

SABIC Agri-Nutrients Co.

Petrochemicals – Industrial

SAFCO AB: Saudi Arabia

10 January 2022

الراجحي المالية
Al Rajhi Capital



US\$21.276bn Market cap
40% Free float
US\$23.03mn Avg. daily volume

Target price 180.00 +7.4% over current
Current price 167.60 as at 6/1/2022

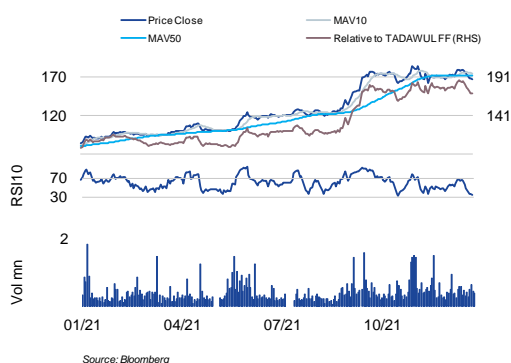
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2020	2021e	2022e
Revenue	3,328	8,935	11,540
y-o-y	1.2%	168.5%	29.2%
Gross Profit	1,665	5,898	7,810
Gross margin	50.0%	66.0%	67.7%
Net income	1,294	4,597	6,144
y-o-y	-12.1%	255.2%	33.6%
Net margin	38.9%	51.5%	53.2%
EPS (SAR)	3.1	9.7	12.9
DPS (SAR)	2.0	4.3	8.0
Payout ratio	64%	44%	62%
P/E (Curr)	54.0x	17.4x	13.0x
P/E (Target)	59.6x	19.2x	14.3x

Source: Company data, Al Rajhi Capital

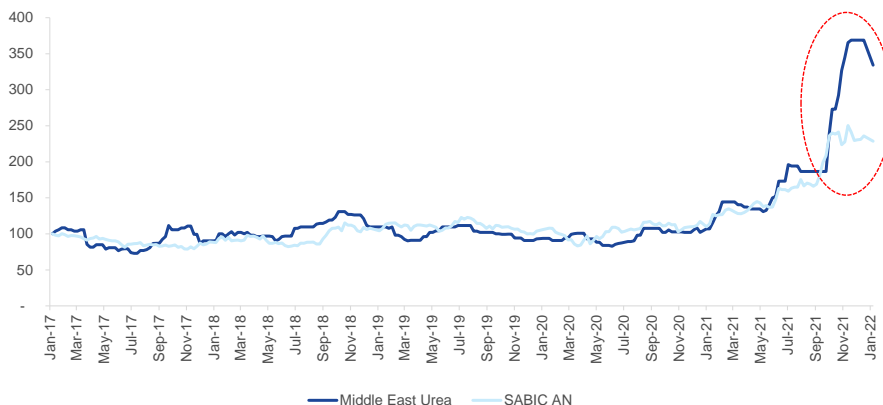
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Increase TP to SAR180/sh on higher Urea prices

Average Urea prices continued to maintain their strong upward momentum throughout 2021, closing the year with a multi-year high (above US\$700/t; +218% y-o-y in 2021; +30% in Q4 2021), aided by a robust demand outlook, firm crop prices, and tight supply. Although the company's share price doubled last year (+13% in Q4 2021), it is still lower than the rise in Urea prices, reflecting further upside potential. As per Bloomberg, Urea prices are likely to remain stable going through into 1Q. Prices are being supported by higher input costs. 1/3rd of European ammonia production has closed because of high natural gas prices. India and Brazil are competing for urea tons and China has restricted urea exports until 2H22. All of these factors are expected to be favourable for SAFCO.

On the other hand, as seen historically, Urea prices are cyclical and revert to their prior average levels after a sharp rally within a few months given the dynamics of the Urea market, however, this time, we are yet to observe a significant price correction. Note that Natural gas prices have started to decline and if normalcy returns to the gas market Urea production could increase leading to drop in Urea prices. So with the risk of revising our estimate, we revise our Urea price forecast to ~US\$600/t for 2022 (earlier: ~US\$500/t), leading to an upward revision in our forward-looking estimates. Consequently, we raise our TP to SAR180/sh. (SAR160/sh. earlier) with a Neutral rating (from Overweight) on the stock.

Figure 1 Urea prices vs SABIC AN share price (Rebased to 100)



Source: Bloomberg, Al Rajhi Capital

Valuation and risks: Post revision in our Urea price assumptions, we revise TP to SAR180/share (SAR160/sh. earlier) based on the dividend yield method (4.5% yield and SAR8 DPS). We use the dividend method to help investors cash in near-term movement in Urea prices and possible jump in dividends if the prices were to continue at these levels. Key upside risks to our estimates include major shutdowns of Urea plants globally, delayed suspension of construction of newer Urea plants worldwide, sharp pick-up in demand, drop in natural gas supplies, prolonged shutdown of ammonia capacities, higher than expected rise in Urea prices, and increase in dividends above our expectations. Downside risks to our estimates may arise from drop in gas prices and steep decline in Urea price as the plants closed temporarily reopen.



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"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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