SABIC Agri-Nutrients Co.

Petrochemicals – Industrial
SAFCO AB: Saudi Arabia
24 January 2021

الراجحي المالية
Al Rajhi Capital

US$10.189bn	40%	US$7.61mn
Market cap	Free float	Avg. daily volume

Target price	80.00	-12.8% over current
Current price	91.70	as at 21/1/2021

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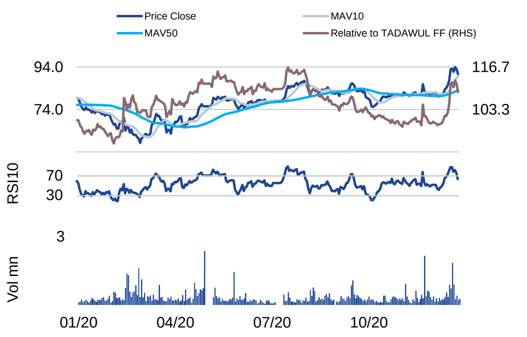
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2019	2020	2021e
Revenue	3,288	3,328	4,022
y-o-y	*-14.8%*	*1.2%*	*20.0%*
Gross Profit	1,689	1,665	2,211
Gross margin	*51.4%*	*50.0%*	*55.0%*
Net income	1,473	1,294	1,779
y-o-y	*-15.3%*	*-12.1%*	*30.6%*
Net margin	*44.8%*	*38.9%*	*44.2%*
EPS (SAR)	3.5	3.1	4.3
DPS (SAR)	3.0	2.0	3.2
Payout ratio	*85%*	*64%*	*76%*
P/E (Curr)		29.5x	21.5x
P/E (Target)		25.7x	18.7x

Source: Company data, Al Rajhi Capital

SABIC Agri-Nutrients Co.

Q4: Earnings Miss; Maintain TP at SAR80/sh.

The company missed our and consensus net profit expectations by SAR80-100mn, mainly due to the much higher impact of the shutdown of the SAFCO 4 plant. Further, the equity income could have dropped notably in Q4, further contributing to a miss. While sales volume remained weak in H2 2020 compared to the first half of 2020 (due to increased food demand mainly in Q2 2020), a gradual recovery in average Urea prices (+12% over H1 2020) helped the company to offset this impact. The recent upward movement in the stock is because of a spike in Urea price, which we believe may not last due to seasonal factors. As per Bloomberg, China will ramp up production in 1Q, and Urea capacity growth is set to outpace global demand gains in 2021. However, we do factor Urea prices to maintain prior stable levels with a gradual increase in the near to medium term, aided by i) slowing capacity additions outside China, ii) expected improvement in oil and feedstock prices, iii) likely improvement in crop prices. Further, we expect sales volume to improve this year in the absence of any planned shutdowns. Accordingly, we maintain our DPS estimate of SAR3.2 (SAR2 DPS for 2020), backed by healthy cash flows generation ability amid limited growth capex requirements. However, the stock has rallied ~14% YTD, which is not justified in our view. We maintain our TP at SAR80/sh.

Figure 1 SAFCO Q4 2020 results

(SAR mn)	Q4 2020	Q4 2019	Y-o-Y	Q3 2020	Q-o-Q	ARC est	vs ARC
Revenue	**768**	**846**	**-9.1%**	**902**	**-14.8%**	**867**	**-11.4%**
Gross profit	358	431	-17.0%	485	-26.2%	433	-17.4%
Gross margin	46.6%	51.0%		53.8%		49.9%	
Operating profit	282	344	-18.1%	388	-27.4%	334	-15.5%
Operating margin	36.7%	40.7%		43.0%		38.5%	
Net profit	**234**	**344**	-32.1%	**398**	-41.2%	**334**	-30.1%
Net margin	30.4%	40.7%		44.1%		38.5%	

Source: Company data, Al Rajhi Capital

Q4 results. Revenues came at SAR768mn, lower than our (SAR867mn) and consensus (SAR855mn), mainly due to the higher-than-expected impact of shutdown from the SAFCO IV plant, which could be because of the extension of the shutdown period (43 days vs. 32 days announced earlier). The top-line miss flowed down to gross and operating levels as well, offsetting lower-than-expected SG&A costs (the lowest since Q2 2016). Further, lower equity income and a likely steep rise in zakat provision pushed net profit below our (SAR334mn) and consensus (SAR312mn) estimates.

Valuation and risks: We expect top-line and bottom-line to improve in 2021, backed by healthy Urea prices, increased sales volume, cost control initiatives, and higher equity income. Based on our unchanged 2021E DPS of SAR3.2 and an average dividend yield of ~4%, our TP stands at SAR80/share. We believe that all the positive fundamentals are already priced in at the current levels. Key upside risks to our estimates include major shutdowns of Urea plants globally, delay suspension of construction of newer Urea plants worldwide, sharp pick-up in demand, higher than expected rise in Urea prices, and increase in dividends above our expectations. Downside risks to our estimates may arise from a steep decline in Urea price and acquisition of associates/subsidiaries at expensive valuations.

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