

National Industrialization Company SJSC (Tasnee) - 3Q23 Results Review

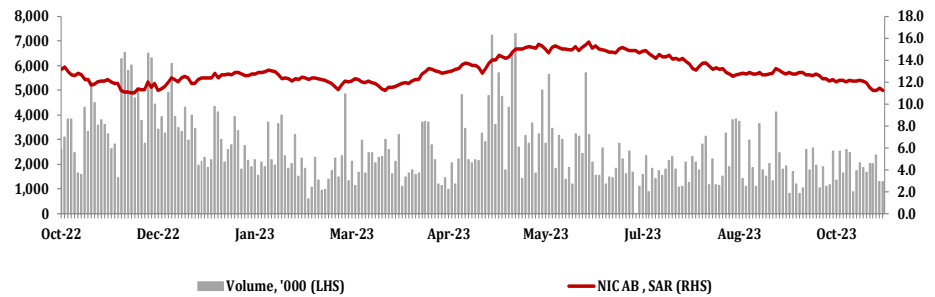
Analyst: Neetika Gupta

Previous Recommendation: Hold
Previous Reco. & Date: TP: SAR 16.0 per share; Hold on 30-Jul-2023

Target Price (SAR): 16.0
Upside / (Downside): 42.3%

Date: 29-10-2023

Bloomberg Ticker	NIC AB
Current Market Price (SAR)	11.240
52wk High / Low (SAR)	15.7/10.84
12m Average Vol. (000)	2,588.7
Mkt. Cap. (USD/SAR mn)	7,519/7,519
Shares Outstanding (mn)	668.9
Free Float (%)	83%
3m Avg Daily Turnover (000)	24,959.1
6m Avg Daily Turnover (000)	32,597.0
P/E'23e (x)	13.5x
EV/EBITDA'23e (x)	16.8x
Dividend Yield '23e (%)	0.0%
Price Perf. (1m/3m) (%)	-11.5%/-22.5%



Revenue decreases 6% YoY, misses UCapital estimates.

The company reported Q3'23 revenue of SAR 832mn (-6.0% YoY and -6% QoQ), missing UCapital estimate of SAR 957mn. The decrease in revenue compared to Q3'22 was primarily caused by lower average selling prices for most of the products resulting in decreased revenue.

Gross and Operating profits increase YoY and on a QoQ basis.

The company's gross profit for the quarter stood at SAR 156mn missing our estimated SAR 191mn. On a YoY basis, gross profit improved 20% likely due to decrease in average feedstock costs. Additionally, Operating profit witnessed a 252% QoQ increase in Q3'23 standing at SAR 184mn beating our estimate of SAR 100mn. This increase is likely due to decrease in average feedstock costs and lower-than-expected operating expenses.

Net income increases 356% YoY, beats estimate.

The company's net income for the quarter was SAR 78mn, beating our estimated SAR 45mn. Net profit increased 356% on a YoY basis and 149% on a QoQ basis. This significant growth is mainly due to better-than-expected operating margins (22% vs 10% expected) and likely due to increase in share of profit from joint ventures and reduced share of losses from investments (Tronox).

Maintain target price.

We expect the petrochemical industry would continue to face challenges up until 1H-24e amid the global economic concerns, including the potential for a recession, higher interest rates for longer period, slow recovery in China, and the ongoing conflict in West Asia. However, we expect stability in the sector beyond the first half of 2024e and anticipate favourable pricing trends driven by demand for end products such as paints and cosmetics in the MENA and Asia region. As a result, we are maintaining our target price at SAR 16 per share and maintaining our 'Hold' rating for the stock.

Valuation.

TASNEE is trading at 2023e P/E of 13.5x based on our FY23 estimate, compared to its historical average 1-year forward P/E of 14.6x. Additionally, the stock is valued at EV/EBITDA multiple of 16.8x, based on our FY23 estimate, compared to the historical average of 10.63x.

Income Statement												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Sales/Revenue	887	939	889	889	832	957	-6%	-6%	-13%	2,943	2,610	-11%
Gross Profit (Loss)	130	187	115	143	156	191	20%	9%	-18%	677	415	-39%
Operating Profit (Loss)	182	(37)	241	52	184	100	1%	252%	84%	1,299	478	-63%
Net Profit attributable to shareh	17	43	82	31	78	45	356%	149%	76%	623	192	-69%
Balance Sheet												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Shareholders' Equity	9,527	9,615	9,704	9,675	9,651	9,719	1%	0%	-1%	9,527	9,651	1%
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Gross Margin	15%	20%	13%	16%	19%	20%						
Operating Profit Margin	20%	-4%	27%	6%	22%	10%						
Net Profit Margin	2%	5%	9%	4%	9%	5%						
Return on Equity (RoE)	1%	2%	3%	1%	1%	2%						

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


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


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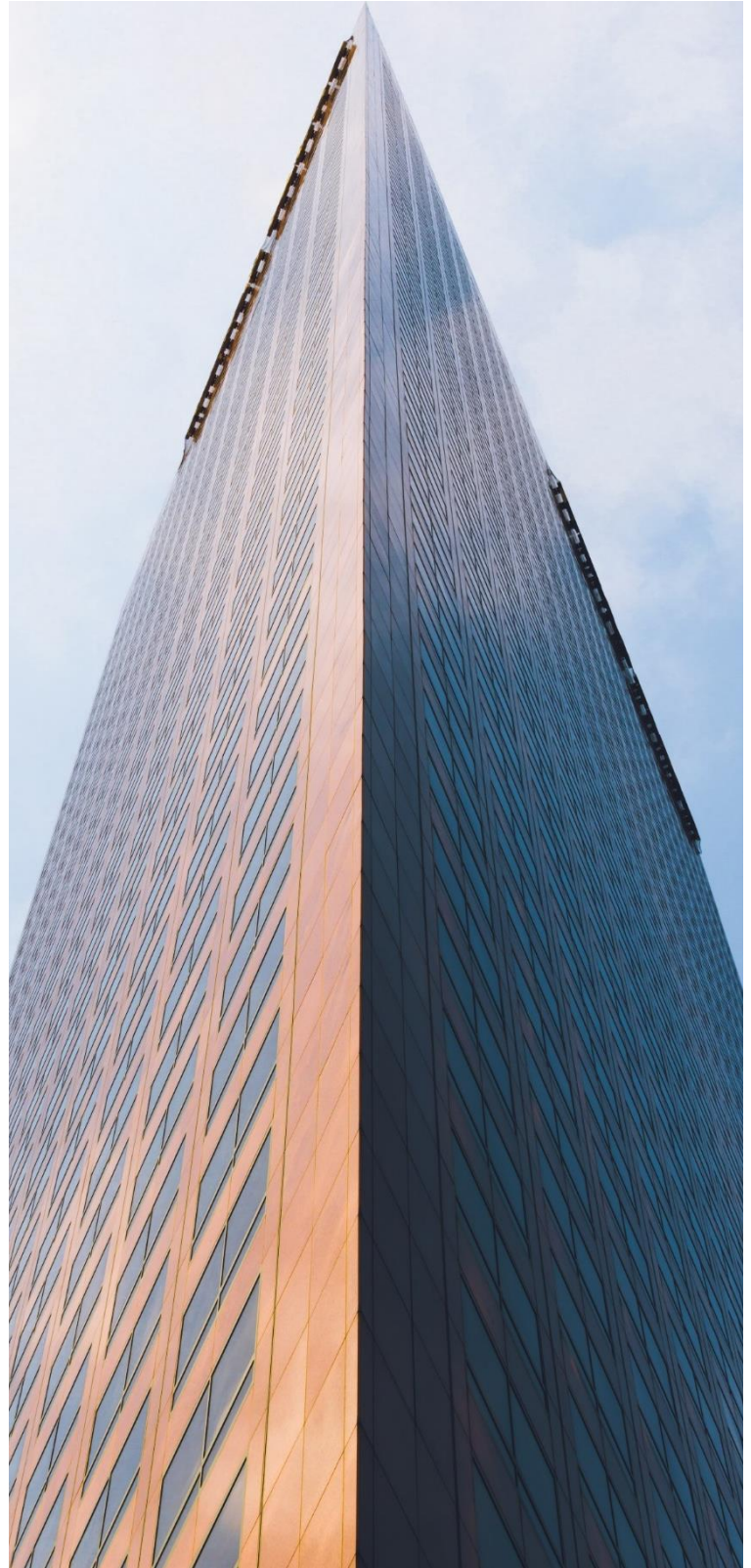
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Recommendation

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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