



US\$6.99bn Market cap	39.8% Free float	US\$20.10mn Avg. daily volume
Target price	n/a	n/a
Consensus price	58.80	26.2% over current
Current price	46.60	as at 13/8/2011

Research Department
ARC Research Team,
 Tel +966 1 2119434, research@alrajhi-capital.com

	Not rated	
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Yansab Sturdy Q2 results

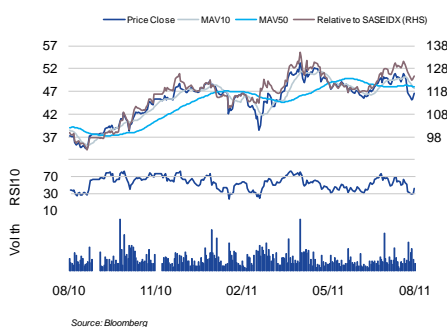
Key themes

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

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

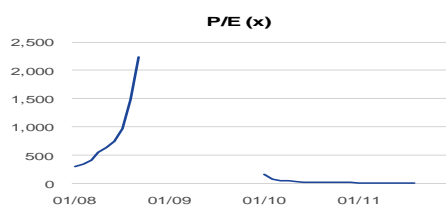


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	5,822	9,434	10,228	10,330
Revenue Growth		62.1%	8.4%	1.0%
EBITDA (mn)	2,881	4,811	4,970	4,907
EBITDA Growth		67.0%	3.3%	-1.3%
EPS	2.97	5.83	6.15	6.26
EPS Growth		96.0%	5.5%	1.8%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Yansab posted a strong 34% q-o-q growth in net profit benefiting from higher operating rates and an improvement in product prices, beating both our as well as consensus estimates. Given the current lower utilization rates at plants, we expect the company to benefit from a healthy rise in production volumes in the medium term. Further, Yansab's balance sheet looks healthy compared to other petrochemical companies, which can support its future earnings growth. That said, considering recent global economic concerns (US rating downgrade and European sovereign debt crisis) and a sharp drop in oil prices last week, we are conservative about the petrochemical prices for the remainder of the year. We do not have a target price or investment rating for Yansab.

Strong Q2 performance: Yansab posted revenues of SAR2.7bn for Q2 2011 (62.4% year-on-year), well above our estimate of SAR2.2bn and consensus of SAR2.1bn. The company benefited from higher utilization rates (55-60% in Q2 versus 45-50% in Q2 2010) and improved prices for most of its products. Average price of the company's key products ethylene (+37.8% year-on-year), propylene (+19.1%), and MEG (+32.2%) rose sharply in Q2 2011 with improving demand as well as supply concerns due to unplanned shutdowns in Asia. Yansab registered a net profit of SAR964mn in Q2 2011, an increase of 92% year-on-year, well ahead of our forecast (SAR759mn) and the consensus (SAR739mn).

Improving financial condition: Benefiting from strong operating performance in the last few of quarters, Yansab was able to repay its debt steadily. Consequently, net debt to EBITDA declined to 2.3x as of Q2 2011 (net debt of SAR12.5bn) versus 4.1x as of Q2 2010 (net debt of SAR14bn). Yansab continues to enjoy a stronger balance sheet, as compared to its major peers, PetroRabigh and Saudi Kayan.

Challenging macro environment may weigh on H2 results: In July, average prices of ethylene and polyethylene declined 16% (to US\$1,284/mt) and 7% (to US\$1,358/mt) respectively, as compared to average price in Q2, mainly due to relatively current weak demand and uncertain global economic outlook. Considering a 7% drop in the Brent crude prices since the start of August, we expect average prices of the company's products to decline by 7% and 3% in Q3 and Q4 2011 respectively. Additionally, we suppose utilization rate at the company's plants to decline marginally in Q3 2011 from its current level. As a result, we expect Yansab to report revenues and net profit in Q3 of SAR2.4bn and SAR819mn respectively, a decline of 10.1% and 15% quarter-on-quarter. We might have to revise our price estimates further in the event of major negative macroeconomic developments in the US or Europe, affecting oil prices severely.

Conclusion: Yansab's Q2 results support our continuing positive stance on the Saudi petrochemicals sector despite the global macro concerns. We like the company's growth story and believe that increasing operating rates supported by sustained demand from the Asian markets in the medium term can result in substantial earnings growth going forward. Based on strong results, we have revised our revenue and net profit estimates by 9.3% and 8.3% respectively for the year 2011. The stock currently trades at 2011 P/E and EV/EBITDA multiples of 8.0x and 5.4x respectively, both at a more than 30% discount to the peer average. We do not have a target price or investment rating for Yansab.



Corporate summary	Share information	Valuation
<p>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.</p>	<p>Market cap (SAR/US\$) 26.21bn / 6.99bn 52-week range 34.30 - 53.25 Daily avg volume (US\$) 20.10mn Shares outstanding 562.5mn Free float (est) 39.8%</p> <p>Performance: 1M 3M 12M Absolute -6.8% -6.4% 22.3% Relative to index -1.4% 2% 22.8%</p> <p>Major Shareholder: SABIC 51% GOSI 10.5%</p> <p>Source: Bloomberg, Al Rajhi Capital</p>	<p>Period End 12/10A 12/11E 12/12E 12/13E</p> <p>Revenue (SARmn) 5,822 9,434 10,228 10,330 EBITDA (SARmn) 2,881 4,811 4,970 4,907 Net Profit (SARmn) 1,673 3,279 3,459 3,521 EPS (SAR) 2.97 5.83 6.15 6.26 DPS (SAR) - - - 2.50 EPS Growth na 96.0% 5.5% 1.8% EV/EBITDA (x) 9.1 5.4 5.3 5.3 P/E (x) 15.7 8.0 7.6 7.4 P/B (x) 3.6 2.5 1.9 1.6 Dividend Yield 0.0% 0.0% 0.0% 5.4%</p> <p>Source: Company data, Al Rajhi Capital</p>

Figure 1. YANSAB: Q2 and Q3 results (actual and our estimates)

(SAR mn)	Q2 2010 actual	Q1 2011 actual	Q2 2011 ARC est	Q2 2011 actual	% chg y-y	Q3 2010 actual	Q3 2011 ARC est	% chg y-y
Revenues	1,638	2,077	2,174	2,660	62.4%	1,603	2,390	49.1%
Gross profit	879	1,142	1,196	1,402	59.4%	754	1,267	68.0%
Gross margin	53.7%	55.0%	55.0%	52.7%	-97 bps	47.0%	53.0%	597 bps
EBITDA	843	1,088	1,142	1,346	59.6%	721	1,209	67.8%
EBITDA margin (%)	51.5%	52.4%	52.5%	50.6%	-87 bps	45.0%	50.6%	564 bps
Operating Profit	596	838	899	1,084	81.8%	469	946	101.8%
Net profit	502	718	763	964	91.8%	356	819	129.9%
Capex	(81)	(34)	(326)	(10)	-87.3%	(228)	(48)	-79.0%
Capex / Sales	4.9%	1.6%	15.0%	0.4%	n/m	14.2%	2.0%	n/m
Net debt	13,986	13,268	12,817	12,466	-10.9%	13,409	11,340	-15.4%
Net debt / Annualized EBITDA (x)	4.1	3.0	2.8	2.3	n/m	4.7	2.3	n/m

Source: Company data, Al Rajhi Capital



The facility at Yansab commenced commercial production in Q1 2010

We expect Yansab to achieve ROCE of 17% in 2011

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	-	5,822	9,434	10,228	10,330
Cost of Goods Sold	-	(2,817)	(4,401)	(5,012)	(5,165)
Gross Profit	-	3,004	5,033	5,215	5,165
Government Charges					
S.G. & A. Costs	(29)	(958)	(1,263)	(1,305)	(1,317)
Operating EBIT	(29)	2,046	3,770	3,911	3,848
Cash Operating Costs	(29)	(2,940)	(4,623)	(5,258)	(5,423)
EBITDA	(29)	2,881	4,811	4,970	4,907
Depreciation and Amortisation	-	(835)	(1,041)	(1,059)	(1,059)
Operating Profit	(29)	2,046	3,770	3,911	3,848
Net financing income/(costs)	-	(376)	(413)	(345)	(237)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	-	43	17	-	-
Other Expenses					
Net Profit Before Taxes	(29)	1,713	3,374	3,566	3,612
Taxes	-	(40)	(96)	(107)	(90)
Minority Interests	-	-	-	-	-
Net profit available to shareholders	(29)	1,673	3,279	3,459	3,521
Dividends	-	-	-	-	(1,408)
Transfer to Capital Reserve	-	-	-	-	-
	12/09A	12/10A	12/11E	12/12E	12/13E
Adjusted Shares Out (mn)	562.5	562.5	562.5	562.5	562.5
CFPS (SAR)	(0.05)	4.46	7.68	8.03	8.14
EPS (SAR)	(0.05)	2.97	5.83	6.15	6.26
DPS (SAR)	0.000	0.000	0.000	0.000	2.504
	12/09A	12/10A	12/11E	12/12E	12/13E
Growth					
Revenue Growth			62.1%	8.4%	1.0%
Gross Profit Growth			67.5%	3.6%	-1.0%
EBITDA Growth	14.2%		67.0%	3.3%	-1.3%
Operating Profit Growth	14.2%		84.2%	3.7%	-1.6%
Net Profit Growth	14.2%		96.0%	5.5%	1.8%
EPS Growth	14.2%		96.0%	5.5%	1.8%
	12/09A	12/10A	12/11E	12/12E	12/13E
Margins					
Gross profit margin		51.6%	53.3%	51.0%	50.0%
EBITDA margin		49.5%	51.0%	48.6%	47.5%
Operating Margin		35.2%	40.0%	38.2%	37.3%
Pretax profit margin		29.4%	35.8%	34.9%	35.0%
Net profit margin		28.7%	34.8%	33.8%	34.1%
	12/09A	12/10A	12/11E	12/12E	12/13E
Other Ratios					
ROCE	-0.2%	9.8%	16.7%	15.0%	14.1%
ROIC	-0.2%	10.2%	17.5%	18.2%	17.9%
ROE	-0.5%	25.7%	36.5%	28.0%	23.3%
Effective Tax Rate	0.0%	2.4%	2.8%	3.0%	2.5%
Capex/Sales		11.2%	1.5%	6.0%	10.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	40.0%
	12/09A	12/10A	12/11E	12/12E	12/13E
Valuation Measures					
P/E (x)	na	15.7	8.0	7.6	7.4
P/CF (x)	na	10.5	6.1	5.8	5.7
P/B (x)	4.6	3.6	2.5	1.9	1.6
EV/Sales (x)	na	4.5	2.8	2.6	2.5
EV/EBITDA (x)	na	9.1	5.4	5.3	5.3
EV/EBIT (x)	na	12.8	7.0	6.7	6.8
EV/IC (x)	1.3	1.3	1.3	1.3	1.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%	5.4%

Source: Company data, Al Rajhi Capital



Continuous investments are
expanding balance sheet

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	606	790	2,811	6,187	7,344
Current Receivables	858	2,736	3,537	3,954	3,956
Inventories	738	901	1,107	1,342	1,343
Other current assets	24	82	30	30	30
Total Current Assets	2,208	4,427	7,456	11,483	12,643
Fixed Assets	18,576	18,426	17,563	17,158	17,172
Investments	-	-	-	-	-
Goodwill					
Other Intangible Assets	30	37	33	33	33
Total Other Assets	310	274	234	194	154
Total Non-current Assets	18,916	18,737	17,830	17,385	17,360
Total Assets	21,124	23,163	25,286	28,868	30,002
Short Term Debt	916	916	1,041	1,041	1,041
Accounts Payable	276	251	369	361	310
Accrued Expenses	488	1,059	1,107	1,239	1,240
Zakat Payable	-	35	45	45	45
Dividends Payable	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	1,679	2,261	2,562	2,686	2,635
Long-Term Debt	13,696	13,471	12,000	12,000	11,072
Other LT Payables	-	-	-	-	-
Provisions	81	91	105	105	105
Total Non-current Liabilities	13,777	13,562	12,105	12,105	11,176
Minority interests	-	-	-	-	-
Paid-up share capital	5,625	5,625	5,625	5,625	5,625
Total Reserves	43	1,715	4,994	8,453	10,565
Total Shareholders' Equity	5,668	7,340	10,619	14,078	16,190
Total Equity	5,668	7,340	10,619	14,078	16,190
Total Liabilities & Shareholders' Equity	21,124	23,163	25,286	28,868	30,002
Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	14,006	13,597	10,229	6,853	4,768
Net Debt/EBITDA (x)	(479.44)	4.72	2.13	1.38	0.97
Net Debt to Equity	247.1%	185.2%	96.3%	48.7%	29.5%
EBITDA Interest Cover (x)		7.7	11.7	14.4	20.7
BVPS (SAR)	10.08	13.05	18.88	25.03	28.78
Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	(29)	1,713	3,374	3,566	3,612
Depreciation & Amortisation	-	835	1,041	1,059	1,059
Decrease in Working Capital	(1,758)	(868)	(922)	(528)	(54)
Other Operating Cashflow	0	17	(76)	(107)	(90)
Cashflow from Operations	(1,787)	1,697	3,418	3,990	4,526
Capital Expenditure	(1,471)	(649)	(138)	(614)	(1,033)
New Investments	-	-	(114)	-	-
Others	15	(663)	3	-	-
Cashflow from investing activities	(1,455)	(1,312)	(248)	(614)	(1,033)
Net Operating Cashflow	(3,242)	385	3,170	3,376	3,493
Dividends paid to ordinary shareholders	-	-	-	-	(1,408)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	2,155	700	-	-	-
Cashflow from financing activities	2,814	(201)	(1,148)	-	(2,337)
Total cash generated	(427)	184	2,021	3,376	1,157
Cash at beginning of period	1,033	606	790	2,811	6,187
Implied cash at end of year	606	790	2,811	6,187	7,344
Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales		11.2%	1.5%	6.0%	10.0%

Source: Company data, Al Rajhi Capital

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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

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