASH

Lower prices and volumes pressure earnings

SAFCO reported the lowest net income since 3Q10. Net income came in at SR639mn, down 7.8% YoY and 24.2% QoQ. The 2Q14 earnings were 11.8% lower than our expectations of SR724mn and 7% below the consensus estimates. We believe lower operating rates and prices were the primary reason behind the weak results.

- NCBC view on results:** SAFCO reported a weak set of results. Net income came in at SR639mn, declining 7.8% YoY and 11.8% lower than the NCBC estimate of SR724mn. 2Q14 was a decline of 24.2% QoQ. This is the lowest net income since 3Q10. All the profit lines declined 7-9% YoY and 24-28% QoQ. The company attributed the decline to lower fertilizers prices and volumes.
- We believe that the lower than expected earnings can be attributed to lower operating rates. Based on our calculations, SAFCO facilities operated at 90% vs. NCBC estimates of 102%, and 112% for 1Q14. The lower than expected operating rates may be attributed to the planned shutdowns at SAFCO 2, 3 and 4, as per the 2013 annual report.
- Average selling prices for urea declined 8% YoY and 12.2% QoQ to USD304/mt. Chinese producers exported more than 3mn mt of urea during January-April 2014, benefiting from lower tax rates. We believe this has put pressure on urea prices. We expect China to play an important role in determining fertilizers supply and prices in the coming quarters.
- SAFCO announced cash dividends of SR4.0/share for 1H14, lower than SR6.0/share in 1H13 and our estimates of SR5.25/share. We believe that lower earnings due to continued weakness in urea prices and the delays in operating SAFCO 5 are the main reasons behind the cut in dividends. Moreover, SAFCO announced that the commercial operations at its new facility will be delayed by two quarters to 1Q15. The new project is expected to produce 1.1mn tons of urea and contribute about SR160mn to net income in 2015E.
- Based on YANSAB and SAFCO results, we marginally reduced our SABIC estimates by SR41mn (-0.6%) to SR6,324mn. SABIC owns 51% of Yansab and 42.9% of SAFCO.
- We are currently Neutral on the stock with a PT of SR151.6/share. Key risk remains the possibility of cutting the dividends further due to the ongoing weakness in urea prices.

2Q14 Results Summary

| SR mn | 2Q14A | 1Q14A | % Q o Q | 2Q13A | % Y o Y | 2Q14E | % Var [^] |
|------------------|-------|-------|---------|-------|---------|-------|--------------------|
| Gross income | 602 | 820 | (26.6) | 652 | (7.7) | 695 | (13.3) |
| Operating income | 579 | 797 | (27.4) | 633 | (8.6) | 675 | (14.2) |
| Net income | 639 | 843 | (24.2) | 693 | (7.8) | 724 | (11.8) |
| EPS (SR) | 1.92 | 2.53 | (24.2) | 2.08 | (7.8) | 2.17 | (11.8) |

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

NEUTRAL

| | |
|---------------------------|--------------|
| Target price | 151.6 |
| Current price (SR) | 157.9 |

STOCK DETAILS

| | |
|-------------------------|---------|
| 52-week range H/L (SR) | 173/143 |
| Market cap (\$ mn) | 14,032 |
| Shares outstanding (mn) | 333 |
| Listed on exchanges | TADAWUL |

| Price perform (%) | 1M | 3M | 12M |
|-------------------|-------|-------|--------|
| Absolute | (1.7) | (0.0) | 3.0 |
| Rel. to market | (1.5) | (4.1) | (24.6) |

| Avg daily turnover (mn) | SR | US\$ |
|-------------------------|------|------|
| 3M | 25.8 | 6.9 |
| 12M | 29.9 | 8.0 |

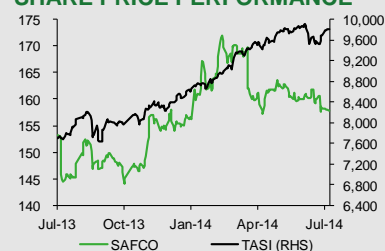
| | |
|----------------|--|
| Reuters code | 2020.SE |
| Bloomberg code | SAFCO AB |
| | www.safco.com.sa |

VALUATION MULTIPLES

| | 13A | 14E | 15E |
|---------------|------|------|------|
| P/E (x) | 16.6 | 16.8 | 16.7 |
| P/B (x) | 6.4 | 6.3 | 6.5 |
| EV/EBITDA (x) | 15.9 | 16.0 | 15.3 |
| Div Yield (%) | 7.6 | 5.7 | 6.0 |

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam +966 12 690 7811
i.ghulam@ncbc.com

14 JULY 2014

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

| | |
|---------------|---|
| OVERWEIGHT: | Target price represents expected returns in excess of 15% in the next 12 months |
| NEUTRAL: | Target price represents expected returns 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

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at Al Mather street in Riyadh, P.O. Box 22216, Riyadh 11495, Kingdom of Saudi Arabia.