

SAFCO posted net income of SAR 397.5mn, in-line with our estimate, indicating an increase of 10.5%Q/Q. Improved performance was mainly supported by improved selling prices, strong contribution from Ibn-AlBaytar and an increase in other income, which is expected to stand at SAR 17.5mn. The Q/Q higher average Urea prices led gross margin to expand by 485 bps to 53.77% from 48.92% in Q2-20. The company's Q4-20 performance is expected to be under pressure due to plants maintenance. "Neutral" recommendation on the stock with revised TP at **SAR 74.0/share**.

- SAFCO posted net income of SAR 397.5mn in Q3-20 (EPS; SAR 0.95); indicating a fall of 4.0%Y/Y and an increase of 10.5%Q/Q. Net profit came in-line with AJC estimate of SAR 390mn and above the market consensus estimates of SAR 366.3mn. We believe that the strong Q/Q result is mainly attributed to i) an increase in average selling prices, despite a decline in volumetric sales ii) an increase in the other income iii) higher contribution from Ibn-AlBaytar. The deviation of Q3-20 revenue from our estimates (down 3.9%) was offset by higher than expected other income and gross margin.
- The company reported a 2.9%Q/Q decline in revenue for Q3-20 to SAR 902.1mn, which is below our estimate of 939.9mn. We assume that the sales volume declined by around 15.4%Q/Q in Q3-20. For Q3-20, Urea prices increased to an average price of USD 257/tonne from USD 228/tonne in Q2-20, indicating a fall of 4.3%Y/Y and an increase of 12.8%Q/Q. The contribution from Ibn-AlBaytar is expected to record SAR 14.0mn from SAR 26.1mn in Q3-19 and SAR 13.2mn in Q2-20, above our estimate of SAR 9.5mn.
- Gross profit stood at SAR 485.1mn; indicating an increase of 4.3%Y/Y and 6.8%Q/Q, slightly below our estimates of SAR 499.2mn due to lower than expected top line. Gross margin expanded to 53.77% in Q3-20 from 51.13% in Q3-19 and 48.92% in the previous quarter; and against our estimate of 53.1%.
- Operating profit stood at SAR 388.0mn, after recording a decline in OPEX (SG & A) at SAR 97.1mn as compared to SAR 101.4mn in Q3-19 and our estimates of SAR 102mn

Ajc view: We expect, the weak volumetric sale during 3Q-20 was offset by improved average urea prices, gross margin and other income. The urea market is in an overall short-term positive trend, with a broadly stable global grain balance and limited urea supply pressure. As fertilizer and food demand is resilient during COVID-19, ensuring prices stability. However, the company's Q4-20 performance is expected to be under pressure due to plants maintenance, where the company plans to suspend production in Q4-20 for SAFCO-3 and SAFCO-5, for 15 days and 32 days, respectively. Moreover, we expect SAFCO to witness weak contribution from Ibn Al-Baytar during Q4-20, impacted by plant maintenance for 93 days to improve the reliability of the ammonia factory and urea plants. On the other hand, operating efficiency and expected price recovery are the key catalyst for the company beyond FY20, where the operating rate is likely to stabilize above 90% after plant maintainace. SAFCO is expected to post SAR 1,359mn in net income (3.26 EPS) for FY20, indicating a decline of 7.8%Y/Y. The company is trading at a forward PE of 22x for FY21, against the global peer average PE of 25.4x. We reiterated our "Neutral" recommendation on SAFCO with a TP at **SAR 74.0/share**.

Results Summary

SARmn (unless specified)	Q3-19	Q2-20	Q3-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	909.7	928.7	902.1	-0.8%	-2.9%	-3.9%
Gross Profit	465.1	454.3	485.1	4.3%	6.8%	-2.8%
<i>Gross Margin</i>	<i>51.13%</i>	<i>48.92%</i>	<i>53.77%</i>	-	-	-
EBIT	363.7	359.9	388.0	6.7%	7.8%	-2.4%
Net Profit	414.2	359.8	397.5	-4.0%	10.5%	1.9%
EPS	0.99	0.86	0.95	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) **74.0**

Upside / (Downside)* **-9.8%**

Source: Tadawul *prices as of 21st of October 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Revenue	3,859.8	3,288	3,363	3,708
Growth %	39.9%	-14.8%	2.3%	10.3%
Net Income	1,783.4	1,474	1,359	1,571
Growth %	97.8%	-15.2%	-7.8%	15.6%
EPS	4.17	3.54	3.26	3.77

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Gross Margin	55.3%	51.5%	50.5%	53.1%
Net Margin	45.0%	44.8%	40.4%	42.4%
P/E	20.21x	21.91x	25.44x	22.01x
P/B	4.80x	4.04x	4.18x	4.01x
EV/EBITDA (x)	15.71x	16.87x	15.09x	15.78x
Dividend Yield	2.9%	3.9%	2.9%	2.9%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	34.6
YTD %	7.1%
52 Week (High)/(Low)	88.0/58.00
Shares Outstanding (mn)	416.67

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.
- 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.
- 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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