

# National Industrialization Company SJSC (Tasnee) - 4Q23 Results Review

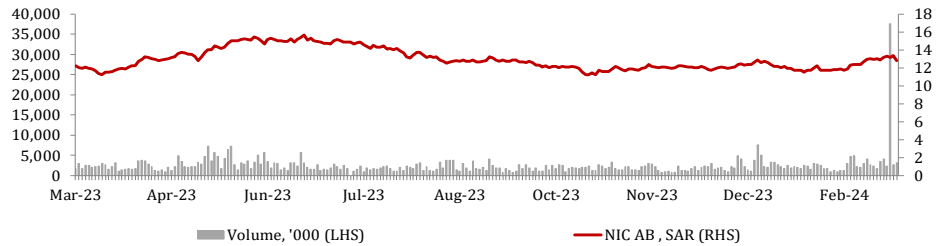
Analyst: Neetika Gupta

**Previous Recommendation:** Hold  
**Previous Reco. & Date:** TP: SAR 16.0 per share; Hold on 18-Jul-2023

**Target Price (SAR):** 16.0  
**Upside / (Downside):** 25.0%

Date: 05-03-2024

	NIC AB
Bloomberg Ticker	NIC AB
Current Market Price (SAR)	12.8
52wk High / Low (SAR)	15.7/10.94
12m Average Vol. (000)	2,416.2
Mkt. Cap. (USD/SAR mn)	2,312/8,562
Shares Outstanding (mn)	668.9
Free Float (%)	83%
3m Avg Daily Turnover (000)	37,296.5
6m Avg Daily Turnover (000)	29,904.1
P/E'23e (x)	15.2x
EV/EBITDA'23e (x)	10.4x
Dividend Yield '23e (%)	0.0%
Price Perf. (1m/3m) (%)	8.7%/6.1%



## Revenue increases 15% QoQ for 4Q23 surpassing Bloomberg consensus and U-Capital estimate

The company reported 4Q23 revenue of SAR 957mn (2% YoY and 15% QoQ) surpassing Bloomberg Consensus of SAR 856mn and U-Capital estimate of SAR 789mn. The deviation vs our estimate is likely due to higher-than-expected volumes for 4Q23. For FY23, revenue stood at SAR 3,567mn, reflecting an 8% decline compared to FY22. This decline is primarily attributable to lower average selling prices, despite increase in sales volumes of most of the products.

## Gross and Operating profits decline significantly for 4Q23

The company incurred a gross loss of SAR 50mn (-127% YoY and -132% QoQ) for 4Q23. This figure falls below the Bloomberg consensus gross profit of SAR 136mn and U-Capital estimate gross profit of SAR 126mn. This deviation from our estimate can be attributed to higher-than-expected feedstock costs in 4Q23. Operating income for 4Q23 stood at SAR 16mn (-55% YoY and -91% QoQ) below Bloomberg consensus of SAR 157mn and U-Capital estimate of SAR 177mn. The deviation is due to lower-than-expected gross margins in 4Q23 (-5% vs 16% expected). Additionally, operating income turned positive after incurring losses at the gross margin level, primarily due to contributions from associates and joint ventures. For FY23, operating income stood at SAR 414mn, reflecting a 69% YoY decline. This decline is mainly attributable to decreases in sales revenue and the share of profit from investments in joint ventures and associates due to lower average selling prices in 2023.

## Net income decreases 140% YoY in 4Q23 – below Bloomberg consensus and U-Capital estimate

The company's incurred net loss of SAR 17mn (-140% YoY and -122% QoQ) – below Bloomberg consensus net profit of SAR 65mn and U-Capital net profit estimate of SAR 95mn. This deviation from our estimate is due to lower-than-expected operating margins (2% vs 22% expected). In FY23, net income declined by 74% to SAR 175mn, primarily due to decreased operating margins (12% versus 34% in FY22) and a non-cash tax charge resulting from changes in accounting estimates related to deferred tax assets associated with an associate, Tronox Holdings.

## Maintain target price

We expect the petrochemical industry to encounter challenges until the first half of 2024, amidst global economic concerns such as the potential for a recession, prolonged periods of higher interest rates, slow recovery in China, and ongoing conflicts in West Asia and the Red Sea region. Furthermore, TASNEE is expected to face increasing feedstock costs due to Saudi Aramco's adjustments to feedstock prices since January, which are anticipated to impact margins. However, sector stability is projected post the first half of 2024, with favourable pricing trends likely driven by demand for end products like paints and cosmetics in the MENA and Asia regions. Additionally, TASNEE has awarded an EPC contract to SGC-eTEC to enlarge the ethylene cracker plant at the Saudi Ethylene and Polyethylene Company (SEPC), a Joint Venture of Tasnee Sahara Olefins Company (TSOC), which Tasnee owns 60%. Production is expected to commence from 1H-26, with an anticipated 18% increase in olefins production at the ethylene cracker plant. According to contracts and expected prices, this is anticipated to positively contribute to TASNEE's consolidated profits by an average of SAR 200mn per year. However, despite this investment and the expected stability post the first half of 2024, we maintain our **Hold** rating on the stock due to the current challenges faced by the group.

## Valuation

TASNEE is trading at 2024e P/E of 15.2x, compared to its historical average 1-year forward P/E of 17.7x. Additionally, the stock is valued at EV/EBITDA multiple of 10.4x, based on the FY24 estimate, compared to the historical average of 11.2x.

Income Statement												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales/Revenue	939	889	889	832	957	789	2%	15%	21%	3,883	3,567	-8%
Gross Profit (Loss)	187	115	143	156	(50)	126	-127%	-132%	-140%	864	365	-58%
Operating Profit (Loss)	35	161	52	184	16	177	-55%	-91%	-91%	1,321	414	-69%
<b>Net Profit/(Loss)</b>	<b>43</b>	<b>82</b>	<b>31</b>	<b>78</b>	<b>(17)</b>	<b>95</b>	<b>-140%</b>	<b>-122%</b>	<b>-118%</b>	<b>666</b>	<b>175</b>	<b>-74%</b>
Balance Sheet												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholders' Equity	9,615	9,704	9,675	9,651	9,650	9,858	0%	0%	-2%	9,615	9,650	0%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Gross Margin	20%	13%	16%	19%	-5%	16%				22%	10%	
Operating Profit Margin	4%	18%	6%	22%	2%	22%				34%	12%	
Net Profit Margin	5%	9%	4%	9%	-2%	12%				17%	5%	
Return on Equity (RoE)	2%	3%	1%	3%	-1%	4%				7%	2%	

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


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


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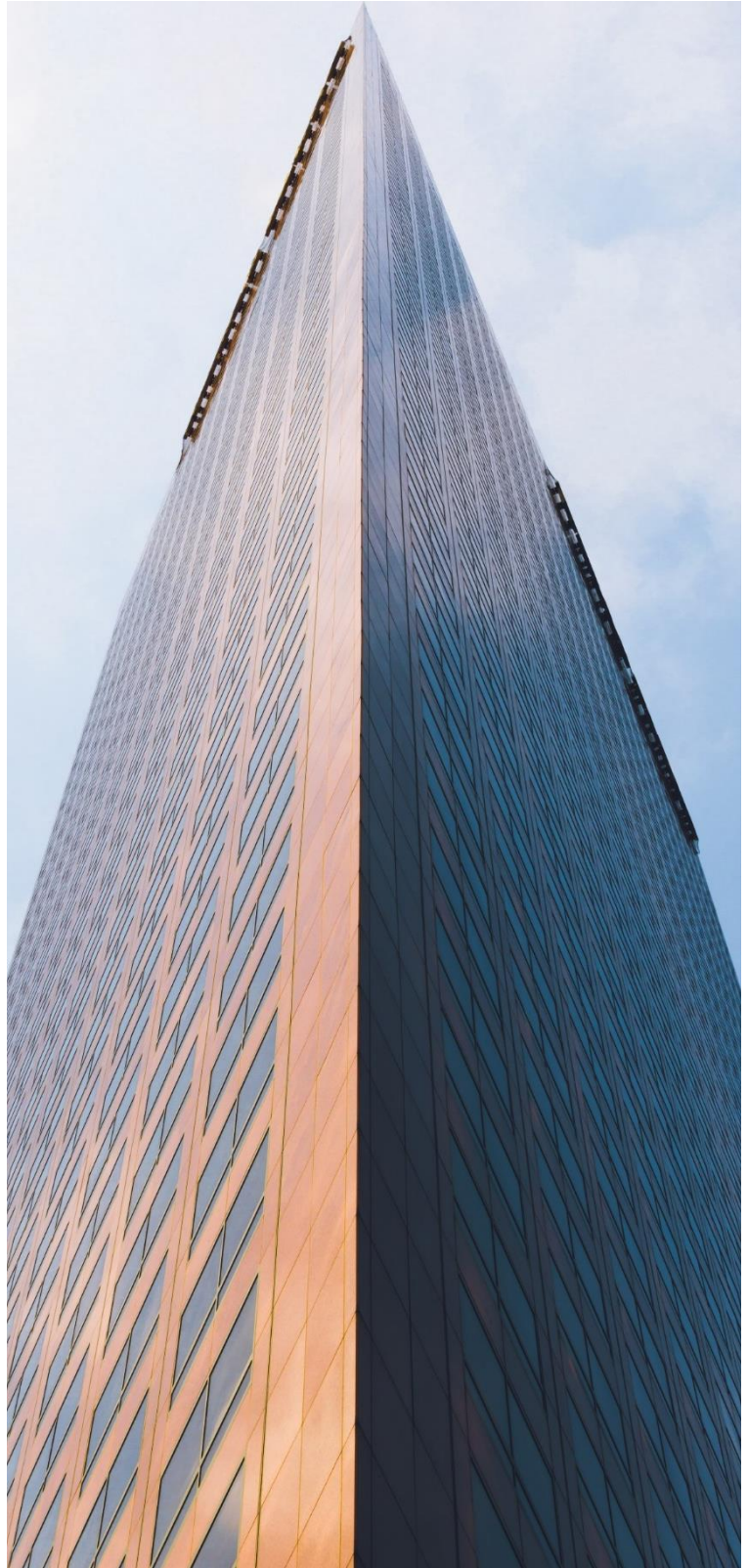
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## Recommendation

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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