

Sabic Agri-Nutrient Company(SAFCO) - 3Q23 Results Review

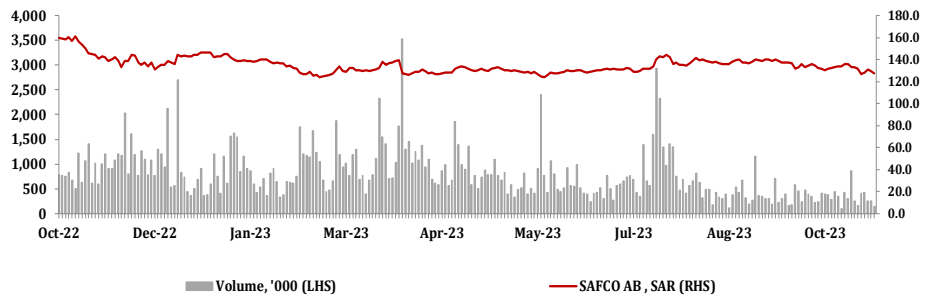
Analyst: Neetika Gupta

Previous Recommendation: Accumulate
Previous Reco. & Date: TP: SAR 147.1 per share; Accumulate on 01-August-2023

Target Price (SAR): 147.10
Upside / (Downside): 15%

Date: 30-10-2023

| Bloomberg Ticker | SAFCO AB |
|-----------------------------|---------------|
| Current Market Price (SAR) | 127.400 |
| 52wk High / Low (SAR) | 164.6/123.2 |
| 12m Average Vol. (000) | 791.1 |
| Mkt. Cap. (USD/SAR mn) | 60,647/60,647 |
| Shares Outstanding (mn) | 476.0 |
| Free Float (%) | 50% |
| 3m Avg Daily Turnover (000) | 61,963.4 |
| 6m Avg Daily Turnover (000) | 79,402.6 |
| P/E'23e (x) | 16.9x |
| EV/EBITDA'23e (x) | 14.1x |
| Dividend Yield '23e (%) | 0.3% |
| Price Perf. (1m/3m) (%) | -4.2%/-10.3% |



Revenue dips 40% YoY, in-line with U-Capital's estimates.

The company reported Q3'23 revenue of SAR 2,672mn (-40% YoY), in-line with our estimated SAR 2,818mn. Although the company witnessed a 40% YoY decline amid the sharp decline in fertilizer prices on a YoY basis, Sabic Agri saw a slight improvement in revenue on a QoQ basis driven by better fertilizer prices on a QoQ basis.

Gross and Operating profits largely in-line with U-Capital estimates.

The company's gross and operating income came at SAR 1,226mn and SAR 1,009mn, largely in-line with our estimate of SAR 1,167mn and SAR 949mn, respectively. Although, margins declined significantly on a YoY basis, the group witnessed an increase in margins on a QoQ basis amid the improvement in fertilizer pricing in Q3'23 compared to previous quarter and likely due to lower-than-expected operating expenses.

Net income increases 61% QoQ, in-line with U-Capital estimate.

The company's net income for the quarter was SAR 1,049mn, largely in-line with our estimated SAR 974mn. On a QoQ basis, net income increased by 61% due to better-than-expected operating margins (39% vs 35% expected) and likely due to better contribution from associates and finance income.

Maintain target price.

The urea market had a strong start in Q3'23, primarily due to scheduled maintenance in Russia, a backlog of commitments from Southeast Asian exporters, and Egyptian regulators mandating a 30% reduction in urea production to redirect natural gas towards power generation. Additionally, resilient global demand, increased costs for winter-time energy supply, and lower-than-anticipated Chinese export volumes are providing support to the urea market in Q4'23e. Furthermore, we anticipate that fertilizer prices will continue to improve until 1H-24e, given the low base of Urea and Ammonia prices in 1H-23 and favourable supply-demand dynamics. Consequently, we are maintaining our "Accumulate" rating on the stock and keeping our target price at SAR 147.1 per share.

Valuation.

Sabic-Agri is trading at 2023e P/E of 16.9x compared to the historical average 1-year forward P/E of 13.4x. Additionally, the stock is valued at EV/EBITDA multiple of 14.1x, based on our FY23 estimate, compared to the historical average of 9.5x.

| Income Statement | | | | | | | | | | | | |
|--------------------------|--------------|--------------|------------|------------|--------------|------------|-------------|------------|-----------|--------------|--------------|-------------|
| (SAR mn) | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 3Q23e | YoY (%) | QoQ (%) | Var (%) | 9M22 | 9M23 | YoY (%) |
| Sales/Revenue | 4,417 | 4,206 | 2,760 | 2,629 | 2,672 | 2,818 | -40% | 2% | -5% | 14,774 | 8,061 | -45% |
| Gross Profit (Loss) | 2,746 | 1,942 | 1,137 | 932 | 1,226 | 1,167 | -55% | 32% | 5% | 9,092 | 3,295 | -64% |
| Operating Profit (Loss) | 2,415 | 2,190 | 958 | 678 | 1,009 | 949 | -58% | 49% | 6% | 8,143 | 2,644 | -68% |
| Net Profit (Loss) | 2,331 | 2,168 | 981 | 651 | 1,049 | 974 | -55% | 61% | 8% | 7,869 | 2,681 | -66% |
| Balance Sheet | | | | | | | | | | | | |
| (SAR mn) | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 3Q23e | YoY (%) | QoQ (%) | Var (%) | 9M22 | 9M23 | YoY (%) |
| Shareholders' Equity | 20,158 | 19,894 | 17,007 | 16,407 | 17,543 | 17,381 | -13% | 7% | 1% | 20,158 | 17,543 | -13% |
| Key Ratios | | | | | | | | | | | | |
| | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 3Q23e | YoY (%) | QoQ (%) | Var (%) | 9M22 | 9M23 | YoY (%) |
| Gross Profit Margin | 62% | 46% | 41% | 35% | 46% | 41% | | | | | | |
| Operating Profit Margin | 55% | 52% | 35% | 26% | 38% | 34% | | | | | | |
| Net Profit Margin | 53% | 52% | 36% | 25% | 39% | 35% | | | | | | |
| Return on Equity (RoE) | 46% | 44% | 23% | 16% | 24% | 22% | | | | | | |

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


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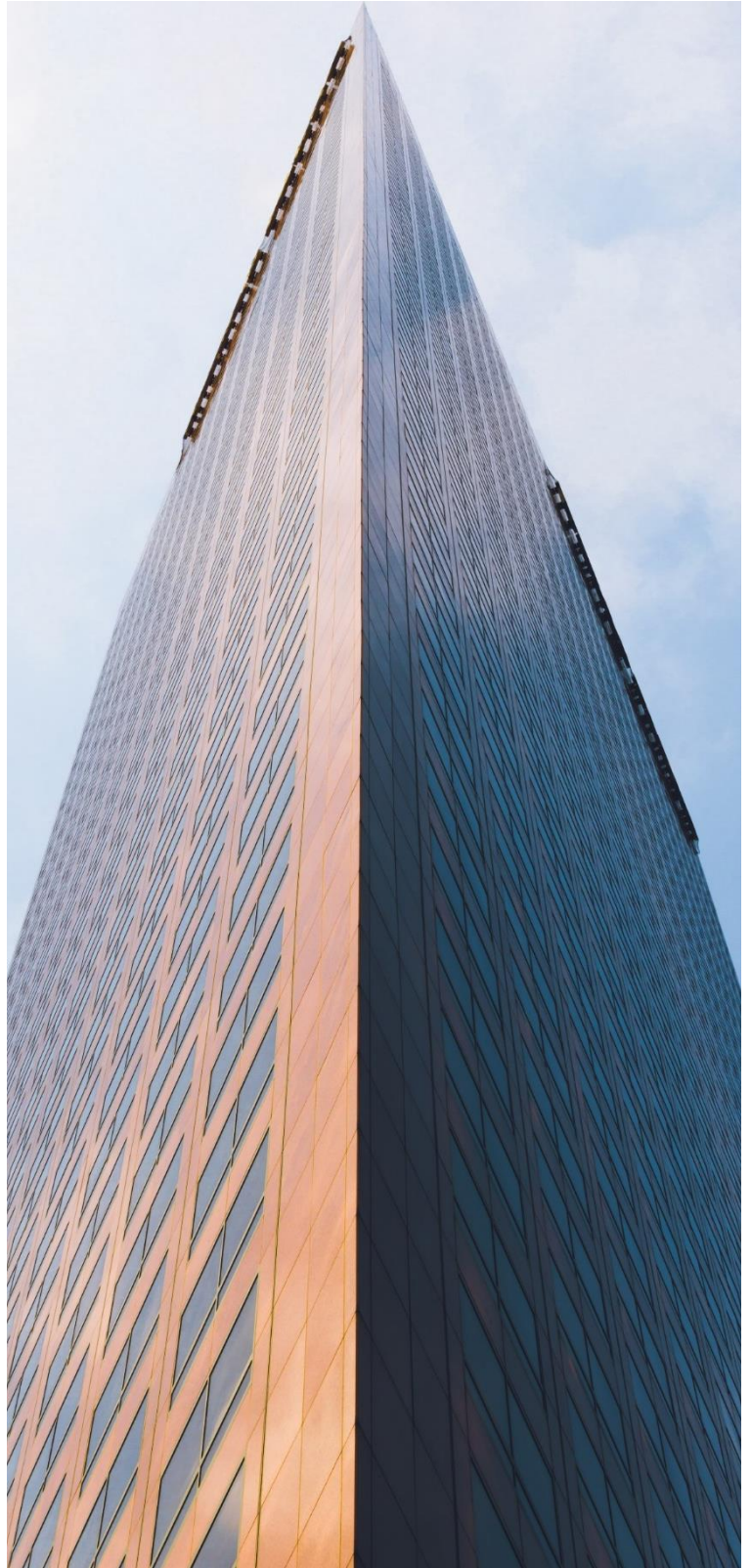
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Recommendation

| | |
|------------|-----------------------|
| BUY | Greater than 20% |
| ACCUMULATE | Between +10% and +20% |
| HOLD | Between +10% and -10% |
| REDUCE | Between -10% and -20% |
| SELL | Lower than -20% |

Ubhar Capital SAOC (U Capital)

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