



YANSAB posted a disappointing set of results with net income of SAR 212.1mn; missing AJC and the market consensus estimates of SAR 328mn and SAR 305mn respectively, due to lower than expected volumetric sales and weak gross margin. This we believe could be partially attributed to higher than expected curtailment of some feedstock supplies from Aramco. Gross margin contracted to the lowest level since inception to 20.81% from 26.35% in Q2-19. We reiterate our **"Neutral"** recommendation on the stock with a TP of **SAR 62.50/share**.

- Yanbu National Petrochemical Co. (YANSAB) posted, in Q3-19, a net income of SAR 212.0mn (a decline of 70.9%Y/Y and 32.9%Q/Q); missing AJC and the market consensus estimates of SAR 328mn and SAR 305mn, respectively. Overall weak performance is mainly attributed to the impact of i) decline in average sales prices of most of the products ii) weak volumetric sales iii) an increase in average production cost. The deviation of Q3-19 earnings from our estimates is mainly ascribed to i) lower than expected revenue ii) higher than expected COGS; despite a noticeable decline in some feedstock cost during the quarter.
- YANSAB reported 70.9%Y/Y decline in revenue for Q3-19 to SAR 1,422mn, significantly below our estimate of SAR 1,569mn and SAR 1,638mn in Q2-19 due to lower than expected volumetric sales and operating rate. This we believe could be partially attributed to higher than expected curtailment of some feedstock supplies from Aramco. Based on our estimates, we assume that the plant was running at lower operating rate of 92.5%, as compared to our estimate of 97.5% and the average of 97.0% in Q2-19. During the quarter, Asian average prices of YANSAB key products MEG declined by -40.0%Y/Y and -2.2%Q/Q, in addition to the decline in HDPE and PP by -6.7%Q/Q and -6.0%Q/Q, respectively.
- Gross profit stood at SAR 296.1mn (a fall of 64.7%Y/Y and 31.4%Q/Q); significantly below AJC estimate of SAR 440mn owing to lower than expected revenue and gross margin. Gross margin contracted in Q3-19 to 20.81% vs. 26.35% in Q2-19 and our estimate of 28.1%, which, according to the company, was impacted by higher input costs. However, propane (Almost 60% of the total feedstock) average prices declined by 25.5%Q/Q to USD 365/MT, resulting in Propane-HDPE and Propane-MEG spreads expansion by 4.9%Q/Q and 8.2%Q/Q, respectively.
- Operating profit stood at SAR 205.4mn, depicting an increase of 37.7%Q/Q, where the company witnessed a decline of 11.2%Q/Q and 29.4%Y/Y in OPEX (SG & A) to record SAR 90.7mn as compared to our estimate of SAR 106mn and SAR 102mn in Q2-19.

AJC view: Weaker than expected operating rate and significant increase in production cost during 3Q-19 could be ascribed to a larger-than-expected impact of feedstock disruption from Aramco. The company's performance during the next quarter will remain under watch to accurately assess the future performance. Short-term outlook remains a concern due to an increase in COGS, weak operating rates and product prices. Monoethylene glycol product (MEG) reached its lowest level since 2009 at USD 520/Mt due to oversupply and weak demand; however, we expect MEG price to remain mostly around current levels for Q4-19. The company is trading at a forward PE of 22.9x during FY19, this is higher than the current sector average PE of 17.1x. We reiterate our **"Neutral"** recommendation on YANSAB with TP of **SAR 62.50/share**.

SARmn	Q3-FY18	Q2-FY19	Q3-FY19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,110.4	1,638	1,422.7	-32.6%	-13.1%	-9.3%
Gross Profit	839.2	431.6	296.1	-64.7%	-31.4%	-32.7%
Gross Margin	39.76%	26.35%	20.81%	-	-	-
EBIT	710.8	329.5	205.4	-71.1%	-37.7%	-38.5%
Net Profit	729.0	316.1	212.1	-70.9%	-32.9%	-35.4%
EPS	1.30	0.56	0.38	-	-	-

Source: Company reports, Aljazira Capital

Neutral

Target Price (SAR) **62.50**

Upside / (Downside)* **21.8%**

Source: Tadawul *prices as of 24th of October 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	7,220	7,629	6,117	6,660
Growth %	15.9%	5.6%	-19.8%	8.9%
Net Income	2,377	2,416	1,265	1,810
Growth %	3.2%	1.6%	-47.6%	43.0%
EPS	4.22	4.29	2.24	3.21

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Gross Margin	39.7%	37.6%	26.4%	32.8%
Net Margin	32.9%	31.7%	20.7%	27.2%
P/E	15.1x	15.10x	22.86x	15.98x
P/B	2.2x	2.1x	1.75x	1.77x
EV/EBITDA (x)	9.58x	9.60x	10.76x	9.24x
Dividend Yield	5.0%	5.8%	4.8%	5.4%

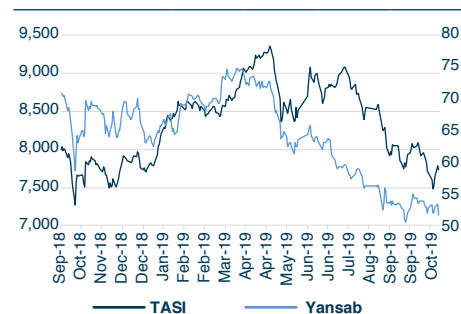
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	28.9
YTD %	-19.6%
52 Week (High)/(Low)	75.00/49.60
Shares Outstanding (mn)	562.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Research

Talha Nazar

+966 11 2256250

t.nazar@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374

A.Almashal@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

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