

## TASNEE



## EVENT FLASH

## Weaker than expected results on lower gross margin

Tasnee reported a weak 2Q17 result, with a net income of SR93.6mn, declining 9.4% QoQ but increasing +7.0% YoY. This was lower than the NCBC estimate of SR123.4mn. We believe lower than expected gross margin led to the variance in earnings. Gross margin stood at 15.9% in 2Q17, lower than our estimate of 19.5%.

- Tasnee reported a weak set of 2Q17 result, with a net income of SR93.6mn. Net income increased 7.0% YoY but declined 9.4% QoQ. This is lower than the NCBC and consensus estimates of SR123mn and SR133mn, respectively. We believe the lower than expected gross margin was the main reason behind the deviation, as sales were in-line with our estimates.
- Revenues came-in at SR2.67bn in 2Q17, in-line with our estimate. This is an increase of 23% YoY (+7.6% QoQ). Based on our calculations, the industrial segment operated at 90% in 2Q17, lower than our estimate of 93% and 98% in 1Q17. We believe the YoY and QoQ increase in revenues is attributed to higher TiO<sub>2</sub> prices (+25.6% YoY and +7.0% QoQ).
- Gross margin stood at 15.9% in 2Q17, lower than our estimate of 19.5% and 17.2% in 1Q17, but higher than 4.4% in 2Q16. We believe higher than expected cost of operations at Cristal facilities offset the positive impact of higher TiO<sub>2</sub> prices.
- Based on our calculations, Tasnee's share in the income from the petrochemical segment stood at SR253mn in 2Q17, in-line with our estimates but lower than SR314mn on 1Q17. We believe weak polymer prices and lower PP-propane spread impacted earnings at SPC/SEPC in 2Q17. PP and PE prices declined 4.5% YoY and 4.0% QoQ, respectively. PP-propane spread was down 6.2% QoQ and 13.9% YoY to US\$570.
- EBIT was SR327.2mn in 2Q17, 14.6% lower than our estimate due to lower gross margin. Based on our calculations, SG&A expenses stood at SR351mn in 2Q17, lower than our estimate of SR401mn and SR400mn in 1Q17.
- We are Neutral on Tasnee with a PT of SR14.5. Tasnee's key risks are: 1) normalizing PP-propane spread, 2) high debt levels with a net debt/EBITDA of 6.1x, 3) delays in operating the slag facility and 4) the lack of operational visibility following the deconsolidation of the petrochemical segment. However, ongoing improvement in TiO<sub>2</sub> prices is a key positive. The stock is trading at a 2018E P/E of 15.7x, higher than the sector average of 13.5x, thereby offering a limited upside potential.

## 2Q17 Results Summary

| SR mn            | 2Q17A | 2Q16A | % YoY | 2Q17E | %Var <sup>^</sup> | % QoQ  |
|------------------|-------|-------|-------|-------|-------------------|--------|
| Revenues         | 2,670 | 2,170 | 23.0  | 2,728 | (2.1)             | 7.6    |
| Gross income     | 425   | 96    | 340.9 | 531   | (20.0)            | (0.4)  |
| Gross margin (%) | 15.9% | 4.4%  | 11.48 | 19.5% | (3.55)            | (1.29) |
| Operating Profit | 327   | 165   | 97.8  | 383   | (14.6)            | (3.9)  |
| Net income       | 94    | 88    | 7.0   | 123   | (24.2)            | (9.4)  |
| EPS (SR)         | 0.14  | 0.13  | 7.0   | 0.18  | (24.2)            | (9.4)  |

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

## NEUTRAL

|                     |       |
|---------------------|-------|
| Target price (SR)   | 14.5  |
| Current price (SR)  | 15.2  |
| Upside/Downside (%) | (4.6) |

## STOCK DETAILS

|                         |         |
|-------------------------|---------|
| M52-week range H/L (SR) | 20/12   |
| Market cap (\$mn)       | 2,708   |
| Shares outstanding (mn) | 669     |
| Listed on exchanges     | TADAWUL |

| Price perform (%) | 1M    | 3M     | 12M  |
|-------------------|-------|--------|------|
| Absolute          | (7.5) | (6.8)  | 11.0 |
| Rel. to market    | 10.2  | (11.3) | 0.0  |

| Avg daily turnover (mn) | SR   | US\$ |
|-------------------------|------|------|
| 3M                      | 16.1 | 4.3  |
| 12M                     | 19.6 | 5.2  |

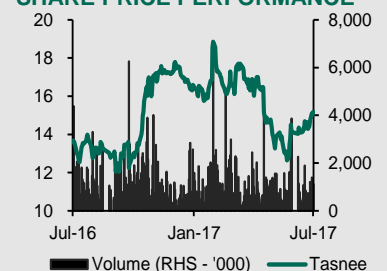
|                |                |
|----------------|----------------|
| Reuters code   | 2060.SE        |
| Bloomberg code | NIC AB         |
|                | www.tasnee.com |

## VALUATION MULTIPLES

|                | 16A  | 17E  | 18E  |
|----------------|------|------|------|
| P/E (x)        | NM   | 17.0 | 15.7 |
| P/B (x)        | 1.4  | 1.3  | 1.2  |
| EV/EBITDA (x)  | 10.2 | 10.7 | 10.5 |
| Div. Yield (%) | 0.0  | 0.0  | 0.0  |

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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**NCBC Investment Ratings**

|               |   |
|---------------|---|
| OVERWEIGHT:   | Target price represents an increase in the share price in excess of 15% in the next 12 months   |
| NEUTRAL:      | Target price represents a change in the share price 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

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