

April 25, 2019

Rating **Neutral**
12- Month Target Price **SAR 74.00**

YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)
1Q2019 First Look

Expected Total Return

Price as on Apr-24, 2019	SAR 71.80
Upside to Target Price	3.1%
Expected Dividend Yield	5.2%
Expected Total Return	8.3%

Market Data

52 Week H/L	SAR 77.5/58.0
Market Capitalization	SAR 40,275 mln
Shares Outstanding	562.5 mln
Free Float	35%
12-Month ADTV (000's)	409.0
Bloomberg Code	YANSAB AB

1-Year Price Performance



Source: Bloomberg

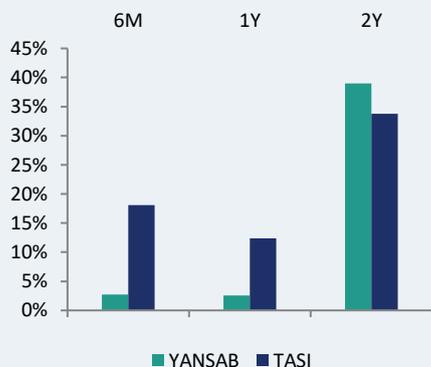


Fig in SAR mln	RC. Est	Actuals
Revenue	1,749	1,522
EBIT	586	379
Net Income	601	391
EPS (SAR)	1.07	0.69

Extraordinary Drop in Topline Q/Q

Yanbu National Petrochemical Company (Yansab) reported its 1Q2019 results with an EPS of SAR 0.69, widely missing both our and market expectations of SAR 1.07 and SAR 0.89 respectively. Margins noticeably recovered from last quarter's levels (which had heavily contracted due to a 2-month shutdown in their MEG plant), but were far from their usual levels. Yansab's topline was quite surprisingly as it fell to SAR 1.52 billion (-15% Y/Y, -6% Q/Q) despite the shutdown last quarter. With record high inventories at the main ports of eastern China, the effect of the MEG supply glut clearly made its mark on the Company's performance. Yansab trades at a 2019E P/E of 17.1x close to TASI's 17.0x. We downgrade our Buy rating to Neutral as the stock now trades in the vicinity of our SAR 74.00 target price.

Topline retreats Q/Q

Yansab registered revenues of SAR 1.52 billion in 1Q2019 (-15% Y/Y, -6% Q/Q) which is the lowest quarterly revenue since 3Q2016 (excluding shutdown quarters). The Company noted lower average sales prices and higher sales quantity during the quarter. We believed that revenues would be lower on a Y/Y basis but not on a Q/Q basis given the two month shutdown last quarter. The MEG supply glut likely caused Yansab to offer steep discounts to keep their inventory moving. MEG prices declined -19% Q/Q and -35% Y/Y. PE fell by -10% Q/Q and -20% Y/Y while PP fell by -9% Q/Q and -12% Y/Y.

Margins not fully recovered

Gross profit decreased by -36% Y/Y but increased +36% Q/Q to reach SAR 473 million. Gross margins followed suite and fell to 31% from 41% last year but rose from 22% last quarter. Operating profit fell by -40% Y/Y but increased +90% Q/Q to settle at SAR 379 million with operating margins shrinking to 25% from 36% last year but expanding from 12% last quarter. Yansab's margins were far from their usual levels this quarter despite the absence of any shutdown. Judging from the previous quarters in the last three years, the Company needs quarterly sales to be above SAR 1.7 billion to achieve their characteristically high margins.

Downgrade to Neutral; Maintain target price of SAR 74.00

Yansab registered a bottomline of SAR 391 million (-38% Y/Y, +67% Q/Q), missing the lowest estimates. This is the lowest quarterly earnings since 1Q2016 (excluding shutdown quarters). As we mentioned in our Kayan First Look note, market sentiment for MEG was weak throughout the quarter as demand from downstream polyester and textile sectors was sluggish. This caused inventories at the main ports of eastern China to increase from more than 700,000 MT (which is already high) to 1.36 million MT by the end of the quarter (S&P Platts). However, demand from the polyester and textile sectors has almost fully recovered, with operating rates at around 91% and 86% of total capacity, respectively, in China (S&P Platts). A key catalyst for the stock is the anticipated trade resolution between the US and China. The stock trades at a 2019E P/E of 17.1x close to TASI's 17.0x. We downgrade to Neutral as the stock now trades in the vicinity of our target price of SAR 74.00.

Key Financial Figures

FY Dec31 (SAR mln)	2018	2019E	2020E
Revenue	7,629	7,781	7,937
EBIT	2,362	2,307	2,659
Net Profit	2,414	2,362	2,716
EPS (SAR)	4.29	4.20	4.83
DPS (SAR)	3.75	3.70	4.00

Key Financial Ratios

FY Dec31	2018	2019E	2020E
ROAA	12.6%	11.7%	13.2%
ROAE	14.1%	13.4%	15.1%
P/E	16.7x	17.1x	14.9x
P/B	2.4x	2.3x	2.2x
EV/EBITDA	11.2x	11.1x	9.7x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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