



## EVENT FLASH

## Weak result on high opex and lower associate income

SAFCO reported a net income of SR204.3mn in 2Q17, down 32.4% YoY and 51.7% QoQ. This is 15.1% lower than the NCBC estimate of SR241mn. We believe higher than expected opex and lower associate income led to the deviation. Opex came in at SR101mn in 2Q17, higher than our estimate of SR82mn.

- SAFCO reported a weaker than expected results with a net income of SR204mn, down 32.4% YoY and 51.7% QoQ. This is lower than the NCBC and consensus of SR240mn and SR285mn, respectively. Although sales and gross income were in-line with our estimates, higher than expected opex and lower income from Ibn Al Baytar were the main reasons for the variance.
- Revenues stood at SR679mn in 2Q17, in-line with our estimate. This is down 4.3% YoY and 19.7% QoQ. Based on our calculations, SAFCO's facilities operated at 96.0% in 2Q17, in-line with our estimate. This is lower than 103.6% in 2Q16. We believe the decline in operating rates is due to a 20 days shutdown at SAFCO III facility in 2Q17. We expect operating rates to remain low in 2H17 due to a 25-84 days shutdown at SAFCO 4 and 5.
- Gross margin came in at 42.5% in 2Q17, in-line with our estimate of 43.0%. This is lower than 46.4% in 2Q16 and 58.3% in 1Q17. We believe lower operating rates on shutdown and weak urea prices (down 21.3% QoQ) impacted gross margins in 2Q17.
- Although gross profit was in-line with our estimate, EBIT came in 11.0% lower than our estimate of SR211mn. We believe this is due to higher than expected opex which stood at SR101mn in 2Q17, above our estimate of SR81.6mn and SR69mn in 2Q16.
- The deviation increased at the net income level due to lower than expected associate income. Based on our calculations, SAFCO's share in net income of Ibn Al Baytar stood at SR9.6mn in 2Q17, lower than our estimate of SR22.6mn. We believe lower urea prices impacted Ibn Al Baytar in 2Q17.
- In 2Q17, urea prices declined 21.3% QoQ (flat YoY) at US\$210. QTD, prices declined 9.3% QoQ to US\$191, broadly in-line with 3Q16 levels but the lowest since 2004.
- We are Neutral on SAFCO with a PT of SR58.0mn. The stock is trading at a 2018E P/E of 20.8x, higher than the historical average of 15.9x. Expansion of SAFCO 4 and strong balance sheet are the key positives. However, muted urea outlook and major shutdowns in 2H17 are the key risks.

## 2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Revenues	679	710	(4.3)	680	(0.1)	(19.7)
Gross income	289	330	(12.4)	292	(1.2)	(41.5)
Gross margin (%)	42.5%	46.4%	(3.94)	43.0%	(0.48)	(15.79)
Operating Profit	187	261	(28.3)	211	(11.0)	(52.5)
Net income	204	302	(32.4)	241	(15.1)	(51.7)
EPS (SR)	0.49	0.73	(32.4)	0.58	(15.1)	(51.7)

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

## NEUTRAL

Target price (SR)	58.0
Current price (SR)	64.8
Upside/Downside (%)	(10.5%)

## STOCK DETAILS

M52-week range H/L (SR)	82/59
Market cap (\$mn)	7,202
Shares outstanding (mn)	417
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.1	(5.5)	9.7
Rel. to market	5.4	(9.4)	(1.5)

Avg daily turnover (mn)	SR	US\$
3M	9.1	2.4
12M	12.2	3.2

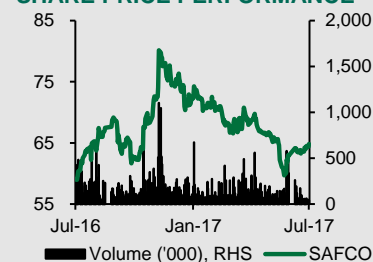
Reuters code	2020.SE
Bloomberg code	SAFCO AB
	<a href="http://www.safco.com.sa">www.safco.com.sa</a>

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	26.1	25.5	20.8
P/B (x)	4.1	3.9	3.8
EV/EBITDA (x)	18.1	18.8	15.9
Div. Yield (%)	2.3	3.1	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
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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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