

TASNEE posted a disappointing set of results with a net loss of SAR 188.8mn in Q2-20; missing AJC and the market consensus net profit estimates of SAR 17.5mn and SAR 1.1mn, respectively. The net loss is primarily due to SAR 204.2mn impairment of AMIC Co. (a subsidiary), Normalized earnings stood at SAR 15.7mn, in-line with our estimate of SAR 17.5mn, despite weaker than expected top line. Although we believe that Q2-20 is the bottom for TASNEE and other petrochemical players, oversupply market still look challenging during FY21/24. We maintain our "Neutral" recommendation on the stock with a TP of SAR 11.30/share.

- National Industrialization Company posted net losses of SAR 188.8mn (EPS: SAR -0.28) in Q2-20 vs net loss of SAR 76.5mn in Q1-20 and a profit of SAR 212.1mn in Q2-19. The weak performance is mainly attributed to i) an impairment provision of SAR 204.2mn for its titanium slag assets in Jazan ii) lower average sales prices and volumes iii) weak contribution from associates and joint ventures. The deviation of Q2-20 earnings from our estimates is mainly ascribed to impairment charge of for AMIC assets (Slag plant). The company's normalized net income stood at SAR 15.7mn, in-line with our estimates of SAR 17.5mn. The company's income from associated companies stood at SAR 169.4mn, below our estimate of SAR 198mn and SAR 234.7mn in Q2-19 as a result of challenging supply/demand conditions coupled with lower oil prices, which were negatively impacted by COVID-19.
- Tasnee's reported weak revenue for Q2-20 at SAR 486.2mn, significantly below our estimates of SAR 589mn, impacted by weak product prices and lower sales volume that were negatively impacted by weak demand. During the quarter, the average selling prices of HDPE plunged by 10.1%Q/Q and 24.8%Y/Y to USD 750/MT. PP-Asia prices stood at USD 823/MT and dropped by 9.0%Q/Q and 25.3%Y/Y. LDPE declined by 8.3%Q/Q and 20.2%Y/Y to USD 811/MT.
- Gross profit stood at SAR 76.4mn, below our estimates of SAR 102.5mn due to lower than expected top line. Gross margin contracted to 15.71% in Q2-20 against our estimate of 17.4% and 14.27% in Q1-20 due to relatively lower average cost of some feedstock prices. Propane feedstock average prices declined by 38.7%Q/Q to USD 307/MT, resulting in Propane-PP spreads increase to USD 577/MT from USD 504/MT in Q1-20.
- Operating losses stood at SAR 169.2mn, as the company recorded higher OPEX at SAR 211mn, as compared to our estimate of SAR 185mn and SAR 209mn in the previous quarter. Tronox Holdings reported a net loss of USD 4.0mn in Q2-20 and Tasnee's share of Tronox loss is SAR 3.1mn (20.68% stake).

AJC view and valuation: We believe that the company's performance in Q2-20 was compressed by one-off impact related to AMIC assets and low sales contribution from Saudi Polyolefins Co. (SPC) and Saudi Ethylene and Polyethylene Co. (SEPC) due to global slowdown in demand with the COVID-19. Furthermore, the company has been significantly affected by the domestic demand with the lockdown periods, as a high percentage of sales are targeting the local market. Although restrictions are beginning to ease around the world, the International Monetary Fund (IMF) further downgraded its global GDP forecast by 1.9% to -4.9% for 2020, with a very slow recovery seen in 2021. The near-term outlook is pointing to a continued recovery, while downside risks clearly dominate on Petchem industry by the coming capacity expansions and rising tension between the US and China.

The impairment loss for Jazan Slager plant (SAR 204mn vs. SAR 195mn in H1-19) continue to be a key concern in the short term. 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, and its ownership in smelter would decline to 10%. The company's total obligations and cash during Q2-20 stood at SAR 7.3bn and SAR 2.7mn, respectively with debt to equity ratio of 0.72x. During the quarter, The company recorded a 23% decline in finance expenses to SAR 62mn in light of low interest rates environment, as 83% of the long-term facilities belongs to commercial banks. National Industrialization Company (TASNEE) is expected to post net loss of SAR -160.9mn (0.24 loss per share) for FY20; and switching to profitability during FY21 with net income of SAR 276.6mn (0.41 EPS). The company is trading at a forward PE of 27.6x based on our FY21 earnings forecasts compared to its global peer average of 20.6x. We maintain our "Neutral" recommendation on the stock with a revised TP at SAR 11.30/share.

Neutral

Target Price (SAR) **11.30**

Upside / (Downside)* **-6.2%**

Source: Tadawul *prices as of 5th of September 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Revenues	3,065	3,019	2,680	4,284
Growth %	6.0%	-1.5%	-11.2%	59.9%
Net Income	1,202.1	(1,580)	(160.9)	276.6
Growth %	67.9%	NM	89.8%	NM
EPS	1.80	(2.36)	(0.24)	0.41

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E	FY21E
Gross Margin	14.0%	13.3%	16.4%	18.1%
EBITDA Margin	41.8%	23.4%	15.8%	25.3%
Net Margin	39.2%	-52.3%	-6.0%	6.5%
P/E	8.41x	NM	NM	29.12x
P/B	1.08x	1.16x	1.01x	1.04x
EV/EBITDA (x)	85.28x	19.66x	30.09x	10.72x

Key Market Data

Market Cap(SAR bn)	8.05
YTD%	-11.99%
52 week (High)/(Low)	13.94/8.23
Share Outstanding (mn)	668.91

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital, Bloomberg

Senior Analyst
 Jassim Al-Jubran
 +966 11 2256248
 i.aliabran@aliaziracapital.com.sa

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY18	FY19	FY20E	FY21E	FY22E
Income statement					
Revenues	3,065	3,019	2,680	4,284	4,738
Revenue Growth	-71.6%	-1.5%	-11.2%	59.9%	10.6%
Cost of sales	(2,637)	(2,618)	(2,240)	(3,508)	(3,835)
Gross profit	429	401	440	776	904
Selling & marketing expenses	(158)	(163)	(183)	(283)	(313)
General & administrative expenses	(711)	(641)	(683)	(964)	(1,066)
Company share in net income of associated companies	1,624	1,173	807	1,211	1,333
Provision for legal cases	(133)	(457)	(204)	-	-
Operating profit	1,050	313	177	739	858
Operating profit growth	-35.3%	-70.2%	-43.5%	317.9%	16.0%
Non-counting operations					
Other income	158	(328)	99	95	100
Financial charges	(565)	(553)	(269)	(252)	(246)
Profit before zakat & minority interest	2,005	(1,720)	6	582	712
Minority interest	(579)	264	(65)	(189)	(231)
Zakat	(223)	(123)	(102)	(116)	(142)
Net profit	1,202.1	(1,580)	(160.9)	276.6	338.1
Net profit growth	67.9%	-231.4%	-89.8%	-271.9%	22.2%
Balance sheet					
Assets					
Cash and bank balance	2,909	2,861	2,114	2,397	2,273
Other current assets	6,931	2,815	2,824	2,841	2,859
Property plant & equipment	8,914	3,007	2,820	4,506	4,230
Other non-current assets	14,811	14,103	13,623	11,627	11,595
Total assets	33,566	22,939	21,536	21,526	21,114
Liabilities & owners' equity					
Total current liabilities	7,743	3,875	3,322	3,789	3,620
Long-term loans	11,272	6,740	5,929	5,077	4,396
Total non-current liabilities	13,034	8,410	7,685	6,867	6,220
Share capital	6,689	6,689	6,689	6,689	6,689
Statutory reserves	1,355	1,355	1,382	1,481	1,481
Retained earnings	1,960	420	260	508	747
Total owners' equity	10,655	10,529	10,870	11,274	11,396
Total equity & liabilities	33,566	22,939	21,536	21,526	21,114
Key fundamental ratios					
Liquidity ratios					
Current ratio (x)	1.3	1.5	1.5	1.4	1.4
Cash ratio (x)	0.4	0.7	0.6	0.6	0.6
Profitability ratios					
Gross profit margin	14.0%	13.3%	16.4%	18.1%	19.1%
Operating margin	34.2%	10.4%	6.6%	17.3%	18.1%
EBITDA margin	41.8%	23.4%	15.8%	25.3%	25.2%
Net profit margin	39.2%	-52.3%	-6.0%	6.5%	7.1%
Return on assets	3.6%	-5.6%	-0.7%	1.3%	1.6%
Return on equity	9.8%	-13.5%	-1.5%	2.6%	3.1%
Leverage ratio					
Interest coverage (x)	2.09	1.39	1.42	2.93	3.49
Debt / equity (x)	1.13	0.71	0.64	0.55	0.45
Market/valuation ratios					
EV/sales (x)	7.08	4.60	4.74	2.71	2.30
EV/EBITDA (x)	85.28	19.66	30.09	10.72	9.13
EPS (SAR)	1.80	(2.36)	(0.24)	0.41	0.51
BVPS (SAR)	13.96	11.82	11.57	11.98	12.47
Market price (SAR)*	15.12	13.68	12.04	12.04	12.04
Market-Cap (SAR mn)	10,114	9,151	8,054	8,054	8,054
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	8.41	(5.79)	(50.04)	29.12	23.82
P/BV ratio (x)	1.08	1.16	1.04	1.01	0.97

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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- 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