October 2023

SABIC Agri-Nutrients Co.

Results Flash Note Q3-23

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Broadly in-line results supported by higher Urea prices and lower OPEX

SABIC Agri-Nutrients recorded a net income of SAR 1.05bn in Q3-23, broadly in-line with our estimate of SAR 983mn and higher than consensus estimates of SAR 899mn. The net income was up 61.1% Q/Q but down 55.0% Y/Y. The Q/Q increase in profitability was driven by higher average selling prices of Urea during the quarter. The broadly in-line results with our estimates were mainly supported by higher Urea prices and lower OPEX. GP margins came-in at 45.9%, higher than our expectation of 43.2% and compares to 35.5% in Q2-23. Revenues came-in at SAR 2.67bn, up 1.6% Q/Q but down 39.5% Y/Y, and 2.5% below our estimates of SAR 2.74bn. The near-term outlook for urea is firming as demand is expected from India, Europe and even some buying from the US while the longer-term prospects for urea prices remain slim amid ample supplies. We maintain our "Neutral" recommendation on the stock with a TP of 133.0/share.

- SABIC Agri-Nutrients' net income increased 61.1% Q/Q but declined 55.0% Y/Y to SAR 1.05bn in Q3-23, broadly in-line with our estimate of SAR 983mn and higher than consensus estimates of SAR 899mn. The Q/Q increase in profitability is driven by increase in average selling prices of company's products during the quarter. The broadly in-line results with our estimates were supported by Urea prices and lower OPEX.
- The revenue reached SAR 2,672mn (-39.5% Y/Y, 1.6% Q/Q) in Q3-23, 2.5% lower than our estimate of SAR 2,739mn. Average prices of Urea increased 22.5% Q/Q to USD 372/tonne from USD 304/tonne in Q2-23. The company's volumetric sales declined 3% Q/Q while average sales price increased Q/Q resulting in a 2% Q/Q increase in revenues.
- Gross profit increased 31.5% Q/Q to SAR 1.23bn, 3.6% above our estimate of SAR 1.18bn. This reflects a GP margin of 45.9%, higher than our estimate of 43.2% and compares to 35.5% in Q2-23. The increase in product prices and a fixed-cost based feedstock helped expand GP margin Q/Q.
- Operating profit increased 48.8% Q/Q at SAR 1.01bn, 5.3% higher than our estimate of SAR 958mn. OPEX declined 14.6% Q/Q and is 3.4% lower than our estimate of SAR 225mn. OPEX-to -sales ratio stood at 8.1% vs 9.7% in Q2-23 and in-line with our estimate of 8.2%. The operating margin was recorded at 37.8% compared to 25.8% in Q2-23 and our estimate of 35.0%.

AJC view and valuation: SABIC AN'S earnings improved Q/Q driven by increase in average selling prices of company's products Q/Q. The results were broadly in-line with our estimate supported by higher gross margins and lower OPEX. Seasonal global demand and higher-cost winter-time energy supply together lend support to the urea market in Q3/Q4-23. Buoyant demand from major importers in the Americas, Africa, and Europe ahead of the new-crop planting season together with an estimated 1.5-2 MMT in Indian urea tenders support global trade through the year end – this coincides with an uptick in production costs given the onset of winter-season energy pricing affecting both gas-based and coal-based producers. The next Indian tender is not expected until December for January-February shipment, and this would create downward pressure on the market if demand continues to be subdued in other import regions. Furthermore, the longer-term prospects for urea prices remain slim amid ample supplies and sluggish demand. SABIC Agri-Nutrients completed the acquisition of 49% stake in ETG Inputs Holdco Ltd. in Q2-23. The acquisition is expected to help the company improve its distribution in regions such as Africa where ETG has presence. The stock is trading at a forward PE of 17.3x based on our FY23 estimates against the TTM PE of 12.8x. We maintain our **"Neutral"** recommendation on the stock with a revised TP at **SAR 133.0/share.**

Results Summary

SARmn	Q3-22	Q2-23	Q3-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	4,417	2,629	2,672	-39.5%	1.6%	-2.5%
Gross Profit	2,662	932	1,226	-53.9%	31.5%	3.6%
Gross Margin	*60.3%*	*35.5%*	*45.9%*	-	-	-
EBIT	2,423	678	1,009	-58.4%	48.8%	5.3%
Net Profit	**2,331**	**651**	**1,049**	-55.0%	61.1%	6.7%
EPS	4.90	1.37	2.20	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	133.0
Upside / (Downside)*	+13.0%

Source: Tadawul *prices as of 29th of October 2023

Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	9,592	18,981	10,904	10,077
Growth %	188.3%	97.9%	-42.6%	-7.6%
Net Income	5,228	10,037	3,501	3,157
Growth %	303.9%	92.0%	-64.5%	-10.8%
EPS	10.98	21.08	7.36	6.63

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	67.8%	58.9%	39.9%	38.2%
Net Margin	54.5%	52.9%	32.1%	31.3%
P/E (x)	15.4	6.9	17.3	19.2
P/B (x)	5.2	3.5	2.9	2.8
EV/EBITDA (x)	11.4	5.5	11.9	13.3
Dividend Yield	2.5%	8.2%	4.3%	3.9%

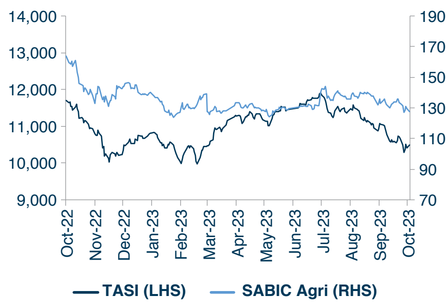
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	62.2
YTD%	-12.9%
52 week (High)/(Low)	162.0/123.2
Share Outstanding (mn)	476.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Argaam, Aljazira Capital

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer