

SAFCO posted a strong set of result with net income of SAR 568.5mn; indicating an increase of 809%Y/Y and 8.9%Q/Q. Q4-18 earnings came slightly below AJC and the market consensus estimates due to an increase in zakat provision; while the contribution from Ibn-AlBaytar declined to SAR 17mn from SAR 43.8mn in Q3-18 due to plant maintenance for 30 days. “Neutral” recommendation on the stock with TP at 73.50/share.

- SAFCO posted net income of SAR 568.5mn in Q4-18 (EPS; SAR 1.36/share); indicating an increase of 809.5%Y/Y. We believe that the strong Y/Y growth is mainly attributed to i) an increase in Urea prices and volumetric sales. ii) the impact of scheduled maintenance of SAFCO 4 & 5 in Q4-17. The SAR 35mn deviation of 4Q-18 earnings from our estimates is mainly ascribed to i) lower than expected top line ii) higher than expected zakat provision, as zakat provision stood at SAR 22.9mn, as compared to our estimate of SAR 9.9mn.
- The company reported a 76.9%Y/Y jump in revenue for Q4-18 to SAR 1,090.1mn, which is slightly below our estimate of 1,123mn due to lower than expected operating rate. Based on our estimates, SAFCO operated at 91.5% utilization in Q4-18, below our estimate of 95%, and the average utilization of 95.2% during 9M-18. For Q4-18, Urea prices increased to an average price of USD 315/tonne, indicating an increase of 20.3%Y/Y and 9.2%Q/Q.
- Gross profit stood at SAR 691mn (an increase of 117.7%Y/Y and 17.1%QoQ), in-line with our estimates of SAR 699.1mn. Gross margin expanded to 63.38% in Q4-18 from 57.94% in Q3-18; mainly attributed to the 9.2%Q/Q increase in Urea prices as compared to fixed feedstock cost.
- Operating profit stood at SAR 574.1mn, lower our estimates of SAR 593.7mn due to an increase in OPEX (SG & A) to record SAR 116.9mn as compared to our estimates of SAR 105.4mn and SAR 100.5mn in Q4-17.

**Ajc view:** Urea prices have recovered considerably during Q4-18 to reach USD 340/tonne from an average price of USD 263/tonne in 9M-18 on the back of improvement in global demand and a significant decline in urea exports from China. However, Urea average price is expected average at USD 285/ton in FY19 due to the expected large capacity to come on-stream from Africa, South Asia and Eastern Europe. On the other hand, operating efficiency and operating rate are the key catalyst for the company beyond H1-19, where the company's operating rate is likely to stabilize above 95% in FY20 with higher ammonia capacity after completing the maintenance at SAFCO 3 (117 days) during H1-19. In addition, contribution from Ibn Al-Baytar has almost doubled during Q3-18, and is expected to offer an opportunity for future growth in FY19. SAFCO's net income is expected to stand at SAR 1,770.5mn (4.25 EPS) for FY19. Based on our FY19 earnings forecasts, the company is trading at forward PE of 19.8x against global peer average PE of 15.5x. We maintain our “Neutral” recommendation on SAFCO with TP at SAR 73.50/share, while we expect the company to increase its dividend payment to SAR 3.0 DPS (3.6% D/Y) in FY19 from SAR 2.5 DPS in FY18.

## Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	616.1	1008.7	1090.1	76.9%	8.1%	-2.9%
Gross Profit	148.7	584.5	691	364.9%	18.2%	-0.1%
Gross Margin	24.13%	57.94%	63.38%	-	-	-
EBIT	50.8	481.2	574.1	1030%	19.3%	-3.3%
Net Profit	62.5	522.2	568.5	809.5%	8.9%	-5.7%
EPS	0.15	1.25	1.36	-	-	-

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

## Neutral

Target Price (SAR) 73.50

Upside / (Downside)\* -12.9%

Source: Tadawul \*prices as of 22<sup>nd</sup> of January 2019

## Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	2,759	3,859.8	3,817
Growth %	-3.4%	39.9%	-1.1%
Net Income	879	1,783.4	1,771
Growth %	-15.2%	97.8%	1.9%
EPS	2.11	4.17	4.25

Source: Company reports, Aljazira Capital

## Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	43.0%	55.3%	55.5%
Net Margin	31.8%	45.0%	46.4%
P/E	28.26x	20.21x	19.84x
P/B	3.62x	4.80x	4.51x
EV/EBITDA (x)	19.03x	15.71x	15.48x
Dividend Yield	2.9%	2.9%	3.6%

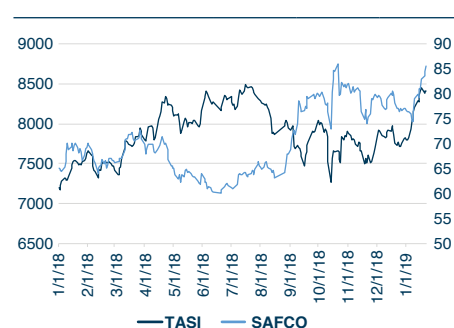
Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap (bn)	35.12
YTD %	9.6%
52 Week (High)/(Low)	87.40/60.00
Shares Outstanding (mn)	416.67

Source: Company reports, Aljazira Capital

## Price Performance



Source: Tadawul, Aljazira Capital

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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.

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