



Revenue and income from associates dragged by scheduled turnarounds; gross margin below expectations

National Industrialization Company (TASNEE)'s net loss widened to SAR 72mn in Q1-24 from a loss of SAR 17mn in the previous quarter, missing AJC's and market estimates of net profit of SAR 57mn and SAR 47mn, respectively. The variance of results vis-à-vis our estimates was mainly due to lower-than-expected revenue, gross margin and income from associates. The impact of plant shutdowns during the quarter seems to be higher than we expected. There is a possibility that the company had its scheduled turnaround of SEPC plant in Q1-24 instead of Q2-24, which we did not take into consideration. Revenue declined 20.4% Q/Q to SAR 761mn, below our estimate of SAR 954mn. The sequential drop in revenue was on account of scheduled plant turnarounds at some plants, though slight improvement in average selling prices for some products was seen. The plant turnarounds also weighed on the share in income from associates. The gross margin stood at 2.6%, below our estimates of 8.7% and -5.3% in Q4-23. We maintain our "Neutral" recommendation on the stock with revising down our TP to SAR 14.40/share.

- TASNEE posted a net loss of SAR 72mn in Q1-24 compared to a net loss of SAR 17mn in Q4-23, missing AJC's and market estimates of net profit of SAR 57mn and SAR 47mn, respectively. The deviation in the bottom line from our estimate was mainly ascribed to lower-than-expected revenue, gross margin and share in income from associates; possibly due to higher impact of schedule maintenance turnarounds than our expectations. As per our calculations, income from associates for the quarter stood at around SAR 95mn in Q1-24 vs. our expectation of SAR 142mn and SAR 119mn in the previous quarter.
- Tasnee's revenue declined 20.4% Q/Q to SAR 761mn, below our estimate of SAR 954mn. The revenue was impacted mainly by lower volumetric sales owing to scheduled plant shutdowns at three plants. However, there was a slight increase in the average selling prices of some of the company's products. Average selling prices of ethylene grew 4.4% Q/Q, while LDPE jumped 5.5% Q/Q. HDPE and PP-Asia average prices witnessed slight increases of 0.4% Q/Q and 1.2% Q/Q, respectively.
- Gross profit came in at SAR 20mn (vs. loss of SAR 50mn in Q4-23), missing our estimate of profit of SAR 83mn. Gross margin of 2.6% was below our estimate of 8.7%. Propane feedstock average prices increased by 2.7% Q/Q; subsequently Propane-PP spreads contracted slightly by 0.7% Q/Q in Q1-24. The hike in feedstock ethane prices is also expected to have reflected partially in cost of sales. However, we expect feedstock price hike to be more visible in coming quarters due to existing inventory at lower costs. Total impact on Tasnee's cost of sales is estimated at SAR 75mn on annual basis.
- Operating loss was recorded at SAR 32mn vs. a profit of SAR 16mn in Q4-23 and our estimate of profit SAR 86mn. A lower share in income from associates and higher G&A led to the losses at operating level.

AJC View and valuation: Overall, TASNEE reported a weak set of results in Q1-24. The net loss widened Q/Q, despite the absence of any one-off impairments like in Q4-23. Scheduled turnarounds at three of the company's plants seem to have a larger than expected impact on revenue, gross margin, and income from associates; may be due to a slower ramp-up post the turnarounds. In Q2-24, the company has another planned shutdown at SEPC plant that is expected to weigh on earnings. The weaker volumes and gross margins are key negatives for the company and need to be watchful of these factors. However, a ramp-up in operations of plants which completed the maintenance may support the company's performance in coming quarters. The anticipated easing of feedstock prices in the summer season could also help the earnings. Additionally, some of the company's products seem to have held on to the gains in Q1-24. Nonetheless, the outlook remains uncertain amid global economic growth concerns and geopolitical risks. The delay in commencement of titanium ilmenite smelter plant remains a concern for the company. The stock is trading at a forward PE of 39.4x based on our FY24 earnings forecasts vs. the current TTM PE of 38.0x. We maintain our "Neutral" recommendation on the stock with a revised TP at SAR 14.40/share.

Results Summary

SARmn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	889	957	761	-14.3%	-20.4%	-20.2%
Gross Profit	115	-50	20	-83.0%	NM	-
Gross Margin	12.9%	-5.3%	2.6%	-	-	-
EBIT	162	16	-32	NM	NM	NM
Net Profit	82	-17	-72	NM	NM	NM
EPS	0.12	-0.03	-0.11	-	-	-

Source: Company Reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	14.40
Upside / (Downside)*	8.9%

Source: Tadawul *prices as of 8th of May 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E
Revenues	3,883	3,567	3,610
Growth %	5.7%	-8.1%	1.2%
Net Income	666.3	174.6	224.5
Growth %	-50.9%	-73.8%	28.6%
EPS	1.00	0.26	0.34
DPS	0.0	0.0	0.0

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E
Gross Margin	22.3%	10.2%	11.8%
Net Margin	17.2%	4.9%	6.2%
ROE	5.6%	1.4%	1.8%
ROA	2.7%	0.7%	0.9%
P/E (x)	15.84	47.51	39.39
P/B (x)	1.10	0.86	0.90
EV/EBITDA (x)	8.85	17.67	15.31
Dividend Yield	0.0%	0.0%	0.0%

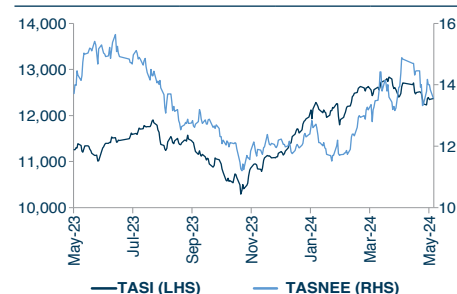
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	8.84
YTD%	6.8%
52 week (High)/(Low)	15.7/10.9
Share Outstanding (mn)	668.9

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, 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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