

Yanbu National Petrochemical Co.



Accelerated Recovery for YANSAB due to Impressive Production Efficiencies.

27 April 2021

Yanbu National Petrochemical Co. (YANSAB), showed a significantly strong performance during Q1 2021, with sales growth of 25% compared to Q4 2020. Despite plants closure and higher feedstock prices, the company still managed to report strong net income, due to higher prices obtained, improved volumetric sales and high other income posted for the quarter. We believe that gradual improvement will continue FY2021e, as prices stabilize. Meanwhile, positive long-term outlook on the back of pick-up in economic activities post vaccine rollout.

YANSAB was able to outperform the previous market consensus, with revenues of SAR1,723mn in Q1 2021 representing a Y-o-Y growth of 44.2% (25.0% Q-o-Q). The company's significantly high revenues (highest level of quarterly revenues in 2 years), came despite maintenance in its Ethylene Glycol and Olefins plants for 25 days and 10 days; respectively. The company's production efficiencies were key in its strong performance during the quarter, aided by the increase in average prices for most of its key products in addition to healthier demand that led to higher volumetric sales.

The Asian average prices of MEG, YANSAB's key product, increased around 13.5% Y-o-Y (27.2% Q-o-Q) reaching its highest level since 2019. Moreover, HDPE prices increased by 6.5% Q-o-Q, while PP increased by 11.6%. Finally, Propane average prices increased by 37.2% Q-o-Q (USD535/MT).

COGS for the quarter were at SAR1,192mn in Q1 2021, an increase by 19.7% Y-o-Y (31.9% Q-o-Q), mainly due to 28.8% Q-o-Q increase in Propane-HDPE costs and 7.8% Q-o-Q increase in Propane-MEG costs. However, it is worth noting that during the quarter the company endured impairment costs of SAR64mn in addition to plant maintenance costs and a general increase in feedstock costs. That being said, Gross margin for the quarter stood at 30.8% which is a massive improvement compared to 16.7% reported form Q1 2021, however, it's a slight drop from 34.5% reported for Q4 2020.

YANSAB reported operating expenses of SAR118.0, a 21.8% Y-o-Y growth (13.6% Q-o-Q). The increase in operating expenses is associated to the cost of the strong sales during the quarter. Operating profit margin stood at 24.0% for Q1 2021, compared to only 8.6% in Q1 2020 (26.9% in Q4 2020).

Finally, YANSAB posted net income of SAR420mn in Q1 2021 compared to SAR104.5mn in Q1 2020, representing an increase of 302.4% Y-o-Y (26.3% Q-o-Q). The impressive net income for the period was due to strong revenues in addition to higher than usual other income. Accordingly, YANSAB recorded highest net margin since Q1 2019, of 24.4% in Q1 2021 compared to 8.7% in Q1 2020 and 24.1% in Q4 2020.

YANSAB's production efficiencies during the quarter, despite the preventative maintenance on two of its plants, significantly accelerated the company's recovery. Coupled with the improved prices, and healthier demand, the company is overlooking gradual improvement towards the end of FY2021e. On a macro-level, the vaccine rollout is bound to accelerate the pick-up in global economic activities, which should further improve demand. However, we believe that on the short term, prices will stabilize on the current levels.

We update our 52 weeks target price SAR75.5/share with a Neutral recommendation.

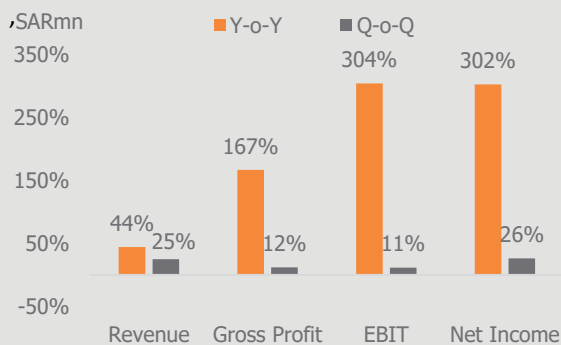
Recommendation **Neutral**

Previous Recommendation	Neutral
Current Price (26-04-2021)	SAR73.2
Previous Target Price	SAR75.5
Upside/ (Downside)	3.1%
Shariah Compliance	Pass

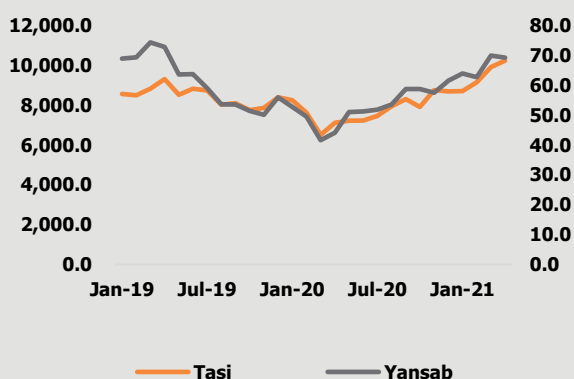
Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Revenue Growth	25.0%	-4.3%	-19.4%
Gross Margin	30.8%	34.5%	16.7%
EBIT Margin	24.0%	26.9%	8.6%
Net Margin	24.4%	24.1%	8.7%

Key Financial Results (Q1 2021)



Share Price Performance



Yanbu National Petrochemical Co.



DCF Valuation

	2021 E	2022 F	2023 F	2024 F	2025 F	2026 F
EBITDA	2,303	2,473	2,639	2,746	2,856	2,968
Operating CF	2,122	2,303	2,526	2,702	2,773	2,884
Capex	(471)	(503)	(531)	(547)	(564)	(581)
FCFF	1,651	1,801	1,995	2,155	2,210	2,303
Stub Period (FCF to be discounted)	1,244	1,801	1,995	2,155	2,210	2,303
PV (FCFF)	1,175	1,576	1,619	1,621	1,541	1,489
WACC	7.9%					
Perpetuity Growth	3.0%					
PV-FCFF	9,020	We have valued YANSAB using DCF and multiples approaches, considering a cost of equity is equal to 7.9% (based on a risk-free rate of 2.7%, market risk premium 7.0%, Beta of 0.75). Based on the DCF valuation, the fair price of YANSAB share price is SAR75.5, which is higher than the traded value by 3.1%.				
PV-TV	31,445					
Net Debt	(127)					
Less: End of services benefits	(888)					
Add: Investments	3,015					
Intrinsic Values	42,466					
Shares Outstanding	562.5					
Equity value per share	75.5					
CMP (26-04-2021)	73.2					
Upside / (Downside %)	3.1%					

Financial Ratios

	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Return on Average Assets (%)	5.9%	3.8%	6.8%	8.0%	9.3%	10.3%	11.5%	12.9%
Return on Average Equity (%)	6.5%	4.4%	7.9%	9.3%	10.8%	12.1%	13.7%	15.4%
Earnings Before Zakat Margin (%)	20.2%	16.2%	21.6%	23.1%	24.6%	25.8%	27.1%	28.5%
Net Income Margin (%)	18.0%	13.5%	19.5%	20.8%	22.2%	23.2%	24.4%	25.7%
Revenue Growth (%)	-20.5%	-17.0%	18.5%	6.2%	5.8%	3.1%	3.0%	3.0%
EPS	1.9	1.2	2.1	2.3	2.6	2.9	3.1	3.3

Income Statement

	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Revenue from Contracts with Customers	6,065	5,035	5,968	6,338	6,705	6,909	7,119	7,333
Cost of Revenue	(4,567)	(3,946)	(4,381)	(4,564)	(4,727)	(4,791)	(4,845)	(4,889)
Gross Profit	1,498	1,089	1,586	1,774	1,977	2,118	2,274	2,444
SG&A Expenses	(402)	(361)	(398)	(416)	(439)	(452)	(466)	(480)
Income from Main Operations	1,096	728	1,188	1,358	1,538	1,666	1,808	1,964
Net Income for The Period	1,090	678	1,163	1,320	1,487	1,605	1,738	1,881

Balance Sheet

	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Total Current Assets	5,843	5,938	6,168	6,412	6,701	6,929	7,114	7,257
Total Non-Current Assets	12,228	11,402	10,628	9,869	9,133	8,422	7,745	7,113
Total Assets	18,070	17,340	16,796	16,281	15,834	15,351	14,859	14,371
Total Current Liabilities	1,153	1,339	1,314	1,299	1,326	1,339	1,352	1,365
Total Non-Current Liabilities	775	1,015	1,022	1,029	1,037	1,045	1,052	1,060
Total Liabilities	1,928	2,354	2,336	2,328	2,363	2,384	2,405	2,425
Total Liabilities and Equity	18,070	17,340	16,796	16,281	15,834	15,351	14,859	14,371

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of it value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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