SABIC Agri-Nutrients Co.

Petrochemicals – Industrial
SAFCO AB: Saudi Arabia
5 September 2022

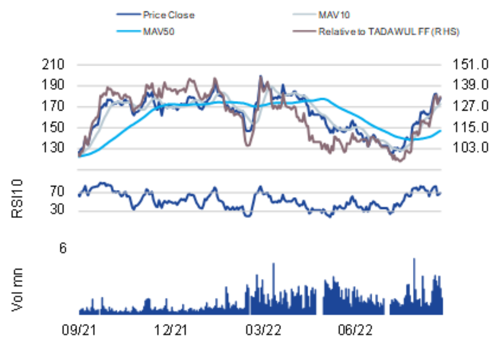
US$22.469bn	40%	US$66.85mn
Market cap	Free float	Avg. daily volume

Target price	185.00	+4.5% over current
Current price	177.00	as at 5/9/2022

Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

(SARmn)	2021	2022e	2023e
Revenue	9,592	19,210	15,187
y-o-y	*188.3%*	*100.3%*	*-20.9%*
Gross Profit	6,507	11,209	8,499
Gross margin	*67.8%*	*58.3%*	*56.0%*
Net income	5,229	9,401	6,696
y-o-y	*304.0%*	*79.8%*	*-28.8%*
Net margin	*54.5%*	*48.9%*	*44.1%*
EPS (SAR)	11.0	19.7	14.1
DPS (SAR)	4.3	9.0	7.2
Payout ratio	*39%*	*46%*	*51%*
P/E (Curr)	16.1x	9.0x	12.6x
P/E (Target)	16.8x	9.4x	13.2x

Source: Company data, Al Rajhi Capital

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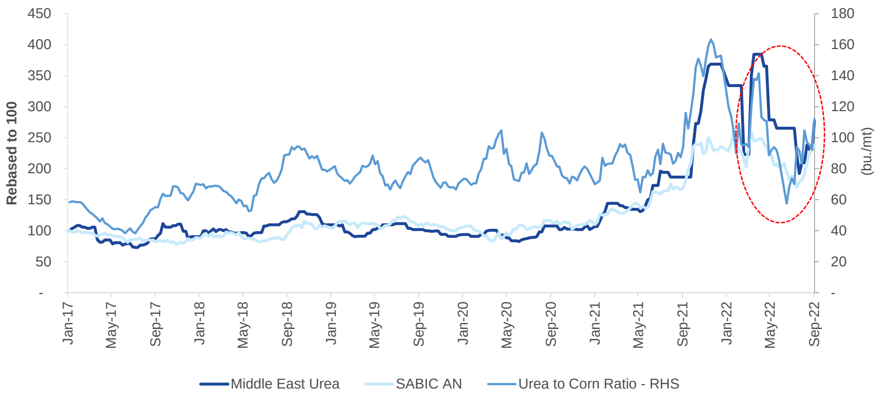
TP raise to SAR185/sh on higher Urea prices

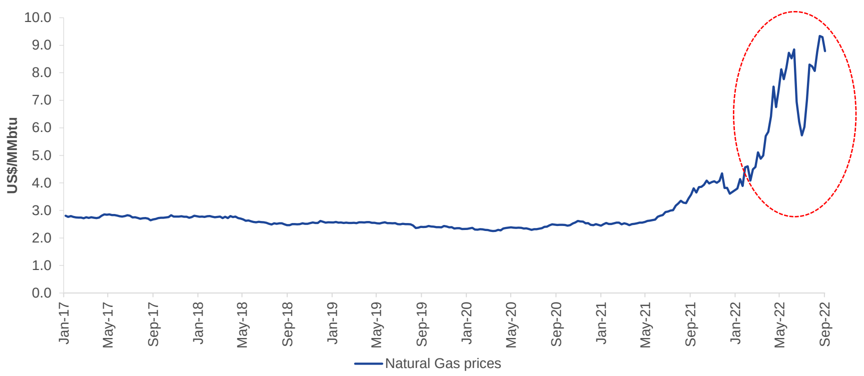
Urea prices continued to maintain their upward trend in August with US Gulf NOLA prices rising ~20% m-o-m, driven by i) the continued tight supply amid the Russia-Ukraine conflict ii) relatively higher gas prices (+13% m-o-m rise), iii) improvement in corn prices (+8% m-o-m). The major fertilizer producers (including Yara International and CF Industries) have curtailed or halted their fertilizer production in Europe for economic reasons amid rising natural gas prices. Additionally, rising coal prices amid energy restrictions led to a reduction in Chinese fertilizers production and thereby limiting its exports to the global market. Currently, Urea prices are hovering around US$710/t, and we believe that they may continue to move northwards and remain firm for the remaining period of 2022, due to near-term tailwinds. Accordingly, we revise our near-term Urea price forecasts upwards to US$685/t (US$630/t earlier). However, given the urea-to-corn ratio reached above 110 bu/mt, almost 60% above the 2018-19 levels of ~70 bu/mt., we believe that the current level of Urea prices is less affordable for buyers globally. Hence, we expect Urea prices to decline in 2023 and beyond until it reaches a price floor. We reaffirm our view on a potential increase in payout (2022E DPS: SAR9.0; 46% payout vs. 39% in 2021). Overall, we revise our TP to SAR185/sh. (SAR160/sh. earlier) but remain Neutral on the stock.

Figure 1 Urea prices and SABIC AN share price trend vs Urea to Corn ratio



Source: Bloomberg, Al Rajhi Capital

Figure 2 Natural prices still remain high



Source: Bloomberg, Al Rajhi Capital

Valuation and risks: Post revision in our Urea price assumptions and estimates, we revise our TP to SAR185/share (SAR160/sh. earlier) based on relative (SAR203/sh. based on ~12x 12-month forward PE and average of 2022/23 EPS) and DCF valuation (SAR158/sh. based on FCF, cost of equity 11%). We have given 60% weight to relative valuation and 40% weight to DCF as we believe that the relative valuation reflects the near-term tailwinds while the DCF indicates the long-term performance of the company.

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 prices as the plants closed temporarily reopen.

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