



Broadly in-line results supported by higher Urea prices and lower OPEX

SABIC Agri-Nutrients recorded a net income of SAR 1.05bn in Q3-23, broadly in-line with our estimate of SAR 983mn and higher than consensus estimates of SAR 899mn. The net income was up 61.1% Q/Q but down 55.0% Y/Y. The Q/Q increase in profitability was driven by higher average selling prices of Urea during the quarter. The broadly in-line results with our estimates were mainly supported by higher Urea prices and lower OPEX. GP margins came-in at 45.9%, higher than our expectation of 43.2% and compares to 35.5% in Q2-23. Revenues came-in at SAR 2.67bn, up 1.6% Q/Q but down 39.5% Y/Y, and 2.5% below our estimates of SAR 2.74bn. The near-term outlook for urea is firming as demand is expected from India, Europe and even some buying from the US while the longer-term prospects for urea prices remain slim amid ample supplies. We maintain our “Neutral” recommendation on the stock with a TP of 133.0/share.

- SABIC Agri-Nutrients' net income increased 61.1% Q/Q but declined 55.0% Y/Y to SAR 1.05bn in Q3-23, broadly in-line with our estimate of SAR 983mn and higher than consensus estimates of SAR 899mn. The Q/Q increase in profitability is driven by increase in average selling prices of company's products during the quarter. The broadly in-line results with our estimates were supported by Urea prices and lower OPEX.
- The revenue reached SAR 2,672mn (-39.5% Y/Y, 1.6% Q/Q) in Q3-23, 2.5% lower than our estimate of SAR 2,739mn. Average prices of Urea increased 22.5% Q/Q to USD 372/tonne from USD 304/tonne in Q2-23. The company's volumetric sales declined 3% Q/Q while average sales price increased Q/Q resulting in a 2% Q/Q increase in revenues.
- Gross profit increased 31.5% Q/Q to SAR 1.23bn, 3.6% above our estimate of SAR 1.18bn. This reflects a GP margin of 45.9%, higher than our estimate of 43.2% and compares to 35.5% in Q2-23. The increase in product prices and a fixed-cost based feedstock helped expand GP margin Q/Q.
- Operating profit increased 48.8% Q/Q at SAR 1.01bn, 5.3% higher than our estimate of SAR 958mn. OPEX declined 14.6% Q/Q and is 3.4% lower than our estimate of SAR 225mn. OPEX-to-sales ratio stood at 8.1% vs 9.7% in Q2-23 and in-line with our estimate of 8.2%. The operating margin was recorded at 37.8% compared to 25.8% in Q2-23 and our estimate of 35.0%.

AJC view and valuation: SABIC AN'S earnings improved Q/Q driven by increase in average selling prices of company's products Q/Q. The results were broadly in-line with our estimate supported by higher gross margins and lower OPEX. Seasonal global demand and higher-cost winter-time energy supply together lend support to the urea market in Q3/Q4-23. Buoyant demand from major importers in the Americas, Africa, and Europe ahead of the new-crop planting season together with an estimated 1.5-2 MMT in Indian urea tenders support global trade through the year end – this coincides with an uptick in production costs given the onset of winter-season energy pricing affecting both gas-based and coal-based producers. The next Indian tender is not expected until December for January-February shipment, and this would create downward pressure on the market if demand continues to be subdued in other import regions. Furthermore, the longer-term prospects for urea prices remain slim amid ample supplies and sluggish demand. SABIC Agri-Nutrients completed the acquisition of 49% stake in ETG Inputs Holdco Ltd. in Q2-23. The acquisition is expected to help the company improve its distribution in regions such as Africa where ETG has presence. The stock is trading at a forward PE of 17.3x based on our FY23 estimates against the TTM PE of 12.8x. We maintain our “Neutral” recommendation on the stock with a revised TP at SAR 133.0/share.

Results Summary

SARmn	Q3-22	Q2-23	Q3-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	4,417	2,629	2,672	-39.5%	1.6%	-2.5%
Gross Profit	2,662	932	1,226	-53.9%	31.5%	3.6%
Gross Margin	60.3%	35.5%	45.9%	-	-	-
EBIT	2,423	678	1,009	-58.4%	48.8%	5.3%
Net Profit	2,331	651	1,049	-55.0%	61.1%	6.7%
EPS	4.90	1.37	2.20	-	-	-

Source: Company Reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	133.0
Upside / (Downside)*	+13.0%

Source: Tadawul *prices as of 29th of October 2023

Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	9,592	18,981	10,904	10,077
Growth %	188.3%	97.9%	-42.6%	-7.6%
Net Income	5,228	10,037	3,501	3,157
Growth %	303.9%	92.0%	-64.5%	-10.8%
EPS	10.98	21.08	7.36	6.63

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	67.8%	58.9%	39.9%	38.2%
Net Margin	54.5%	52.9%	32.1%	31.3%
P/E (x)	15.4	6.9	17.3	19.2
P/B (x)	5.2	3.5	2.9	2.8
EV/EBITDA (x)	11.4	5.5	11.9	13.3
Dividend Yield	2.5%	8.2%	4.3%	3.9%

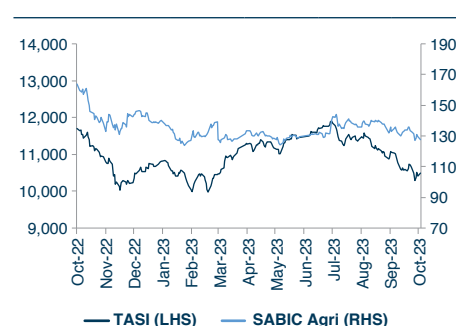
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	62.2
YTD%	-12.9%
52 week (High)/(Low)	162.0/123.2
Share Outstanding (mn)	476.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Argaam, Aljazira Capital

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RESEARCH
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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.

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