

YANSAB posted net income of SAR 390.6mn; below our estimate of SAR 530.8mn on the back of lower than expected sales related to slow production ramping-up after plant shutdown. Gross margin increased to 31.04% from 21.5% in Q4-18 due to higher product spreads. Yansab is expected to witness improved forward performance, given high production efficiency and new capacities coming on stream. We update our recommendation to **"Neutral"** on the stock with a TP at SAR 75.0/share.

- Yanbu National Petrochemical Co. (YANSAB) posted, in Q1-19, net income of SAR 390.6mn (a decline of 38.1%Y/Y, but an increase of 67.3%Q/Q); missing AJC and the market consensus estimates of SAR 530mn and SAR 502mn, respectively. The Q/Q growth in profitability is mainly attributed to the impact of Ethylene Glycol scheduled maintenance for 52 days in Q4-18. The deviation of Q1-19 earnings from our estimates is mainly ascribed to i) lower than expected revenue ii) higher than expected COGS; despite a noticeable decline in SG & A expenses by 37.3%Q/Q.
- YANSAB reported 14.8%Y/Y decline in revenue for Q1-19 to SAR 1,522mn, below our estimate of SAR 1,734mn due to lower than expected ramping-up in the plant's operating rates after maintenance during Q1-19. The plant was running at 92%, lower than our estimate of 97% and 99% in Q1-18. During the quarter, Asian average prices of YANSAB key products MEG declined by -28.9%Y/Y and -20.9%Q/Q, in addition to the decline in HDPE and PP by -10.5%Q/Q and -8.4%Q/Q, respectively.
- Gross profit stood at SAR 472.5mn (a fall of 36.1%Y/Y, but an increase of 35.5%Q/Q); significantly below AJC estimate of SAR 586.5mn owing to lower than expected gross margin. Gross margin improved in Q1-19 to 31.04% vs. 21.53% in Q4-18, which was supported by higher margins of Propane downstream products (Almost 60% of the total feedstock). PP-Propane cost margin declined to 33.6% in Q1-19 from 37.1% in the previous quarter.
- Operating profit stood at SAR 379mn, depicting an increase of 67.3%Q/Q, where the company witnessed a decline of 37.3%Q/Q and 11.5%Y/Y in OPEX (SG & A) to record SAR 93.5mn as compared to our estimate of SAR 106mn and SAR 149mn in Q4-18.

AJC view: Going forward, we believe that the plants shutdown in Q4-18 would more translate into efficiency improvement in Q2-19 and onward. The company is expected to witness a improved forward performance for operating rates and volumes, given high production efficiency and new capacities of almost 80Kt/annually of Ethylene Glycol. The company's operating rate is likely to stabilize above 96.0% in the next quarters, as compared to 92.0% in Q1-19. Our mid-term outlook remains optimistic on the company with better estimates for production efficiency, operating rate and petrochemical price recovery after Q1-19. The company is currently trading at a TTM PE of 18.8x compared to a forward PE of 17.6x during FY19. We expect the company to generate a strong FCF of SAR 3.0bn, which increases the possibility of higher DPS at SAR 4.0/share during FY19, given a strong balance sheet and zero debt. We revised our recommendation to **"Neutral"** on YANSAB with TP of **SAR 75.0/share**.

Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,787.2	1,619.4	1,522	-14.8%	-6.0%	-12.2%
Gross Profit	739.8	348.8	472.5	-36.1%	35.5%	-19.4%
Gross Margin	41.39%	21.53%	31.04%	-	-	-
EBIT	634.8	199.6	379	40.3%	89.9%	-21.0%
Net Profit	630.6	233.5	390.6	-38.1%	67.3%	-26.4%
EPS	1.12	0.42	0.69	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) **75.00**

Upside / (Downside)* **3.4%**

Source: Tadawul *prices as of 23rd of April 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	7,220	7,629	7,183
Growth %	15.9%	5.6%	-5.8%
Net Income	2,377	2,416	2,314
Growth %	3.2%	1.6%	-4.2%
EPS	4.22	4.29	4.11

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	39.7%	37.6%	38.3%
Net Margin	32.9%	31.7%	32.2%
P/E	15.1x	15.10x	17.7x
P/B	2.2x	2.1x	2.32x
EV/EBITDA (x)	9.58x	9.60x	11.3x
Dividend Yield	5.0%	5.8%	5.5%

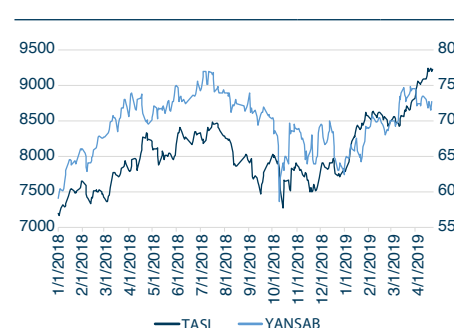
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	40.95
YTD %	12.2%
52 Week (High)/(Low)	77.5/58.0
Shares Outstanding (mn)	562.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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.

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