Yanbu National Petrochemicals

Petrochemicals – Industrial
YANSAB AB: Saudi Arabia
21 October 2021

الراجحي المالية
Al Rajhi Capital

US$11.760bn	37%	US$13.70mn
Market cap	Free float	Avg. daily volume

Target price	**75.00**	-4.3% over current
Current price	**78.40**	**as at 21/10/2021**

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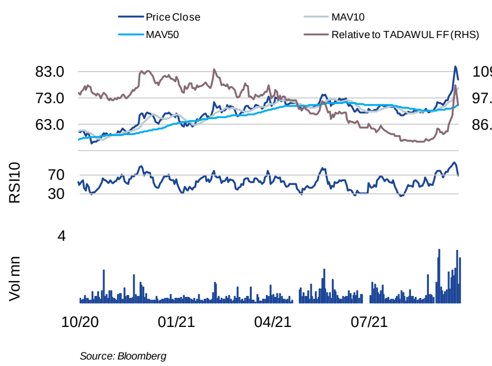
Existing rating

Underweight | **Neutral** | Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2020	2021E	2022E
Revenue	5,035	7,617	7,892
Y-o-Y	-17.0%	51.3%	3.6%
Gross profit	1,089	2,272	2,460
Gross margin	21.6%	29.8%	31.2%
Net profit	678	1,659	1,828
Y-o-Y	-37.8%	144.9%	10.2%
Net margin	13.5%	21.8%	23.2%
EPS (SAR)	1.2	2.9	3.2
DPS (SAR)	2.5	3.0	3.2
Payout ratio	207.5%	101.7%	100.0%
P/E (Curr)	65.1x	26.6x	24.1x
P/E (Target)	62.3x	25.4x	23.1x

Source: Company data, Al Rajhi Capital

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Weak earnings but product prices improve

Yansab posted weaker-than-expected Q3 results. Despite only a 3% top-line deviation, the gross profit came significantly lower than our expectation, even after factoring for the increase in feedstock costs. This could be attributed to increased costs due to shutdown-related expenses (12 days unplanned shutdown in Q3) and elevated depreciation costs (likely similar to Q2; we had expected the normalized level of depreciation in Q3 assuming Q2 was impacted due to one-off). Given the recent volatility in expenses (COGS) that we have witnessed in the last 5 quarters, it may be appropriate to consider annual numbers instead of relying on quarterly numbers. Also, the chances of an outperformance in earnings increase after a weak set of numbers. On the other hand, China MEG spot prices trade averaged at ~$1,070/t in Q4 so far vs. our estimate of $865/t for 2022E; +30% q-o-q), driven by increased upstream costs, coupled with the tighter supply amid the current energy restriction (announced electricity usage limits) in China. This has resulted in a sharp rise in Yansab's stock price this month (+10% MTD). Thus, despite the Q3 earnings miss, we expect the company to improve its dividend payout to SAR3.0/sh in 2021 from SAR2.5/sh. in 2020, implying a ~4% dividend yield. Based on our 2022E DPS estimate of ~SAR3.25/sh. and required yield of 4-4.5%, we revise our TP to SAR75/sh. (SAR72/sh. earlier) and remain Neutral on the stock.

Figure 1 YANSAB Q3 2021 results

(SAR mn)	Q3 2021	Q3 2020	Y-o-Y	Q2 2021	Q-o-Q	ARC est	vs ARC
Revenue	**1,780**	**1,441**	**23.5%**	**1,983**	**-10.3%**	**1,831**	**-2.8%**
Gross profit	344	277	24.0%	772	-55.5%	626	-45.1%
Gross margin	19.3%	19.2%		38.9%		34.2%	
Operating profit	215	201	7.2%	640	-66.3%	502	-57.1%
Operating margin	12.1%	14.0%		32.3%		27.4%	
Net profit	**180**	**196**	-8.1%	**596**	-69.8%	**476**	-62.2%
Net margin	10.1%	13.6%		30.1%		26.0%	

Source: Company data, Al Rajhi Capital

Q3 results: Q3 top-line reported at SAR1,780mn, largely in line with our estimate of SAR1,831mn (consensus: SAR1,851mn). We had factored in lower production in Q3 due to the 12-day unplanned shutdown in a usually strong quarter. However, higher-than-expected costs, coupled with the elevated depreciation costs pushed the gross and operating profits below our estimates. Accordingly, the net profit came in at SAR180mn, missing our estimate of SAR476mn (consensus: SAR492mn).

Valuation and risks: We remain positive on Yansab's medium-term growth prospects, given a healthy earnings growth amid better market dynamics, strong cash flow generation amid limited capex requirements, and a healthy balance sheet. The stock is trading at a P/E of ~24x on our 2022E EPS, slightly higher than its 3Y historical average of ~23x. Based on a 4-4.5% required yield and our 2022E DPS of ~SAR3.25, our revised TP stands at SAR75.0/sh (SAR72/sh. earlier). We believe that the dividend yield-based valuation approach is the most preferred for such stocks which are primarily held for dividends. Upside risks relate to higher than expected rise in MEG prices, better-than-expected dividends while downside risks may be related to further fall in product price especially, MEG price, and any unplanned shutdowns.

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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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