



**YANSAB posted a strong set of results with net income of SAR 596.3mn; beating our and market estimates of SAR 535mn and SAR 534mn; respectively, due to higher-than-expected volumetric sales after Q1-21 plant maintenance. The company's revenue increased 94.1%Y/Y to SAR 1,983mn in Q2-21, recording the highest level in two years. Gross margin expanded to 38.93% from 30.85% in Q1-21, as a result of lower feedstock prices, plant maintenance and an impairment cost of SAR 64mn during Q1-21. We remain positive on the company's mid-term growth prospects, given its operating efficiency amid improving market dynamics. However, the company announced a temporary shutdown of its plants during Q3-21, and the financial impact is estimated at SAR 120mn. We reiterate our "Neutral" recommendation on the stock with a TP of SAR 68.0/share.**

- Yanbu National Petrochemical Co. (YANSAB) posted, in Q2-21, a net income of SAR 596.3mn (an increase of 1230%Y/Y and 41.9%Q/Q); above AJC and market estimates of SAR 535mn and SAR 534mn; respectively. The company positively surprised the market by reporting a strong improvement in production efficiencies. Overall strong performance is mainly driven by i) an increase in average sales prices for some products ii) strong volumetric sales and demand iii) a decline in average feedstock prices. The deviation of Q2-21 earnings from our estimates is mainly ascribed to higher than expected revenue.
- YANSAB reported 15.1%Q/Q increase in revenue in Q2-21 to SAR 1,983mn, beating our estimate of SAR 1,844mn and SAR 1,723mn recorded in Q1-21 due to our expectation of inventory usage. Thus, we assume that the sales volume increased by around 15%Q/Q in Q2-21. During the quarter, Asian average prices of YANSAB key products MEG increased by 11.6%Q/Q and 53.7%Y/Y, while HDPE and PP were flat at 0.2%Q/Q and 1.3%Q/Q, respectively.
- Gross profit stood at SAR 772mn (an increase of 463%Y/Y and 45%Q/Q); above AJC estimate of SAR 689mn owing to higher than expected ramping-up in production after plant maintenance during Q1-21. Gross margin expanded in Q2-21 to 38.93% vs. 30.85% in Q1-21, due to plant maintenance expenses and an impairment cost of SAR 64mn last quarter. Propane (Almost 60% of the total feedstock) average prices declined by 11%Q/Q to USD 528/MT, resulting in Propane-HDPE and Propane-MEG spreads increase by 8.3%Q/Q and 46%Q/Q, respectively. Operating expenses increased to SAR 132.8mn as compared to our estimate of SAR 123.6mn and SAR 118mn in Q1-21 due to higher associated cost with strong sales.

**AJC view:** The company posted a very strong operating performance during Q2-21, owing to improved production efficiency, strong demand and a decline in average feedstock prices. We believe this is a continuation of a healthy recovery from the impact seen during last few quarters amid the pandemic. The short-term outlook is largely driven by coronavirus vaccines, tight global supply and bullish downstream markets. Going forward, products prices are expected to stabilize around the current level with the pick-up in the global economic activities and we don't expect a significant improvement during 2H-21 due to expected global additional new capacities. Thus, we remain positive on the company's growth prospects, given its operating efficiency amid improving market dynamics, and strong cash flow. The company is trading at a forward PE of 19.7x during FY21, this is lower than the current PE of 23.9x. The company is expected to pay DPS of SAR 3.0 for FY21 compared to SAR 2.5 for FY20. We reiterate our "Neutral" recommendation on YANSAB with TP of **SAR 68.0/share**.

SARmn	Q2-FY20	Q1-FY21	Q2-FY21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,020	1,723	1,983	94.3%	15.1%	7.6%
Gross Profit	137.1	531.5	772.0	463%	45.2%	12.1%
Gross Margin	13.43%	30.85%	38.93%	-	-	-
EBIT	52.9	413.5	639.8	1109%	54.7%	13.1%
Net Profit	44.8	420.3	596.3	1230%	41.9%	11.5%
EPS	0.08	0.75	1.06	-	-	-

Source: Company reports, Aljazira Capital

## Neutral

Target Price (SAR) **68.0**

Upside / (Downside)\* **-0.4%**

Source: Tadawul \*prices as of 26<sup>th</sup> of July 2021

### Key Financials

SARmn (unless specified)	FY18	FY19	FY20	FY21E
Revenue	7,629	6,065	5,035	7,363
Growth %	5.6%	-20.5%	-17.0%	46.2%
Net Income	2,416	1,090	677.5	1,956
Growth %	1.6%	-54.8%	-37.6%	187%
EPS	4.29	1.94	1.20	3.47

Source: Company reports, Aljazira Capital

### Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	37.6%	24.7%	21.6%	34.5%
Net Margin	31.7%	18.0%	13.5%	26.6%
P/E	15.10x	28.9x	52.88x	19.7x
P/B	2.1x	1.9x	2.39x	2.58x
EV/EBITDA (x)	9.60x	11.9x	17.9x	11.6x
Dividend Yield	6.2%	6.3%	3.9%	4.4%

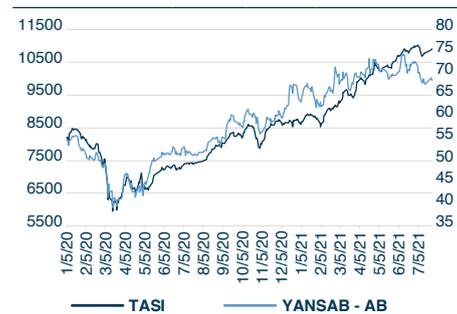
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	38.41
YTD %	7.98%
52 Week (High)/(Low)	74.40/51.80
Shares Outstanding (mn)	562.50

Source: Company reports, Aljazira Capital

### Price Performance



Source: Bloomberg, Aljazira Capital

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- 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.
- 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.
- 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.
- 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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