

TASNEE reported a weak set of result at SAR 185.6mn, below our estimates of SAR 314.1mn due to impairment charge of SAR 60mn for non-current assets and an adjustment on non-controlling interest account. Normalized earnings stood at SAR 307mn, slightly better than market consensus of SAR 302mn. Weak industrial revenue (Tio2) was offset by higher contribution from the company's associates and joint ventures. Gross margin stood at 21.89% in Q4-18, lower than our estimate of 25.7%. We maintain our "Overweight" recommendation on the stock with a revised TP of SAR 22.0/share.

- National Industrialization Company posted net profit of SAR 185.6mn (EPS; SAR 0.28); indicating a fall of 43.3%Y/Y and 28.5%Q/Q. The weak result is primary attributed to i) a decline in average sales prices and volumes. ii) weak gross margin, despite higher than expected share from associates and joint ventures. The company's income from associated companies stood at SAR 477mn, well above our estimate of SAR 395mn as a result of improved operating rate and production efficiency.
- The deviation of Q4-18 earnings from our estimates is mainly ascribed to i) higher than expected COGS ii) impairment charge of SAR 60mn for non-current assets iii) an adjustment on minority interest account for Q4-18 that represents 44% from income before minority & zakat Vs. our estimates of 27% and an average of 26.5% in H1-18. Thus, the company's normalized net income stood at SAR 307mn; in-line with our estimates of SAR 314.1mn.
- Tasnee's sales in Q4-18 stood at SAR 2,727mn, in-line with our estimates of SAR 2,749mn. However, the industrial segment (Tio2) was running at 72% in Q4-18, lower than our estimate of 78% and 77% in Q3-18. According to the company, the reduction of output by 4-5% was to balance the supply and demand and maintain the Tio2 prices high. During the quarter, average selling prices of Tio2 declined by 2.6%Q/Q. Polypropylene also dropped by 4.8%Q/Q, but increased by 3.4%Y/Y. HDPE prices plunged 9.7%Q/Q and 5.6%Y/Y.
- Gross profit stood at SAR 597.2mn, recording gross margin of 21.89%, as compared to 26.65% in Q3-18, and 24.76% in Q4-17. This gross margin came below AJC estimates of 25.7%, which can be attributed to higher than expected production cost and additional discount on Tio2 prices. In Q4-18, although Saudi propane (feedstock) average prices declined by 5.5%Q/Q; polypropylene-Asia and HDPE prices declined by 4.8%Q/Q and 9.7%Q/Q respectively, resulting in products spreads contraction.

AJC View: We believe that the weak contribution from Tio2 segment was offset by higher than expected contribution from the company's associates and joint ventures. Despite weak gross margin and one-off impacts, the production efficiency and operating rate in the company's petrochemical segment has been positively reflected on the top line during H2-18; and is expected to rise in FY19. However, titanium dioxide (TiO2) volumetric sales and prices could tend towards some pressure in FY19 amid plentiful supply, whereas some upcoming supply was being reduced for more stable pricing in FY19. We believe the supply and demand will depend more on global economic direction and the result of US-China trade relations. The company's total obligation stood at SAR 14.4bn (Debt to equity stood at 1.5x), and is considered as the key short-term concerns until getting an approval on Cristal/Tronox merger from US FTC. As the matured debt during 19/FY20 stood at SAR 3.2bn and SAR 6.2bn respectively, which may force the company to request a debt rescheduling if the merger is not completed. National Industrialization Company (TASNEE) is expected to post SAR 1,229.5mn in net income (1.84 EPS) for FY19; indicating a growth of 2.3%Y/Y. The company is trading at a forward PE of 8.9x based on our FY19 earnings forecasts compared to its global peer group average of 13.1x. We maintain our "Overweight" recommendation on the stock with a revised TP at **SAR 22.0/share**.

Results Summary

SARmn (unless specified)	Q3-18	Q4-17	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,901	2,889.3	2,727.4	-5.6%	-6.0%	-0.8%
Gross Profit	773.3	715.6	597.2	-16.5%	-22.8%	-16.5%
Gross Margin	26.65%	24.76%	21.89%	-	-	-
EBIT	682.4	399.0	587.5	47.5%	-13.9%	-10.5%
Net Profit	259.4	327.7	185.6	-43.3%	-28.5%	-41.4%
EPS	0.39	0.49	0.28	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR)	22.0
Upside / (Downside)*	31.5%

Source: Tadawul *prices as of 12th of March 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	10,796	11,439	12,044
Growth %	25.3%	6.0%	5.3%
Net Income	716.2	1,202.1	1,229.5
Growth %	682%	67.9%	2.3%
EPS	1.07	1.80	1.84

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	19.5%	26.7%	23.7%
EBITDA Margin	10.5%	19.3%	15.9%
Net Margin	6.6%	10.5%	10.2%
P/E	15.3x	8.41x	8.90x
P/B	1.31x	1.08x	1.04x
EV/EBITDA (x)	21.23x	11.11x	11.07x

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	10.93
YTD %	7.8%
52 Week (High)/(Low)	23.82/14.90
Shares Outstanding (mn)	668.91

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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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