



EVENT FLASH

Positive surprise on high gross margin & other income

Tasnee reported a strong set of results with a net income of SR103.9mn, significantly higher than our estimate of SR32.4mn. Tasnee returned to profitability after five consecutive quarterly losses. We believe the deviation is mainly due to higher than expected gross margins and higher other income. Gross margins stood at 22.2% in 2Q16, higher than our estimate of 20.2%.

- Tasnee reported a strong set of 2Q16 results, with a net income of SR103.9mn. This is the first net income since 4Q14. The results are significantly higher than the NCBC estimate of SR32.4mn and compares to the consensus estimate of a net loss of SR1mn. We believe the variance is attributed to 1) higher than expected gross margin on controlled costs and spread expansion and 2) higher other income.
- Gross margins stood at 22.2% in 2Q16, higher than our estimate of 20.2%. This is the highest gross margins since 2Q14. These strong gross margins are attributed to improvement in both Petrochemicals and Industrial segments. Higher Petrochemical segment margins are mainly driven by the increase in prices, efficiency after the restructuring program and the expansion of PP-propane spreads. The Industrial segment benefitted from 1) an increase in TiO2 prices (+5% QoQ) in 2Q16 and 2) lower losses at the acrylic facility on higher operating rates and efficiency.
- Revenues stood at SR3.8bn in 2Q16, broadly in-line with our estimate. Opex stood at SR500.5mn in 2Q16, higher than our estimate of SR490.2mn. This is also higher than SR459mn in 1Q16 but lower than SR563mn in 2Q15. On a YoY basis, Opex declined due to one-off impairment charges related to Cristal Global in 2Q15.
- The deviation increased at the net income level mainly due to higher other income. Based on our estimates, income from investments and other income item was SR76mn vs. its historical average of SR31mn. The company have not provided details about the reason behind the strong figure.
- PP, HDPE and LDPE prices increased 2-12% QoQ but declined 15-24% YoY. PP-Propane (Aramco) spreads increased 31.1% QoQ to US\$662/mt in 2Q16. TiO2 prices increased 5% QoQ to US\$2,100.
- We are currently Neutral on Tasnee with a PT of SR12.0. Despite 2Q16 positive surprise, Operational issues at new facilities, weak TiO2 outlook and high debt levels are key risks. The stock also trades at a 2016E P/E of 31.6x, significantly higher than the sector average of 17.4x.

2Q16 Results Summary

SR mn	2Q16A	1Q16A	% QoQ	2Q15A	% YoY	2Q16E	% Var [^]
Revenue	3,810	3,718	2.5	4,156	(8.3)	3,723	2.3
Gross income	845	660	28.1	820	3.0	753	12.2
Gross margin (%)	22.2	17.8	4.4	19.7	2.4	20.2	2.0
Operating income	364	212	71.7	184	97.6	267	36.4
Net income	104	(95)	NM	(108)	NM	32	220.9
EPS (SR)	0.16	(0.14)	NM	(0.16)	NM	0.05	220.9

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

NEUTRAL

Target price	12.0
Current price (SR)	13.7

STOCK DETAILS

52-week range H/L (SR)	19/8
Market cap (\$ mn)	2,440
Shares outstanding (mn)	669
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.8	11.8	(27.9)
Rel. to market	4.2	16.9	2.0

Avg daily turnover (mn)	SR	US\$
3M	31.9	8.5
12M	26.0	6.9

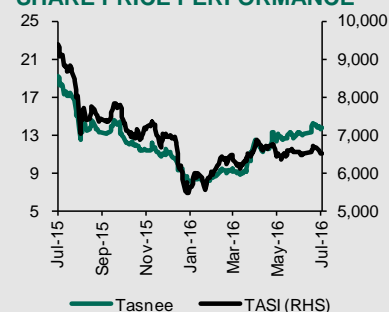
Reuters code	2060.SE
Bloomberg code	NIC AB
	www.tasnee.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	NM	31.6	18.5
P/B (x)	1.1	1.1	1.0
EV/EBITDA (x)	25.7	12.3	10.9
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

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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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