PETROCHEMICAL | 14 JULY 2014

SAFCO

NCB CAPITAL

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

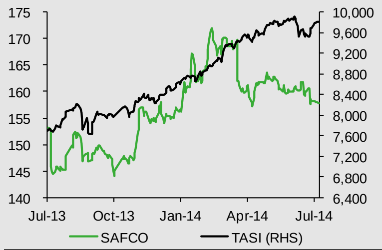
Reuters code	2020.SE
Bloomberg code	SAFCO AB
	www.safco.com.sa

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

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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