



Lower revenues and gross margins impact profitability; decline in OPEX a positive

YANSAB's net profit came-in at SAR 27mn in Q2-23 compared to a net loss of SAR 370mn in Q1-23. The net profit was well below our and consensus estimates of SAR 70mn and SAR 78mn, respectively. The deviation from our estimate was due to lower-than-expected revenues due to lower operating efficiency following the 53-day planned maintenance in Q1-23. This is expected to trickle down to gross margins and impact gross profitability. GP margin came-in at 7.0% compared to our estimate of 12.7%. Margins improved Q/Q mainly due to improvement in product spreads driven by a significant decline in feedstock prices compared to average end-product prices. Revenue fell 36.1% Y/Y but almost doubled Q/Q to SAR 1,323mn, but is below our estimate of SAR 1,514mn. We reiterate our "Neutral" recommendation with a TP of SAR 45.2/share.

- YANSAB posted a net profit of SAR 27mn in Q2-23 compared to a net loss of SAR 370mn in Q1-23 and a net profit of SAR 289mn in Q2-22, missing AJC's and market estimates of net profit of SAR 70mn and SAR 78mn, respectively. The decline in top line and lower gross margin offsets the lower-than-expected OPEX. We believe there may be a one-off that resulted in lower operating expense for the company. However, the lower revenues were mainly due to lower than expected operating rate after the planned 53-days turnaround in Q1-23 which impacted gross margins.
- Revenue almost doubled Q/Q to SAR 1,323mn in Q2-23, but was below our estimate of SAR 1,514mn. The deviation in revenue from our estimates was due to lower operating efficiency following the company's planned maintenance in Q1-23. However, the Q/Q improvement in revenues was driven by higher sales volume despite lower average sales price for some of the products. YANSAB's key product MEG (SABIC) prices increased 3.2% Q/Q and MEG (Asia) fell 4.4% Q/Q in Q2-23. PP decreased 7.4% Q/Q, while HDPE and LLDPE prices declined 3.5% Q/Q and 5.2% Q/Q, respectively. However, propane (feedstock) prices declined by 25.7% Q/Q compared to average end-product prices.
- Gross profit for Q2-23 declined to SAR 92mn (down 77.4% Y/Y) and compares to a gross loss of SAR 240mn in Q1-23, and below AJC's estimate of a profit of SAR 192mn. This reflects a gross profit margin of 7.0% compared to our estimate of 12.7% and 19.7% in Q2-22. The margin remains at a significantly lower level compared to the historical average. But Q/Q basis, the improvement in margins is mainly due to improving product spreads amid low feedstock prices. The Propane-MEG (Asia) turned positive during the quarter due to 25.7% Q/Q decline on Propane prices. Propane-HDPE and Propane-PP spreads increased by 25.0% Q/Q and 18.8% Q/Q, respectively.
- Operating profit came-in at SAR 13mn, down 96% from SAR 322mn recorded in Q2-22 and compares to an operating loss of SAR 367mn in Q1-23. Operating expenses came lower at SAR 79mn as compared to our estimate of SAR 121mn. OPEX to sales ratio came-in at 6.0% in Q2-23 from our estimate of 8.0%. As OPEX is lower than our estimate, we await detailed financials to find out if there was any one-off that resulted in lower operating expense.

AJC view and valuation: YASAB's Q2-23 results were weighed down by a decline in revenues due to lower operating efficiency following the planned shutdown in Q1-23 and low GP margins. However, at operating level, a drop in OPEX is a key positive for the company. The easing of shipping costs would continue to help keep OPEX under control. The demand for MEG is expected to stay weak in the S-T amid ample supplies. The bearish sentiment is expected to continue amid strengthening supplies and weak demand due to sluggish consumer sentiments impacted by weak macro-economic indicators. The scheduled maintenance in Q1-23 is expected to gradually support the company's production efficiency and volumes in the coming quarters. Yansab's revenues are expected to decline 21.7% Y/Y while margins are expected to drop to 7.1% in FY23E from 13.8% in FY22. The stock at current price is expected to deliver dividend yield of 4.2% based on our FY23 estimates. We reiterate our "Neutral" recommendation on YANSAB with TP of SAR 45.2/share.

Results Summary

SAR mn	Q2-22	Q1-23	Q2-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,069	667	1,323	-36.1%	98.3%	-12.6%
Gross Profit	407	(240)	92	-77.4%	NM	-52.1%
Gross Margin	19.7%	-35.9%	7.0%	-	-	-
EBIT	322	(367)	13	-96.0%	NM	-81.8%
Net Profit	289	(370)	27	-90.5%	NM	-61.0%
EPS	0.51	(0.66)	0.05	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	45.2
Upside / (Downside)	0.1%

Source: Tadawul *prices as of 20th of July 2023

Key Financials

SARmn (unless specified)	FY20	FY21	FY22	FY23E
Revenues	5,035	7,408	7,024	5,501
Growth %	-17.0%	47.1%	-5.2%	-21.7%
Net Income	678	1,531	414	(49.0)
Growth %	-37.8%	126.0%	-73.0%	NM
EPS	1.20	2.72	0.74	(0.09)

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22	FY23E
Gross Margin	21.6%	29.1%	13.8%	7.1%
Net Margin	13.5%	20.7%	5.9%	-0.9%
P/E (X)	52.9	24.9	53.2	NEG
P/B (X)	2.4	2.5	1.6	2.1
EV/EBITDA (x)	17.9	12.5	12.4	21.3
Dividend Yield	3.9%	4.4%	7.0%	4.2%

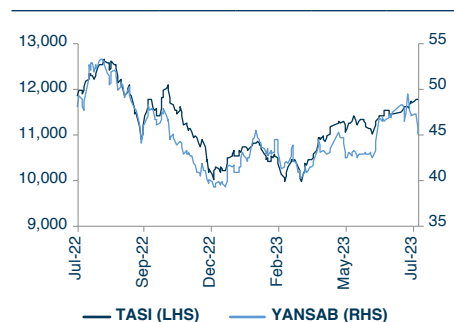
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	25.4
YTD%	8.5%
52 week (High)/(Low)	53.6/38.9
Share Outstanding (mn)	562.5

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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RATING
TERMINOLOGY

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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