

May 03, 2017

Rating  
12- Month Target Price

Neutral  
SAR 55.00

## YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)

1Q2017 First Look

### Expected Total Return

Price as on May-02, 2017	SAR 55.16
Upside to Target Price	(0.3%)
Expected Dividend Yield	5.4%
Expected Total Return	5.1%

### Market Data

52 Week H/L	SAR 61.8/37.0
Market Capitalization	SAR 31,028 mln
Enterprise Value	SAR 31,269 mln
Shares Outstanding	562.5 mln
Free Float	35.7%
12-Month ADTV ('000's)	387.2
Bloomberg Code	YANSAB AB

### 1-Year Price Performance

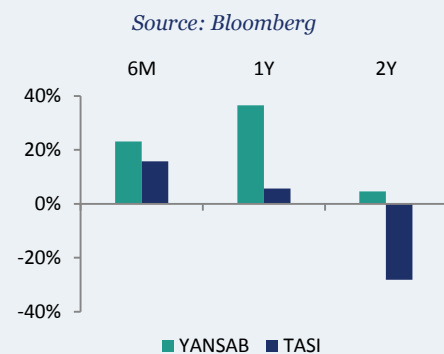


Fig in SAR mln	RC. Est	Actuals
Revenue	1,914	1,758
Gross Profit	795	728
EBIT	708	623
Net Income	657	608
EPS (SAR)	1.17	1.08

## Steady Quarter

Yanbu National Petrochemical Company (Yansab) reported its 1Q2017 results last week, below RC and consensus expectations. EPS of SAR 1.08 missed our estimate of SAR 1.17 and consensus of SAR 1.11. Yansab reported stable earnings in this quarter; as product prices have shown steady growth; PP at +2% Q/Q and +21% Y/Y while PE at +2% Q/Q and +6% Y/Y. However, its key product, MEG reported a price surge of +31% Q/Q and +48% Y/Y. Despite its price growth, spreads have softened across as feedstock prices surged. PE spreads are nearly negative in 1Q2017 as ethylene prices surged, suggesting margin weakness. In addition, lower operating rates coupled with new feedstock pricing from 4Q2016 has affected this quarter, while other costs offset partially such feedstock cost pressure. Our view on Yansab's FCF generation is positive, in addition to its new capex spending of SAR 375 million on its ethylene glycol DBN project. On a valuation perspective, Yansab appears to be fully priced-in, hence maintain Neutral rating and SAR 55.00 target price. 2017E P/E of 13.8x is cheaper to TASI's 14.5x, but unconvincing and requires further room for a re-entry.

### Revenue trails estimates

Yansab reported revenue of SAR 1.76 billion in 1Q2017 which came in lower than our SAR 1.91 billion estimate. Revenue grew by +31% Y/Y, but down by -5% Q/Q. Revenue growth is weighed on surge in MEG prices, which accounts for 43% of revenue for Yansab as of 2016 amid its stable netbacks from PE and PP. We believe growth in 2017 could be minimal, however the new capex adds 10-11% capacity to its MEG capacity.

### Spreads contract as feedstock prices surge

Gross profit increased +6% Q/Q and +20% Y/Y to SAR 728 million despite a contracting spread scenario in PP and PE segment; expect stable MEG spreads to have contributed growth mostly in 1Q. The significant spike of +27% Q/Q and +47% Y/Y in propane prices has put a halt to robust spreads in PP segment, with spreads (propylene to PP) falling by -31% Q/Q and -43% Y/Y. On the flip side, PE to ethylene spreads have contracted sharply towards the negative territory, as ethylene prices shot up by +14% Q/Q and +13% Y/Y. Overall, dual impact of surge in feedstock prices and probably low utilization rates have led to margin drop of 370 bps to 41% in 1Q2017 from 45% 1Q2016.

### Y/Y operating margins decline, but net margin improves

Yansab reported operating profit of SAR 623 million versus our estimates of SAR 708 million, increasing by +6% Q/Q and +24% Y/Y. Operating margins declined by 210 bps to 35% in 1Q2017 from 38% in 1Q2016. With relatively lower financial charges, earnings of SAR 608 million was reported, in-line with 3Q2016, but missed our estimates of SAR 657 million as we expected higher margins. Net margins improved 320 bps in 1Q2017 to 35% from 31% in 1Q2016, but margins are highest since 2014.

### Maintain Neutral

Yansab continues to offer higher payouts, with 2017E DPS of SAR 3.00, yields 5.4%. Valuation looks tight as earnings growth is not supportive, hence maintain Neutral.

### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,970	7,219	7,281
EBITDA	3,686	3,678	3,697
Net Profit	2,302	2,254	2,264
EPS (SAR)	4.09	4.01	4.02
DPS (SAR)	2.00	3.00	3.00
BVPS (SAR)	28.88	29.89	30.91

### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	6%	5%	6%
ROAE	14%	13%	13%
P/E	13.5x	13.8x	13.7x
P/B	1.9x	1.8x	1.8x
EV/EBITDA	8.5x	8.5x	8.5x
EV/Sales	4.5x	4.3x	4.3x

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## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact [research@riyadcapital.com](mailto:research@riyadcapital.com)

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