Yanbu National Petrochemicals
Petrochemicals – Industrial
YANSAB AB: Saudi Arabia
22 May 2022

الراجحي المالية
Al Rajhi Capital

US$8.400bn	37%	US$26.76mn
Market cap	Free float	Avg. daily volume

Target price	68.00	+25% over current
Current price	54.60	as at 22/05/2022

Existing rating

Underweight	Neutral	**Overweight**

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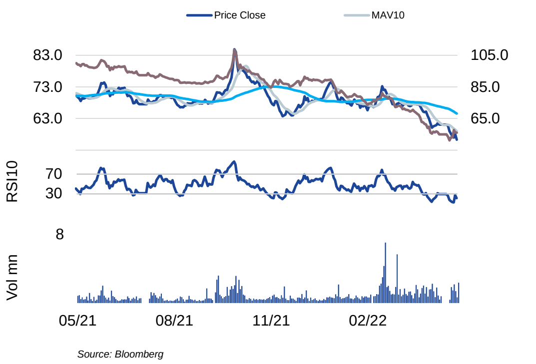
Yanbu National Petrochemicals

Q1: TP revised to SAR68/sh on weak MEG prices

Yansab reported largely in-line Q1 results with the top-line coming at SAR1,971mn (+2.5% q-o-q), largely in line with our estimate of SAR1,893mn (consensus: SAR1,947mn). The sequential rise in the top-line was mainly driven by higher average selling prices (+6% q-o-q), offsetting a decline in sales volume (-3% q-o-q). However, despite a healthy top-line growth, gross profit declined more than 15% q-o-q to SAR429mn (in line with our estimate), mainly due to increased production costs. Further, SG&A costs rose over 6% q-o-q, resulting in a ~22% decline in operating profits. Overall, lower product spreads and higher operating costs impacted net profit (-16% q-o-q), in line with our estimate.

China MEG spot prices averaged at ~US$746/t in Q2 so far (vs. our earlier estimate of $850/t for 2022E), down by 8% q-o-q, mainly due to weak fiber demand, coupled with lower textile consumption of polyester amid the lockdown in China. Further, MEG inventory also reached an all-time high, which may keep the MEG prices under pressure. Accordingly, we revise our MEG price forecast to US$800/t, resulting in a downward revision in our estimates. Nonetheless, given that Yansab is a gas-based producer, we see a limited impact on its margins and profitability compared to Naphtha-based producers. Based on our 2022E DPS estimate and required yield of ~4.5%, we revise our TP to SAR68/sh. (SAR75/sh. earlier). The stock has declined ~18% YTD, mainly due to falling MEG prices, however, we believe that the correction maybe overdone as average MEG prices are lower by only ~4% compared to average 2021 prices. Therefore, we revise our rating to Overweight (Neutral earlier) on the stock.

Performance



Earnings

(SARmn)	2020	2021	2022E
Revenue	5,035	7,408	8,505
Y-o-Y	-17.0%	47.1%	14.8%
Gross profit	1,089	2,154	1,961
Gross margin	21.6%	29.1%	23.1%
Net profit	678	1,531	1,295
Y-o-Y	-37.8%	126.0%	-15.4%
Net margin	13.5%	20.7%	15.2%
EPS (SAR)	1.2	2.7	2.3
DPS (SAR)	2.5	3.0	3.0
Payout ratio	207.5%	110.2%	130.3%
P/E (Curr)	46.5x	20.6x	24.3x
P/E (Target)	56.5x	25.0x	29.5x

Source: Company data, Al Rajhi Capital

Figure 1 YANSAB Q1 2022 results

(SAR mn)	Q1 2022	Q4 2021	Q1 2021	Q1 2020	ARC Est.	Cons Est.	q-o-q	y-o-y	% ch vs 2020	vs ARC	vs Cons
Revenue	**1,971.1**	**1,922.1**	**1,723.0**	**1,195.0**	**1,892.6**	**1,946.7**	***2.5%***	***14.4%***	***64.9%***	***4.1%***	***1.3%***
Gross Profit	428.9	507.1	531.5	199.3	441.0	NA	*-15.4%*	*-19.3%*	*115.3%*	*-2.8%*	*NM*
G. margin	*21.8%*	*26.4%*	*30.8%*	*16.7%*	*23.3%*	NA					
Op. profit	296.2	382.2	413.5	102.4	312.3	NA	*-22.5%*	*-28.4%*	*189.3%*	*-5.2%*	*NM*
Op. margin	*15.0%*	*19.9%*	*24.0%*	*8.6%*	*16.5%*	*NA*					
Net profit	**283.0**	**335.0**	**420.3**	**104.5**	**290.6**	**338.2**	***-15.5%***	***-32.7%***	***170.9%***	***-2.6%***	***-16.3%***
Net margin	*14.4%*	*17.4%*	*24.4%*	*8.7%*	*15.4%*	*17.4%*					

Source: Company data, Al Rajhi Capital

Valuation and risks: We remain positive on Yansab's medium-term growth prospects, given healthy earnings growth amid better market dynamics, strong cash flow generation amid limited capex requirements, and a healthy balance sheet. The stock is trading at a P/E of ~24.3x on our 2022E EPS, largely in line with its 3Y historical average of 24.5x. Based on a ~4.5% required yield and our 2022E DPS of ~SAR3, we revise our TP to SAR68.0/sh (SAR75/sh. earlier), implying an Overweight rating (Neutral earlier) on the stock. We believe that the dividend yield-based valuation approach is the most preferred for such stocks which are primarily held for dividends. Upside risks relate to the higher-than-expected rise in MEG prices, and better-than-expected dividends while downside risks may be related to further fall in product price especially, MEG price, and any unplanned shutdowns.

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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.

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