



Monthly update

In our monthly note, we update price movements of major petrochemical products, valuations of Saudi petrochemical companies and their global peers.

Price movement of key petrochemical products

Products	1-Month*	Y-o-Y
Ethylene	+0.0%	+15.8%
HDPE	+0.0%	+9.9%
LDPE	+2.7%	+21.0%
Propylene	+2.3%	+60.9%
Polypropylene	+2.4%	+27.8%
Methanol	-2.3%	+66.0%
Benzene	+15.7%	+81.1%
Ammonia	+39.0%	-6.6%
Urea	+12.2%	+44.7%

* Last month change

Target prices and ratings

Stock	Rating	Price Target
SABIC	N	SAR97.0
Yansab	N	SAR58.0
SAFCO	UW	SAR62.0
APCC	N	SAR46.0
Tasnee	N	SAR15.8
Sipchem	N	SAR20.4

Saudi Petrochemicals sector Spreads softened further

Feedstock costs increased: Naphtha price rose 3.3% m-o-m in January and is currently trading at its highest level since July 2015. As naphtha price has caught up with oil, we do not expect significant upside from current levels. As for NGLs, Saudi Aramco has increased propane and butane prices for February to their highest levels in more than two years at \$510/t (+17.2% m-o-m) and \$600/t (21.2%) respectively despite US NGLs prices remaining almost unchanged m-o-m. This sharp increase has resulted in NGL discount to naphtha declining to ~3% from ~15% discount in the period before. This being lower than the 9-10% historical average, NGLs may not see further upside unless oil price increases or demand for NGL continues to be high. NGLs are likely to be capped by naphtha prices as some of the Asian and European petchem firms have crackers that can switch feedstock between Naphtha and NGLs.

Product prices flat to up: In January, Ethylene and HDPE remained almost unchanged m-o-m while other polymer products such as LDPE (+2.7%) and polypropylene (+2.4%) moderately increased. Prices of C5+ products of naphtha cracking, such as benzene (+15.7% m-o-m) and styrene (+17.9% m-o-m) increased significantly. There is optimism around non-ethylene family of petrochemicals as most of the planned future capacity is based on ethane which does not yield much C5+ products. Urea (+12.2%) remained strong, reaching its highest level since early Sept. 2015, as some plants remained closed in China.

Spreads lower: Overall as feedstock costs increased more than the increase across most product prices, spreads contracted as we had expected and discussed [in our previous report](#). Going forward, though spreads may not narrow significantly in the coming months, Q1 and Q2 margins are likely to be lower on a sequential basis.

Most positive fundamentals already priced in: While we reiterate our ratings and target prices (see left pane) for most covered companies, we revise our TP upward for Yansab (SAR58.0/share) and SAFCO (SAR62.0/share) on improving MEG and urea prices, respectively. As most of the companies have already reached our target prices, we see limited upside at the current level unless product prices and/or spread increase further. Forward EV/EBITDA multiple for global Petchems is at a multi-year high which could imply higher downside risks.

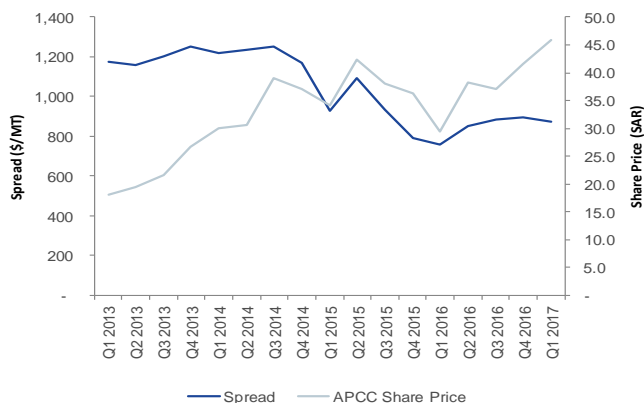
Oil prices declined on renewed concerns on higher US supply: Crude oil prices declined 3.3% m-o-m in January, recording its first monthly drop since October last year. Investors were concerned as the recent OPEC production cut deal might be offset by rising US production on higher increased drilling activities amid higher oil prices. As per a recent Bloomberg survey, OPEC might have reduced the output by 840mbbl/d, led by Saudi Arabia; however it is still ~550mbbl/d (after adjusting increased output from couple of its member countries and suspension of Indonesia) lower than its agreed production cut target of 1.2MMbbl/d from January. Meanwhile, US crude production increased to ~9mmmbbl/d, its highest level since April last year, driven by improved drilling activities. US oil rig count continued to climb for the eighth consecutive month in January (566 at the end of December vs 525 at the end of December 2016; source: Baker Hughes). Demand continues to improve in January as global manufacturing activities continued to rise for the fifth consecutive month with JPM Global Manufacturing PMI remaining unchanged at a 34-month high of 52.7. US ISM PMI increased to the highest level since November 2014 at 56.0 in January from 54.5 in December.



Trading opportunities

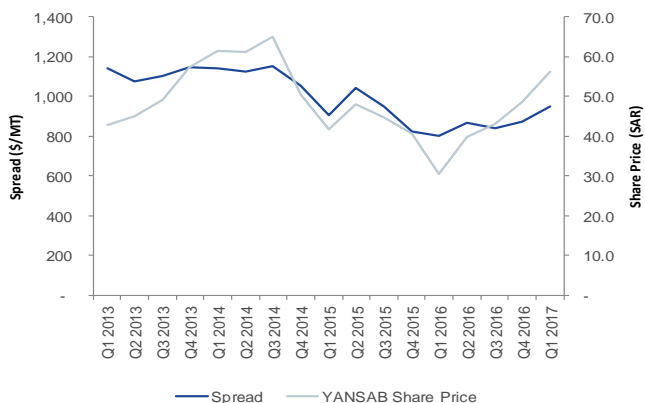
Based on our tracker model, we expect SAFCO to move trade higher in the short-term on positive divergence due to improving urea prices, while APCC could move downward due to declining spread on higher NGLs prices.

Figure 1 APCC Price and Spread



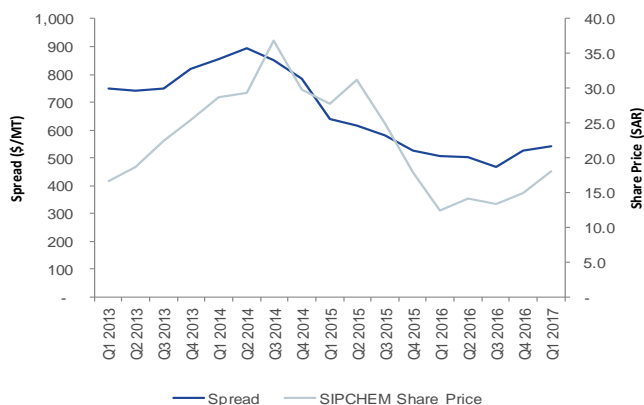
Source: Company data, Al Rajhi Capital, Bloomberg

Figure 2 YANSAB Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 3 SIPCHEM Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 4 SAFCO Price and Spread



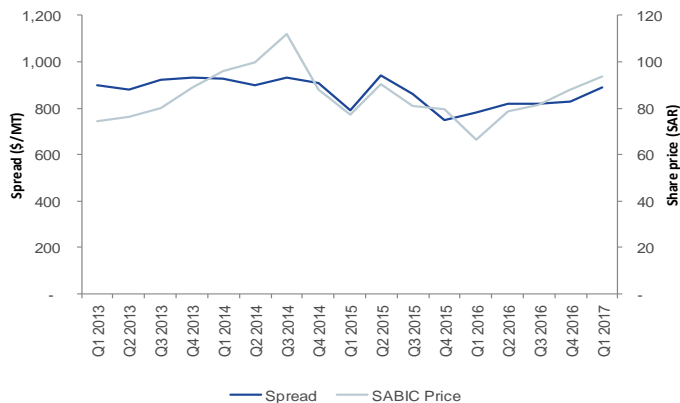
Source: Company data, Al Rajhi Capital, Bloomberg

Figure 5 Tasnee Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 6 SABIC Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg



Figure 7 Price movement of key petrochemicals, fertilizers and metals

Products	Recent Price*	% Change			
		1-Month**	QTD	YTD	1-Year
European Brent (US\$/bbl)	56.8	(3.3)	(1.2)	(1.2)	35.4
WTI (US\$/bbl)	53.8	(3.4)	(1.5)	(1.5)	29.0
Henry Hub Natural Gas (US\$/mmbtu)	3.0	(18.4)	(18.5)	(18.5)	46.5
Naphtha - Japan (US\$/ton)	528	3.3	6.2	6.2	59.7
Propane - Aramco (US\$/ton)	510	14.5	34.2	34.2	78.9
Butane - Aramco (US\$/ton)	600	17.9	42.9	42.9	90.5
Key petrochemicals (US\$/ton)					
Ethylene (FOB Japan)	1,100	0.0	0.0	0.0	15.8
HDPE (SE Asia)	1,170	0.0	0.0	0.0	9.9
LDPE (SE Asia)	1,325	2.7	2.7	2.7	21.0
Propylene (FOB Korea)	885	2.3	2.3	2.3	60.9
Polypropylene (SE Asia)	1,080	2.4	2.4	2.4	27.8
Methanol (CFR China)	342	(2.3)	(2.3)	(2.3)	66.0
MTBE (Asia)	690	0.0	0.0	0.0	27.8
Benzene (FOB Korea)	960	15.7	15.7	15.7	81.1
Toluene (CFR Japan)	755	11.0	11.0	11.0	37.3
Styrene (FOB Korea)	1,385	17.9	17.9	17.9	62.9
Polystyrene (Asia)	1,415	7.2	7.2	7.2	32.2
Other petrochemicals (US\$/ton)					
Mono-ethylene glycol - SABIC	1,100	4.8	4.8	4.8	54.9
Ethylene di-chloride (FOB NWE)	275	7.8	7.8	7.8	19.6
Vinyl Acetate Monomer (China)	745	2.1	2.1	2.1	(18.1)
Polyvinyl chloride (SE Asia)	905	0.6	0.6	0.6	24.0
Titanium Dioxide (Asia)	2,340	0.0	0.0	0.0	17.0
Acrylic Acid (China)	1,430	12.6	12.6	12.6	46.7
Fertilizers (US\$/ton)					
Ammonia (Middle East)	285	39.0	39.0	39.0	(6.6)
Urea (Middle East)	275	12.2	12.2	12.2	44.7
DAP (Middle East)	345	6.2	6.2	6.2	(11.5)
Metals					
Gold - US Spot (US\$/oz)	1,220	5.5	6.3	6.3	5.6
Aluminum - LME (US\$/ton)	1,822	6.5	6.9	6.9	18.7
Copper - LME (US\$/ton)	5,836	7.6	6.1	6.1	24.6

Source: Bloomberg, Argam, Al Rajhi Capital. * Last closing. ** 1-Month represents the last month change.

Figure 8 Historical 1-Year Forward PE Multiples Trend



Source: Bloomberg, Al Rajhi Capital

Figure 9 Historical 1-Year Forward EV/EBITDA Multiples Trend



Source: Bloomberg, Al Rajhi Capital



Figure 10 Margins and Valuation Metrics - Saudi petrochemical companies vs. global peers

Company Name	Market Cap (US\$ 'mn)	TTM Operating margin	TTM Net margin	2017 PE	P/B	2017E EV/Sales	2017E EV/EBITDA	TTM ROE	TTM Operating ROE	TTM ROA
Saudi Arabia										
SABIC	77,272	21.3	13.5	15.8x	1.8x	2.3x	7.6x	11.0	17.4	5.5
SAFCO	8,007	34.9	36.8	22.5x	4.3x	9.4x	17.9x	14.4	13.7	12.1
Sipchem	1,856	12.4	2.1	15.5x	1.2x	3.3x	8.9x	1.2	7.1	0.4
NIC	2,920	10.2	1.7	14.9x	1.4x	2.3x	9.4x	3.2	19.6	0.6
Yansab	8,848	35.7	33.0	15.9x	2.0x	4.4x	9.5x	14.6	15.7	11.2
APC	2,445	33.4	34.2	14.0x	3.0x	4.1x	10.5x	26.4	25.8	17.7
SPC	1,775	19.4	22.8	17.0x	1.2x	3.8x	13.6x	7.4	6.3	4.7
Saudi Kayan	3,380	11.4	1.6	26.6x	1.0x	3.4x	9.6x	1.0	7.6	0.3
PetroRabigh	2,782	0.4	0.1	74.4x	1.2x	1.7x	19.9x	0.4	1.3	0.1
SIIG	2,385	16.3	8.0	10.2x	1.2x	3.3x	8.3x	6.6	13.5	1.8
Chemanol	228	(16.0)	(18.9)	14.5x	0.7x	2.0x	6.5x	(8.4)	(7.1)	(4.5)
Nama	144	(36.5)	(193.7)	NA	1.8x	NA	NA	(119.7)	(22.5)	(41.4)
Alujain	356	18.7	7.7	17.5x	1.2x	2.1x	7.2x	10.2	24.6	3.4
National Petrochemical	2,694	16.6	6.5	13.2x	1.6x	3.2x	9.5x	6.6	16.8	1.8
Median		16.5	7.1	15.8x	1.3x	3.3x	9.5x	6.6	13.6	1.8
Average		12.7	6.8	15.8x	1.3x	3.3x	9.5x	6.6	13.6	1.8
Middle East & Africa (ex-Saudi Arabia)										
Industries Qatar	18,410	21.2	73.3	16.6x	2.0x	12.7x	52.6x	10.0	2.9	9.5
Mesaieed Petrochem	5,383	NA	NA	NA	1.4x	NA	NA	7.3	(0.1)	7.2
Sidi Kerir	603	26.9	24.1	14.1x	4.9x	3.2x	10.7x	30.9	34.5	22.7
Al Qurain	1,029	12.5	18.1	NA	0.9x	NA	NA	9.0	6.2	5.4
Sasol	19,389	13.1	7.6	10.0x	1.2x	1.6x	5.4x	6.6	11.4	3.7
Median		17.2	21.1	14.1x	1.4x	3.2x	10.7x	9.0	6.2	7.2
Average		18.4	30.8	13.6x	2.1x	5.8x	22.9x	12.8	11.0	9.7
Europe										
BASF	88,264	9.3	6.5	17.0x	2.8x	1.6x	8.4x	12.7	17.9	5.1
Solvay	12,474	7.3	3.5	12.6x	1.3x	1.3x	6.4x	5.2	10.8	2.0
Lanxess	6,649	6.6	2.7	21.7x	2.6x	0.9x	6.5x	9.1	22.2	2.7
Arkema	7,651	8.8	5.2	15.2x	1.7x	1.0x	6.6x	9.8	16.6	4.5
Yara	11,693	9.1	7.2	16.2x	1.4x	1.1x	7.2x	10.0	12.5	6.1
Akzo Nobel	17,326	11.5	7.3	15.1x	2.5x	1.2x	8.0x	16.9	26.7	6.5
Clariant	6,206	7.1x	3.7x	14.7x	2.7x	1.3x	8.3x	9.5x	18.4	2.9x
Median		8.8	5.2	15.2x	2.5x	1.2x	7.2x	9.8	17.9	4.5
Average		8.5	5.2	16.1x	2.2x	1.2x	7.3x	10.5	17.9	4.2
North America										
Eastman	11,432	15.6	9.6	9.8x	2.6x	1.9x	7.8x	20.7	31.3	5.5
Dow	73,347	7.1	9.0	13.7x	2.8x	1.6x	7.9x	16.7	14.4	5.9
Westlake	8,194	14.1	9.5	15.4x	2.4x	1.6x	7.9x	12.2	18.3	5.0
Celanese Corp	12,400	16.6	16.7	10.9x	4.8x	2.6x	8.9x	36.2	36.0	10.6
Methanex	4,554	1.4	(0.6)	15.6x	2.9x	2.2x	9.0x	(0.8)	1.7	(0.3)
LyondellBasell Industries	38,588	17.3	13.1	10.2x	6.3x	1.4x	7.5x	60.9	80.3	16.6
Huntsman Corp	4,894	4.6	2.1	10.8x	3.1x	0.9x	7.4x	12.7	27.9	2.0
Median		14.1	9.5	10.9x	2.9x	1.6x	7.9x	16.7	27.9	5.5
Average		11.0	8.5	12.3x	3.5x	1.7x	8.1x	22.7	30.0	6.5
Asia										
Indorama Ventures	4,983	8.6	5.6	17.7x	2.0x	0.9x	9.6x	16.1	25.2	5.8
Mitsui Chemicals	4,613	7.3	3.3	9.3x	1.2x	0.8x	6.6x	9.3	20.3	3.0
Sumitomo	8,958	6.9	2.7	11.9x	1.3x	1.0x	7.6x	6.4	16.1	1.8
Formosa Chemicals & Fibre Corp	18,203	9.8	13.0	14.0x	1.9x	1.8x	12.2x	14.7	11.0	8.0
Lotte Chemical Corp	11,875	19.3	13.6	7.1x	1.6x	0.9x	4.5x	18.0	26.7	11.1
Formosa Plastics Corp	18,386	5.1	18.9	15.6x	2.0x	2.9x	22.7x	11.9	3.2	7.9
LG Chem	17,123	9.6	6.2	11.7x	1.3x	0.8x	5.1x	8.3	14.3	6.4
Median		8.6	6.2	11.9x	1.6x	0.9x	7.6x	11.9	16.1	6.4
Average		9.5	9.1	12.5x	1.6x	1.3x	9.8x	12.1	16.7	6.3
Indices										
S&P500 Chemical Index	438,827	13.1	9.3	18.1x	4.5x	2.5x	10.7x	19.6	19.6	6.0
MSCI World Chemical Index	1,087,366	10.8	7.1	18.2x	3.0x	1.9x	10.0x	13.4	13.4	5.1
TASI	441,707	18.5	15.4	12.8x	1.6x	3.1x	9.8x	9.5	9.5x	2.3

Source: Bloomberg, Al Rajhi Capital. Notes: 1) Market cap as of February 5, 2017. 2) All valuation ratios as on latest trading prices.



Figure 11 Performance of Saudi petrochemical companies vs. global peers

Company	Currency	Last Price*	% Change				52-Week		Dividend	
			1 Month**	QTD	YTD	1 Year	High	Low	LTM	Yield
Saudi Arabia										
SABIC	SAR	96.50	4.5	5.5	5.5	46.2	98.5	63.3	5.0	5.2%
SAFCO	SAR	72.53	(3.2)	(2.8)	(2.8)	12.2	82.0	58.0	4.5	6.2%
Sipchem	SAR	19.50	0.7	3.2	3.2	70.8	19.8	10.3	NA	NA
NIC	SAR	16.52	(8.4)	(5.4)	(5.4)	93.4	18.3	7.9	NA	NA
Yansab	SAR	59.48	8.9	10.1	10.1	105.5	59.8	26.5	2.5	4.2%
APC	SAR	46.90	1.0	2.0	2.0	58.6	48.6	26.7	2.5	5.4%
SPC	SAR	15.55	6.3	5.4	5.4	98.6	15.9	7.4	0.5	3.2%
Saudi Kayan	SAR	8.48	(3.8)	(4.1)	(4.1)	69.6	9.5	4.5	NA	NA
PetroRabigh	SAR	11.95	1.7	1.6	1.6	23.3	13.5	8.1	NA	NA
SIIG	SAR	19.80	1.1	4.9	4.9	66.0	20.6	9.8	NA	NA
Chemanol	SAR	7.14	(10.1)	(11.0)	(11.0)	32.5	8.4	4.9	NA	NA
Nama	SAR	4.53	(18.5)	(26.9)	(26.9)	(18.4)	7.2	3.6	NA	NA
Alujain	SAR	19.50	4.6	4.5	4.5	81.1	22.6	9.6	1.0	5.1%
National Petrochemical	SAR	21.05	(0.4)	(0.9)	(0.9)	47.1	22.8	10.6	NA	NA
Middle East & Africa (ex-Saudi Arabia)										
Industries Qatar	QAR	115.50	(2.6)	(1.7)	(1.7)	15.5	122.0	94.5	5.0	4.3%
Mesaieed Petrochem	QAR	15.60	(1.5)	(1.3)	(1.3)	(7.3)	21.0	14.5	0.7	4.5%
Sidi Kerir	EGP	20.72	16.3	20.9	20.9	121.6	22.0	10.1	0.4	1.9%
Al Qurain	KWd	290.00	23.9	26.1	26.1	85.8	305.0	158.0	10.0	3.4%
Sasol	ZAr	39,399.00	(0.3)	(1.7)	(1.7)	(2.0)	49,747.0	35,495.0	1,480.0	3.8%
Europe										
BASF	EUR	89.11	1.0	0.9	0.9	51.0	91.6	56.0	2.9	3.3%
Solvay	EUR	109.25	(1.5)	(0.7)	(0.7)	48.6	112.4	70.5	3.3	3.0%
Lanxess	EUR	67.37	7.1	8.1	8.1	79.9	68.8	32.9	0.6	0.9%
Arkema	EUR	93.70	(1.7)	0.8	0.8	67.1	95.6	48.2	1.9	2.0%
Yara	NOK	351.40	2.2	3.4	3.4	12.8	362.0	256.1	15.0	4.3%
Akzo Nobel	EUR	63.71	5.7	7.3	7.3	10.6	65.1	49.9	1.6	2.5%
Clariant	CHF	18.54	5.2	5.5	5.5	14.1	18.8	14.9	0.4	2.2%
North America										
Eastman	USD	77.90	3.0	3.6	3.6	30.7	80.5	57.0	1.9	2.4%
Dow	USD	60.21	4.2	5.2	5.2	48.4	61.7	44.4	1.8	3.1%
Westlake	USD	63.57	10.6	13.5	13.5	42.0	65.0	39.5	0.7	1.2%
Celanese Corp	USD	86.59	7.2	10.0	10.0	38.9	88.9	55.1	1.4	1.6%
Methanex	USD	50.70	14.3	15.8	15.8	97.4	51.6	24.0	1.1	2.2%
LyondellBasell Industries	USD	94.69	8.7	10.4	10.4	26.6	97.6	69.8	3.3	3.5%
Huntsman Corp	USD	20.55	6.9	7.7	7.7	146.1	21.7	7.7	0.5	2.4%
Asia										
Indorama Ventures	THB	36.25	4.5	8.2	8.2	75.6	37.5	19.9	0.5	1.5%
Mitsui Chemicals	JPY	508.00	1.3	(3.2)	(3.2)	(0.1)	568.0	320.0	9.0	1.8%
Sumitomo	JPY	609.00	8.5	9.5	9.5	3.7	622.0	396.0	13.0	2.1%
Formosa Chemicals & Fibre Corp	TWD	95.70	0.5	(0.6)	(0.6)	40.0	100.0	69.4	3.5	3.7%
Lotte Chemical Corp	KRW	393,500.00	2.0	6.6	6.6	43.1	407,500.0	249,000.0	NA	NA
Formosa Plastics Corp	TWD	89.00	1.1	(0.2)	(0.2)	21.0	92.5	74.3	3.6	4.0%
LG Chem	KRW	275,500.00	0.4	5.6	5.6	(5.0)	341,000.0	215,500.0	5,000.0	1.8%
Indices										
S&P500 Chemical Index	USD	532.23	4.0	4.7	4.7	NA	543.8	417.8	12.0	2.3%
MSCI World Chemical Index	USD	295.19	4.5	4.9	4.9	NA	297.9	230.9	6.8	2.3%
TASI	SAR	7,098.64	(1.5)	(1.6)	(1.6)	18.4	7,290.3	5,327.5	236.0	3.3%

Source: Bloomberg, Al Rajhi Capital. * Last closing as of February 5, 2017. ** 1 Month represents the last month change.



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