



Petrochem reported a net income of SAR 50.0mn, below our estimates of SAR 78.0mn due to lower than expected revenue and higher zakat & tax expenses. Revenue declined by 16.1%Q/Q due to weak demand and supply chain issues, as a result of the spread of COVID-19. Gross margin declined to 16.50% from 22.31% in 4Q-19; impacted by weak product prices and feedstock prices hikes. The coronavirus pandemic has quickly led to a global recession that is not likely to improve soon, and slow recovery is expected by end of FY20. We revised our recommendation to **"Neutral"** on the stock with TP of **SAR 22.5/share**.

- National Petrochemical Company (Petrochem) posted net income of SAR 50.0mn; indicating a decline of 73.3%Y/Y and 62.4%Q/Q. Q1-20 net profit came below AJC and consensus estimates of SAR 78.0mn and SAR 77.0mn. Overall weak performance is mainly attributed to i) decline in product prices and product spreads. ii) weak volumetric sales and demand due to COVID19 pandemic; despite a 40% decline in finance expenses. The deviation of Q1-20 earnings from our estimates is mainly ascribed to lower than volumetric sales; and higher than expected zakat & tax expenses.
- Petrochem Co. reported 16.1%Q/Q decline in revenue for Q1-20 to SAR 1,515mn, below our estimates of SAR 1,595.6mn due to lower than expected volumetric sales. This we believe could be partially attributed to higher than expected impact on demand due to the spread of COVID19 and supply chain issues. We assume that the sales volume declined by around 13.7%Q/Q in Q1-20. During the quarter, average selling prices of PP declined by 7.1%Q/Q and 16.3%Y/Y. Polystyrene plunged by 2.9%Q/Q and 17.5%Y/Y. Average selling price of HDPE declined by 2.1%Q/Q and 20.8%Y/Y.
- Gross profit stood at SAR 250mn; depicting a decline of 52.4%Y/Y and 37.9%Q/Q, below our estimate of SAR 278.3mn due to lower than expected revenue. Gross margin stood at 16.50% in Q1-20 vs. 22.31% in Q4-19 and our estimates of 17.30%; which was a result of lower spreads across products. In Q1-20, the change in feedstock price compared to the final product prices has resulted in PP-Propane spreads to decline by 19.8%Q/Q to USD 504/tonne from USD 629/tonne in Q4-19.
- Operating profit stood at SAR 125mn, depicting a decline of 66.8%Y/Y and 49.6%Q/Q, where the company witnessed a remarkable decline in OPEX (SG & A) to record SAR 125.5mn as compared to SAR 150mn in Q1-19 due to lower sales.

AJC View: We believe that the company's weak revenue in Q1-20 is likely to continue in the next few quarters, in light of the slowdown due to COVID-19. However, the company's gross margin during Q2-20 is likely to improve due to significant decline of feedstock prices. The coronavirus pandemic has quickly led to a global recession that is not likely to improve soon, and slow recovery is expected by end of FY20. Thus, short-term outlook remains negative due to oversupply, weak demand and product prices. Petrochem is expected to post SAR 576mn in net income (1.20 EPS) for FY20. Indicating a decline of 14.6%Y/Y. The company is trading at a forward TTM PE of 16.7x based on our FY20 earnings forecast, higher than the average PE of 12.1x in the last three years. We change our recommendation to **"Neutral"** on the stock with TP of **SAR 22.5/share**.

Results Summary

SARmn	Q1-19	Q4-19	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,020	1,806	1,515	-25%	-16.1%	-5.0%
Gross Profit	526	403	250	-52.4%	-37.9%	-9.5%
Gross Margin	26.03%	22.31%	16.50%	-	-	-
EBIT	376	248	125	-66.8%	-49.6%	-15.8%
Net Profit	187	133	50	-73.3%	-62.4%	-35.9%
EPS	0.89	0.27	0.10	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **22.5**

Upside / (Downside)* **12.4%**

Source: Tadawul *prices as of 7th of May 2020

Key Financials

SARmn (unless specified)	FY17	FY18	FY19	FY20E
Revenue	7,367	8,930	7,435	6,510
Growth %	21.4%	21.3%	-16.7%	-12.4%
Net Income	888	1,165	674	576
Growth %	123.5%	31.2%	-42.1%	-14.6%
EPS	1.85	2.43	1.41	1.20

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19	FY20E
Gross Margin	30.7%	30.1%	25.2%	24.1%
Net Margin	12.1%	13.1%	9.1%	8.9%
P/E	10.0x	10.6x	15.6x	16.7x
P/B	1.31x	1.65x	1.29x	1.14x
EV/EBITDA (x)	5.50x	5.14x	5.91x	5.36x
Dividend Yield	2.7%	1.9%	2.3%	2.5%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	9.55
YTD %	-16.2%
52 Week (High)/(Low)	27.55/16.20
Shares Outstanding (mn)	480.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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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