SABIC Agri-Nutrients Co.

Petrochemicals – Industrial
SAFCO AB: Saudi Arabia
10 August 2022

الراجحي المالية
Al Rajhi Capital

US$19.778bn	40%	US$68.34mn
Market cap	Free float	Avg. daily volume

Target price	160.00	+2.7% over current
Current price	155.80	as at 10/8/2022

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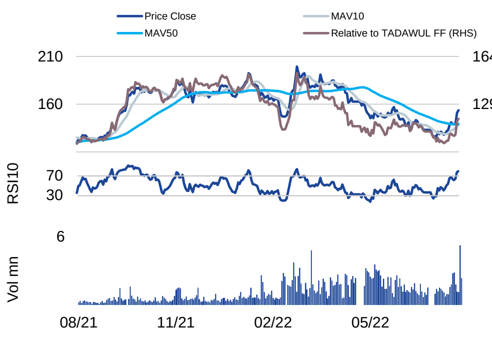
Existing rating

Underweight	**Neutral**	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2021	2022e	2023e
Revenue	9,592	18,017	13,952
y-o-y	*188.3%*	*87.8%*	*-22.6%*
Gross Profit	6,507	10,533	7,910
Gross margin	*67.8%*	*58.5%*	*56.7%*
Net income	5,229	8,857	6,332
y-o-y	*304.0%*	*69.4%*	*-28.5%*
Net margin	*54.5%*	*49.2%*	*45.4%*
EPS (SAR)	11.0	18.6	13.3
DPS (SAR)	4.3	9.0	6.8
Payout ratio	*39%*	*48%*	*51%*
P/E (Curr)	14.2x	8.4x	11.7x
P/E (Target)	14.6x	8.6x	12.0x

Source: Company data, Al Rajhi Capital

SABIC Agri-Nutrients Co.

Q2: Earnings beat on increased volume; TP revise to SAR160/sh.

SABIC Agri-Nutrients posted record Q2 results with top-line and bottom-line beating our and consensus estimates by wide margins, mainly due to excessive sales volume amid robust utilization levels, offsetting lower Urea prices. It should be noted that the company has started selling its products directly from January 2022, and is not dependent on SABIC, leading to higher top-line this year. Going forward, we expect the sales volume to normalize and may even decline in H2 2022, mainly due to likely plant shutdowns at the SAFCO II, SAFCO IV, and Al Bayroni plants (source: 2021 board report). Urea prices are up by ~32% since mid-June and are currently hovering around US$620/t, aided by the continued tight supply amid the Chinese Urea export ban and relatively higher gas prices. Accordingly, we revise our 2022E Urea price forecasts to US$630/t (US$575/t earlier). However, the urea-to-corn ratio has reached above 100 bu/mt, almost 50% above the 2018-19 levels of ~70 bu/mt., making it less affordable for buyers globally. Hence, we expect Urea prices to decline in 2023 and beyond until it reaches a price floor. Post robust earnings performance in Q2, optimism over the near term Urea prices, and a potential rise in payout (2022E DPS: SAR9.0; 48% payout vs 39% in 2021), we revise our TP to SAR160/sh. (SAR140/sh. earlier) but remain Neutral on the stock.

Figure 1 SABIC Agri-Nutrients Q2 2022 results

(SAR mn)	Q2 2022	Q1 2022	Q2 2021	Q2 2020	ARC Est.	Cons Est.	q-o-q	y-o-y	% ch vs 2020	vs ARC	vs Cons
Revenue	**5,700.0**	**4,657.0**	**1,839.0**	**928.7**	**4,278.1**	**4,376.3**	***22.4%***	***210.0%***	***513.8%***	***33.2%***	***30.2%***
Gross Profit	3,473.0	3,025.0	1,123.0	454.3	2,730.0	NA	*14.8%*	*209.3%*	*NM*	*27.2%*	*NM*
G. margin	*60.9%*	*65.0%*	*61.1%*	*48.9%*	*63.8%*	NA					
Op. profit	3,120.0	2,614.0	951.0	360.0	2,345.0	NA	*19.4%*	*228.1%*	*NM*	*33.1%*	*NM*
Op. margin	*54.7%*	*56.1%*	*51.7%*	*38.8%*	*54.8%*	*NA*					
Net profit	**3,025.0**	**2,513.0**	**836.0**	**359.8**	**2,188.8**	**2,252.1**	***20.4%***	***261.8%***	***NM***	***38.2%***	***34.3%***
Net margin	*53.1%*	*54.0%*	*45.5%*	*38.7%*	*51.2%*	*51.5%*					

Source: Company data, Al Rajhi Capital

Q2 results: Top-line rose ~22% q-o-q to SAR5,700mn, beating our and consensus estimates, driven by higher-than-expected sales volume, offsetting weak Urea prices (-6% q-o-q). The top-line beat further flowed down to gross levels as well, although it was partially offset by higher-than-expected higher production costs, which could be attributable to increased sales volume and associated higher logistic costs. Further, SG&A costs came in at SAR353mn (-14% q-o-q decline), below our estimate of SAR385mn, leading to a further beat at the operating level. Overall, the company posted record quarterly earnings, reaching SAR3,025mn (+20% q-o-q), beating our and consensus estimates.

Valuation and risks: Post revision in our Urea price assumptions and estimates, we revise our TP to SAR160/share (SAR140/sh. earlier) based on equal mix of DCF valuation (SAR156/sh. based on FCF, cost of equity 11.0%) and dividend yield (SAR164/sh. based on 5.5% required yield and 2022E DPS). 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, the 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 a drop in gas prices and the steep decline in Urea price as the plants closed temporarily reopen.

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"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.

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