

Weak profits due to a one-off resulting in lower-than-expected associate income

National Industrialization Company (TASNEE)'s net income declined 89.4% Y/Y and 61.8% Q/Q to SAR 31.4mn in Q2-23, missing AJC's and consensus estimates of SAR 161.3mn and SAR 122.1mn, respectively. The major deviation is coming at the EBIT level due to lower-than-expected income from associates, partly offset by higher-than-expected sales. Tasnee's share of profit from associates came in at SAR 116mn, compared to our estimate of a profit of SAR 297mn. This is due to a one-off impact of non-recurring adjustment of a valuation allowance relating to deferred tax assets recorded by an associate (Tronox Holdings plc.). Gross margin stood at 16.1%, below our estimates of 19.0% and above the 12.9% recorded in the previous quarter. Revenue remained flat Q/Q at SAR 889mn but came in higher than our estimate of SAR 832mn. We maintain our "Neutral" recommendation on the stock with a TP of SAR 14.2/share.

- TASNEE registered a net profit of SAR 31mn in Q2-23, a decline of 89.4% Y/Y and 61.8% Q/Q, missing our and consensus estimates of a net income of SAR 161mn and SAR 122mn, respectively. The deviation in net income from our estimate is mainly ascribed to lower-than-expected income from associates, partly offset by higher revenues. Tasnee's share of profit from associates came in at SAR 116mn, compared to SAR 262mn in Q1-23 and our estimate of a profit of SAR 297mn. This is due to a one-off impact relating to deferred tax assets recorded by an associate (Tronox Holdings plc.) during the quarter.
- TASNEE's revenue stood at SAR 889mn in Q2-23 (flat Q/Q and down 17.4% Y/Y), and 6.8% higher than our estimate of SAR 832mn. During the quarter, the average selling prices for some products declined sequentially; HDPE decreased by 3.5% Q/Q (down 18.4% Y/Y) to USD 962/MT, while LDPE fell by 10.5% Q/Q (down 34.7%Y/Y) to USD 965/MT. PP-Asia prices stood at USD 882/MT, a decline of 7.4% Q/Q (down 23.2%Y/Y).
- Gross profit decreased 44.6% Y/Y but increased 24.8% Q/Q to SAR 144mn in Q2-23, and was 9.2% lower than our estimate of SAR 158mn, as higher revenue was offset by a lower-than-expected gross margin. Gross margin came-in at 16.1% compared to 12.9% in Q1-23 and our estimate of 19.0%. Propane feedstock average prices decreased by 25.7% Q/Q (down 38.6% Y/Y) to USD 520/MT, resulting in Propane-PP spreads increasing to USD 465.5/MT from USD 392/MT in Q1-23.
- Operating profit of SAR 52mn (-90.7% Y/Y, -67.6% Q/Q) stood lower than our estimate of SAR 328mn. The deviation is mainly due to lower income from associates due to a one-off impact. Operating profit margin stood at 5.9% vs. our estimate of 39.4% and 18.2% in Q1-23. Consequently, the OPEX to sales ratio was at 23.4% in Q2-23 vs AJC's estimate of 15.4% and 15.3% recorded in Q1-23.

AJC view and valuation: Overall, lower associate income weighed on TASNEE's Q2-23 earnings. The one-off impact relating to deferred tax assets recorded by Tronox Holdings plc. resulted in lower associate income for the quarter, partly offset by higher revenues. The company's finance charges are expected to remain high, given the high debt levels of the company and rising interest rates. However, recent decline in average feedstock prices is expected provide support to the company's gross margins in the coming quarters. The income from associates was much below our estimate as well as compared to the previous quarter, and recorded a negative surprise from the Q2-23 results. Nevertheless, the delay in commencement of the titanium ilmenite smelter plant remains a concern for the company. We expect TASNEE to record a net income of SAR 523mn in FY23, as compared to SAR 666mn in FY22 and SAR 1.4bn in FY21. The stock is trading at a forward PE of 17.9x based on our FY23 earnings forecasts vs. the current TTM PE of 27.4x. We maintain our "Neutral" recommendation on the stock with a TP at SAR 14.2/share.

Results Summary

SARmn	Q2-22	Q1-23	Q2-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,077	889	889	-17.4%	0.1%	6.8%
Gross Profit	259	115	144	-44.6%	24.8%	-9.2%
Gross Margin	24.1%	12.9%	16.1%	-	-	-
EBIT	563	162	52	-90.7%	-67.6%	-84.0%
Net Profit	297	82	31	-89.4%	-61.8%	-80.5%
EPS	0.44	0.12	0.05	-	-	-

Source: Company Reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	14.2
Upside / (Downside)*	-1.7%

Source: Tadawul *prices as of 27th of July 2023

Key Financials

SARmn (unless specified)	FY20	FY21	FY22	FY23E
Revenue	2,272	3,673	3,883	3,597
Growth %	-23.7%	61.7%	5.7%	-7.4%
Net Income	-461	1,356	666	523
Growth %	NM	NM	-50.9%	-21.4%
EPS	-0.67	2.03	1.00	0.78

Source: Company reports, Aljazira Capital

Key Ratios

SARmn	FY20	FY21	FY22	FY23E
Gross Margin	14.5%	26.9%	22.3%	18.5%
Net Margin	-20.3%	36.9%	17.2%	14.5%
P/E (x)	NEG	9.8	15.8	17.9
P/B (x)	1.1	1.5	1.1	0.96
EV/EBITDA (x)	HIGH	6.0	8.9	11.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%

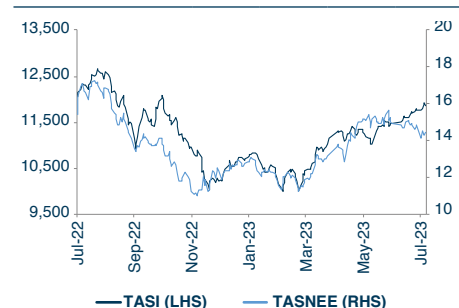
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	9.5
YTD %	16.8%
52 Week (High)/(Low)	17.4/10.8
Shares Outstanding (mn)	668.9

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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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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