

# SABIC Agri-Nutrients Co.

Petrochemicals – Industrial

SAFCO AB: Saudi Arabia

23 June 2022

الراجحي المالية  
Al Rajhi Capital



US\$16.807bn

Market cap

40%

Free float

US\$80.41mn

Avg. daily volume

Target price

140.00

+5.7% over current

Current price

132.40

as at 6/22/2022

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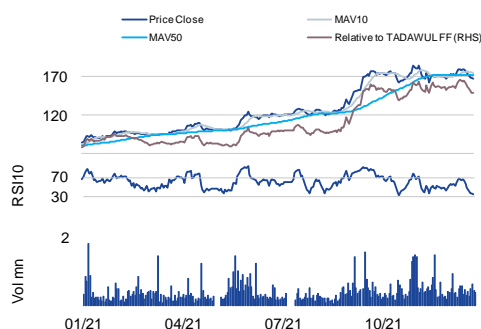
Existing rating

Underweight

Neutral

Overweight

## Performance



Source: Bloomberg

## Earnings

(SARmn)	2021	2022e	2023e
Revenue	9,592	14,931	10,725
y-o-y	188.3%	55.7%	-28.2%
Gross Profit	6,507	9,252	6,130
Gross margin	67.8%	62.0%	57.2%
Net income	5,229	7,293	4,752
y-o-y	304.0%	39.5%	-34.8%
Net margin	54.5%	48.8%	44.3%
EPS (SAR)	11.0	15.3	10.0
DPS (SAR)	4.3	7.0	6.0
Payout ratio	39%	46%	60%
P/E (Curr)	12.1x	8.6x	13.3x
P/E (Target)	12.7x	9.1x	14.0x

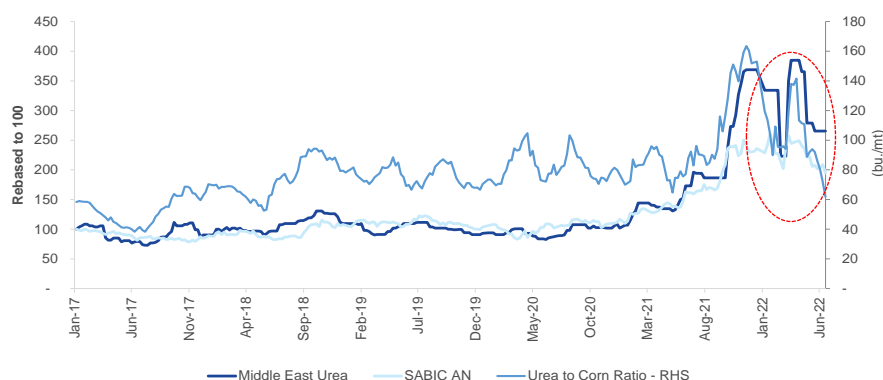
Source: Company data, Al Rajhi Capital

# SABIC Agri-Nutrients Co.

## Reduce TP to SAR140/sh on lower Urea prices

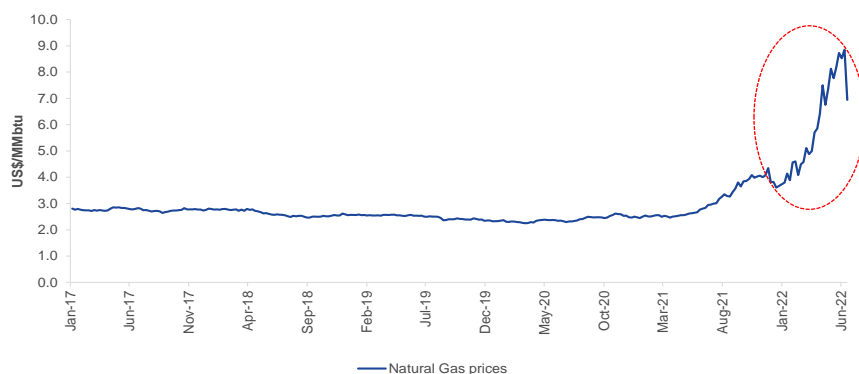
After reaching a multi-year high in March 2022, Urea prices have started correcting in Q2 2022, with US Gulf NOLA and Middle East Urea prices declining ~50% and ~31% so far in Q2 2022 (till mid-June) from their peak, mainly weighed down by rising natural gas supplies and lower demand. Currently, the US Gulf NOLA Urea price still trades at US\$470/t, much higher than the historical range of US\$200-300/t, which makes it expensive for buyers worldwide until it reaches a price floor. Moreover, post decline in Urea prices, the urea-to-corn ratio declined from its peak of 167 bu/mt. in November 2021 to a reasonable level of 64 bu/mt. (largely in line with 10Y average) in June 2022. Further, despite the recent correction, natural gas prices still remain high, which may provide a floor to Urea prices. Given the current market dynamics underpinned by likely lower demand and easing concerns on natural gas supplies, we don't expect Urea prices to improve much going forward. Accordingly, we revise our Urea price estimate to US\$575/t (US\$650/t earlier) for 2022, leading to a downward revision in our forward-looking estimates. We reduce our TP to SAR140/sh. (SAR200/sh. earlier) but remain Neutral on the stock.

Figure 1 Urea prices and SABIC AN share price trend vs Urea to Corn ratio



Source: Bloomberg, Al Rajhi Capital

Figure 2 Natural prices still remain high



Source: Bloomberg, Al Rajhi Capital

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**Valuation and risks:** Post revision in our Urea price assumptions and estimates, we revise our TP to SAR140/share (SAR200/sh. earlier) based on equal mix of relative (SAR139/sh. based on ~10x 12 month forward PE and average of 2022/23 EPS) and DCF valuation (SAR141/sh. based on FCF, cost of equity 10.5%). Key upside risks to our estimates include major shutdowns of Urea plants globally, delayed suspension of construction of newer Urea plants worldwide, sharp pick-up in demand, drop in natural gas supplies, the prolonged shutdown of ammonia capacities, higher than expected rise in Urea prices, and increase in dividends above our expectations. Downside risks to our estimates may arise from a drop in gas prices and the steep decline in Urea price as the plants closed temporarily reopen.



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"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.

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