

Petrochem reported net income of SAR 236mn, below our estimates of SAR 250.8mn due to multiple non-recurring impacts; however, the normalized earnings of SAR 285mn are far better than market consensus of SAR 251mn. The result was supported by higher than expected revenues; where Polymers plant' operating rate increased to the highest record since inception. Q/Q Gross margin declined to 20.5% from 32.0% in Q3-18; as a result of accelerated depreciation of SAR 236mn for Polystyrene unit. The company's ability to increase its production efficiency and rates are a key potential growth for FY19 and onwards. We reiterate our TP at SAR 30.0/share with **"Neutral"** recommendation on the stock.

- National Petrochemical Company (Petrochem) posted net income of SAR 236mn; indicating a decline of 39.6%Y/Y and 23.1%Q/Q. The Y/Y decline was mainly associated with i) additional cost of SAR 236mn as accelerated depreciation for Polystyrene unit ii) higher non-operating profit during Q4-17 as a result of SAR 65mn for reversing zakat provision and SAR 38mn gain on currency exchange. Thus, the company's normalized net income stood at SAR 285mn; above our estimates of SAR 250.8mn. The deviation of normalized Q4-18 earnings with our estimates is mainly ascribed to higher than expected volumetric sales; driven by the improved operating rate.
- The company's sales revenue stood at SAR 2,183mn, above our estimates of SAR 2,008mn. We expect that the plant was running at a utilization rate of around 101%, as compared to 94.5% in Q3-18. During the quarter, average selling prices of PP declined by 3.4%Q/Q and increased by 3.4%Y/Y. Polystyrene plunged by 10.4%Q/Q and 4.5%Y/Y. Average selling price of HDPE declined by 9.7%Q/Q and 5.6%Y/Y.
- Gross profit stood at SAR 447mn; depicting a decline of 43.3%Y/Y, below AJC estimate of SAR 671mn due to SAR 236 accelerated depreciation for Polystyrene unit (normalized gross profit stood at SAR 683mn vs. our estimate of SAR 671mn). Normalized gross margin stood at 31.3% in Q4-18 vs. our estimates of 33.4%, and 32.0% in Q3-18. This, we believe is due to sourcing the basic materials from local market, which indicates lower spreads across products. However, in Q4-18, the change in feedstock price compared to the final product prices has resulted in PP-Naphtha spreads to increase by 1.0%Q/Q to USD 771/tonne from USD 762/tonne in Q3-18.
- Normalized operating profit stood at SAR 497mn, depicting a decline of 12.7%Q/Q, where the company witnessed a remarkable increase in OPEX (SG & A) to record SAR 186mn as compared to SAR 166.6mn in Q3-18 due to increase in selling and administrative expenses.

AJC View: Despite the weaker than expected gross margin and one-off impact, we believe that the production efficiency and operating rate has been positively reflected on the top line. Polymers plant's average operating rate is expected to rise at around 97% in FY19, as compared to an average of 93.8% during FY18. We expect the sudden upsurge in production capacity could be due to either outsourcing basic materials from the local market or obtaining additional feedstock from Aramco (additional clarification is required). On the other hand, new feedstock prices was gradually applied during Q3-18, where the grace period on Ethane and Propane will end in Aug/Sep FY19 (Propane represents almost 60% of the company's feedstock). National Petrochemical Co. (Petrochem) is expected to post SAR 1,109mn in net income (2.31 EPS) for FY19. Indicating a decline of 4.9%Y/Y. The company is trading at a forward TTM PE of 11.1x based on our FY19 earnings forecast, lower than the current sector average PE of 12.2x. We remain our **'Neutral'** recommendation on the stock with TP at **SAR 30.0/share**, awaiting for full financials details for more clarity.

Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,169	2,297	2,183	0.7%	-4.9%	8.7%
Gross Profit	788	736	447	-43.3%	-39.3%	-33.4%
Gross Margin	36.33%	32.04%	20.47%	-	-	-
EBIT	605	569	261	-56.9%	-54.1%	-45.6%
Net Profit	391	307	236	-39.6%	-23.1%	-5.9%
EPS	0.81	0.64	0.49	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) **30.0**

Upside / (Downside)* **15.2%**

Source: Tadawul *prices as of 23rd of January 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	7,367	8,930	8,755
Growth %	21.4%	21.3%	-2.0%
Net Income	888	1,165	1,109
Growth %	123.5%	31.2%	-4.9%
EPS	1.85	2.43	2.31

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	30.7%	30.1%	31.5%
Net Margin	12.1%	13.1%	12.7%
P/E	10.0x	10.60	11.10
P/B	1.31x	1.65	1.57
EV/EBITDA (x)	5.50x	5.14	5.22
Dividend Yield	2.7%	2.9%*	2.9%

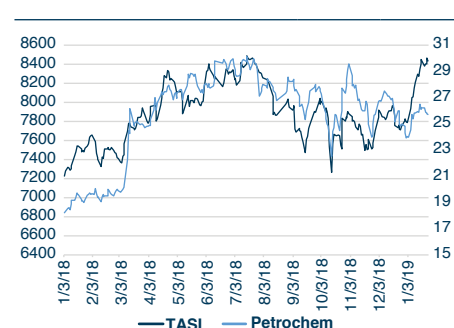
Source: Company reports, Aljazira Capital, *expected

Key Market Data

Market Cap (bn)	12.36
YTD %	6.2%
52 Week (High)/(Low)	30.80/18.80
Shares Outstanding (mn)	480.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Analyst

Jassim Al-Jubran

+966 11 2256248

j.aliabran@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa

Analyst

Muhanad Al-Odan

+966 11 2256115

M.alodan@aljaziracapital.com.sa

Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

Analyst

Waleed Al-jubayr

+966 11 2256146

W.aljubayr@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060

a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage

Luay Jawad Al-Motawa

+966 11 2256277

l.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547

a.alrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers

Central Region, & acting head Western and

Southern Region Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364

s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068