



SAFCO posted lower than expected results in Q1-20 with net income of SAR 303.5mn; indicating a fall of 9.5%Y/Y. The result was mainly impacted by lower volumetric sales and weak contribution from Ibn-AlBaytar. The contribution from Ibn-AlBaytar declined to SAR 21.3mn from SAR 42.0mn in Q1-19. Lower Urea prices led gross margin to contract by 213 bps to 50.50%. This we believe could be partially attributed to higher than expected impact on demand due to the spread of COVID19 and supply chain issues. Short-term outlook remains under concern, due to weak demand and plants maintainance during H2-20. **“Neutral”** recommendation on the stock with TP at **69.00/share**.

- SAFCO posted net income of SAR 303.5mn in Q1-20 (EPS; SAR 0.73); indicating a fall of 9.5%Y/Y and 10.3%Q/Q. Net profit came below AJC and the market consensus estimates of SAR 324.1mn and SAR 333.4mn. We believe that the weak Y/Y result is mainly attributed to i) lower volumetric sales due to weak demand and supply chains issue, as a result of COVID19 pandemic ii) lower contribution from Ibn-AlBaytar, despite an increase of other income of SAR 21mn. The deviation of Q1-20 earnings from our estimates is mainly ascribed to lower than expected revenue.
- The company reported a 1.3%Y/Y increase in revenue for Q1-20 to SAR 728.4mn, which is below our estimate of 798mn. We believe the Y/Y sales increase is ascribed to SAFCO-3 plant maintenance during Q1-19. We assume that the sales volume declined by around 13.5%Q/Q in Q1-20. For Q1-20, Urea prices declined to an average price of USD 243/tonne from USD 257/tonne in Q1-19, indicating a fall of 5.8%Y/Y. The contribution from Ibn-AlBaytar declined to SAR 21.3mn from SAR 42.0mn in Q1-19, in-line with our estimate of SAR 21.1mn.
- Gross profit stood at SAR 367.9mn; indicating a fall of 2.7%Y/Y, below our estimates of SAR 411mn due to lower than expected top line. Gross margin declined to 50.50% in Q1-20 from 52.63% in Q1-19; against our estimate of 51.50%.
- Operating profit stood at SAR 278.3mn, after recording an increase in OPEX (SG & A) at SAR 89.5mn as compared to SAR 82.7mn in Q1-19 and our estimates of SAR 90.3mn.

Ajc view: We expect, the weak volumetric sale during Q1-20 is likely to continue in the next few quarters, impacted by global slowdown in demand. Urea prices remain under pressure, dragged by a weak outlook due to the coronavirus pandemic and its social and economic impact on the global economy. Thus, short-term outlook remains under concern on the company due to weak demand and plants maintainance. As the company plans to suspend production in H2-20 for SAFCO-3 and SAFCO-5, for 15 days and 32 days, respectively. Moreover, we expect that the weak contribution from Ibn Al-Baytar to continue during H2-20, impacted by plant maintainance for 93 days to improve the reliability of the ammonia factory and urea plants. On the other hand, operating efficiency and expected recovery are the key catalyst for the company beyond FY20, where operating rate is likely to stabilize above 90% after plant maintainance. SAFCO is expected to post SAR 1,274mn in net income (3.06 EPS) for FY20. Indicating a decline of 13.6%Y/Y. the company is trading at forward PE of 21.9x against global peer average PE of 17.1x. We reiterated our **“Neutral”** recommendation on SAFCO with TP at **SAR 69.00/share**.

Results Summary

SARmn (unless specified)	Q1-19	Q4-19	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	718.7	845.6	728.4	1.3%	-13.9%	-8.7%
Gross Profit	378.3	425.6	367.9	-2.7%	-13.6%	-10.4%
<i>Gross Margin</i>	<i>52.63%</i>	<i>50.33%</i>	<i>50.50%</i>	-	-	-
EBIT	295.6	341.2	278.3	-5.9%	-18.4%	-13.2%
Net Profit	335.5	338.3	303.5	-9.5%	-10.3%	-6.4%
EPS	1.25	0.91	0.99	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) **69.00**

Upside / (Downside)* **3.0%**

Source: Tadawul *prices as of 5th of May 2020

Key Financials

	FY18	FY19	FY20E
Revenue	3,859.8	3,288	3,076
Growth %	39.9%	-14.8%	-6.4%
Net Income	1,783.4	1,474	1,274
Growth %	97.8%	-15.2%	-13.6%
EPS	4.17	3.54	3.06

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	55.3%	51.5%	50.2%
Net Margin	45.0%	44.8%	41.4%
P/E	20.21x	21.91x	21.92x
P/B	4.80x	4.04x	3.38x
EV/EBITDA (x)	15.71x	16.87x	12.31x
Dividend Yield	2.9%	3.9%	3.7%

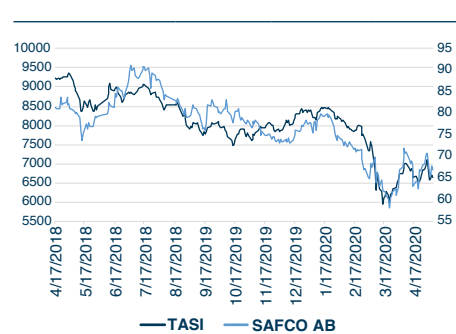
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	27.91
YTD %	-13.6%
52 Week (High)/(Low)	92.40/58.00
Shares Outstanding (mn)	416.67

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.
- 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.
- 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.
- 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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