

National Industrialization Company SJSC (Tasnee) - 2Q23 Results Review

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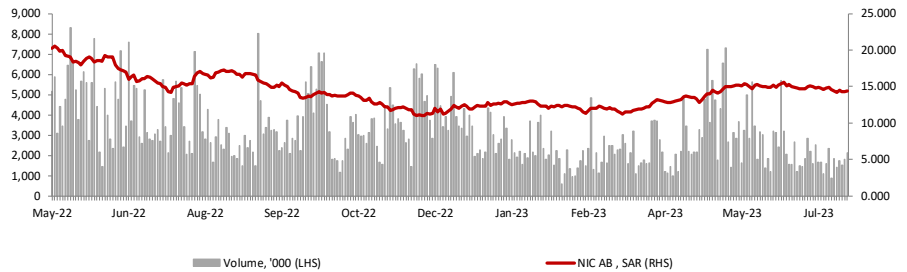
Previous Recommendation:
Previous Reco. & Date:

Hold
TP: SAR 16.0 per share; Hold on 18-Jul-2023

Target Price (SAR): 16.0
Upside / (Downside): 10.9%

Date: 30-07-2023

Bloomberg Ticker	NIC AB
Current Market Price (SAR)	14.440
52wk High / Low (SAR)	17.42/10.84
12m Average Vol. (000)	2,964.0
Mkt. Cap. (USD/SAR mn)	2,551/9,565
Shares Outstanding (mn)	668.9
Free Float (%)	83%
3m Avg Daily Turnover (000)	40,474.2
6m Avg Daily Turnover (000)	33,684.7
P/E'23e (x)	10.8x
EV/EBITDA'23e (x)	10.5x
Dividend Yield '23e (%)	0.0%
Price Perf. (1m/3m) (%)	-4.42%/5.43%



Revenue in line with UCapital estimates.

The company reported Q2'23 revenue of SAR 889.2mn (-17.0% y-o-y), which was in line with the U-Capital's estimate of SAR 874mn. The decrease in revenue compared to Q2'22 was primarily caused by lower average selling prices for most of the products resulting in decreased revenue.

Gross and Operating profits misses UCapital estimates.

The company's gross profit and operating profit for the quarter was SAR 144mn and SAR 52m, falling short of our estimated figure of SAR 175mn and SAR 269mn. The deviation was due to lower-than-expected margins for Q2'23 (Gross margin 16% vs 20% estimated and Operating margin 6% vs 31% estimated).

Net income further impacted due to lower-than-expected share of profits from associates.

The company's net income for the quarter was SAR 31.4mn, which was below our estimated figure of SAR 157.3mn. The deviation was mainly due to lower operating income. Additionally net income was further impacted due to lower-than-expected results from associates (147mn vs 243mn estimated).

Maintain target price.

Our belief is that the petrochemical sector will encounter ongoing pricing pressure throughout the remaining months of FY'23e primarily due to global economy facing stress from concerns about a recession, a cautious approach towards interest rates, and the delayed recovery in China. However, beyond FY'23e, we anticipate prices to stabilize, and the MENA and Asia regions are expected to experience a surge in demand for petrochemical end-products like paints and cosmetics. As a result, we project an improvement in revenue and margins post-FY'23e and uphold our target price at SAR 16.0 per share while maintaining our "hold" rating on the stock.

Income Statement											
(SAR mn)	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Sales/Revenue	887	940	889	889	874	-17%	0%	2%	2,056	1,778	-14%
Gross Profit (Loss)	130	187	115	144	175	-45%	25%	-18%	547	259	-53%
Operating Profit (Loss)	182	22	162	52	269	-91%	-68%	-81%	1,117	214	-81%
Net Profit attributable to sharehold	17	43	82	31	157	-89%	-62%	-80%	606	114	-81%
Balance Sheet											
(SAR mn)	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Shareholders' Equity	9,527	9,615	9,704	9,675	9,862	2%	0%	-2%	9,531	9,675	2%
Key Ratios											
	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Gross Margin	15%	20%	13%	16%	20%				27%	15%	
Operating Profit Margin	21%	2%	18%	6%	31%				54%	12%	
Net Profit Margin	2%	5%	9%	4%	18%				29%	6%	
Return on Equity (RoE)	1%	2%	3%	1%	6%				13%	2%	

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report on the sector, please [click here](#).

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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