



Earnings weighed down by plant turnaround and pressure on selling prices

SABIC Agri-Nutrient's net income declined 14.0% Q/Q to SAR 841mn in Q1-24, broadly in-line with our estimate of SAR 885mn but higher than the market estimate of SAR 714mn. The net income was weighed down by the decline in revenue as well as margins. The topline fell 15.3% Q/Q to SAR 2.5bn (in line with AJC's estimate of SAR 2.6bn) due to lower volumes (down 14% Q/Q) owing to scheduled shutdown and lower product prices. The GP margin of 39.3% came marginally below our expectation of 40.0% and 43.8% in Q4-23. Whereas higher non-operating income and possibly lower zakat expenses helped the bottom line. We maintain our "Neutral" recommendation on the stock with a revised TP of 122.0/share.

- SABIC Agri-Nutrients' net income in Q1-24 dropped by 14.0% Q/Q and 14.3% Y/Y to SAR 841mn, broadly in-line with our estimate of SAR 885mn but higher than market estimate of SAR 714mn. The Q/Q decrease net income was mainly attributable to 15.3% decline in revenue and contraction of gross and operating margins. We believe the impact of the shutdown was higher than our expectations. However, higher finance income and lower zakat expenses likely to have limited the decline in net profit.
- The revenue was down 15.3% Q/Q to SAR 2,517mn (-8.8% Y/Y) in Q1-24, broadly in line with our estimate of SAR 2,633mn. The decline revenue resulted from a combined effect of lower volumes and pressure on product prices. Sales volume fell 14% Q/Q and 7% Y/Y as the company's Plant 3 was under scheduled maintenance shut down during the quarter. Moreover, average prices of Urea fell 1.7% Q/Q and average ammonia prices plunged 32.8% Q/Q. Accordingly, the company's average sales prices decreased by 2% Q/Q.
- Gross profit decreased 24.2% Q/Q to SAR 988mn, missing our estimate of SAR 1.1bn due to weaker than expected top line and gross margin. The GP margin of 39.3% was below our estimate of 40.0% and 43.8% in Q4-23. The impact from feedstock price hike on SABIC Agri-Nutrients' cost of sales is estimated at SAR 296mn annually. However, we don't expect the full impact to have reflected in Q1-24 due to existing inventory at the lower cost.
- The decline in operating profit was steeper at 28.4% Q/Q to SAR 730mn, lower than our estimate of SAR 831mn. OPEX was higher than expectation with OPEX-to -sales ratio of 10.3% vs 9.5% in Q4-23 and our estimate of 8.5%. Higher shipping costs with the backdrop of the Red Sea crisis may have pushed OPEX upwards. Subsequently, the operating margin was recorded at 29.0% compared to 34.3% in Q4-23 and our estimate of 31.5%.

AJC view and valuation: SABIC AN's earnings were broadly in-line with our estimate but the operating performance was weaker than expected. We believe the impact of the turnaround was higher than our expectations. Average urea prices declined in Q1-24, despite a few supply disruptions in Southeast Asia and logistical restriction in Panama Canal & Bab AlMandab strait by the US, and restocking activity initially during the quarter. On the other hand, the demand from India turned out to be lower than anticipated. Lower natural gas prices also put pressure on Urea prices. Outlook for urea remains subdued due to expected increase supply from China and possibility of European producers resuming production amid lower gas prices. SABIC Agri-Nutrients' volume is expected to be impacted in the rest of the year due to several planned turnarounds later (Q3 and Q4). Thus, we expect FY24 revenue to decrease 16.0% to SAR 9.3bn, while net income is estimated to fall 24.8% to SAR 2.8bn. The stock is trading at a forward PE of 18.7x based on our FY24 estimates against the TTM PE of 14.2x. We maintain our "Neutral" recommendation on the stock with a revised TP at SAR 122.0/share.

Results Summary

SAR mn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,760	2,972	2,517	-8.8%	-15.3%	-4.4%
Gross Profit	1,137	1,303	988	-13.1%	-24.2%	-6.3%
Gross Margin	41.2%	43.8%	39.3%	-	-	-
EBIT	957	1,020	730	-23.7%	-28.4%	-12.1%
Net Profit	981	978	841	-14.3%	-14.0%	-5.0%
EPS	2.06	2.06	1.77	-	-	-

Source: Company reports, Aljazira Capital

Recommendation Neutral

Target Price (SAR) 122.0

Upside / (Downside)* 11.7%

Source: Tadawul *prices as of 25th April 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E
Revenue	18,981	11,033	9,264
Growth %	97.9%	-41.9%	-16.0%
Net Income	10,037	3,659	2,776
Growth %	92.0%	-63.1%	-24.8%
EPS	21.08	7.69	5.83
DPS	12.00	6.00	5.00

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E
Gross Margin	58.9%	41.7%	36.1%
Net Margin	52.9%	33.2%	30.0%
ROE	59.0%	18.9%	13.6%
ROA	44.6%	14.0%	10.2%
P/E (x)	6.9	18.0	18.7
P/B (x)	3.5	3.1	2.4
EV/EBITDA (x)	5.5	12.0	11.7
Dividend Yield	8.2%	4.0%	4.5%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	51.8
YTD%	-21.3%
52 week (High)/(Low)	148.2/107.6
Share Outstanding (mn)	476.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Argam, Aljazira Capital

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RESEARCH
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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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