Yanbu National Petrochemicals Co

Petrochemicals –Industrial
YANSAB AB: Saudi Arabia
29 November 2010

US$6.81bn	39.7%	US$18.42mn
Market cap	Free float	Avg. daily volume

Target price	n/a	n/a
Consensus price	50.00	10.1% over current
Current price	45.40	as at 27/11/2010

Research Department
ARC Research Team
Tel +966 1 211 9233, research@alrajhi-capital.com

Not Rated

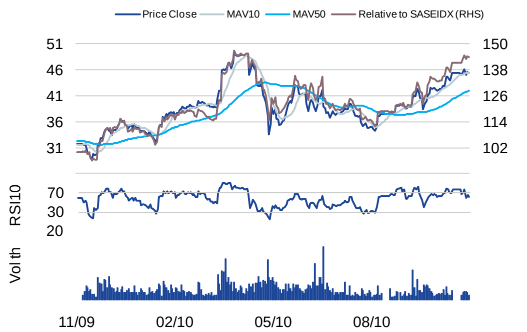
Key themes

We expect Saudi petrochemicals suppliers to outperform global rivals with margins driven by cheap feedstock costs and strong demand coming from Asia. We believe a shift towards expensive feedstock in plants will not constrain profits growth as improving prices and higher volumes should offset the higher costs.

Implications

Yansab is trading on a 2011 EV/EBITDA multiple of 9.4x. This is above the corresponding level for SABIC (8.4x), which is effectively the industry aggregate, despite Yansab's higher level of risk. While Yansab's commercial start-up is a significant catalyst for the stock, its relatively high debt level constrains the company financially. We think that Yansab will not be able to pay a dividend until 2015.

Performance



Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	-	5,786	8,256	9,081
Revenue Growth			42.7%	10.0%
EBITDA (mn)	(29)	2,809	3,922	4,359
EBITDA Growth	14.2%		39.6%	11.1%
EPS	(0.05)	2.83	4.27	5.10
EPS Growth	14.2%		50.7%	19.5%

Source: Company data, Al Rajhi Capital

Valuation

Note. We have not provided an historical valuation chart here, because until this year Yansab had neither revenues nor profits.

Yansab

Weak recent performance

Yansab's Q3 2010 results were below our estimates. Due partly to a plant shutdown, lower sales coupled with higher production costs impacted net profit. Although Yansab has launched commercial operations, we are cautious about the company due to its relatively high debt level. Based on the Q3 results and revisions to our assumptions, we have cut our 2010 sales estimate by 12% but raised our net income estimate by 3%. For 2011-2015, we have raised our sales estimates by an average of 4% and net income estimates by an average of 12%. We do not have a target price or investment rating for Yansab.

Weak Q3 revenues: Yansab reported sales of SAR1.6bn for Q3 2010, well below our estimate of SAR2.1bn. In September, Yansab's unit was non-operational for two weeks due to a technical failure which resulted in lower utilisation rates at the company's units. We have cut our full-year 2010 sales estimate by 12% after the weak Q3 outcome. However, we have raised our sales estimates for the years 2011-2015 by an average of 4% based on our new assumption of higher realised prices after general signs of a pick-up in petrochemicals prices so far in Q4.

Margins declined quarter-on-quarter: Increases in production costs due to the shutdown coupled with lower revenues resulted in a decline in the EBITDA margin on a quarter-on-quarter basis. Yansab reported EBITDA of SAR721mn (implying a 45% margin) versus SAR843mn (implying a 52% margin) in Q2 2010. We expect Yansab to achieve an EBITDA margin of around 48% from now on as it benefits from the increasing scale of its operations and from cheap feedstock supply. Net profit for Q3 of SAR356mn was below our estimate of SAR376mn. On a quarter-on-quarter basis, net profit decreased by 29% from SAR502mn to SAR306mn due to lower sales and high production costs. In Q3 2009, the company reported a net loss of SAR7mn as it only launched commercial production in Q1 2010.

Causes of concern: At the end of Q3 2010, net debt was SAR13.4bn. This figure is equivalent to 2.3x our estimate of 2010 sales and to 4.8x our estimate of 2010 EBITDA. In our view, the high debt level will constrain the company financially, and it is one of the key reasons why we do not expect Yansab to make a dividend payment until 2015. Although China is currently the key export market for Saudi petrochemicals suppliers in Asia, Yansab may also feel some negative impact from India's decision to impose duties on polypropylene imports from Saudi Arabia (source: *The Hindi*, 23rd November, 2010).

Valuation and conclusion: Although Yansab has high installed capacity of 3.9mtpa, as a large, single-project company Yansab carries greater risk than its more diversified parent SABIC. Furthermore, the high debt on the balance sheet increases our caution about the company. We have revised our forecasts mainly due to changes in our assumptions about realised prices and depreciation and amortisation charges. Accordingly, we have reduced our 2010 sales estimate by 12% but raised our net income estimate by 3%; for 2011-2015, we have raised our revenue estimates by an average of 4% and net income estimates by an average of 12%. Yansab trades on a 2011 EV/ EBITDA multiple of 9.4x, representing a 12% premium to SABIC on 8.4x. While this gap results partly from Yansab's immaturity as a company, it also implies that the company's risk-adjusted valuation is quite expensive. We do not have a target price or investment rating for Yansab, since it is not Sharia-compliant by our definition.

Corporate summary

Yansab is handling one of the two major capex projects currently being undertaken by the SABIC group at Yanbu on the west coast. SABIC holds 51% of its Yansab subsidiary and the rest is owned by public shareholders. Yansab is listed on the TASI following an IPO in 2005 and focus on production of basic chemicals such as ethylene and propylene, helping SABIC meet demand coming from Asia and other growth markets. The facility at Yansab commenced commercial production in Q1 2010.

Share information

Market cap (SAR/US$)	25.54bn / 6.81bn
52-week range	28.90 - 49.20
Daily avg volume (US$)	18.42mn
Shares outstanding	562.5mn
Free float (est)	39.7%

Performance:	1M	3M	12M
Absolute	8.1%	30.9%	42.8%
Relative to index	8.3.3%	24.7%	43.72%

Major Shareholder:	
SABIC	35%
GOSI	20%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	-	5,786	8,256	9,081
EBITDA (SARmn)	(29)	2,809	3,922	4,359
Net Profit (SARmn)	(29)	1,592	2,400	2,868
EPS (SAR)	(0.05)	2.83	4.27	5.10
DPS (SAR)	-	-	-	-
EPS Growth	14.2%	na	50.7%	19.5%
EV/EBITDA (x)	na	13.8	9.4	7.9
P/E (x)	na	16.0	10.6	8.9
P/B (x)	4.5	3.5	2.6	2.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Q3 2010 results: marred by shutdown

Below we present the key details of Yansab's Q3 2010 results, together with our comments

Figure 1. Yansab: Q3 2010 results

(SAR mn)	Q3 2009 actual	Q2 2010 actual	Q3 2010 actual	% chg y-y	Q3 2010 ARC est	Comment
Revenues	**-**	**1,638**	**1,603**	**n/m**	**2,051**	In September, Yansab's unit was non-operational for two weeks due to a technical failure, reflecting in a lower revenues
Gross profit	-	879	754	n/m	808	Gross profit was lower than our estimates as well as Q2 2010, mainly due to increase in production cost as a result of temporary shutdown of plants.
Gross margin	n/m	53.7%	47.0%	n/m	39.4%	Lower petrochemicals prices and low plant operating rates affected performance
EBITDA	**(7)**	**843**	**721**	**n/m**	**627**	Two week shutdown of olefin unit resulted in lower EBITDA compared to Q2 2010
EBITDA margin (%)	n/m	51.5%	45.0%	n/m	30.6%	As above
Depreciation & amortization	-	(247)	(252)	n/m	(199)	In line with Q2 2010 numbers
Operating Profit	**(7)**	**596**	**469**	n/m	**428**	Compared to Q2 2010, Operating profit decreased in line with decrease in EBITDA
Financing cost	-	(111)	(109)	n/m	(34)	In line with Q2 2010 numbers
Other	-	33	1	n/m	(2)	
Net profit before tax after minority	(7)	518	361	n/m	392	Lower than our estimate
Tax	-	(16)	(5)	n/m	(17)	Lower than our estimate
Minority	-	-	-	n/m	-	
Net profit	**(7)**	**502**	**356**	n/m	**376**	Lower than our estimate
Capex	(487)	(81)	(228)	-53.2%	(30)	Well below our forecast; quarterly capex is volatile
Capex / Sales	n/m	4.9%	14.2%	n/m	1.5%	As above
Net debt	13,106	13,986	13,409	2.3%	12,660	Higher than our estimate
Net debt / Annualized EBITDA (x)	(468.0)	4.1	4.7	n/m	5.0	

Source: Company data, Al Rajhi Capital

The facility at Yansab commenced commercial production in Q1 2010.

We expect Yansab to achieve ROIC of 13% by 2012

Income Statement (SARmn)	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Revenue	**-**	**-**	**5,786**	**8,256**	**9,081**
Cost of Goods Sold	-	-	(2,855)	(4,169)	(4,541)
Gross Profit	**-**	**-**	**2,931**	**4,087**	**4,541**
Government Charges					
S.G. & A. Costs	(26)	(29)	(962)	(1,214)	(1,231)
Operating EBIT	**(26)**	**(29)**	**1,968**	**2,873**	**3,310**
Cash Operating Costs	(26)	(29)	(2,977)	(4,334)	(4,722)
EBITDA	(26)	(29)	2,809	3,922	4,359
Depreciation and Amortisation	-	-	(841)	(1,049)	(1,049)
Operating Profit	**(26)**	**(29)**	**1,968**	**2,873**	**3,310**
Net financing income/(costs)	-	-	(361)	(399)	(354)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	-	-	35	-	-
Other Expenses					
Net Profit Before Taxes	**(26)**	**(29)**	**1,642**	**2,474**	**2,956**
Taxes	-	-	(50)	(74)	(89)
Minority Interests	-	-	-	-	-
Net profit available to shareholders	**(26)**	**(29)**	**1,592**	**2,400**	**2,868**
Dividends	-	-	-	-	-
Transfer to Capital Reserve	-	-	-	-	-

	12/08A	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Adjusted Shares Out (mn)	562.5	562.5	562.5	562.5	562.5
CFPS (SAR)	(0.05)	(0.05)	4.33	6.13	6.96
EPS (SAR)	(0.05)	(0.05)	2.83	4.27	5.10
DPS (SAR)	0	0	0	0	0

Growth	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Revenue Growth				42.7%	10.0%
Gross Profit Growth				39.5%	11.1%
EBITDA Growth	-69.2%	14.2%		39.6%	11.1%
Operating Profit Growth	-69.2%	14.2%		46.0%	15.2%
Net Profit Growth	-123.3%	14.2%		50.7%	19.5%
EPS Growth	-123.3%	14.2%		50.7%	19.5%

Margins	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Gross profit margin			50.7%	49.5%	50.0%
EBITDA margin			48.6%	47.5%	48.0%
Operating Margin			34.0%	34.8%	36.4%
Pretax profit margin			28.4%	30.0%	32.6%
Net profit margin			27.5%	29.1%	31.6%

Other Ratios	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
ROCE	-0.2%	-0.2%	9.3%	12.2%	13.2%
ROIC	-0.2%	-0.2%	9.4%	12.6%	13.1%
ROE	-0.4%	-0.5%	24.6%	28.4%	25.8%
Effective Tax Rate	0.0%	0.0%	3.0%	3.0%	3.0%
Capex/Sales			13.2%	15.0%	18.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Valuation Measures	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
P/E (x)	na	na	16.0	10.6	8.9
P/CF (x)	na	na	10.5	7.4	6.5
P/B (x)	4.5	4.5	3.5	2.6	2.0
EV/Sales (x)	na	na	6.7	4.4	3.8
EV/EBITDA (x)	na	na	13.8	9.4	7.9
EV/EBIT (x)	na	na	19.7	12.8	10.4
EV/IC (x)	2.1	1.9	1.8	1.5	1.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Yansab is a highly geared company

Balance Sheet (SARmn)	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Cash and Cash Equivalents	1,033	606	1,677	3,673	4,381
Current Receivables	123	858	2,087	2,350	2,534
Inventories	8	738	1,040	1,176	1,271
Other current assets	75	24	82	82	82
Total Current Assets	**1,217**	**2,208**	**4,803**	**7,199**	**8,187**
Fixed Assets	17,105	18,576	18,536	18,766	19,392
Investments	-	-	-	-	-
Goodwill					
Other Intangible Assets	34	30	37	37	37
Total Other Assets	321	310	274	234	194
Total Non-current Assets	**17,460**	**18,916**	**18,847**	**19,037**	**19,622**
Total Assets	**18,677**	**21,124**	**23,650**	**26,236**	**27,809**
Short Term Debt	669	916	916	916	916
Accounts Payable	63	276	223	252	272
Accrued Expenses	1,039	488	1,188	1,344	1,498
Zakat Payable	-	-	35	35	35
Dividends Payable	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	**1,771**	**1,679**	**2,361**	**2,547**	**2,721**
Long-Term Debt	11,128	13,696	13,938	13,938	12,469
Other LT Payables	-	-	-	-	-
Provisions	81	81	91	91	91
Total Non-current Liabilities	**11,209**	**13,777**	**14,029**	**14,029**	**12,560**
Minority interests	-	-	-	-	-
Paid-up share capital	5,625	5,625	5,625	5,625	5,625
Total Reserves	72	43	1,635	4,035	6,903
Total Shareholders' Equity	**5,697**	**5,668**	**7,260**	**9,660**	**12,528**
Total Equity	**5,697**	**5,668**	**7,260**	**9,660**	**12,528**
Total Liabilities & Shareholders' Equity	**18,677**	**21,124**	**23,650**	**26,236**	**27,809**

Ratios	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Net Debt (SARmn)	10,764	14,006	13,177	11,181	9,004
Net Debt/EBITDA (x)	(420.67)	(479.44)	4.69	2.85	2.07
Net Debt to Equity	188.9%	247.1%	181.5%	115.7%	71.9%
EBITDA Interest Cover (x)			7.8	9.8	12.3
BVPS (SAR)	10.13	10.08	12.91	17.17	22.27

Cashflow Statement (SARmn)	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Net Income before Tax & Minority Interest	**(26)**	**(29)**	**1,642**	**2,474**	**2,956**
Depreciation & Amortisation	-	-	841	1,049	1,049
Decrease in Working Capital	(173)	(1,758)	(842)	(214)	(105)
Other Operating Cashflow	21	0	(40)	(74)	(89)
Cashflow from Operations	**(178)**	**(1,787)**	**1,601**	**3,235**	**3,812**
Capital Expenditure	(4,106)	(1,471)	(766)	(1,238)	(1,635)
New Investments	-	-	-	-	-
Others	(20)	15	(7)	-	-
Cashflow from investing activities	**(4,126)**	**(1,455)**	**(773)**	**(1,238)**	**(1,635)**
Net Operating Cashflow	**(4,304)**	**(3,242)**	**828**	**1,996**	**2,177**
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	11	2,155	700	-	-
Cashflow from financing activities	**3,642**	**2,814**	**243**	**-**	**(1,469)**
Total cash generated	(661)	(427)	1,071	1,996	708
Cash at beginning of period	1,694	1,033	606	1,677	3,673
Implied cash at end of year	**1,033**	**606**	**1,677**	**3,673**	**4,381**

We expect a capex/sales ratio of 18% from 2012 onwards

Ratios	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Capex/Sales			13.2%	15.0%	18.0%

Source: Company data, Al Rajhi Capital

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair 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.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Dr. Saleh Alsuhaibani
Head of Research
Tel : +966 1 2119434
alsuhaibanis@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital, a subsidiary of Al Rajhi Bank, is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.