

SABIC Agri-Nutrients Co

Strategic cost management and lower zakat expense drove the bottom line

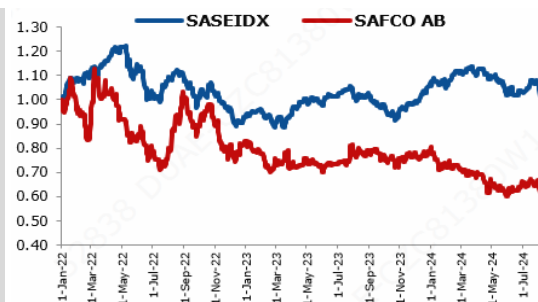
Current Price
SAR 114.80

Target Price
SAR 130.00

Upside/Downside (%)
+13%

Rating
ACCUMULATE

- SABIC AGRI-NUTRIENTS revenue increased 1.8% YOY to SAR 2,676 Mn in 2Q24, driven by a 6% growth in sales volume partially offset by a 4% decline in average selling price.
- Net profit grew 8.3% YOY to SAR 705 Mn in 2Q24, primarily due to improved cost efficiency and lower income tax charges, despite an increase in the cost of sales.
- Secured feedstock allocation from the Ministry of Energy to setup a Blue Ammonia project in Jubail Industrial City, KSA.
- The board of directors approved a dividend of SAR 3 per share amounting to SAR 1,428 Mn for 1H24.



2Q24 Net Profit lower than our estimate

Sabic Agri-Nutrients Co ("SABIC AGRI-NUTRIENTS", "The Company") reported 8.3% YOY increase in net profit to SAR 705 Mn in 2Q24 lower than our estimate of SAR 765 Mn. This growth is mainly due to a decline in operating expenses owing to better cost management coupled with a decrease in zakat and income tax charges partially offset by a rise in the cost of sales.

P&L Highlights

The Company's revenue increased 1.8% YOY to SAR 2,676 Mn in 2Q24 attributable to a 6% growth in sales volume partially offset by a 4% decline in sales price. Revenue from Agri-Nutrients segment marginally increased 0.8% YOY to SAR 2,467 Mn in 2Q24. Similarly, Petrochemicals segment revenue grew 14.3% YOY to SAR 209 Mn in 2Q24. Cost of sales rose 4.5% YOY to SAR 1,774 Mn in 2Q24. As a result, gross profit declined 3.2% YOY to SAR 902 Mn in 2Q24, while the gross profit margin decreased 174 bps YOY to 33.7% in 2Q24. Selling and marketing expenses fell 6.1% YOY to SAR 95 Mn in 2Q24, while G&A expenses witnessed a 3.1% YOY decline to SAR 128 Mn. A decline in the Company's operating expenses is mainly driven by improvement in cost management. However, research and development expenses increased by 21.0% YOY to SAR 18 Mn in 2Q24. The Company reported other operating income of SAR 18 Mn in 2Q24 compared to an expense of SAR 5 Mn in 2Q24. Furthermore, SABIC AGRI-NUTRIENTS' operating profit remained unchanged at SAR 678 Mn in 2Q24 compared to 2Q23. However, operating margin also declined 43 bps YOY to 25.3% in 2Q24. The Company's EBITDA increased 2.0% YOY to SAR 920 Mn in 2Q24, while EBITDA margins marginally grew 7 bps YOY to 34.4%. Income from share of results from joint ventures declined 38.0% YOY to SAR 25 Mn in 2Q24.

Stock Information

Market Cap (SAR, Mn)	53,982.41
Paid Up Capital (Mn)	4,760.35
52 Week High	142.60
52 Week Low	106.00
3M Avg. daily value (SAR)	60,528,130

2Q24 Result Review (SAR, Mn)

Total Assets	25,219
Total Liabilities	6,549
Total Equity	18,670
EBITDA	920
Net Profit	705

Financial Ratios

Dividend Yield (12m)	5.22
Dividend Pay-out (%)	78.04
Price-Earnings Ratio(x)	15.11
Price-to-Book Ratio (x)	3.08
Book Value (SAR)	36.86
Return-on Equity (%)	21.05

Stock Performance

5 Days	-1.90%
1 Months	-1.56%
3 Months	5.00%
6 Months	-10.14%
1 Year	-17.95%
Month to Date (MTD%)	-3.57%
Quarter to Date (QTD%)	-2.74%
Year to Date (YTD%)	-17.95%

Finance income grew 13.6% YOY to SAR 154 Mn in 2Q24, while finance costs rose 4.6% YOY to SAR 17 Mn in 2Q24. In addition, Zakat and income tax charges witnessed a decline of 34.4% YOY to SAR 97 Mn in 2Q24. The share of profit attributable to non-controlling interest (NCI) declined 1.6% YOY to SAR 38 Mn in 2Q24.

Balance Sheet Highlights

SABIC AGRI-NUTRIENTS reported cash and cash equivalents of SAR 2,370 Mn in 2Q24, up from SAR 2,240 Mn in 1Q24 in addition to short-term investments of SAR 1,877 Mn in 2Q24 compared to SAR 1,398 Mn in 1Q24. However, the company's cash flow from operating activities decreased to SAR 305 Mn in 2Q24 from SAR 1,213 Mn in 1Q24. Additionally, capex grew from SAR 130 Mn in 1Q24 to SAR 142 Mn in 2Q24.

Target Price and Rating

We maintain ACCUMULATE rating on SABIC AGRI NUTRIENTS with a revised target price of SAR 130.00. SABIC AGRI-NUTRIENTS' improvement in profitability in 2Q24, mainly attributable to enhanced cost efficiency and lower tax expenses. The Company faced significant challenges due to supply chain issues that affected the global fertilizer market. African gas supply disruptions for the production of fertilizers in Egypt and Nigeria coupled with unplanned shutdowns from key producers across Southeast Asia and loading delays resulted in a tight supply environment. In addition, the Chinese government's decision to block fertilizer exports further tightened the supply. Resulting in increased average sales prices. On the other hand, demand was mainly concentrated in the US, EU, and APAC regions due to seasonal preparations. Furthermore, demand is expected to stay strong in 3Q24 driven by seasonal transition in India and South America. Besides, global supply conditions are anticipated to improve as producers address current output and gas challenges. Additionally, the resumption of Chinese exports in late 3Q24 will sustain prices during the quarter but might impact prices at the end of 2024. As a result, SABIC AGRI-NUTRIENTS is expected to witness healthy sales volumes in 3Q24. The Company secured feedstock allocation from the Ministry of Energy to setup a Blue Ammonia project in Jubail Industrial City, KSA. This plant aims to produce 1.2 MMTA of Blue Ammonia and 1.1 MMTA of Urea, aligning with the Kingdom's 2030 vision. The Company's board of directors approved a dividend payment of SAR 3 per share amounting to SAR 1,428 Mn for 1H24. Thus, based on the above-mentioned factors, we maintain an ACCUMULATE rating on the stock.

SABIC Agri-Nutrients - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	32.5	42.2	10.5	5.4	14.9	17.9
PB	6.0	6.7	3.2	2.6	2.9	2.9
EV/EBITDA	24.6	28.6	7.7	4.2	11.2	14.2
Dividend yield	2.6%	1.6%	3.7%	10.5%	5.2%	5.2%

FABS Estimates & Co Data

SABIC Agri-Nutrients – P&L

SAR Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	2,629	2,517	2,676	2,582	3.7%	1.8%	6.3%	11,033	10,263	-7.0%
Cost of Sales	-1,698	-1,529	-1,774	-1,663	6.7%	4.5%	16.0%	-6,436	-6,519	1.3%
Gross profit	932	988	902	919	-1.8%	-3.2%	-8.8%	4,598	3,744	-18.6%
S&M expenses	-102	-76	-95	-98	-2.6%	-6.1%	26.2%	-257	-370	44.1%
G&A expenses	-132	-127	-128	-122	5.2%	-3.1%	1.0%	-492	-493	0.2%
Other operating (exp)/ inc.	-20	-56	0	-9	NM	NM	NM	-186	-82	-55.7%
Operating profit	678	730	678	690	-1.7%	0.1%	-7.1%	3,664	2,800	-23.6%
D&A	225	233	242	247	-1.7%	7.8%	3.9%	915	973	6.3%
EBITDA	902	963	920	937	-1.7%	2.0%	-4.4%	4,579	3,773	-17.6%
Share of results from JV	40	61	25	40	-38.6%	-38.0%	-59.6%	168	180	7.2%
Finance income	136	155	154	199	-22.6%	13.6%	-0.5%	565	752	33.2%
Finance cost	-16	-17	-17	-22	-24.6%	4.6%	-1.8%	-69	-83	21.1%
Profit before zakat & tax	837	928	840	907	-7.4%	0.4%	-9.5%	4,328	3,649	-15.7%
Zakat and income tax	-147	-56	-97	-97	-0.2%	-34.4%	71.2%	-464	-427	-7.9%
Profit before NCI	690	872	743	810	-8.2%	7.8%	-14.7%	3,864	3,222	-16.6%
Non-controlling interests	39	31	38	45	-14.7%	-1.6%	22.4%	205	161	-21.3%
Profit attributable	651	841	705	765	-7.8%	8.3%	-16.1%	3,659	3,061	-16.4%

FABS estimate & Co Data

SABIC Agri-Nutrients - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	35.4%	39.3%	33.7%	-174	-557	41.7%	36.5%	-519
EBITDA	34.3%	38.3%	34.4%	7	-387	41.5%	36.8%	-474
Operating Profit	25.8%	29.0%	25.3%	-43	-366	33.2%	27.3%	-593
Net Profit	24.8%	33.4%	26.4%	160	-704	33.2%	29.8%	-334

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) method to value SABIC Agri-Nutrients. We have assigned 70% weight to DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	132.76	70.0%	92.93
Relative Valuation (RV)	124.33	30.0%	37.30
Weighted Average Valuation (SAR)			130.00
Current market price (SAR)			114.80
Upside/Downside (%)			+13%

1) DCF Method:

SABIC Agri-Nutrients is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 9.3%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 1.00 and equity risk premium of 4.3%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	12,933
Terminal value (SAR, Mn)	40,507
FV to Common shareholders (SAR, Mn)	63,200
No. of share (Mn)	476
Current Market Price (SAR)	114.80
Fair Value per share (SAR)	132.76

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	3,061	3,369	3,526	3,751	3,992
D&A	947	963	998	1,033	1,067
Working Capital	-642	-35	35	9	-61
Capex	-831	-772	-810	-731	-768
Free Cash Flow to Equity (FCFE)	886	3,525	3,750	4,062	4,231
Discounting Factor	0.97	0.89	0.81	0.74	0.68
Discounted FCFE	859	3,128	3,046	3,020	2,879

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value SABIC Agri-Nutrients and it is valued using the EV/EBITDA multiple. It is valued at an EV/EBITDA multiple of 13.1x compared to the peer multiple of 6.6x. We have applied a premium to the median valuation multiple as the Company enjoys a feedstock advantage over its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
ABUK EY Equity	1,480	5.2	4.1	6.2	7.0
YAR Equity	7,250	5.5	5.0	22.1	10.7
MFPC EY Equity	2,060	7.2	5.3	8.5	10.1
CF US Equity	14,230	6.6	6.8	13.3	14.4
NTR CAN Equity	23,350	6.3	6.2	21.6	14.0
OCI NV Equity	6,062	10.0	8.3		71.9
COROMANDEL IN Equity	6,250	12.2	18.7	19.3	28.9
Average		7.6x	7.8x	15.2x	22.4x
Median		6.6x	6.2x	16.3x	14.0x
Max		8.6x	7.5x	21.0x	21.7x
Min		5.9x	5.1x	9.7x	10.4x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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