April 2024

Yanbu National Petrochemical Co.

Result Flash Note Q1-24

Net profit surges despite a fall in revenue; one-off impact from shipment delays likely supported GP margin

Yanbu National Petrochemical Co. (YANSAB)'s net profit surged ~5x Q/Q to SAR 100mn in Q1-24 compared to SAR 19mn in Q4-23. The net profit came above our and market estimates of SAR 37mn and SAR 48mn, respectively. The deviation from our estimate was mainly due to a significantly higher-than-expected gross margin, despite a lower revenue. The revenue of SAR 1,391mn declined 3.8% Q/Q, missing our estimate of SAR 1,498mn. Whereas GP margin widened to 16.4% from 9.6% in Q4-23; above our estimate of 8.5%. GP margin seems to be aided by some one-off impact. We anticipate that the revenue from delayed shipments in the previous quarter, impacted by the issue in the Red Sea, was recognized in Q1-24, while the cost of sales accounted for these Q4-23 shipments is expected to be lower. We reiterate our "Neutral" recommendation with a revised TP of SAR 43.0/share.

- YANSAB posted a net profit of SAR 100mn in Q1-24 compared to net profit of SAR 19mn in Q4-23, beating AJC's and market estimates of SAR 37mn and SAR 48mn, respectively. The higher-than-expected gross margin primarily led to the deviation of results from our estimate.
- Revenue declined 3.8% Q/Q to SAR 1,391mn, below our estimate of SAR 1,498mn. The revenue was impacted by lower sales volume perhaps due to delay in shipments from the Red Sea issue, as the company's shipment are more likely to be impacted by the crisis given its location on the west. However, average selling prices were higher for all of the YANSAB's key products. Average prices of MEG (Asia) soared 12.0% Q/Q in Q1-24. PP increased 1.2% Q/Q, while HDPE and LLDPE prices rose 0.4% Q/Q and 2.6% Q/Q, respectively.
- Gross profit surged 65.5% Q/Q to SAR 229mn, beating AJC's estimate of SAR 128mn. The GP margin of 16.4% (compared to 9.6% in Q4-23 and above our estimate of 8.5%) seems to be supported by some unusual item. We reckon the possibility of revenue from delayed shipments of the previous quarter due to the Red Sea problem being recognized in Q1-24, while the cost of sales accounted for these Q4-23 shipments is expected to be lower. Additionally, Propane-MEG (Asia) spreads turning positive in Q1-24 from the negative spreads in the previous quarter likely to have aided GP margin. The negative impact of fixed feedstock cost increase for YANSAB is estimated at SAR 170mn annually, which is expected to be more evident in the following quarters.
- Operating profit jumped to SAR 101mn (vs. SAR 21mn in Q4-23), above our estimate of SAR 23mn, mainly due to the positive effect of higher gross margin. OPEX to sales ratio was higher at 9.2% in Q1-24 compared to 8.1% in Q4-23 and our estimate of 7.0%.

AJC view and valuation: Surprisingly higher GP margin was the highlight of the YANSAB's Q1-24 results. We believe certain one-off effect lifted the GP margin this quarter. As mentioned above, the positive impact from revenue of last quarter's delayed shipment could have helped the margin expansion. The gross profit margin is projected to stabilize in Q2-24 and gradually improve in the following quarters due to the anticipated decrease in feedstock prices during the upcoming summer. YANSAB's key product MEG prices may continue to benefit with improved economic outlook for China and declining inventories there. Further, expected lower LNG feedstock prices in the coming quarters may support spreads. As per our calculations, the company's utilization level continues to be low despite maintenance efforts, pointing to ongoing technical challenges that have been impacting operational efficiency for the past two years, while the potential shipment delays in the upcoming quarters might continue in the short run. However, we are watchful of any improvement in operating efficiency in the coming quarter after the recent turnaround. YANSAB is trading with a FY24 forward PE of 30.5x compared to current negative PE. We predict that the dividend per share for 2024 will increase to SAR 2.0/share, resulting in a dividend yield of 5.3%. We reiterate our "**Neutral**" recommendation on YANSAB with revising down our TP to **SAR 43.0/share**.

Results Summary

SARmn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	667	1,445	1,391	108.5%	-3.8%	-7.1%
Gross Profit	-240	138	229	NM	65.5%	79.1%
Gross Margin	*-35.9%*	*9.6%*	*16.4%*	-	-	-
EBIT	-367	21	101	NM	388.4%	342.9%
Net Profit	**-370**	**19**	**100**	NM	437.8%	168.5%
EPS	-0.66	0.03	0.18	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	43.0
Upside / (Downside)*	14.9%

Source: Tadawul *prices as of 28th of April 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E
Revenues	7,024	4,533	6,512
Growth %	-5.2%	-35.5%	43.7%
Net Income	414	-485	690
Growth %	-73.0%	NM	NM
EPS	0.74	-0.86	1.23
DPS	2.75	1.75	2.00

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E
Gross Margin	13.8%	-1.2%	19.5%
Net Margin	5.9%	-10.7%	10.6%
ROE	2.8%	-3.7%	5.9%
ROA	2.4%	-3.1%	4.7%
P/E (x)	High	Neg	30.5
P/B (x)	1.6	1.8	1.8
EV/EBITDA (x)	12.4	24.4	9.9
Dividend Yield	7.0%	4.6%	5.3%

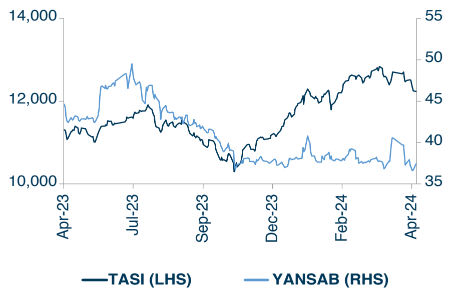
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	21.0
YTD%	-1.7%
52 week (High)/(Low)	49.6/36.4
Share Outstanding (mn)	562.5

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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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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