

**YANSAB: 1Q2018 earnings came below AJC and the market consensus estimates of SAR 723.5mn and SAR 725.5mn, respectively; due to 6-7 weeks of un-announced shutdowns of its high density polyethylene (HDPE) and linear low density polyethylene (LLDPE) units. The company posted net income of SAR 630.6mn; indicating an increase of 3.7%YoY and a fall of 18.9%QoQ. Gross margin stabilized on QoQ basis to 41.39% Vs. 41.37% due to an increase in products spreads, despite the impact of plants shutdown. We expect the company's sales volume and margins to improve gradually starting from 2Q2018. The company is expected to continue to benefit from improved production efficiency and higher capacity in 2018. Dividend payment is expected to increase to SAR 4.0/share in FY2018. Recommendation updated to "Neutral" with TP of SAR 73.50/share.**

- Yanbu National Petrochemical Co. (YANSAB) result came below estimates, missing AJC and market consensus profits estimates of SAR 723.8mn and SAR 725.5mn, respectively. YANSAB posted net income of SAR 630.6mn; indicating an increase of 1.6%YoY and a fall of 18.9% QoQ. The company attributed the YoY profitability growth to higher average sales prices for all products despite lower sales volume and higher average prices of some feedstock materials. However, we believe that the weaker than expected net profit was mainly associated with un-accounted 6-7 weeks shutdown of its high density polyethylene (HDPE) and linear low density polyethylene (LLDPE) units according to industry source. This impact contributed to almost SAR 300mn deviation from our sales estimates in 1Q2018 (12.9% lower than expected volumetric sales).
- Although the company's average product prices jumped by 11.5%YoY with better products spreads, YANSAB reported only 1.6%YoY increase in revenue for 1Q2018 to SAR 1.78bn, which is lower than our estimate of 2.05bn due to decline in volumetric sales after un-accounted plant shutdown. In 1Q2018, Yansab had almost 45-day shutdown of its HDPE and LLDPE plants for maintenance. However, we expect that the company's sales volume and margins will improve gradually starting from 2Q2018.
- Based on our estimates, Yansab witnessed lower operating rate of 94.7%, compared to AJC expectation of 99.0% and 95% actual utilization in 1Q2017. We expect the company's operating rate in 2018 and onward to continue improving due to the positive impact after the plants maintenance in 2Q2017 and 1Q2018 (An average of 103% in FY2018). During the quarter, average prices of Yansab key products such as, MEG-Asia increased by 8.1%QoQ from USD 907 to USD 981/MT. Polypropylene and PE derivatives products inched by 6.8% and 4.5% in 1Q2018 respectively, as compared to 4Q2017 prices.
- Gross profit stood at SAR 739.8mn depicting an increase of 1.6%YoY and a fall of 17.5%QoQ. Gross margin stabilized in 1Q2018 to 41.39% vs. 41.37% in 4Q2017, which we believe was due to higher margins on Propane-based products, despite the impact of plant maintenance. Saudi propane prices in 1Q2018 increased by 12.3%YoY to an average price of USD 532/MT, while polypropylene prices increased higher by 15.8%YoY. Consequently, higher increase in PP prices than propane price led to 18.1%YoY increase in PP-Propane spread to USD 687/ton in 1Q-2018 from USD 582/ton in 1Q-2017. OPEX stood at SAR 105mn; lower than SAR 117mn in 4Q2017 and our estimates of SAR 109mn.

**AJC view:** We believe that the pressure on the company's sales and margins was mainly attributed to plants shutdown in 1Q2018, thus; the company is expected to witness an improvement in production efficiency and capacity in 2Q2018 and forward. YANSAB Co. is expected to post SAR 3,067mn in net income (5.45 EPS) for FY2018, recording an increase of 29%YoY for the year due to the positive impact after plants shutdown during 2Q2017/1Q2018 and better overall products' spreads. The company is trading at a forward PE and P/B of 13.5x and 2.3x respectively based on our FY2018 earnings forecast. We expect the company to increase dividend payment to SAR 4.0/share (5.4% D/Y). Due to market price increase, we updated our recommendation to **"Neutral"** on YANSAB while maintaining our TP at SAR 73.50/share indicating a potential downside of 0.4% over current market price of **SAR 73.80/ share**.

## Results Summary

SARmn (unless specified)	1Q-2017	Q4-2017	Q1-2018	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	1,758.5	2,166.8	1,787.2	1.63%	-17.52%	-12.9%
Gross Profit	728.3	896.5	739.8	1.58%	-17.48%	-12.4%
Gross Margin	41.41%	41.37%	41.39%	-	-	-
EBIT	623.2	779.6	634.8	1.86%	-18.57%	-13.7%
Net Profit	608.2	777.9	630.6	3.68%	-18.94%	-12.8%
EPS	1.08	1.38	1.12	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	<b>Neutral</b>
Current Price* (SAR)	73.82
Target Price (SAR)	<b>73.50</b>
Upside / (Downside)	<b>-0.4%</b>

Source: Tadawul \*prices as of 19<sup>th</sup> of April 2018

## Key Financials

SARmn (unless specified)	FY16	FY17	FY18
Revenue	6,971	7,220	8,474
Growth %	0.9%	15.9%	17.4%
Net Income	2,303	2,377	3,067
Growth %	90.7%	3.2%	29.0%
EPS	4.17	4.22	5.45

Source: Company reports, Aljazira Capital

## Key Ratios

SARmn (unless specified)	FY16	FY17	FY18
Gross Margin	38.7%	39.7%	42.4%
Net Margin	33.0%	32.9%	36.2%
P/E	13.06x	15.1x	13.5%
P/B	1.9x	2.2x	2.3x
EV/EBITDA (x)	8.20x	9.58x	6.31x
Dividend Yield	5.5%	5.0%	5.4%

Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap (bn)	41.56
YTD %	25.6%
52 Week (High)	74.50
52 Week (Low)	52.00
Shares Outstanding (mn)	562.50

Source: Company reports, Aljazira Capital

## Price Performance



Source: Bloomberg, Aljazira Capital

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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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