



<b>US\$9.3901bn</b>	<b>40%</b>	<b>US\$5.12mn</b>
Market cap	Free float	Avg. daily volume

**Target price** 82.00 -2.9% over current  
**Current price** 84.50 as at 21/1/2019

Existing rating		
Underweight	Neutral	Overweight

#### Performance



#### Earnings

(SARmn)	2017	2018	2019e
Revenue	2,759	3,860	3,811
y-o-y	-3.4%	39.9%	-1.3%
Gross Profit	1,199	2,133	2,007
Gross margin	43.5%	55.3%	52.7%
Net income	879	1,761	1,607
y-o-y	-15.2%	100.4%	-8.7%
Net margin	31.8%	45.6%	42.2%
EPS (SAR)	2.1	4.2	3.9
DPS (SAR)	1.8	2.5	3.0
Payout ratio	83%	59%	78%
P/E (Curr)		20.0x	21.9x
P/E (Target)		19.4x	21.3x

Source: Company data, Al Rajhi Capital

## SAFCO

### Q4: Broadly in-line. Maintain Neutral

In Q4 2018, SAFCO reported slightly lower-than-expected earnings owing to weaker-than-expected sales volume coupled with lower equity income on account of likely 30 days shutdown at Ibn Al-Baytar. While average Urea prices continued to maintain its upward trend in Q4, up 8% q-o-q (+19% y-o-y), prices have started correcting (-10% q-o-q) in Q1 2019 so far, on the back of seasonality factors. Given that the global Urea market continues to be structurally oversupplied, we pencil ~US\$285/t (+3% rise over 2018) for Urea prices in 2019E. The company has a planned shutdown of 117 days at SAFCO III which could lower H1 2019 earnings by SAR120mn. For 2019, we expect DPS to improve to SAR3.0/sh (SAR2.50/sh in 2018; in line with our expectation), implying a dividend yield of ~3.6%. Post factoring the shutdown in our model, we revise our forward looking estimates lower, resulting into a TP of SAR82/sh. We reiterate our Neutral rating on the stock.

Figure 1 SAFCO Q4 results

(SAR mn)	Q4 2017	Q3 2018	Q4 2018	Y-o-Y	Q-o-Q	ARC est	Comments
Revenue	616	1,009	1,090	76.9%	8.1%	1,136	Slightly missed our estimate of SAR1,136mn (consensus: SAR1,136mn), largely due to lower-than-expected sales volume.
Gross profit	149	585	691	364.9%	18.2%	693	Better-than expected production efficiencies pushed gross profit broadly in-line with our estimate.
Gross margin	24.1%	58.0%	63.4%			61.0%	
Operating profit	51	481	574	1030.2%	19.3%	584	Marginally lower than our estimate of SAR584mn, mainly due to higher-than-expected SG&A costs.
Operating margin	8%	48%	53%			51%	
Net profit	63	522	569	809.5%	8.9%	601	Likely weaker-than-expected equity income, led by shutdown at Ibn Al-Baytar, pushed net profit slightly below our estimate of SAR601mn (consensus: SAR574mn).
Net margin	10%	52%	52%			53%	

Source: Company data, Al Rajhi Capital

**Valuation:** The stock is currently trading at ~21.9x 12-month forward EPS, above its 3-year historical average of ~18.8x and above global fertilizer peers' multiple of ~11.7x. The company's planned capacity expansion of SAFCO III ammonia plant (~20% increase in capacity) is on track and most likely to begin commercial production in Q2 2019. However, its impact on our valuation is limited at ~SAR0.7/per share as per our analysis. Post updating our model, we revise our forward looking estimates downwards to factor in SAFCO III plant shutdown. Consequently, our revised TP stands at SAR82/share based on equal mix of relative (SAR86.5/sh. based on 19.0x 12 month forward EPS) and DCF valuation (SAR77.5/sh. based on FCF, cost of equity 9.3%). We reiterate our Neutral rating on the stock post ~14% run up in stock prices in the last two months.

**Risks:** Key upside risks to our target price may be related to major shutdowns of Urea plants globally, delay or suspension of construction of newer Urea plants worldwide, sharp pick-up in demand and higher-than-expected increase in Urea prices. Other upside risks relate to increase in dividends above our expectations and increase in stake of associates/subsidiaries which could help bring in some efficiencies. Downside risks may arise from steep decline in Urea price and acquisition of associates/subsidiaries at expensive valuations.



**Figure 2 Impact of SAFCO's plant shutdown**

	Earlier - 2019 (SAR 'mn)	Revised 2019 (SAR mn)	Impact on 2019 financials (SAR mn)	Comments
Revenue	3,920	3,811	-109	Revenue loss might be partially offset by effective use of inventory and higher utilization at other SAFCO plants.
Gross profit	2,130	2,007	-123	Costs likely to remain firm amid the shutdown.
GPM (%)	54%	53%		
Operating profit	1,683	1,559	-124	
OPM (%)	43%	41%		OPM likely to lower by 200bps, owing to the shutdown.
Net profit	1,727	1,607	-120	Lower sales volume likely to reduce earnings in 2019.
NPM (%)	44%	42%		

Source: Company data, Al Rajhi Capital

**Figure 3 Margins and Valuation Metrics - SAFCO vs. global peers**

	Market Cap (US\$ 'mn)	TTM OPM (%)	TTM NPM (%)	2018E PE	2019E PE	2018E EV/EBITDA	2019E EV/EBITDA
<b>Saudi Arabia</b>							
SAFCO*	9,388	43.8	0.5	20.0x	20.4x	4.8x	12.5x
<b>Middle East &amp; Africa (ex-Saudi Arabia)</b>							
Israel Chemicals	7,400	28.0	23.8	15.3x	14.2x	2.0x	8.5x
Jordan Phosphate Mines	358	1.9	4.1	NA	NA	0.4x	NA
Abou Kir Fertilizers & Chemical Industries*	1,625	28.7x	32.9x	10.8x	9.6x	7.6x	7.3x
Arab Potash/The	2,025	20.7	24.6	NA	NA	1.8x	NA
<b>Europe</b>							
K+S	3,685	3.9	0.3	43.4x	12.3x	0.8x	10.7x
Yara International	11,375	3.1	0.9	25.1x	13.7x	1.3x	10.1x
<b>North America</b>							
CF Industries	10,196	14.3	16.1	30.1x	17.0x	3.0x	11.2x
Mosaic	12,412	8.7	-0.8	16.8x	13.3x	1.2x	8.3x
Nutrien Ltd	31,423	-1.2	1.5	19.3x	14.9x	NA	11.3x
<b>Latin America</b>							
Sociedad Quimica y Minera de Chile SA	11,212	28.1	19.4	24.6x	19.3x	5.4x	12.5x
Fertilizantes Heringer SA	61	-2.0	-10.1	NA	NA	NA	NA
<b>Asia</b>							
China XLX Fertilizer	378	11.4	6.5	3.4x	3.0x	0.6x	5.2x
Coromandel International	1,807	10.3	6.1	17.5x	14.9x	4.1x	10.8x
Engro Fertilizers	718	21.0x	16.9x	6.2x	6.8x	2.2x	4.4x
National Fertilizers	242	4.8	2.4	NA	NA	0.9x	NA
Phosagro	5,276	21.9	9.9	8.3x	8.7x	NA	6.1x
Taiwan Fertilizer Co Ltd	1,402	10.8	16.2	18.8x	16.9x	0.9x	15.3x
Fauji Fertilizer Bin Qasim Ltd	285	2.4	2.5	19.3x	12.0x	2.7x	13.5x
Hubei Yihua Chemical Industry Co Ltd	440	-24.0x	-27.5	NA	NA	16.8x	NA
Acron PJSC	2,854	24.2	9.7	10.5x	9.6x	3.5x	8.0x
Luxi Chemical Group Co Ltd	2,375	23.0	15.9	5.0x	4.3x	1.7x	NA
PhosAgro PJSC	5,024	21.9	9.9	7.9x	8.3x	3.0x	5.9x
<b>Median</b>		<b>11.1</b>	<b>8.1</b>	<b>16.8x</b>	<b>12.3x</b>	<b>2.0x</b>	<b>9.3x</b>
<b>Average</b>		<b>11.9</b>	<b>8.2</b>	<b>16.6x</b>	<b>11.7x</b>	<b>3.1x</b>	<b>9.3x</b>

Source: Bloomberg, Al Rajhi Capital. Notes: All valuation ratios as on latest trading prices. \* SAFCO and Abou Kir Fertilizers actual multiples for 2018



## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

### Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



## Disclaimer and additional disclosures for Equity Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

### Contact us

**Mazen AlSudairi**  
Head of Research  
Tel : +966 1 211 9449  
Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

**Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.**