



**US\$9.47bn** Market cap  
**37%** Free float  
**US\$10.25mn** Avg. daily volume

**Target price** **UR\***  
**Consensus price** **76.30** 20.8% over current  
**Current price** **63.14** as at 20/10/2014

Research Department  
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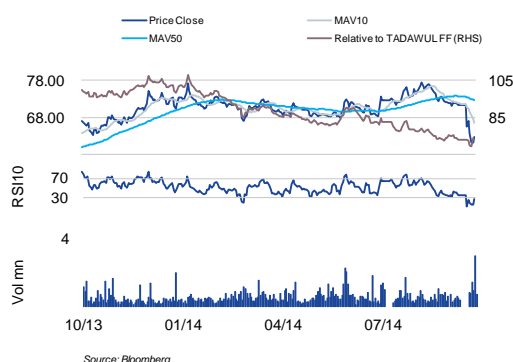
Existing rating

**Underweight** **Under Review** **Overweight**

## Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

## Performance

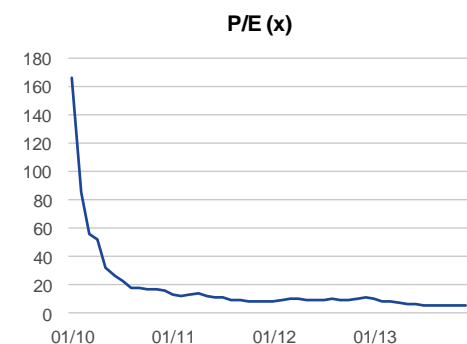


## Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenues (mn)	9,299	9,354	9,677	9,929
Revenue Growth	-3.7%	0.6%	3.5%	2.6%
EBITDA (mn)	3,894	4,073	4,028	4,003
EBITDA Growth	-15.8%	4.6%	-1.1%	-0.6%
EPS	4.35	4.70	4.51	5.08
EPS Growth	-23.0%	8.1%	-4.1%	12.8%

Source: Company data, Al Rajhi Capital

## Valuation



\*UR – Under Review

# Yansab

## Q3 better than expected

Yansab's Q3 net income of SAR691.3mn (-20.1% y-o-y) was ahead of our SAR640.4mn expectation. The company's operating profit, too, was ~8% ahead of our forecast. As per the press release, lower general & administrative expenses and finance costs helped alleviate the dip in profits; however, we believe the company may have sold higher-than-anticipated volumes thereby offsetting price declines. Over the past couple of weeks, the global macroeconomic scenario has led to a steep decline in Brent prices, which has led to investor pessimism resulting in Yansab's stock price declining over 12% since the beginning of the month. We will publish an update post the announcement of the detailed financial results. For now, we keep the target price and rating 'Under Review'.

Earnings vs our forecast	Above	In Line	Below
<b>Likely impact:</b>			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenue yet to be published:** Yansab is yet to report its Q3 revenues. We expect the company's top-line to be higher than our SAR2,457mn estimate considering the marginal beat at the operating level.
- Operating profit just ahead of our expectations:** Yansab's gross profit of SAR844.8mn (down 17.8% y-o-y) was ahead of our SAR786.2mn estimate. The company's operating profit of SAR784.5mn (down 18% y-o-y), too, was ahead of our forecast. We had expected lower ethylene and MEG prices (y-o-y) to weigh on Yansab's operating profit; however, it appears to have sold higher-than-expected volumes. The company's higher operating profit trickled down to the bottom-line, as net profit of SAR691.3mn exceeded our estimates by 7.9%.
- Valuation & Conclusion:** Yansab, which is reliant on basic olefins & polyolefins for revenues, has been grappling with subdued product prices. The muted prices have hurt the company's performance as profits have declined y-o-y for the past few quarters. Moreover, the current macroeconomic and crude price scenarios will continue to exert downward pressure on Yansab's bottom-line. We will revisit our estimates and target price post the release of detailed financial statements. For now, we keep the target price and rating 'Under Review'.

Figure 1 Yansab: summary of Q3 2014 results

SAR (mn)	Q3 2013	Q2 2014	Q3 2014	y-o-y change	q-o-q change	ARC est
Revenues	2,888.7	2,409.3	NA	-	-	2,456.7
EBITDA	1,225.6	1,057.3	NA	-	-	1,003.9
EBITDA margin	42.4%	43.9%	-	-	-	40.9%
Operating Profit	957.1	700.6	784.5	-18.0%	12.0%	724.7
Net Income	864.8	613.0	691.3	-20.1%	12.8%	640.4

Source: Company data, Al Rajhi Capital



## Disclaimer and additional disclosures for Equity Research

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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 10% 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 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

**"Underweight"**: Our target price is more than 10% 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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