

January 29, 2018

Rating Buy
12- Month Target Price SAR 71.00

YANBU NATIONAL PETROCHEMICAL COMPANY (YANSAB) 4Q2017 First Look

Expected Total Return

Price as on Jan-28, 2018	SAR 63.96
Upside to Target Price	11.0%
Expected Dividend Yield	5.5%
Expected Total Return	16.5%

Market Data

52 Week H/L	SAR 65.3/52.0
Market Capitalization	SAR 35,977 mln
Enterprise Value	SAR 34,805 mln
Shares Outstanding	562.5 mln
Free Float	35.2%
12-Month ADTV ('000's)	292.1
Bloomberg Code	YANSAB AB

1-Year Price Performance

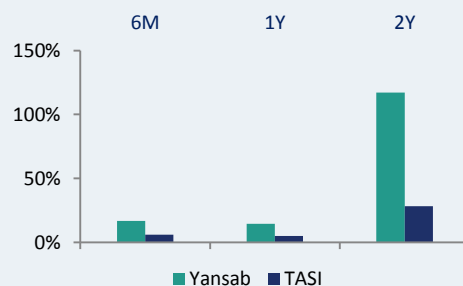
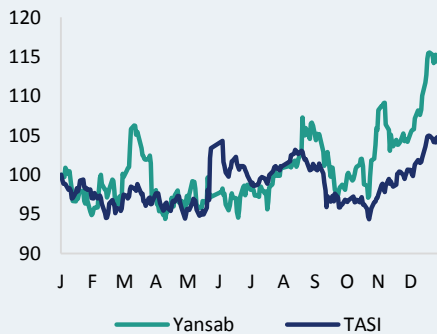


Fig in SAR mln	RC. Est	Actuals
Revenue	2,042	2,167
Gross Profit	920	897
EBIT	878	780
Net Income	594	778
EPS (SAR)	1.06	1.39

Raining Records This Time

Yanbu National Petrochemical Company (Yansab) reported a strong set of numbers with record earnings beat in 4Q2017, followed by a modest beat in revenue. EPS of SAR 1.39 beat our estimate of SAR 1.06 and streets SAR 1.14. With consistent earnings trend in 2017 driven by higher operating efficiency, we believe Yansab is a long-call as reasonable spreads across products coupled with stability in key output prices (PP, MEG and PE) is expected for 2018; outlook is favorable and turns to be an attractive investment case. The signs of rebound in margins and thereby growth in earnings is more clear now, hence revise our 2018-19 estimates. In addition, attractive dividend yield of 5.5% and cheap valuations do support a target price revision. 2018E P/E of 13.8x is cheaper than sectors 15.3x and at par with TASI's 13.8x. We therefore raise our target price to SAR 71.00 (earlier SAR 60.00) but maintain Buy.

4Q2017: key points

Key takeaways for 4Q2017 are the spurt in growth trends, shows an earnings scenario of oil prices at US\$90/bbl; meaning earnings and revenues are at 2014 range and driven by i) upbeat revenue numbers, the highest since the oil crash after it crossed the SAR 2.2 billion mark, driven by improved output prices and volume sales ii) record surge in earnings (+21% Q/Q and +29% Y/Y), the highest between 2014-17, the last best was SAR 865 million in 3Q2013 and lastly iii) EBIT margins is at a 5-quarter high and at 36%, last best was its 39% margin in 3Q2016.

Revenue at 3-year high

For the quarter, revenue improved by +17% Y/Y and +12% Q/Q to SAR 2.2 billion, deviating by +6% from our estimate of SAR 2.0 billion. The solid numbers are expected to have come up from higher than expected operating rates, in excess of 103%. Product prices are also supportive on a Q/Q basis with PP increasing by +6%, while HDPE rose by +8% and MEG by +11%.

Margin improves Q/Q

Gross margins expanded 102 bps from 3Q2017 to 41% taking gross profit to SAR 897 million versus estimate of SAR 920 million, grew by +15% Q/Q and +32% Y/Y in 4Q2017. Operating profit of SAR 780 million grew by +26% Y/Y and +19% Q/Q taking operating margins to 36% in 4Q2017 (an increase of 216 bps Q/Q and 254 bps Y/Y). Earnings of SAR 778 million beat our estimates of SAR 594 million and consensus of SAR 633 million, while deviating from the closest estimate by 15%. We believe cost curtailment and better operating efficiency led to overall expansion in margins with net margins of 36%; increasing 261 bps from last quarter and 336 bps from 4Q2016.

Revise TP to SAR 71, maintain Buy

Yansab continues to be a Buy on upbeat fundamentals; we raise TP to SAR 71.00 (earlier target price of SAR 60.00 reached in less than 2 months from last report). The consistent payouts and improved earnings quality amid stock outperformance vs TASI of +9% (LTM) are factors driving a revision in target price. The stock is an investor favorite for dividend yields (DPS 2018E: SAR 4.00) in the KSA petchem space and trades in a justified range. We maintain Buy as total return of +17% is seen from now.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017*	2018E
Revenue	6,231	7,221	7,612
EBITDA	3,623	3,614	3,807
Net Profit	2,344	2,376	2,612
EPS (SAR)	4.17	4.22	4.64
DPS (SAR)	3.00	3.50	4.00
BVPS (SAR)	28.88	29.61	30.25

*denotes preliminary

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	12%	10%	11%
ROAE	14%	14%	15%
P/E	15.3x	15.1x	13.8x
P/B	2.2x	2.2x	2.1x
EV/EBITDA	9.6x	9.6x	9.1x
EV/Sales	5.6x	4.8x	4.6x

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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

For any feedback on our reports, please contact research@riyadcapital.com

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