

TASNEE posted a strong set of results with a net profit of SAR 327.1mn in Q1-21; beating AJC and the market consensus net profit estimates of SAR 88.8mn and SAR 60.6mn, respectively. The result was mainly supported by higher than expected products spreads, high contribution from the company's associates and JVs. Contribution from associated companies stood at SAR 539.7mn, above our estimate of SAR 345mn and SAR 320mn in Q4-20. We expect gross margin to further expand during Q2-21 due to lower average feedstock cost and improved selling prices. However, we expect fundamentals and market sentiment to slowdown after Q3-21, as supply is expected to increase in the mid-term. We maintain our "Neutral" recommendation on the stock with a TP of SAR 20.0/share.

- **A better product price realization and higher contribution from associates amid improving market dynamics are the key drivers:** National Industrialization Company posted a net profit of SAR 327.5mn (EPS: SAR 0.49) in Q1-21 vs. net loss of SAR 156.9mn in Q4-20 and SAR 51.8mn in Q1-20. The strong performance is mainly attributed to i) an increase in average sales prices and volumes ii) strong contribution from associates and joint ventures iii) higher gross margin and other income, despite the increase in Zakat and tax provisions. The deviation of Q1-21 earnings from our estimates is mainly ascribed to higher than expected contribution from associates and joint ventures.
- The company's income from associates stood at SAR 539.7mn, above our estimate of SAR 340mn and SAR 320mn in Q4-20 as a result of operating efficiency amid improving market dynamics coupled with higher oil prices, which positively impacted the pick-up in the global economic activities. Tronox Holdings reported a net profit of USD 19.0mn in Q2-21 and Tasnee's share of Tronox profit stood at SAR 18.65mn (26.18% stake), whereas Tasnee's share of profits during FY20 is SAR 250mn.
- **Top line exceeded our estimates by 9.8% during Q1-21, we expect the company will continue its healthy sales recovery and margins during Q2-21:** Tasnee's reported strong revenue for Q1-21 at SAR 725.4mn, above our estimates of SAR 660mn, supported by improved product prices and sales volume that were positively affected by strong demand. During the quarter, the average selling prices of HDPE increased by 10.5%Q/Q and 30.1%Y/Y to USD 1,084/MT. PP-Asia prices stood at USD 1,154/MT and jumped by 11.0%Q/Q and 27.6%Y/Y. LDPE increased by 17.9%Q/Q and 64.8%Y/Y to USD 1,458/MT. Tasnee Co. is expected to post revenue of SAR 3,008mn for FY21, as compared to SAR 2,272mn in FY20 (up 32.4%)
- **Higher average feedstock prices partially offset by an increase in product prices:** Gross profit stood at SAR 186.5mn, significantly above our estimates of SAR 102.5mn due to lower than expected top line and gross margin. Gross margin expanded to 25.72% in Q1-21 against our estimate of 15.60% and 15.24% in Q4-20 due to relatively lower average cost of some feedstock prices (Ethane). Propane feedstock average prices increased by 41.8%Q/Q to USD 593/MT, resulting in Propane-PP spreads decline to USD 679/MT from USD 710/MT in Q4-20. We expect gross margin to further expand during Q2-21 due to lower average feedstock cost. Operating profit stood at SAR 561.9mn, as the company recorded lower OPEX at SAR 163.5mn, as compared to our estimate of SAR 180.8mn and SAR 170.7mn in Q1-20.

AJC view and valuation: The company positively surprised the market as result of margin improvement which resulted in a strong bottom line, despite an increase in feedstock cost and zakat provisions. The company's performance in Q1-21 was supported by high profit contribution from associates and joint ventures due to resilient operating performance and sufficient cost controls. This we believe is a continuation of a healthy recovery from the impact seen during last few quarters amid the pandemic. Petrochemical sector fortunes have improved over the past two quarters due to strengthened demand, tight supply and improved prices. The short-term outlook is largely driven by coronavirus vaccines, tight global supply and bullish markets.

The impairment loss for Jazan Slager plant continue to be a key concern in the short term, as the company still faces issues with trial production. However, Tasnee would witness SAR 1.2bn reduction in debt as it agrees to sell 40% stake in Jazan smelter to Tronox after the commercial operation, which consequently will result in its ownership decline to 10%. The company's total obligations and cash during Q1-21 stood at SAR 7.1bn and SAR 2.43bn, and a highly leveraged balance sheet with a heavily debt to equity ratio of 0.71x. During the quarter, the company recorded a 24% decline in finance expenses to SAR 44.5mn in light of low interest rates environment, as almost 80% of the long-term facilities belongs to commercial banks. National Industrialization Company (TASNEE) is expected to post net profit of SAR 986.0mn (EPS: SAR 1.50) for FY21; as compared to net loss of SAR 461mn in FY20. The company is trading at a forward PE of 12.60x and 16.3x based on our FY21/FY22 earnings forecasts. We maintain our "Neutral" recommendation on the stock with a revised TP at SAR 20.0/share.

Neutral

Target Price (SAR) 20.0

Upside / (Downside)* 7.1%

Source: Tadawul *prices as of 26th of May 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E	FY22E
Revenues	2,979	2,272	3,008	3,241
Growth %	-28%	-23.7%	32.4%	7.7%
Net Income	(1,676)	(461.1)	986.0	760.0
Growth %	NM	72.6%	NM	-22.9%
EPS	(2.51)	(0.69)	1.50	1.14

Source: Company reports, Aljazeera Capital

Key Ratios

	FY19	FY20	FY21E	FY22E
Gross Margin	13.5%	14.5%	25.0%	23.0%
EBITDA Margin	3.8%	10.3%	69.5%	53.7%
Net Margin	-56.3%	-20.3%	32.8%	23.5%
P/E	NM	NM	12.60x	16.35x
P/B	1.17x	1.11x	1.51x	1.38x
EV/EBITDA (x)	122.9x	53.7x	7.7x	8.7x

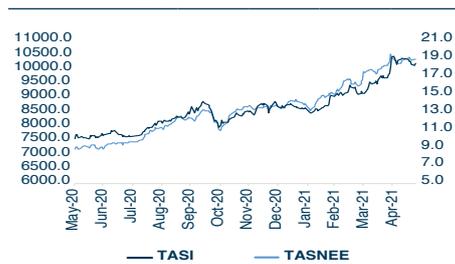
Source: Company reports, Aljazeera Capital

Key Market Data

Market Cap(SAR bn)	12,428
YTD%	35.50%
52 week (High)/(Low)	19.78/8.98
Share Outstanding (mn)	668.91

Source: Company reports, Aljazeera Capital

Price Performance



Source: Company reports, Aljazeera Capital, Bloomberg

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

i.aliabran@aljazaracapital.com.sa

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21E	FY22E	FY23E
Income statement					
Revenues	2,979	2,272	3,008	3,241	3,435
Revenue Growth	-2.8%	-23.7%	32.4%	7.7%	6.0%
Cost of sales	(2,577)	(1,942)	(2,257)	(2,495)	(2,616)
Gross profit	401	330	751	745	819
Selling & marketing expenses	(163)	(163)	(180)	(198)	(210)
General & administrative expenses	(488)	(504)	(524)	(578)	(613)
Company share in net income of associated companies	1,085	869	1,780	1,497	1,531
Provision for legal cases	(1,114)	(556)	(1)	-	-
Operating profit	(278)	(24)	1,826	1,466	1,527
Operating profit growth	-126.5%	-91.3%	-767.7%	-19.7%	4.1%
Other income	(21)	(21)	70	87	87
Financial charges	(537)	(223)	(176)	(172)	(167)
Profit before zakat & minority interest	(1,834)	(268)	1,720	1,382	1,446
Minority interest	281	2	(441)	(373)	(391)
Zakat	(123)	(194)	(294)	(249)	(260)
Net profit	(1,676)	(461.1)	986.0	760.0	795.6
Net profit growth	-239.4%	-72.5%	-313.8%	-22.9%	4.7%
Balance sheet					
Assets					
Cash & equivalent	2,723	2,640	2,802	3,154	3,288
Accounts receivable	1,345	1,088	1,066	1,045	1,024
Inventories	566	580	600	621	643
Total current assets	5,333	5,158	5,339	5,713	5,870
Investment in financial instruments	862	805	813	822	830
Investment in associated companies & others	10,545	10,662	10,662	10,662	10,662
Plant, property & equipments, net	2,951	2,976	4,759	4,583	4,415
Projects under construction	2,289	1,916	-	-	-
Total non-current assets	17,437	17,148	17,011	16,832	16,661
Total assets	22,769	22,306	22,350	22,545	22,531
Accounts payable	1,348	1,388	986	989	943
Accrued expenses & payable	1,041	1,058	1,042	1,026	1,011
Current portion of long-term loans	815	645	678	542	548
Total current liabilities	3,682	3,641	3,282	3,162	3,135
Long-term loans	6,774	6,545	5,867	5,325	4,778
Other non-current liabilities	1,526	1,918	1,937	1,957	1,976
Total non-current liabilities	8,895	9,097	8,462	7,965	7,463
Total liabilities	12,577	12,738	11,744	11,127	10,597
Share capital	6,689	6,689	6,689	6,689	6,689
Statutory reserves	1,355	1,355	1,453	1,529	1,609
Retained earnings	335	(126)	762	1,446	1,827
Other reserves	(552)	(663)	(669)	(676)	(683)
Total shareholders' equity	7,827	7,255	8,235	8,988	9,442
Minority interest	2,366	2,313	2,371	2,430	2,491
Total equity	10,193	9,569	10,606	11,418	11,934
Total liabilities & equity	22,769	22,306	22,350	22,545	22,531
Key fundamental ratios					
Liquidity ratios					
Current ratio (x)	1.4	1.4	1.6	1.8	1.9
Cash ratio (x)	0.7	0.7	0.9	1.0	1.0
Profitability ratios					
Gross profit margin	13.5%	14.5%	25.0%	23.0%	23.8%
Operating margin	-9.3%	-1.1%	60.7%	45.3%	44.4%
EBITDA margin	3.8%	10.3%	69.5%	53.7%	58.5%
Net profit margin	-56.3%	-20.3%	32.8%	23.5%	23.2%
Return on assets	-6.0%	-2.0%	4.4%	3.4%	3.6%
Return on equity	-14.6%	-4.7%	9.8%	6.9%	9.8%
Leverage ratio					
Interest coverage (x)	(0.52)	(0.11)	10.38	8.55	9.13
Debt / equity (x)	0.75	0.75	0.62	0.51	0.45
Market/valuation ratios					
EV/sales (x)	4.72	5.55	5.38	4.67	4.21
EV/EBITDA (x)	122.85	53.74	7.73	8.70	8.07
EPS (SAR)	(2.51)	(0.69)	1.47	1.14	1.19
BVPS (SAR)	11.70	10.85	12.31	13.44	14.12
Market price (SAR)*	13.68	12.04	18.58	18.58	18.58
Market-Cap (SAR mn)	9,151	8,054	12,428	12,428	12,428
Dividend yield	0.0%	0.0%	0.0%	0.0%	2.7%
P/E ratio (x)	(5.46)	(17.47)	12.60	16.35	15.62
P/BV ratio (x)	1.17	1.11	1.51	1.38	1.32

Source: Company financials, AlJazira research



RESEARCH DIVISION

AGM-Head of Research

Talha Nazar

+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst

Faisal Alsuwelimy

+966 11 2256115
F.alsuweilmy@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions

Ahmad Salman, CFA

+966 11 2256201
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region

Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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- 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.
- 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.
- 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.
- 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.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068