



<b>US\$6.91bn</b> Market cap	<b>39.8%</b> Free float	<b>US\$23.37mn</b> Avg. daily volume
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Target price	n/a	n/a
Consensus price	<b>56.00</b>	21.5% over current
Current price	<b>46.10</b>	as at 9/2/2011

Research Department  
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	<b>Not rated</b>	
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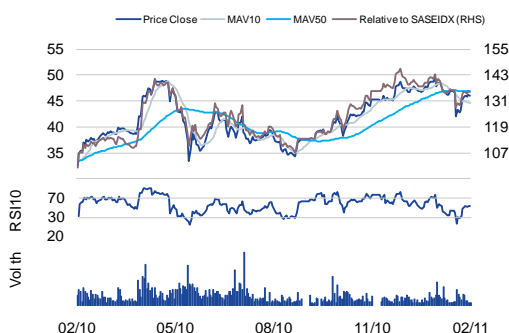
### Key themes

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 8.9x. This is above the corresponding level for SABIC (8.1x), 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)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	5,822	8,704	9,444	9,727
Revenue Growth		49.5%	8.5%	3.0%
EBITDA (mn)	2,881	4,178	4,533	4,766
EBITDA Growth		45.0%	8.5%	5.1%
EPS	2.97	4.75	5.40	5.86
EPS Growth		59.7%	13.8%	8.6%

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 Better than expected results

*This report follows our Flash View of 16th January. Yansab's Q4 2010 results were above our estimates due to higher than expected prices of petrochemicals products and higher operating rates. Following the release of the Q4 results and a review of our assumptions we have marginally revised our forecasts upwards. For 2011-2014, we have raised our estimates for revenues and net income by an average of 4% and 8% respectively. We do not have a target price or investment rating for Yansab.*

**Strong revenues:** Yansab reported Q4 sales of SAR1.9bn, up 18% quarter-on-quarter and 2% above our estimate. Compared to Q3, the growth in revenues resulted from higher volumes as well as higher pricing for the majority of the company's petrochemicals products. Q3 output was also impacted by technical failure at various units of Yansab. Since the company only started commercial operations in March 2010, a year-on-year comparison of revenues is not meaningful. Based on our assumptions for higher realised prices due to a general recovery in petrochemicals pricing, we have raised our revenue estimates by an average of 4% for the 2011-2014 period. This translates into a compound annual growth rate of 14% in revenues over that period.

**Improving profitability:** Yansab reported EBITDA of SAR926mn (implying a 49% margin) versus SAR721mn (implying a 45% margin) in Q3 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, cheap feedstock supply and higher realised prices. Operating profit reached SAR671mn for Q4 representing a 43% increase from SAR469mn in Q3. On a quarter-on-quarter basis, net profit was up 56% at SAR555mn due to the strong operating profitability, and was 17% above our estimate of SAR474mn. Based on the increase in our revenue estimates driven by expectations of higher product prices, we have raised our net income estimates by an average of 8% for the 2011-2014 period.

**Gearing position:** Although Yansab has launched commercial operations, one valid reason for caution about the company is its relatively high debt level. We estimate that net debt stood at SAR13.6bn at the end of Q4, up marginally from SAR13.4bn at the end of Q3 mainly due to higher investment in working capital and capital expenditure. Net working capital increased from SAR1.5bn at the end of Q3 to SAR 2.3bn at the end of Q4 in line with the company's increased scale of operations. Net debt represents 4.7x 2010 EBITDA and 185% of equity. However, we expect net debt to fall to 2.7x EBITDA by the end of 2011 as revenues and cash flows expand.

**Valuation and conclusion:** Increasing operating rates supported by strong demand for petrochemicals products and improvement in prices should drive earnings growth from now on. Moreover, with SABIC as the strategic shareholder (51% ownership), we expect Yansab to enjoy access to attractive credit facilities to fund its expansion plans. An important risk factor for Yansab is potential policy level changes (e.g. the imposition of anti-dumping duties) in its key export markets such as China and India. The stock trades on 2011 P/E and EV/EBITDA multiples of 9.7x and 8.7x respectively. We do not have a target price or investment rating for Yansab, since due to its relatively high debt 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\$)	25.93bn / 6.91bn		
52-week range	32.60 - 49.40		
Daily avg volume (US\$)	23.37mn		
Shares outstanding	562.5mn		
Free float (est)	39.7%		
Performance:	1M	3M	12M
Absolute	-6.7%	4.8%	43.6%
Relative to index	-5%	2.3%	37%
Major Shareholder:			
SABIC	51.0%		
GOSI	9.2%		

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	5,822	8,704	9,444	9,727
EBITDA (SARmn)	2,881	4,178	4,533	4,766
Net Profit (SARmn)	1,673	2,671	3,038	3,298
EPS (SAR)	2.97	4.75	5.40	5.86
DPS (SAR)	-	-	-	-
EPS Growth	na	59.7%	13.8%	8.6%
EV/EBITDA (x)	13.7	8.9	7.7	6.7
P/E (x)	15.5	9.7	8.5	7.9
P/B (x)	3.5	2.6	2.0	1.6
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

## Q4 2010 results: growth driven by higher volumes and realised prices

Below we present the key details of Yansab's Q4 2010 results, together with our comments.

**Figure 1. Yansab: Q4 2010 results**

(SAR mn)	actual	actual	actual	y-y	ARC est	Comment
						Close to our estimate. Benefited from full commercial production and positive trends in prices
<b>Revenues</b>	-	<b>1,603</b>	<b>1,892</b>	n/m	<b>1,856</b>	
Gross profit	-	754	965	n/m	891	Gross profit was higher due to the increase in sales
Gross margin	n/m	47.0%	51.0%	n/m	48.0%	Margin was better than Q3 numbers
<b>EBITDA</b>	<b>(7)</b>	<b>721</b>	<b>926</b>	n/m	<b>854</b>	Improvement in business conditions was reflected in higher EBITDA
EBITDA margin (%)	n/m	45.0%	48.9%	n/m	46.0%	As above
Depreciation & amortisation	-	(252)	(255)	n/m	(261)	In line with the Q3 2010 number
<b>Operating Profit</b>	<b>(7)</b>	<b>469</b>	<b>671</b>	n/m	<b>593</b>	Compared to Q3 2010, operating profit increased in line with the increase in EBITDA in absolute terms
Financing cost		(109)	(119)	n/m	(104)	Slightly higher than our estimate
Other		1	8	n/m	-	
Net profit before tax after minority	(7)	361	560	n/m	489	Higher than our estimate reflecting benefits reported at the operating level
Tax		(5)	(5)	n/m	(15)	Lower than our estimate
Minority	-	-	-	n/m	-	
<b>Net profit</b>	<b>(7)</b>	<b>356</b>	<b>555</b>	n/m	<b>474</b>	Higher than our estimate
Capex	(91)	(228)	(162)	78.1%	(278)	Well below our forecast. Quarterly capex is volatile
Capex / Sales	n/m	14.2%	8.5%	n/m	15.0%	As above
						Yansab has still not released its final Q4 results. Based on the condensed financial data released by the company, we estimate that net debt stood at SAR13.6bn as at Q4 2010
Net debt	14,006	13,409	n/d	n/m	13,177	
Net debt / Annualised EBITDA (x)	(478.3)	4.7	n/m	n/m	3.9	

Source: Company data, Al Rajhi Capital



The facility at Yansab commenced commercial production in Q1 2010

We expect Yansab to achieve ROCE of over 13% by 2011

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
<b>Revenue</b>	-	5,822	8,704	9,444	9,727
Cost of Goods Sold	-	(2,817)	(4,352)	(4,722)	(4,766)
<b>Gross Profit</b>	-	3,004	4,352	4,722	4,961
Government Charges					
S.G. & A. Costs	(29)	(958)	(1,218)	(1,257)	(1,286)
<b>Operating EBIT</b>	<b>(29)</b>	<b>2,046</b>	<b>3,134</b>	<b>3,465</b>	<b>3,675</b>
Cash Operating Costs	(29)	(2,940)	(4,526)	(4,911)	(4,961)
EBITDA	(29)	2,881	4,178	4,533	4,766
Depreciation and Amortisation	-	(835)	(1,044)	(1,068)	(1,092)
<b>Operating Profit</b>	<b>(29)</b>	<b>2,046</b>	<b>3,134</b>	<b>3,465</b>	<b>3,675</b>
Net financing income/(costs)	-	(376)	(395)	(349)	(292)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	-	43	-	-	-
Other Expenses					
<b>Net Profit Before Taxes</b>	<b>(29)</b>	<b>1,713</b>	<b>2,739</b>	<b>3,116</b>	<b>3,382</b>
Taxes	-	(40)	(68)	(78)	(85)
Minority Interests	-	-	-	-	-
<b>Net profit available to shareholders</b>	<b>(29)</b>	<b>1,673</b>	<b>2,671</b>	<b>3,038</b>	<b>3,298</b>
Dividends	-	-	-	-	-
Transfer to Capital Reserve	-	-	-	-	-
	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Adjusted Shares Out (mn)	562.5	562.5	562.5	562.5	562.5
CFPS (SAR)	(0.05)	4.46	6.60	7.30	7.80
EPS (SAR)	(0.05)	2.97	4.75	5.40	5.86
DPS (SAR)	0	0	0	0	0
<b>Growth</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Revenue Growth			49.5%	8.5%	3.0%
Gross Profit Growth			44.9%	8.5%	5.1%
EBITDA Growth	14.2%		45.0%	8.5%	5.1%
Operating Profit Growth	14.2%		53.1%	10.6%	6.1%
Net Profit Growth	14.2%		59.7%	13.8%	8.6%
EPS Growth	14.2%		59.7%	13.8%	8.6%
<b>Margins</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Gross profit margin		51.6%	50.0%	50.0%	51.0%
EBITDA margin		49.5%	48.0%	48.0%	49.0%
Operating Margin		35.2%	36.0%	36.7%	37.8%
Pretax profit margin		29.4%	31.5%	33.0%	34.8%
Net profit margin		28.7%	30.7%	32.2%	33.9%
<b>Other Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
ROCE	-0.2%	9.8%	13.3%	13.1%	13.3%
ROIC	-0.2%	9.9%	14.1%	13.8%	13.1%
ROE	-0.5%	25.7%	30.8%	26.3%	22.4%
Effective Tax Rate	0.0%	2.4%	2.5%	2.5%	2.5%
Capex/Sales		11.2%	15.0%	18.0%	18.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Valuation Measures</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
P/E (x)	na	15.5	9.7	8.5	7.9
P/CF (x)	na	10.3	7.0	6.3	5.9
P/B (x)	4.6	3.5	2.6	2.0	1.6
EV/Sales (x)	na	6.8	4.3	3.7	3.3
EV/EBITDA (x)	na	13.7	8.9	7.7	6.7
EV/EBIT (x)	na	19.3	11.9	10.0	8.7
EV/IC (x)	2.0	1.8	1.5	1.3	1.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



Continuous investment is  
expanding the balance sheet

<b>Balance Sheet (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Cash and Cash Equivalents	606	790	3,115	5,583	6,067
Current Receivables	858	2,736	2,947	2,975	2,903
Inventories	738	901	1,164	1,205	1,265
Other current assets	24	82	82	82	82
<b>Total Current Assets</b>	<b>2,208</b>	<b>4,427</b>	<b>7,227</b>	<b>9,764</b>	<b>10,234</b>
Fixed Assets	18,576	18,426	18,727	19,399	20,098
Investments	-	-	-	-	-
Goodwill					
Other Intangible Assets	30	37	37	37	37
Total Other Assets	310	274	234	194	154
<b>Total Non-current Assets</b>	<b>18,916</b>	<b>18,737</b>	<b>18,998</b>	<b>19,630</b>	<b>20,289</b>
<b>Total Assets</b>	<b>21,124</b>	<b>23,163</b>	<b>26,225</b>	<b>29,394</b>	<b>30,523</b>
Short Term Debt	916	916	916	916	916
Accounts Payable	276	251	269	289	292
Accrued Expenses	488	1,059	1,433	1,543	1,605
Zakat Payable	-	35	35	35	35
Dividends Payable	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>1,679</b>	<b>2,261</b>	<b>2,652</b>	<b>2,783</b>	<b>2,847</b>
Long-Term Debt	13,696	13,471	13,471	13,471	11,238
Other LT Payables	-	-	-	-	-
Provisions	81	91	91	91	91
<b>Total Non-current Liabilities</b>	<b>13,777</b>	<b>13,562</b>	<b>13,562</b>	<b>13,562</b>	<b>11,328</b>
Minority interests	-	-	-	-	-
Paid-up share capital	5,625	5,625	5,625	5,625	5,625
Total Reserves	43	1,715	4,386	7,424	10,722
<b>Total Shareholders' Equity</b>	<b>5,668</b>	<b>7,340</b>	<b>10,011</b>	<b>13,049</b>	<b>16,347</b>
<b>Total Equity</b>	<b>5,668</b>	<b>7,340</b>	<b>10,011</b>	<b>13,049</b>	<b>16,347</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>21,124</b>	<b>23,163</b>	<b>26,225</b>	<b>29,394</b>	<b>30,523</b>

<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Net Debt (SARmn)	14,006	13,597	11,272	8,803	6,087
Net Debt/EBITDA (x)	(479.44)	4.72	2.70	1.94	1.28
Net Debt to Equity	247.1%	185.2%	112.6%	67.5%	37.2%
EBITDA Interest Cover (x)		7.7	10.6	13.0	16.3
BVPS (SAR)	10.08	13.05	17.80	23.20	29.06

<b>Cashflow Statement (SARmn)</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
<b>Net Income before Tax &amp; Minority Interest</b>	<b>(29)</b>	<b>1,713</b>	<b>2,739</b>	<b>3,116</b>	<b>3,382</b>
Depreciation & Amortisation	-	835	1,044	1,068	1,092
Decrease in Working Capital	(1,758)	(868)	(84)	62	78
Other Operating Cashflow	0	17	(68)	(78)	(85)
<b>Cashflow from Operations</b>	<b>(1,787)</b>	<b>1,697</b>	<b>3,631</b>	<b>4,168</b>	<b>4,467</b>
Capital Expenditure	(1,471)	(649)	(1,306)	(1,700)	(1,751)
New Investments	-	-	-	-	-
Others	15	(663)	-	-	-
<b>Cashflow from investing activities</b>	<b>(1,455)</b>	<b>(1,312)</b>	<b>(1,306)</b>	<b>(1,700)</b>	<b>(1,751)</b>
<b>Net Operating Cashflow</b>	<b>(3,242)</b>	<b>385</b>	<b>2,325</b>	<b>2,468</b>	<b>2,716</b>
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	2,155	700	-	-	-
<b>Cashflow from financing activities</b>	<b>2,814</b>	<b>(201)</b>	<b>-</b>	<b>-</b>	<b>(2,233)</b>
Total cash generated	(427)	184	2,325	2,468	483
Cash at beginning of period	1,033	606	790	3,115	5,583
<b>Implied cash at end of year</b>	<b>606</b>	<b>790</b>	<b>3,115</b>	<b>5,583</b>	<b>6,067</b>

<b>Ratios</b>	<b>12/09A</b>	<b>12/10A</b>	<b>12/11E</b>	<b>12/12E</b>	<b>12/13E</b>
Capex/Sales		11.2%	15.0%	18.0%	18.0%

Source: Company data, Al Rajhi Capital

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



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#### 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.

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