

Rating **Buy**
12- Month Target Price **SAR 79.00**

YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB)
3Q2018 First Look

Expected Total Return

Price as on Oct-23, 2018	SAR 64.00
Upside to Target Price	23.4%
Expected Dividend Yield	5.5%
Expected Total Return	28.9%

Market Data

52 Week H/L	SAR 77.5/54.0
Market Capitalization	SAR 36,450 mIn
Shares Outstanding	562.5 mIn
Free Float	36%
12-Month ADTV (000's)	323.6
Bloomberg Code	YANSAB AB

1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC. Est	Actuals
Revenue	2,090	2,110
EBIT	715	711
Net Income	704	729
EPS (SAR)	1.25	1.30

Stable Performance Q/Q

Yanbu National Petrochemical Company (Yansab) reported 3Q2018 results with an EPS of SAR 1.30, inline with both our and market expectations of SAR 1.25 and SAR 1.23 respectively. Topline of SAR 2.11 billion is up +9% Y/Y but matched last quarter's revenues as it dealt with lower average selling prices. The Company's bottomline increased +13% Y/Y but fell -11% Q/Q to land at SAR 729 million. Yansab trades at a 2018E P/E of 12.3x versus TASI's 14.2x. We maintain our target price at SAR 79.00 but upgrade our rating to a Buy.

Sales remain firm

Yansab managed to register revenues of SAR 2.11 billion in 3Q2018 which came inline with our expectations of SAR 2.09 billion. Although the company experienced lower average selling prices on a quarterly basis, it managed to maintain its sales level close to that of last quarter. We mentioned in our 3Q2018 Results Preview report that Yansab's large PE and PP exposure will dampen revenues this quarter, but its larger MEG exposure will likely counterbalance losses. This seems to explain why revenues this quarter resembles last quarter's. PE fell by -3% Q/Q but rose +15% Y/Y while PP fell by -1% Q/Q but rose +13% Y/Y. MEG prices inclined +1% Q/Q and +4% Y/Y.

Feedstock pressures gross margin

Gross profit increased by +8% Y/Y but declined -10% Q/Q to reach SAR 839 million. However, gross margin matched last year's margin of 40%, but fell by 400 basis points from last quarter. Yansab cited higher prices for some feedstock this quarter compared to the previous quarter. Nevertheless, the company's gross margin fell at a much lower rate on a quarterly basis than its peers suggesting effective cost management. Ethylene prices were flat Q/Q but rose +7% Y/Y while propylene went up +8% Q/Q and +33% Y/Y.

Satisfactory earnings

Operating expense of SAR 129 million is remarkably stable, rising +2% Y/Y and +6% Q/Q, leading to an operating profit of SAR 711 million (+9% Y/Y, -13% Q/Q). Operating margins stood at 34%, at a similar level Y/Y but less than last quarter's 39%. Net income came in at SAR 729 million (+13% Y/Y, -11% Q/Q), close to our SAR 704 million forecast and streets' SAR 694 million expectations.

Upgrade to Buy

Market conditions this quarter were far from favorable, yet Yansab managed to maintain their sales and limit their margin contraction much better than its peers Q/Q. The fact that the Company manages to maintain stability better than peers in a cyclical industry is noteworthy. The stock trades at a 2018E P/E of 12.3x versus TASI's 14.2x. We believe the stock is undervalued as it offers a total return of 28.9% to our target price of SAR 79.00. Thus, we upgrade our recommendation to a Buy.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	7,221	8,742	8,758
EBITDA	3,154	3,762	3,795
Net Profit	2,376	2,915	2,946
EPS (SAR)	4.22	5.18	5.24
DPS (SAR)	3.25	3.50	3.50
BVPS (SAR)	32.94	31.42	33.15

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	12%	14.2%	13.8%
ROAE	14.2%	16.5%	15.8%
P/E	15.1x	12.3x	12.2x
P/B	2.2x	2.0x	1.9x
EV/EBITDA	9.5x	8.1x	7.6x
EV/Sales	4.6x	3.6x	3.4x

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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