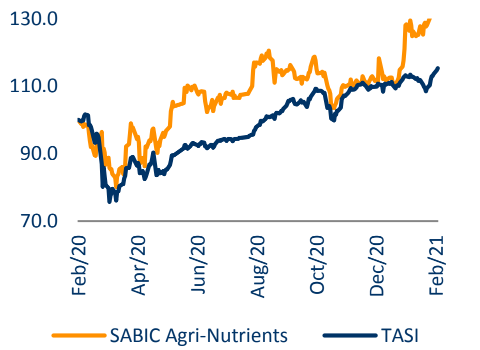
FY20 Results Update **February 16, 2020**

Recommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	98.9
Target Price (SAR)	85.0
Upside/Downside (%)	(14.1%)

As of February 15, 2020

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	47.1
52-Wk High (SAR)	99.9
52-Wk Low (SAR)	58.0
Total Outstanding Shares (in mn)	476.0
Free Float (%)	54.6%

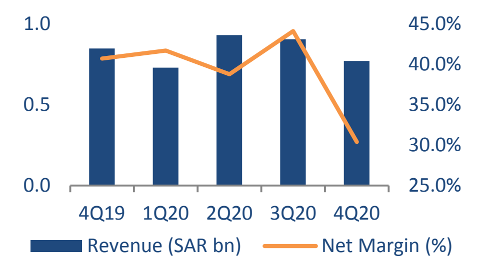
SABIC AGRI-NUTRIENTS vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	6.1%	4.1%
6m	16.4%	(1.5%)
12m	36.2%	20.9%

Major Shareholders (%)	
Saudi Basic Industries Corp.	50.10%
General Org for Social Insurance	7.74%

Revenue (SAR bn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of February 15, 2020

FY20 bottom line shrinks on lower share from subsidiary; SAFCO 4 plant shutdown hurts 4Q20 margins

SABIC Agri-Nutrients Co. (SABIC Agri-Nutrients)'s revenue rose 1.2% YoY to SAR 3.3bn in FY20. However, revenue fell in 4Q20 due to the scheduled shutdown of the company's SAFCO 4 plant for maintenance. Operating profit dropped 1.5% YoY to SAR 1.3bn, resulting in 110 bps YoY contraction in operating margin to 39.3%. Lower profit contribution from subsidiary Ibn Al Baytar and higher zakat expense led to a 12.2% YoY decline in net profit to SAR 1.3bn. Consequently, net profit margin shrank 593bps YoY to 38.9% in FY20.

SABIC Agri-Nutrients recorded a drop in net profit during the year as lower demand from end markets in 1H20 led to subdued urea and ammonia prices. However, prices retreated gradually in 4Q20 due to a slight recovery in demand for fertilizers. According to World Bank, urea prices are anticipated to register steady growth in the near term as economic activities continue on the path to normalcy. This could lead SABIC Agri-Nutrients to record higher top line and boost its profitability. The company maintains a sturdy balance sheet with negligible debt and generates stable free cash flow. It is also expected to benefit in the long term from the acquisition of SABIC Agri-Nutrients Investment Company (SANIC) completed in January 2021. However, recovery in urea demand may take longer than anticipated with the pandemic yet to be contained and a slowdown in the pace of vaccine rollout may hinder the speed of recovery in economic activity. Furthermore, higher natural gas prices could push feedstock costs and further weigh on margins. Moreover, the stock has recorded a strong rally recently and we believe it has run ahead of the fundamentals. In view of the rich valuation, we revise our rating to "Underweight" on the stock.

- SABIC Agri-Nutrients' top line grew 1.2% YoY to SAR 3.3bn in FY20. However, the gain was limited due to lower average selling prices of products during the year compared to FY19.
- Gross profit fell 1.7% YoY to SAR 1.7bn in FY20 due to a 4.3% YoY rise in cost of sales to SAR 1.7bn. Consequently, gross margin for the period contracted to 50.0% as against 51.5% in FY19.
- Operating profit declined 1.5% YoY to SAR 1.3bn as the improvement in SG&A expense was offset by lower gross profit. As a result, operating margin narrowed to 39.3% in FY20 from 40.4% in FY19.
- Lower profit share from subsidiary Ibn Al Baytar and higher zakat expense resulted in a 12.2% YoY decline in net profit to SAR 1.3bn. Subsequently, net margin tightened to 38.9% in FY20 from 44.8% in FY19.
- On December 15, the company's Board of Directors recommended a cash dividend of SAR 1 per share for 2H20, which is equivalent to SAR 476mn or 10% of the company's share capital.
- On January 4, SABIC Agri-Nutrients announced completion of the purchase of 100% stake in SANIC from SABIC Agri-Nutrients Investments Company owned by the Saudi Basic Industries Corporation ("SABIC")
- . The acquisition was funded through issuance of 59.37mn new shares and increased share capital by 14.25% to SAR 4.76bn.
- On January 7, SABIC Agri-Nutrients announced the restarting of its SAFCO 4 plant after completing maintenance activities. The shutdown continued for 43 days and is anticipated to have an impact of SAR 110mn on the company's financials.

Valuation: We revise our target price upward to a fair value of SAR 85.0 per share but alter our rating to "Underweight" on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	768	846	(9.1%)	4,170	3,328	25.3%
Gross Profit (SAR mn)	358	431	(17.0%)	2,210	1,665	32.7%
EBITDA (SAR mn)	393	483	(18.7%)	2,347	1,852	26.7%
Net Profit (SAR mn)	234	344	(32.1%)	1,782	1,294	37.6%
EPS (SAR)	0.56	0.83	(32.1%)	3.7	3.1	20.5%
Gross Margin (%)	46.6%	51.0%	(4.4%)	53.0%	50.0%	3.0%
EBITDA Margin (%)	51.1%	57.2%	(6.0%)	56.3%	55.6%	0.6%
Net Profit Margin (%)	30.4%	40.7%	(10.3%)	42.7%	38.9%	3.8%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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