Yanbu National Petrochemical Co. (YANSAB)

Result Flash Note 3Q-2017 | **October 2017**

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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YANSAB: 3Q-2017 earnings came above expectation due to an increase in operating rate after plants shutdown, margin expansion and lower than expected zakat expenses. Gross margin increased on QoQ basis to 40.36% Vs. 34.1% due to the positive impact of shutdown in 2Q2017. Higher average prices of feedstock cost partially compensated by higher average sales prices. The company is expected to continue to benefit from production efficiency and higher capacity in 4Q2017. The company is expected to maintain dividend payment at SAR 3.0/share in FY2017. Recommendation remains "Neutral" with target price of SAR 58.0/share.

- Yanbu National Petrochemical Co. (YANSAB) result came above estimates, exceeding AJC and market consensus profits estimates of SAR 597.3mn and SAR 578.6mn, respectively. YANSAB posted net income of SAR 644.6mn; indicating an increase of 13.4%YoY and 86.4%QoQ. The company attributed the YoY strong profitability to i) higher volumetric production due to improved production efficiency after plants shutdown in 2Q2017. ii) higher average sales prices for most products, despite higher average prices of feedstock material. ii) a decline in zakat expenses by SAR 10mn. However, we believe that the QoQ strong performance is mainly attributed to an increase in operating rate and lower production cost due to better production efficiency after plants maintenance in the previous quarter. Furthermore, the deviation in 3Q2017 earnings from our estimates is attributed mainly to the higher than expected volumetric sales by 7.7%.
- The company reported a 27.5%YoY increase in revenue for 3Q2017 to SAR 1.93bn, which is higher than our estimate of 1.79bn due to increase in operating rate after plant shutdown. In 2Q2017, Yansab had a 21-day shutdown of its ethylene glycol plant for scheduled maintenance, and also halted production for 10 days at its olefins plant with estimated combined financial impact of SAR 110mn according to the company's announcement.
- Based on our estimates, Yansab witnessed high operating rate of 96.2%, lower than AJC expectation of 91.6% and 93.8% actual utilization in 2Q2017. We expect the company's operating rate in 4Q2017 and onward to continue improving due to the positive impact after the plants maintenance. However, gross margin is expected to be squeezed in 4Q2017 due to feedstock price hikes by Aramco. During the quarter, average prices of Yansab key products such as, MEG increased by 18.6%QoQ from USD 740 to USD 877 per MT. Polypropylene and PE derivatives products inched by 6.7% and 0.2% in 3Q-2017 respectively, as compared to 2Q2017 prices.
- Gross profit stood at SAR 780.3mn depicting an increase of 13.3%YoY and 67.7%QoQ. Gross margin contracted in 3Q2017 to 40.36% vs. 45.41% in 3Q2016, which we believe was due to lower margins on Propane-based products, despite higher QoQ margin due to the impact of plant shutdown in 2Q2017. Saudi propane prices in 3Q2017 increased by 42.3%YoY to an average price of USD 415 per MT, while polypropylene prices increased by only 6.9%QoQ. Consequently, higher increase in propane price than PP prices led to margin contraction on PP-Propane spreads in 3Q2017. PP-Propane spread improved 8.1%QoQ to USD 654/ton from 605/ton in 2Q2017. OPEX stood at SAR 126.7mn; higher than SAR 107.4mn in 2Q2017 and our estimates of SAR 105.5mn.

AJC view: We believe that the improvement on the company's sales and margins was mainly attributed to plants shutdown in the previous quarter and higher product prices, thus; the company is expected to continue to benefit from production efficiency and higher capacity in 4Q2017 and forward. YANSAB Co. is expected to post SAR 2,224mn in net income (3.95 EPS) for FY2017, recording a fall of 3.3%YoY for the year due to the impact of plants shutdown and margin decline. The company is trading at a forward PE and P/B of 13.9x and 1.84x respectively based on our FY2017 earnings forecast. We expect the company to maintain dividend payment at SAR 3.0/share (5.4% D/Y). We maintain our "**Neutral**" recommendation on YANSAB with PT of SAR 58.00/share indicating a potential upside of 5.4% over current market price of SAR 55.0/ share.

Results Summary

SARmn (unless specified)	Q3-2016	Q2-2017	Q3-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	1516.8	1362.1	1933.4	27.5%	41.9%	7.7%
Gross Profit	688.7	465.2	780.3	13.3%	67.7%	7.7%
Gross Margin	*45.41%*	*34.1%*	*40.36%*	-	-	-
EBIT	591.9	357.7	653.6	10.4%	82.7%	5.6%
Net Profit	568.3	345.7	644.6	13.4%	86.4%	7.9%
EPS	**1.01**	**0.61**	**1.15**	-	-	-

Source: Company reports, Aljazira Capital

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Recommendation	**'Neutral '**
Current Price* (SAR)	55.00
Target Price (SAR)	**58.00**
Upside / (Downside)	**5.4%**

Source: Tadawul *prices as of 24st of October 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenue	6,911	6,970	6,967
Growth %	-27.3%	-1.3%	-0.5%
Net Income	1,207	2,301	2,224
Growth %	-51.3%	92.4%	-3.3%
EPS	2.15	4.08	3.95

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	25.4%	40.8%	39.1%
Net Margin	17.5%	34.0%	33.0%
P/E	15.10x	13.19x	13.9x
P/B	1.19x	1.88x	1.84x
EV/EBITDA (x)	7.26x	7.92x	8.32x
Dividend Yield	6.2%	5.3%	5.4%

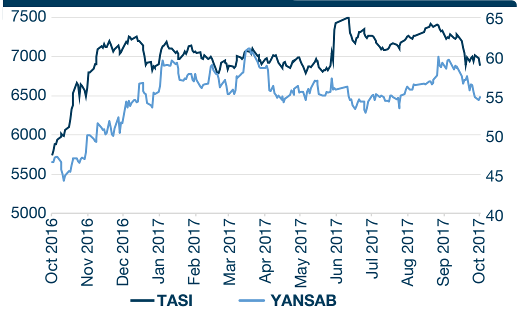
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	31.38
YTD %	1.9%
52 Week (High)	61.75
52 Week (Low)	44.00
Shares Outstanding (mn)	562.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.