

**3Q19 Results Update**

**November 3, 2019**

<b>Recommendation</b>	<b>Neutral</b>
Previous Recommendation	Neutral
Current Price (SAR)	76.7
Target Price (SAR)	74.0
Upside/Downside (%)	(3.5%)

As of November 3<sup>rd</sup>, 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	32.0
52 Wk High (SAR)	92.4
52 Wk Low (SAR)	73.0
Total Outstanding shares (in mn)	417
Free Float (%)	44.3%

**SAFCO vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	(4.1%)	0.1%
6m	(5.5%)	13.2%
12m	(4.1%)	(0.9%)

**Major Shareholders (%)**

Saudi Basic Industries Corp.	42.99%
General Org For Social Insurance	8.85%

**Revenue (SAR bn) and Operating Profit Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 3<sup>rd</sup> November 2019

**Bottom line drops on lower revenues and decrease in share of profit from associate**

Net income for 3Q19 dropped 20.7% YoY to SAR 414mn mainly due to lower average selling price of products and decrease in sales volumes. Further, the net profit was also impacted by decrease in other income as a result of dividends received from available for sale investments, and a drop in the income share of Ibn Al-Baytar Company. SAFCO's revenues contracted 9.8% YoY to SAR 910mn. Sequentially, on quarterly basis revenue jumped 11.8%, supported by higher sales quantities. Gross profit shrank 20.4% YoY to SAR 465mn as a result of higher cost of sales. Operating income decreased 24.4% YoY to SAR 364mn, despite decrease in selling and distribution expenses.

SAFCO's top line was largely impacted by lower selling prices as result of decline in global urea and ammonia prices. The supply of urea is currently in excess and prices are likely to remain subdued. This will overall have negative impact on the product prices. However, the launch of commercial operations at its SAFCO 3 plant after implementing the reliability improvement project and scheduled maintenance will enhance energy utilization, and boost annual production capacity of ammonia by 100,000 metric tons per year. Moreover, the company has completed its planned reliability improvement projects, which will result in reduction of capital expenditure going forward. The capex cost reduction will improve the free cash flow. Thus, we maintain a neutral stance on the stock.

- Revenues declined 9.8% YoY to SAR 910mn in 3Q19 as result of decrease in sales volumes and lower selling price.
- Gross profit retreated 20.4% YoY to SAR 465mn for 3Q19 as a result of increase in production costs. Consequently, the gross margin contracted sharply to 51.1% from 58.0% in the same quarter last year.
- Operating profit fell 24.4% YoY to SAR 364mn. Consequently, the operating margin shed to 40.0% from 47.7% in the same period.
- Net income during the quarter fell 20.7% YoY to SAR 414mn, as a result of decrease in income from the subsidiary. However, losses were trimmed due to lower Zakat provisions. Net income margin contracted to 45.5% YoY from 51.8% in the same quarter a year ago. Conversely, on quarterly basis the net profit improved by 8.9%.
- Zakat provision has been reduced during the quarter as the company received revised Zakat assessments up to year 2017.

**Valuation:** We have downwardly revised the target price to a fair value of SAR 74.0 per share. However, we maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	910	1,009	(9.8%)	3,860	3,533	(8.5%)
Gross Profit (SAR mn)	465	585	(20.4%)	2,133	1,922	(9.9%)
EBITDA (SAR mn)	512	615	(16.7%)	2,218	2,101	(5.3%)
Net Profit (SAR mn)	414	522	(20.7%)	1,738	1,660	(4.5%)
EPS (SAR)	0.99	1.25	(20.7%)	4.2	4.0	(4.5%)
Gross Margin (%)	51.1%	58.0%	(11.8%)	55.3%	54.4%	1.6%
EBITDA Margin (%)	56.3%	61.0%	(7.6%)	57.5%	59.5%	(3.3%)
Net Profit Margin (%)	45.5%	51.8%	(12.1%)	45.0%	47.0%	(4.1%)

Source: Company Financials, FALCOM Research

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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  $\geq 10\%$ .

**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  $\geq 10\%$ .

**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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