

**FY20 Results Update**

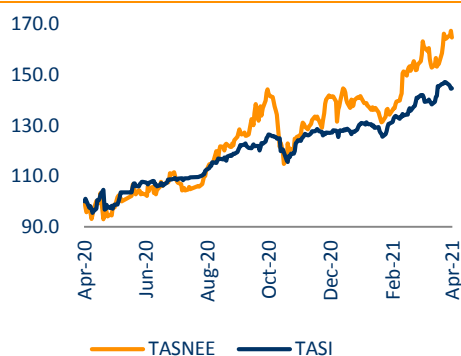
April 15, 2021

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	16.2
Target Price (SAR)	14.5
Upside/Downside (%)	(10.4%)
<i>As of April 14, 2021</i>	

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	10.9
52-Wk High (SAR)	16.6
52-Wk Low (SAR)	9.0
Total Outstanding shares (in mn)	668.9
Free Float (%)	77.2%

**TASNEE vs. TASI (Rebased)**

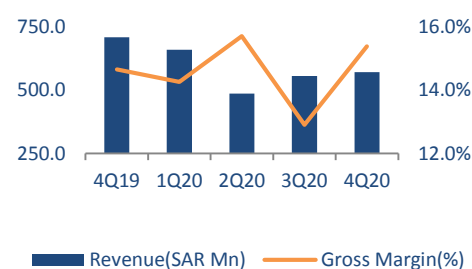


Price Performance (%)	Absolute	Relative
1m	6.0%	4.1%
6m	15.5%	1.0%
12m	64.8%	20.1%

**Major Shareholders (%)**

Kingdom Holding Co.	6.23%
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**Revenue (SAR bn) and Gross Profit Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of April 14, 2021

**Lower selling prices of key products hurt top line in FY20**

National Industrialization Co. (Tasnee) recorded a 23.7% YoY drop in revenue to SAR 2.3bn in FY20, largely due to lower average selling prices of its key products during the year. Operating loss stood at SAR 9.8mn in FY20 against an operating loss of SAR 278.2mn in FY19, as lower impairment charges offset higher SG&A expenses. Reduction in financial charges offset higher zakat expense as the company recorded a net loss of SAR 446.7mn in FY20 compared to net loss of SAR 1.7bn in FY19. Subsequently, net loss margin stood at (19.7%) in FY20 against a net loss margin of (56.3%) in FY19.

Tasnee's performance in FY20 was largely affected by weak demand for oil and petrochemical products due to the COVID-19 pandemic. Moreover, lower average selling prices of key petrochemical products weighed on the company's top line. Revenue from Petrochemicals segment was down 40.1% YoY to SAR 1.1bn, whereas revenue from Downstream segment inched up 0.3% YoY to SAR 1.2bn. Petrochemical product prices, however, retreated in 1Q21 owing to some recovery in demand as economic activity globally began to pick up during the period. The EIA forecasts the demand for oil to increase amid rising global economic activity and vaccination rates. However, it expects oil supply to increase as OPEC+ eases curbs on production and limit upward pressure on oil prices in 2H21. Tasnee's debt to equity ratio increased to 0.8x in FY20 from 0.7x in FY19. Moreover, plant shutdowns for maintenance and delay in completion of projects, coupled with risks of higher restrictions amid new virus mutations, pose headwinds to the company. In the view of these factors, we continue to maintain our "Underweight" rating on the stock.

- Tasnee's revenue fell 23.7% YoY to SAR 2.3bn in FY20, primarily due to the lower average selling prices of petrochemical products during the year. Revenue was down 19.5% YoY to SAR 570.8mn in 4Q20.
- The company's gross profit (down 17.8% YoY to SAR 329.8mn) declined at a slower pace than the top line due to the 24.6% YoY drop in cost of sales to SAR 1.9bn. Simultaneously, gross margin widened to 14.5% from 13.5% in FY20.
- Tasnee reported an operating loss of SAR 9.8mn in FY20 against an operating loss of SAR 278.2mn in FY19 primarily due to lower impairment provisions of the non-current assets of its subsidiary Advanced Metal Industries Cluster Co. Furthermore, revaluation loss on assets of Cristal sold to Tronox and financial provisions related to Acrylics Complex in FY19 aided the operating margin, which improved to (0.4%) in FY20 from (9.3%) in FY19.
- Lower financial costs offset higher zakat expense, leading the company to record a net loss of SAR 446.7mn in FY20 compared to net loss of SAR 1.7bn in FY19. Consequently, the net loss margin for the year improved to (19.7%) from a net loss margin of (56.3%) in FY19.
- On November 22, Tasnee announced that resumption of operations at the titanium ilmenite smelter plant will be delayed to 3Q21. The company also stated that the completion ratio of the project stood at 62.0%.

**Valuation:** We revise our target price to a fair value of SAR 14.5 per share and maintain our "Underweight" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	570.8	708.6	(19.5%)	2805.8	2271.8	23.5%
Gross Profit (SAR mn)	87.8	103.8	(15.4%)	463.5	329.8	40.5%
EBITDA (SAR mn)	343.1	(140.8)	NM	935.5	764.2	22.4%
Net Profit (SAR mn)	(132.2)	(812.2)	NM	319.3	(446.7)	NM
EPS Basic (SAR)	(0.20)	(1.21)	NM	0.48	(0.67)	NM
Gross Margin (%)	15.4%	14.7%	0.7%	16.5%	14.5%	2.0%
EBITDA Margin (%)	60.1%	(19.9%)	NM	33.3%	33.6%	(0.3%)
Net Profit Margin (%)	(23.2%)	(114.6%)	NM	11.4%	(19.7%)	NM

Source: Company Financials, FALCOM Research

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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  $\geq 10\%$ .

**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  $\geq 10\%$ .

**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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