1Q 2018 Results Update

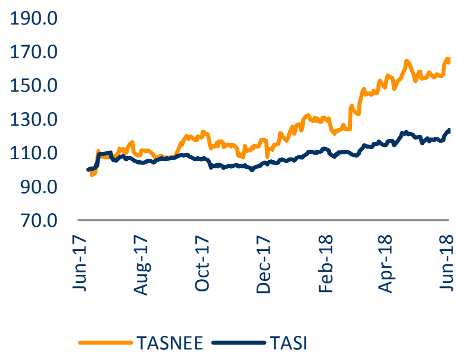
June 12, 2018

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	21.1
Target Price (SAR)	21.4
Upside/Downside (%)	1.5%

As of June 11, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	14.1
52 Wk High (SAR)	22.20
52 Wk Low (SAR)	12.44
Total Outstanding shares (in mn)	669
Free Float (%)	86.9%

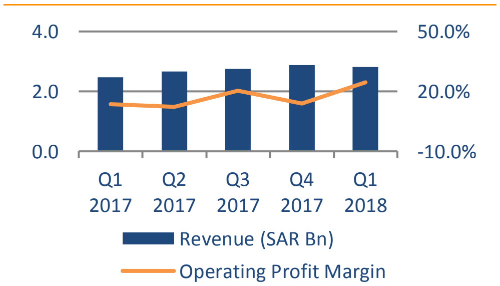
TASNEE vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	5.0%	0.4%
6m	44.0%	28.2%
12m	62.2%	40.6%

Major Shareholders (%)	
General Organization for Social Insurance	8.69%
Kingdom Holding Co.	6.23%
Gulf Investment Corporation	5.58%

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 11th June 2018

Strong operating performance resulted in tripling of net profit in 1Q18

National Industrialisation Co. (Tasnee)'s net profit increased 249.8% YoY to SAR 361mn for 1Q18 (SAR 103mn) and 10.3% QoQ from 4Q17 (SAR 328mn). The year-on-year surge was primarily driven by an increase in revenues on higher selling prices of titanium dioxide products, a rise in the share of net profit from associates and JVs, and lower financial charges. Revenue improved led by higher sales price while the cost of sales fell, and given bulk of cost of production is fixed in nature, the increase in sales price directly transmitted to profits, as gross profit nearly doubled to SAR 818mn from SAR 427mn in 1Q17. Additionally, the higher operating and net non-operating incomes helped offset a rise in selling, general, and marketing expenses.

However, the uncertainty prevails around the future outlook of the impending Tronox–Cristal deal. Tronox has already entered into an option agreement to purchase a majority of (90%) of the ownership of AMIC (equally owned by Cristal and Tasnee) in a titanium slag smelter facility (the Slagger). As per the agreement, Tronox would pay USD125mn to facilitate the commencement of operations at the currently inoperative Slagger. This is expected to increase the mining and feedstock capacity of Tronox. Moreover, the merger deal, if it goes through, shall help Tasnee offload its debt related to the smelter, while retaining 10% stake. However, the deal has run into trouble with FTC, which views the combined entity as a monopolist in the North American market and has stalled the deal. Given the regulatory hurdle, we maintain a "Neutral" rating on the stock.

- Revenue improved 13.7% YoY to SAR 2.8bn in 1Q18 from SAR 2.5bn in 1Q17, driven by higher sales prices of titanium dioxide and other products. Revenue, however, declined marginally (2.4% QoQ) from SAR 2.9bn in 4Q17.
- Gross profit increased 91.6% YoY to SAR 818mn. The gross margin expanded to 29.0% in 1Q18 from 17.2% in 1Q17. Sequentially, the gross profit grew 14.3% as a significantly lower cost of sales helped offset the decline in sales.
- Operating profit almost doubled to SAR 692mn in 1Q18 from SAR 340mn in 1Q17 (103.4% YoY), led by higher revenues and higher share of net profit from associates and joint ventures (SAR 361mn in 1Q18 vis-à-vis SAR 314mn in 1Q17). The rise helped offset an increase in general, selling, and marketing expenses which grew by 21.6% YoY to SAR 487mn during the quarter. Consequently, the operating margin expanded 10.8% YoY to 24.6% in 1Q18.
- Finance charges reduced from SAR 186mn in 1Q17 to SAR 162mn in 1Q18 primarily as Tasnee lowered its total debt from SAR16.7bn to SAR15.5bn during the same period.
- Net income more than tripled to SAR 361mn in 1Q18, supported by aforesaid reasons. Net profit margin, expanded 8.6% YoY to 12.8% in 1Q18 from 4.2% in 1Q17. The margins improved 1.5% QoQ from 11.3% in 4Q17, as net income grew from SAR328 mn in 4Q17.
- The cash flow from operating activities improved from an outflow of SAR 104mn in 1Q17 to an inflow of SAR589mn in 1Q18, driven by higher operating profits and improved trade receivables and inventories.

Valuation: We revise our target price slightly upwards to SAR 21.4, as 1Q18 results were better than our expectations. We maintain our 'Neutral' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,820	2,481	13.7%	11,913	10,796	10.3%
Gross Profit (SAR mn)	818	427	91.6%	3,240	2,104	54.0%
Operating Profit (SAR mn)	692	340	103.4%	2,717	1,624	67.3%
Net Profit (SAR mn)	361	103	249.8%	1,234	716	72.3%
EPS basic (SAR)	0.54	0.15	249.8%	1.84	1.07	72.3%
Gross Margin (%)	29.0%	17.2%	11.8%	27.2%	19.5%	7.7%
Operating Margin (%)	24.6%	13.7%	10.8%	22.8%	15.0%	7.8%
Net Profit Margin (%)	12.8%	4.2%	8.6%	10.4%	6.6%	3.7%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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