



SABIC Agri-Nutrients' net income surged 261.8% Y/Y and 20.4% Q/Q to SAR 3,025mn, beating AJC's and consensus estimates of SAR 2,369mn and SAR 2,252mn, respectively. The deviation from our estimate was primarily due to higher-than-expected revenue due to a one-off impact of additional volumes from the in-transit shipments due to bad weather during Q1-22, partly offset by higher COGS. Lower-than-expected OPEX also supported higher net income. On a Y/Y basis revenue and COGS were impacted by the company since becoming the marketeer for selling its own products, since January 2022. Gross margin contracted 403bps Q/Q to 60.9% vs. our estimate of 64.4%. Revenue jumped to SAR 5,700mn, up 22.4% Q/Q, due to increase in sales volume. We maintain our "Neutral" recommendation on the stock with a revised TP of 158.0/share.

- SABIC Agri-Nutrients posted a net income of SAR 3,025mn, an increase of 20.4% Q/Q, coming above our and consensus estimates of SAR 2,369mn and SAR 2,252mn, respectively. The higher-than-estimated revenue mainly resulted in a deviation in net income from our estimate; lower-than-expected OPEX also supported higher net income. However, higher COGS limited the growth in net income. The contribution from GPIC is expected to be SAR 112mn, in line with our estimate of SAR 114mn.
- The company's revenue came in at SAR 5,700mn (+210.0% Y/Y, +22.4% Q/Q), above our expectation of SAR 4,482mn. The strong sequential revenue growth was mainly attributed to higher volumes due to a one-off impact of additional volumes from the in-transit shipments due to bad weather during Q1-22. On a Y/Y basis, the change in marketing agreement with SABIC also supported the revenue. During the quarter, average prices of Urea fell slightly by 0.7% Q/Q to USD 753/tonne from USD 758/tonne in Q1-22, but prices were up 98.2% Y/Y.
- Gross profit stood at SAR 3,473mn, above our estimates of SAR 2,887mn and SAR 3,025mn in Q1-22. Gross margin contracted 403bps Q/Q to 60.9% in Q2-22 from 65.0% in the previous quarter and was below our estimate of 64.4%. Higher logistic related cost after a change in the marketing agreement with SABIC also likely to have impacted gross margins on annual basis.
- Operating profit increased 19.4% Q/Q at SAR 3,120mn, supported by lower OPEX. The company recorded 6.2% total OPEX to sales at SAR 353mn, compared to our estimate of 8.9% and 8.8% recorded during the previous quarter.

**AJC view and valuation:** SABIC Agri-Nutrients showcased strong growth in revenue and net income driven by higher volumetric sales in Q2-22. Although revenue growth during Q2-22 was due to recognizing sales from in-transit shipments during Q1-22 and is not sustainable, overall revenue growth for H1-22 was very strong at 210% Y/Y. Thus, the marketing agreement with SABIC is working in favor of SABIC Agri-Nutrients and the company's topline is expected to continue to benefit from it. New capacity additions to Urea in H2-22 might ease supplies to some extent, while reduction of natural gas supply by Russia to Europe and bouncing back of natural gas prices may impact Urea supply adversely. SABIC Agri-Nutrients Co.'s scheduled maintenance shutdowns in some of the company's plants are likely to impact the company's volumes in H2-22. The company is expected to post a net profit of SAR 9,243mn for FY22 and SAR 4,425mn for FY23, compared to a net profit of SAR 5,228mn in FY21. We expect the company to pay a DPS of SAR 8.0 per share (40% payout) in FY22, reflecting a yield of 5.1% at the current market price. The company is trading at a forward PE of 16.8x for FY23 against the TTM PE of 7.7x. We reiterate our "Neutral" recommendation on the stock with a revised TP at SAR 158.0/share.

## Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,839	4,657	5,700	210.0%	22.4%	27.2%
Gross Profit	1,123	3,025	3,473	209.3%	14.8%	20.3%
Gross Margin	61.1%	65.0%	60.9%	-	-	-
EBIT	951	2,614	3,120	228.1%	19.4%	25.4%
Net Profit	836	2,513	3,025	261.8%	20.4%	27.7%
EPS	1.76	5.28	6.35	-	-	-

Source: Company Reports, Aljazira Capital

## Neutral

Target Price (SAR) 158.0

Upside / (Downside)\* 1.4%

Source: Tadawul \*prices as of 10<sup>th</sup> of August 2022

## Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	3,328	9,592	18,621	12,645
Growth %	1.2%	188.3%	94.1%	-32.1%
Net Income	1,294	5,228	9,243	4,425
Growth %	-12.2%	304.0%	76.8%	-52.0%
EPS	3.11	10.98	19.42	9.30

Source: Company reports, Aljazira Capital

## Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	50.0%	67.8%	58.9%	45.0%
Net Margin	38.9%	54.5%	49.6%	35.0%
P/E (x)	25.9	15.4	8.02	16.76
P/B (x)	4.7	5.2	3.43	3.04
EV/EBITDA (x)	10.2	11.4	6.11	10.98
Dividend Yield	3.1%	2.5%	5.1%	3.2%

Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap (bn)	73.2
YTD %	-13.1%
52 Week (High)/(Low)	202.4/119.2
Shares Outstanding (mn)	476.0

Source: Company reports, Aljazira Capital

## Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH  
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RATING  
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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