

Rating
12- Month Target Price

Neutral
SAR 79.00

SAUDI ARABIAN FERTILIZER COMPANY (SAFCO)

4Q2018 First Look

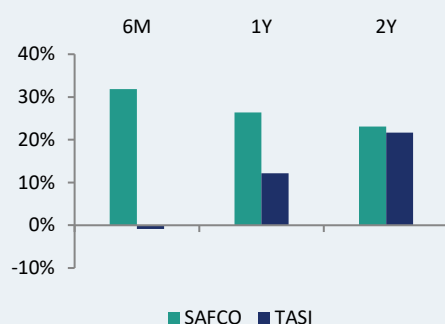
Expected Total Return

Price as on Jan-22, 2019	SAR 84.80
Upside to Target Price	(6.8%)
Expected Dividend Yield	3.5%
Expected Total Return	(3.3%)

Market Data

52 Week H/L	SAR 87.90 /60.00
Market Capitalization	SAR 35,333 mln
Shares Outstanding	417 mln
Free Float	41.9%
12-Month ADTV	298,662
Bloomberg Code	SAFCO AB

1-Year Price Performance



2018 Profits Double

SAFCO managed to end the year strong by posting its highest quarterly profit of 2018. The company registered a net income of SAR 569 million in 4Q2018, up +810% Y/Y and +9% Q/Q, close to our and market expectations of SAR 557 million and SAR 574 million respectively. Rising Urea prices coupled with improved demand supported earnings during the year along with decreased costs that expanded margins considerably. As a result, yearly EPS doubled from SAR 2.11 to SAR 4.17 in 2018. Although we do not see the Urea market being tight in 2019, the apparent recovery in the company's margins is expected to support earnings. A major plant shutdown in 1Q2019 would impact earnings. Trading at a 2019E P/E of 19.0x, higher than TASI's 14.6x, we maintain our Neutral stance but increase our target price to SAR 79.00 from SAR 74.00 earlier.

Revenues match estimates

SAFCO recorded revenues of SAR 1,090 million in 4Q2018 (+77% Y/Y and +8% Q/Q), matching our estimates of SAR 1,091 million. The quarter witnessed a sharp spike in urea prices as result of a large Indian tender (1.8 mln tons) but prices fell directly afterwards to pre-4Q levels as global demand remained weak. This explains the company's statement that revenues during the quarter were influenced by an increase in average selling prices and a slight decrease in quantities sold. Urea prices increased by +9% Q/Q and +21% Y/Y while ammonia followed suite and increased by +19% Q/Q and Y/Y.

Margins regain their strength

Gross profit grew to SAR 691 million, increasing by +365% Y/Y and +18% Q/Q. Gross margins expanded to 63% from 58% last quarter and from 24% last year. We expect the core margins to remain robust. However, due to a shutdown in 1Q2019, margins may be under pressure in 1Q. Operating expenses rose by +19% Y/Y and +13% Q/Q to settle at SAR 117 million. Operating profit came in at SAR 574 million, a multiple of SAR 51 million last year and +19% Q/Q, leading operating margin to increase from 8% last year and 48% from last quarter to 53% in 4Q2018.

Raise target price to SAR 79; maintain Neutral

Presently, demand activity is concentrated around India and therefore Urea prices are likely to stay at moderate levels until the Spring/Summer where global demand is expected to pick up. It is Important to note that The Metals and Minerals Trading Corporation of India (MMTC) announced that it has excluded the use of Iranian urea from its tender due to its status as a sanctioned country. Iran is a major supplier of competitively priced urea to India. We expect this decision to support urea prices at least up until 1H2019. The stock is trading at a 2019E P/E of 19.0x, comfortably above TASI's 14.6x. We raise our target price to SAR 79.00 but maintain Neutral.

Key Financial Figures

FY Dec31 (SAR bln)	2017A	2018*	2019E
Revenue	2.76	3.86	4.06
EBIT	0.82	1.69	1.76
Net Profit	0.88	1.74	1.86
EPS (SAR)	2.11	4.17	4.47
DPS (SAR)	1.75	2.50	3.00

*2018 numbers are preliminary

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
BVPS (SAR)	16.5	18.6	20.1
ROAE	13.0%	23.8%	23.1%
ROAA	10.6%	19.6%	19.2%
EV/EBITDA	26.9x	17.1x	16.1x
P/E	40.2x	20.3x	19.0x

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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