

Yanbu National Petrochemicals Co

Petrochemicals – Industrial

YANSAB AB: Saudi Arabia

الراجحي المالية
Al Rajhi Capital



US\$9.59bn Market cap
37% Free float
US\$5.09mn Avg. daily volume

Target price 68.00
Current price 64.33
5.7% over current as at 29/1/2018

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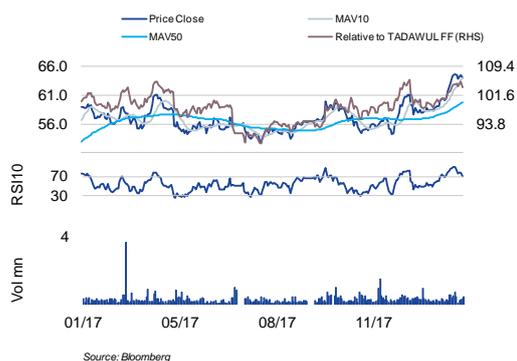
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2017e	2018e	2019e
Revenue	7,221	7,919	8,010
Y-o-Y	15.9%	9.7%	1.1%
Gross profit	2,870	2,989	3,499
Gross margin	39.7%	37.7%	43.7%
Net profit	2,376	2,478	2,953
Y-o-Y	1.4%	4.3%	19.2%
Net margin	32.9%	31.3%	36.9%
EPS (SAR)	4.2	4.4	5.2
DPS (SAR)	3.3	4.0	5.0
Payout ratio	76.9%	90.8%	95.0%
P/E (Curr)	15.1x	14.5x	12.2x
P/E (Target)	16.1x	15.4x	13.0x

Source: Company data, Al Rajhi Capital

Yanbu National Petrochemicals Q4 earnings surge; Remains our top pick in the Saudi Petchem space

Q4 revenue increased SAR233mn or ~12% q-o-q on higher sales volume and better product prices. Gross and operating profits outpaced the top-line growth, rising ~15% and ~19%, respectively, which surprised the market given that propane prices jumped significantly in Q4. As per our calculations, increase in propane costs should have been ~SAR200mn (implied from 345k tonnes of propane input at SAR1,741/tonne), but this has not been seen this quarter, leading to beat at both the gross and operating levels. On an annual basis, Yansab reported 2017 full year revenue at SAR7,221mn (in-line with our estimate of SAR7,179mn and earnings at SAR2,376mn (beat our estimate of SAR2,200mn). We continue to remain positive on Yansab, given its strong operational capabilities coupled with healthy balance sheet (net cash position) and robust FCF generation capabilities amid limited capex requirements (even after incorporating SAR373mn Ethylene Glycol DBN project). In addition, we do expect DPS to increase from SAR3.25/sh in 2017 to SAR4/sh in 2018, implying a superior dividend yield of over 6%. Post estimates revision, we revise our TP upwards to SAR68/share. Yansab's stock price was up ~16% in the last 3 months and hence we revise our rating to Neutral.

Figure 1 Yansab Q4 results

(SAR mn)	Q4 2016	Q3 2017	Q4 2017	Y-o-Y	Q-o-Q	ARC est	Comments
Revenue	1,645	1,933	2,167	31.7%	12.1%	2,125	Largely in-line with our estimate (beat consensus estimate of SAR2,067mn). Utilization could have improved to ~97% vs. our estimate of 95.5%.
Gross profit	733	780	897	22.4%	14.9%	750	Strong product prices and improved production efficiencies despite higher feedstock costs led to gross profit beat in Q4.
Gross margin	44.5%	40.4%	41.4%			35.3%	
Operating profit	588	654	780	32.7%	19.3%	614	The likely reduction in SG&A expenses pushed the operating profit higher during the quarter.
Operating margin	36%	34%	36%			29%	
Net profit	607	645	780	28.2%	20.7%	602	Beat our estimate of SAR602mn as well as consensus estimate of SAR629mn.
Net margin	37%	33%	36%			28%	

Source: Company data, Al Rajhi Capital

Outlook and valuation: While we expect the product prices to remain mostly stable (currently trading well below their 3-year average) in 2018 and gradually increase from 2019 onwards, we forecast propane prices to decline in the coming years, given that prices are currently above its historical 3-year average and US refiners are expected to improve their throughput due to wider Brent-WTI spread (~USD4-5/bbl currently). Moreover, Yansab, which has a healthy track record of shutdowns (around once in 6-8 quarters), is unlikely to witness any shutdowns in 2018, ensuring the earnings boost in 2018. In addition, Yansab is likely to complete the expansion of Ethylene Glycol DBN project in Q4 2018, which will increase its production capacity by 80ktpa. This will help to company to achieve earning growth better than its peers and thereby a higher multiple. We raise our 12m TP to SAR68/share based on an equal mix of DCF and relative valuation. Yansab's superior dividend yields (~6.3% based on 2018e DPS) and modest valuation multiples (14.5x PE based on 2018 EPS, largely in line with its 3-year historical average of 14.2x), especially in the current market conditions, makes it one of our preferred picks in the sector.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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