

1Q20 Results Update

May 29, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	75.5
Target Price (SAR)	73.0
Upside/Downside (%)	(3.3%)
<i>As of May 21st, 2020</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	31.5
52 Wk High (SAR)	92.4
52 Wk Low (SAR)	58.0
Total Outstanding Shares (in mn)	417
Free Float (%)	48.2%

SAFCO vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	17.1%	11.6%
6m	0.8%	12.7%
12m	(2.8%)	14.5%

Major Shareholders (%)

Saudi Basic Industries Corp.	42.99%
General Org For Social Insurance	8.85%

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 21st May 2020

Lower average selling prices mar SAFCO's net profit in 1Q20

Net income for 1Q20 shrank by 9.5% YoY and 10.3% QoQ to SAR 304mn, primarily due to a decline in average selling price of products and lower profit share income from Ibn Al Baytar Company. The fall in profit was limited by the increased sales volumes. The company's revenues declined for the first time in 1Q20 after rising consistently for three quarters. It, however, went up marginally by 1.3% YoY to SAR 728mn. The company's gross profit lowered 2.7% YoY to SAR 368mn, leading to a narrowing of gross profit margin to 50.5% in 1Q20 compared with 52.6% a year ago. Higher SG&A expenses along with other factors led to a contraction of 5.9% YoY in the company's operating profit to SAR 278mn in 1Q20.

SAFCO's performance was dragged down by subdued prices of urea and ammonia in 2019; the trend is likely to continue in 2020 also. Moreover, weaker-than-expected equity income from Ibn-AlBaytar remains a concern. Though we expect operating rates to improve as the company implemented the reliability improvement project and completed several scheduled maintenance activities, the weak price forecast for its primary commodities may continue to subdue margins in the near term. The short-term outlook for the company is also expected to hit by the muted demand for its products following the COVID-19 outbreak. The company plans to conduct more plant maintenance during the year, which could impact its overall production. In view of these countervailing factors, we maintain a "Neutral" stance on this stock.

- Revenue increased marginally 1.3% YoY to SAR 728mn amid higher sales volume despite lower average realized prices. The company recorded a 13.9% QoQ drop in revenue due to lower selling prices and low sales volume compared to the previous quarter.
- Gross profit shrank 2.7% YoY and 13.6% QoQ to SAR 368mn in 1Q20. Gross margin for the quarter stood at 50.5% as against 52.6% in 1Q19 and 50.3% in 4Q19.
- Operating profit fell 5.9% YoY and 18.4% QoQ to SAR 278mn in 1Q20 in view of the mentioned factors and rising SG&A expenses. Therefore, operating margin contracted to 38.2% in 1Q20 against 41.1% in 1Q19 and 40.4% in 4Q19.
- The decline in the net income was worsened by the low income from the subsidiary. Net income during the quarter was down 9.5% YoY and 10.3% QoQ to SAR 304mn. Net income margin for the quarter was 42% as against 47% in 1Q19. The net margin in 4Q19 was 40%, impacted by the higher Zakat provision.
- SAFCO's Board recommends a 10% dividend for 1H20 for its 416.7 million outstanding shareholders, which amounts to SAR 416.7mn.

Valuation: We have revised the target price to a fair value of SAR 73.0 per share. However, we maintain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	728	719	1.3%	3,189	3,288	(3.0%)
Gross Profit (SAR mn)	368	378	(2.7%)	1,591	1,689	(5.8%)
EBITDA (SAR mn)	418	426	(1.9%)	1,873	1,880	(0.4%)
Net Profit (SAR mn)	304	335	(9.5%)	1,368	1,468	(6.8%)
EPS (SAR)	0.73	0.81	(9.5%)	3.3	3.5	(6.8%)
Gross Margin (%)	50.5%	52.6%	(2.1%)	49.9%	51.4%	(1.5%)
EBITDA Margin (%)	57.4%	59.3%	(1.9%)	58.7%	57.2%	1.6%
Net Profit Margin (%)	41.7%	46.7%	(5.0%)	42.9%	44.7%	(1.8%)

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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