

# National Industrialization Company.

Diversified Operations – Industrial

NIC AB: Saudi Arabia

07 August 2019

الراجحي المالية  
Al Rajhi Capital



**US\$2.611bn** Market cap  
**87%** Free float  
**US\$12.87mn** Avg. daily volume

**Target price** 14.00 -4.4% over current  
**Current price** 14.64 as at 7/8/2019

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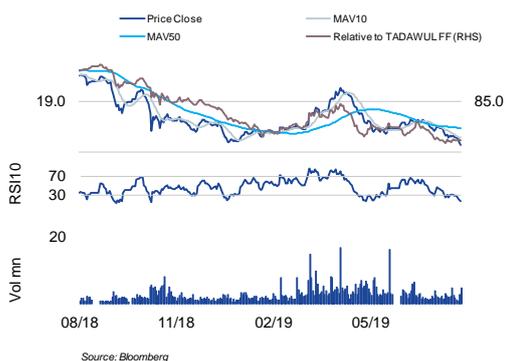
Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

(SARmn)	2018*	2019e**	2020e
Revenue	11,439	2,865	2,959
Revenue growth	6.0%	NM	3.3%
Gross profit	3,059	329	355
Gross margin	26.7%	11.5%	12.0%
EBITDA	3,577	956	1,344
EBITDA margin	31.3%	33.4%	45.4%
Net profit	1,202	432	92
Net margin	10.5%	15.1%	3.1%
EPS (SAR)	1.8	0.6	0.1
DPS (SAR)	0.0	0.0	0.0
Payout ratio	0.0%	0.0%	0.0%
EV/EBITDA	5.0x	18.6x	13.2x
P/E	8.1x	22.7x	NM
ROE	9.4%	3.1%	0.6%

Source: Company data, Al Rajhi Capital. \* Including Cristal  
\*\* Excluding Cristal but including net income from discontinued operations in 1H 2019.

## NIC / Tasnee (NIC AB)

### Q2: Weak set of results; Revise TP to SAR14/sh.

Tasnee reported a weak set of Q2 2019 numbers, despite largely in-line top-line (ex-Cristal; SAR731mn vs. SAR716mn expected). We note that items below top-line are not exactly comparable with our forecasts because of deconsolidation of Cristal assets and liabilities, while we included the same in our forecasts for Q2. We observed weak performance from its petrochemical and downstream operations in Q2. Following the closure of Cristal deal on 10<sup>th</sup> April 2019, the company received proportionate share of proceeds (after adjusting for foreign exchange) of ~SAR8bn against ~SAR7.5bn proportionate net assets value of Cristal, resulting into a tax adjusted gain of ~SAR508mn. Further, the company has written off SAR195mn worth of assets related to certain projects in AMIC, as these projects are no longer feasible post closure of Cristal deal. If we were to exclude these one-off items, then the company would have incurred losses of SAR87mn from its remaining assets (Petchem + Downstream operations) in Q2, lower than our expectations. Post deal, Tasnee has become leaner by transferring Cristal (73% of total 2018 revenue) and has now lower debt (SAR8bn in Q2 vs. ~SAR15bn in Q1 excluding Petchem segment). However, given that the performance of its remaining assets are likely to remain under pressure amid the challenging market conditions, the company's future performance will now depend on its associates, mainly polymer based, SEPC and SPC. Tronox may likely remain a drag as it posted US\$62mn losses in CYQ2-19. Accordingly, our TP stands at SAR14/share with a Neutral rating (earlier Under Review) on the stock.

Figure 1 Tasnee Q2 2019 results

(SAR mn)	Q2 2018	Q1 2019	Q2 2019	Y-o-Y	Q-o-Q
Revenue	717	739	731	2.1%	-1.1%
Gross profit	100	119	88	-12.0%	-26.2%
Gross margin	13.9%	16.1%	12.0%		
Operating profit	252	304	6	-97.6%	-98.0%
Operating margin	35.2%	41.1%	0.8%		
Net profit	396	160	297	-25.0%	86.0%
Net margin	55.2%	21.6%	40.6%		

Source: Company data, Al Rajhi Capital

**Valuation and risks:** We value Tasnee using FCF based (10.75% cost of equity and 4.5% cost of debt) valuation methodology, arriving at a 12 month forward price of SAR14.0/share. Post Cristal-deal and updating our model for detailed financials, we have revised our forward looking estimates lower. We expect the company to continue to remain under pressure in H2 2019, mainly due to 1) lower petchem product prices 2) weak production efficiencies, and 3) continued losses at Tronox. Accordingly, we assign Neutral rating on the stock. The key downside risks include decline in petchem prices, write off of any assets, further impairment in associates, increase in SAIBOR, shutdowns at petrochemical plants; while upside risk factors may be related to sustained rally in petchem prices and better operating performance of its associates, lower minority income.



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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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