

Rating **Buy**  
 12- Month Target Price **SAR 32.00**

## NATIONAL PETROCHEMICAL COMPANY (PETROCHEM)

1Q2019 First Look

### Expected Total Return

Price as on Apr-25, 2019	SAR 27.40
Upside to Target Price	16.8%
Expected Dividend Yield	2.6%
Expected Total Return	19.3%

### Market Data

52 Week H/L	SAR 30.8/22.4
Market Capitalization	SAR 13,128 mln
Shares Outstanding	480.0 mln
Free Float	16.6%
12-Month ADTV (000's)	268.1
Bloomberg Code	PETROCH AB

### 1-Year Price Performance

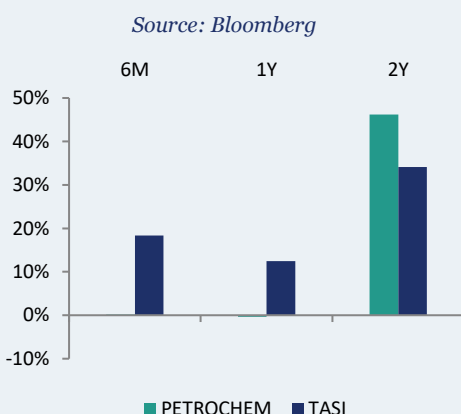


Fig in SAR	RC. Est	Actuals
Revenue	1,921	2,020
EBIT	413	376
Net Income	214	187
EPS (SAR)	0.45	0.39

## Margins Lower Than Expected

National Petrochemical Company (Petrochem) reported 1Q2019 earnings of SAR 187 million (-44% Y/Y, -21% Q/Q), missing both our and consensus estimate of SAR 214 million and SAR 220 million, respectively. Revenues fell on a quarterly and yearly basis but remarkably managed to stay above the 2 billion level despite weak prices; however, margins failed to meet expectations. We were surprised that management did not cite higher finance cost on a Q/Q basis as some of their peers, although they did cite higher Zakat expense. The company has proved its ability in weathering tough market conditions and has deleveraged its balance sheet significantly over the past few years, which will increase the company's leeway to use free cash flow for dividend payments. The stock is trading at 2019E P/E of 10.7x, below TASI's 17.2x. We raise our target price to SAR 32.00 from SAR 29.00 earlier and upgrade our rating To Buy.

### Topline remains firm

The Company registered revenues of SAR 2.02 billion in 1Q2019 (-9% Y/Y, -7% Q/Q), exceeding our forecast of SAR 1.92 billion. The decrease in sales was attributed to lower product prices. Polyethylene fell by -10% Q/Q and -20% Y/Y while Polypropylene fell by -9% Q/Q and -12% Y/Y.

### Margins partially recover

Gross profit came in at SAR 526 million, (-31% Y/Y, +18% Q/Q) with gross margins shrinking to 26% from 35% last year but expanding from 20% last quarter. Operating profits came in at SAR 376 million (-38% Y/Y, +44% Q/Q), causing operating margins to shrink to 19% from 27% last year but expand from 12% last quarter. We note that operating expenses decreased both on yearly and quarterly basis by -4% and -19%, respectively. The quarterly increase in gross and operating margins is mostly due to the accelerated depreciation last quarter for some assets related to the Polystyrene unit. Net profit fell to SAR 187 million (-44% Y/Y, -21% Q/Q), with net margins shrinking to 9% from 15% last year and 11% last quarter. The quarterly decrease in net margins is mostly due to an insurance claim payout last quarter.

### Upgrade to Buy; Raise target price to SAR 32.00

The earnings miss was mostly driven by lower than expected margins; however, the company's stable revenues minimized the impact. Petrochem's long-term debt currently stands at SAR 5.3 billion, its lowest since its listing, which will mature between 2020 and 2023. We do not believe petrochem will take capex loans afterwards but may utilize working capital loans. As a result, we expect higher dividends as early as next year that will help support the company's share price. With an expected total return of 19.3%, We raise our target price to SAR 32.00 and upgrade our recommendation to Buy.

### Key Financial Figures

FY Dec31 (SAR mln)	2018	2019E	2020E
Revenue	8,930	9,109	9,382
EBIT	2,009	2,095	2,158
Net Profit	1,165	1,226	1,267
EPS (SAR)	2.43	2.55	2.64
DPS (SAR)	0.50	0.70	0.70

### Key Financial Ratios

FY Dec31	2018	2019E	2020E
ROAA	4.8%	4.8%	5.3%
ROAE	14.9%	13.8%	14.4%
P/E	11.3x	10.7x	10.4x
P/B	1.7x	1.5x	1.5x
EV/EBITDA	6.8x	5.8x	5.9x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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