

TASNEE

الأهلي كابيتال
NCB Capital

EVENT FLASH

Strong result on higher margin and petrochemical income

Tasnee reported a strong set of 3Q17 results, with a net income of SR192mn, increasing +77.6% YoY and +104.7% QoQ. This is significantly higher than the NCBC and consensus estimates. We believe the variance is due to higher than expected gross margins and income from the petrochemicals segment.

- Revenues came-in at SR2.76bn in 3Q17, in-line with our estimates. This is an increase of 32.7% YoY (+3.4% QoQ). Based on our calculations, the Industrial segment operated at 95% in 3Q17 vs 96% in 2Q17 and 85% in 3Q16. Moreover, TiO2 prices increased +20.0% YoY and +6.0% QoQ.
- Gross margin was 19.4% in 3Q17, higher than our estimate of 18.4%, 15.9% in 2Q17 and 12.9% in 3Q16. We believe this is due to higher TiO2 prices.
- Based on our calculations, Tasnee's income from associates stood at SR424mn in 3Q17, higher than our estimates of SR347mn and compared to SR278mn in 2Q17. We believe this is mainly driven by higher income from SEPC. We believe the improvement is due to 1) higher operating rates of 110% vs our estimate of 103% and 2) margin expansion on improved efficiency. We estimate that margins stood at 37% vs our estimate of 27%.
- EBIT came-in at SR557mn in 3Q17, higher than our estimates of SR450mn. This is mainly supported by gross margin expansion and higher income from associates. Based on our calculations, SG&A expenses stood at SR405mn in 3Q17, in-line with our estimates of SR402mn and SR376mn in 2Q17.
- In 3Q17, PP prices increased 6.5 % YoY and 6.6% QoQ to US\$1,068, while PE prices remained flat YoY and QoQ at US\$1,124. PP-propane spread increased 20.1% QoQ but declined 2.1% YoY to US\$685.
- Tronox announced its shareholders' approval to issue new shares to acquire Cristal's titanium dioxide business. In February 2017, Tronox had announced plans to acquire the TiO2 business of Cristal for US\$1.67bn cash and new shares (representing 24% stake in Tronox). The deal is expected to finalize in 1Q18 and is subject to regulatory approvals.
- We are Neutral on Tasnee with a PT of SR14.5. Tasnee's key risks are: 1) normalizing PP-propane spread, 2) high debt levels with a net debt/EBITDA of 5.3x, 3) delays in operating the slag facility and 4) the lack of operational visibility following the deconsolidation of the petrochemical segment. However, ongoing improvement in TiO2 prices is a key positive. The stock is trading at a 2018E P/E of 15.3x vs sector average of 13.7x, thereby offering a limited upside potential.

3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	2,760	2,080	32.7	2,753	0.3	3.4
Gross income	537	268	100.1	505	6.2	26.3
Gross margin (%)	19.4%	12.9%	6.55	18.4%	1.09	3.53
Operating income	557	229	143.9	450	23.8	70.3
Net income	192	108	77.6	139	37.9	104.7
EPS (SR)	0.29	0.16	77.6	0.21	37.9	104.7

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price	14.5
Current price (SR)	14.8
Upside/Downside (%)	(2.1)

STOCK DETAILS

52-week range H/L (SR)	20/12
Market cap (\$ mn)	2,642
Shares outstanding (mn)	669
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.2)	(1.5)	14.8
Rel. to market	0.8	3.6	(4.0)

Avg daily turnover (mn)	SR	US\$
3M	15.3	4.1
12M	18.8	5.0

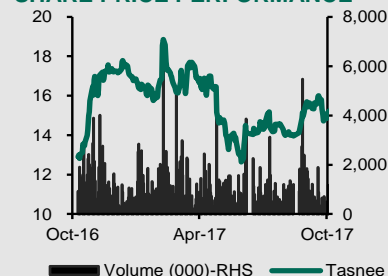
Reuters code	2060.SE
Bloomberg code	NIC AB
	www.tasnee.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	16.5	15.3
P/B (x)	1.3	1.2	1.1
EV/EBITDA (x)	10.1	10.6	10.4
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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