

National Industrialization Company (TASNEE)'s net income declined 16.7% Y/Y and 3.9% Q/Q to SAR 297.1mn in Q2-22, above AJC's estimate of SAR 280.6mn but below consensus estimate of SAR 312.9mn. The results were broadly in line with our estimates with major deviation coming from higher-than-expected income from associates, partly offset by higher-than-expected cost of sales leading to lower gross margin. Gross margin stood at 24.1%, below our estimates of 27.2% and 29.4% in the previous quarter. Revenue jumped 10.0% Q/Q to SAR 1,077mn, higher than our estimate of SAR 968mn, primarily supported by higher volumetric sales. We maintain our "Neutral" recommendation on the stock with a TP of SAR 18.8/share.

- TASNEE posted a net profit of SAR 297.1mn (-16.7% Y/Y, -3.9% Q/Q) in Q2-22, above our estimate of SAR 280.6mn but below consensus estimate of SAR 312.9mn. The deviation in net income from our estimate was mainly ascribed to higher-than-expected income from associates, partly offset by lower gross margin. As per our calculations, income from associates for the quarter stood at SAR 452mn in Q2-22 vs. our expectation of SAR 385mn and SAR 400mn in the previous quarter. Higher zakat provisioning and finance charges due to increased interest rates are also likely to have weighed on the bottom line.
- Tasnee's revenue jumped 10.0% Q/Q to SAR 1,077mn, above our estimate of SAR 968mn and SAR 979mn recorded in the previous quarter. The revenue growth was driven mainly by higher volumetric sales. During the quarter, the average selling prices for some products declined sequentially; HDPE decreased by 3.2% Q/Q (up 8.9% Y/Y) to USD 1,179/MT, while LDPE fell by 3.6% Q/Q (up 9.0% Y/Y) to USD 1,478/MT. PP-Asia prices stood at USD 1,148/MT, a decline of 1.0% Q/Q (down 1.8% Y/Y).
- Gross profit stood at SAR 259mn (+18.1% Y/Y, -10.1% Q/Q), in line with our estimate of SAR 263mn, as higher revenue was offset by lower-than-expected gross margin. Gross margin contracted to 24.1% in Q2-22 against our estimate of 27.2% and 29.4% in Q1-22. Propane feedstock average prices increased by 5.4% Q/Q to USD 847/MT, resulting in Propane-PP spreads declining to USD 471/MT from USD 517/MT in Q1-22.
- Operating profit of SAR 563mn (-7.5% Y/Y, +3.7% Q/Q) was higher than our estimate of SAR 504mn. On Q/Q basis, lower gross margin was offset by higher income from associates. Operating margin stood at 52.3% vs. our estimate of 52.0% and 55.5% in Q1-22.

AJC View: Overall, higher costs weighed on TASNEE's Q2-22 earnings. The increase in feedstock prices impacted gross margin adversely, while higher zakat provisions and increase in finance charges dragged net profit. The company's finance charges are expected to remain high, given the high debt levels of the company and rising interest rates. However, recent decline in feedstock prices is expected provide support to the company's gross margins in coming quarters. The income from associates was above our estimate as well as compared to previous quarter and was a positive surprise of the Q2-22 results. Nevertheless, the delay in commencement of titanium ilmenite smelter plant remains a concern for the company. We expect TASNEE to record net income of SAR 1.1bn in FY22 and SAR 987mn in FY23 compared to SAR 1.4bn in FY21. The stock is trading at a forward PE of 10.5x based on our FY23 earnings forecasts vs. the current TTM PE of 8.5x. We maintain our "Neutral" recommendation on the stock with a TP at SAR 18.8/share.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	780	979	1,077	38.0%	10.0%	11.2%
Gross Profit	219	288	259	18.1%	-10.1%	-1.5%
Gross Margin	28.1%	29.4%	24.1%	-	-	-
EBIT	609	543	563	-7.5%	3.7%	11.8%
Net Profit	357	309	297	-16.7%	-3.9%	5.9%
EPS	0.53	0.46	0.44	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) 18.8

Upside / (Downside)* 12.4%

Source: Tadawul *prices as of 03rd of August 2022

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	2,272	3,673	3,702	3,284
Growth %	-23.7%	61.7%	0.8%	-11.3%
Net Income	-461	1,356	1,103	987
Growth %	NM	NM	-18.7%	-10.5%
EPS	-0.67	2.03	1.65	1.48

Source: Company reports, Aljazira Capital

Key Ratios

SARmn	FY20	FY21	FY22E	FY23E
Gross Margin	14.5%	26.9%	29.1%	29.5%
Net Margin	-20.3%	36.9%	29.8%	30.1%
P/E (x)	NEG	9.8	10.0	10.5
P/B (x)	1.1	1.5	1.1	1.0
EV/EBITDA (x)	HIGH	6.0	5.7	5.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%

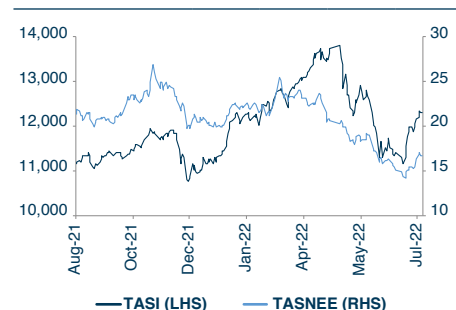
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	11.2
YTD %	-16.2%
52 Week (High)/(Low)	27.40/14.10
Shares Outstanding (mn)	668.9

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH
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RATING
TERMINOLOGY

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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