

KEY DATA

Fair Value per Share (SAR)	93.40
Closing Price (SAR) *	81.76
52-week High / Low (SAR)	110.50 / 70.50
YTD / 12-month Return	-2%/-7%
P/E (TTM)	12.2
Shares Outstanding (Millions)	3,000
Market Cap (USD Millions)	65,408
Free Float	24.6%
Daily Trading Turnover (6-mo avg.,USD Millions)	157.8
Reuters / Bloomberg Code	2010.SE/SABIC AB

*As of December 24, 2015. Source: Company reports and NBK Capital

KEY METRICS

	2014A	2015F	2016F	2017F
EPS (SAR)	7.8	6.7	6.8	7.2
EPS Growth	-7%	-14%	2%	5%
P/E	10.5	12.2	12.0	11.4
Dividend Yield	6.7%	6.7%	6.7%	6.7%
EV/EBITDA	7.0	8.2	7.8	7.4
Revenue (SAR Millions)	188,775	151,841	159,561	170,970
Revenue Growth	0%	-20%	5%	7%
EBITDA (SAR Millions)	53,686	45,483	48,152	50,838
EBITDA Growth	-5%	-15%	6%	6%
EBITDA Margin	28%	30%	30%	30%

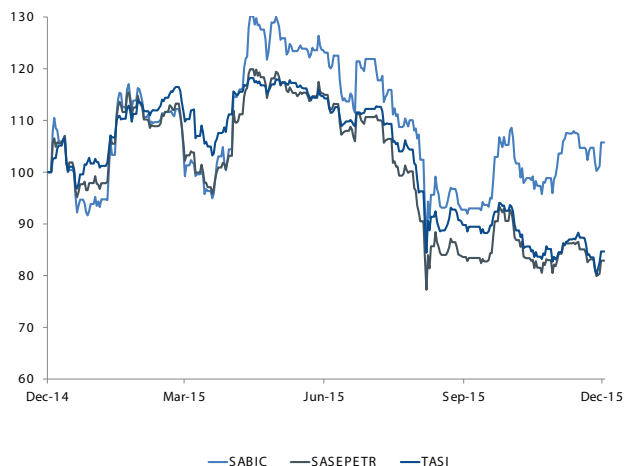
Source: Company reports and NBK Capital

QUARTERLY FORECASTS

SAR Millions	3Q2014A	3Q2015A	4Q2015F	2015F
Revenue	48,071	37,352	36,830	151,841
Gross Profit	13,738	11,816	9,753	43,652

Source: Company reports and NBK Capital

REBASED PERFORMANCE



Source: Bloomberg and NBK Capital

Ankit Gupta, CFA

T. +971 4365 2865

E. ankit.gupta@nbkcapital.com

Fair Value: SAR 93.40

Upside: +14%

Risk Level: 3**

HOLD

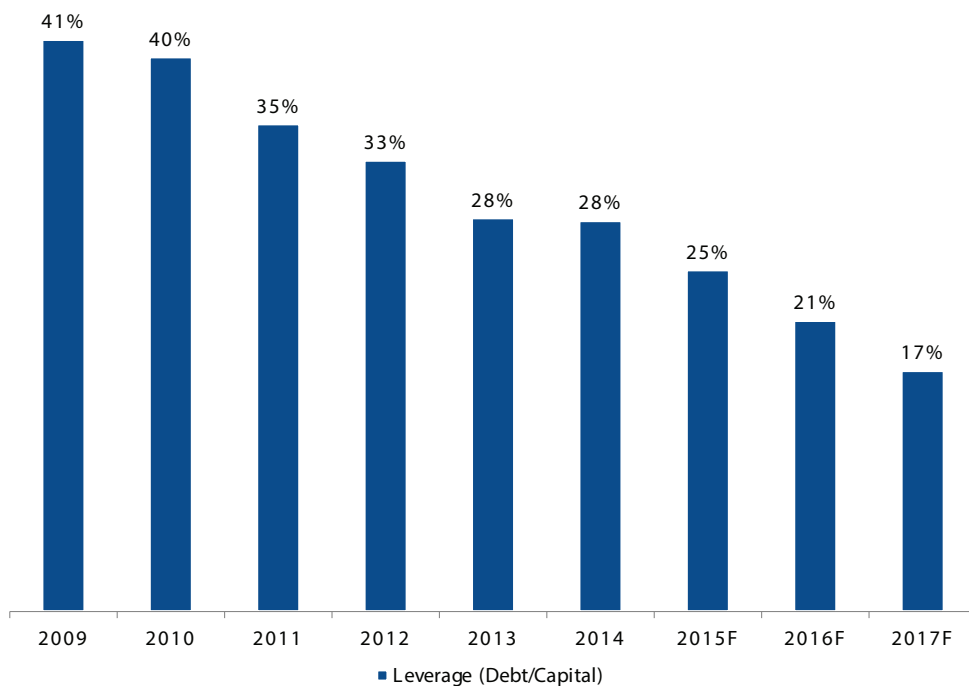
- Significant YTD outperformance, in line with expectations, but limited catalysts ahead:** We have reduced our fair value for SABIC to SAR 93.40/share (from SAR 95.30/share) and downgraded our recommendation on the stock from Buy to Hold (upside potential: 14%). SABIC has outperformed the broader Saudi Petrochemical Index (SASEPETR) by roughly 20% YTD; however, looking ahead, we believe that the company lacks catalysts to outperform its major regional peers in the short term. Among the main MENA petrochemical stocks under our coverage, we prefer exposure to Industries Qatar over SABIC (see our note 'Industries Qatar: Recent underperformance offers good entry point; upgraded to Buy' for more detail).
- We believe that SABIC's YTD outperformance has been driven primarily by the company consistently beating market earnings expectations. SABIC reported net income of SAR 15.7 billion for 9M2015 (-18% YoY), beating the market consensus by more than 28%.
- We believe that this earnings beat was driven primarily by better-than-expected performance from the company's global operations amidst improving product spreads. We expect global operations to continue to support the company's earnings trajectory, with a 2015-17F net income CAGR of 3.4%. The major upside risk to our earnings forecasts (and company's valuation) comes from the announced restructuring of the company's European operations, and we await further details to gauge the potential impact better.
- Changes to earnings estimates:** We have increased our 2015F net income by c.8%, driven primarily by the 3Q2015 earnings beat. We are now 5% ahead of the Bloomberg consensus.
- We have cut our 2016F and 2017F earnings by 1% each as a result of slightly lower product price realization forecasts that were broadly offset by improved margin expectations for the company's global operations.
- 2015 DPS ahead of our estimate; we increase our dividend expectations:** The company's BoD proposed a DPS of SAR 3 for 2H2015, beating our SAR 2.5 estimate and compared with SAR 2.5 for 1H2015. The total 2015 DPS would thus imply an 82% payout on 2015F earnings, compared with an average 63% for 2012-14. Looking ahead, we believe that SABIC

**Please refer to page 5 for recommendations and risk ratings.

can easily keep its payout ratio above historical levels, supported by lower capex and reduced leverage.

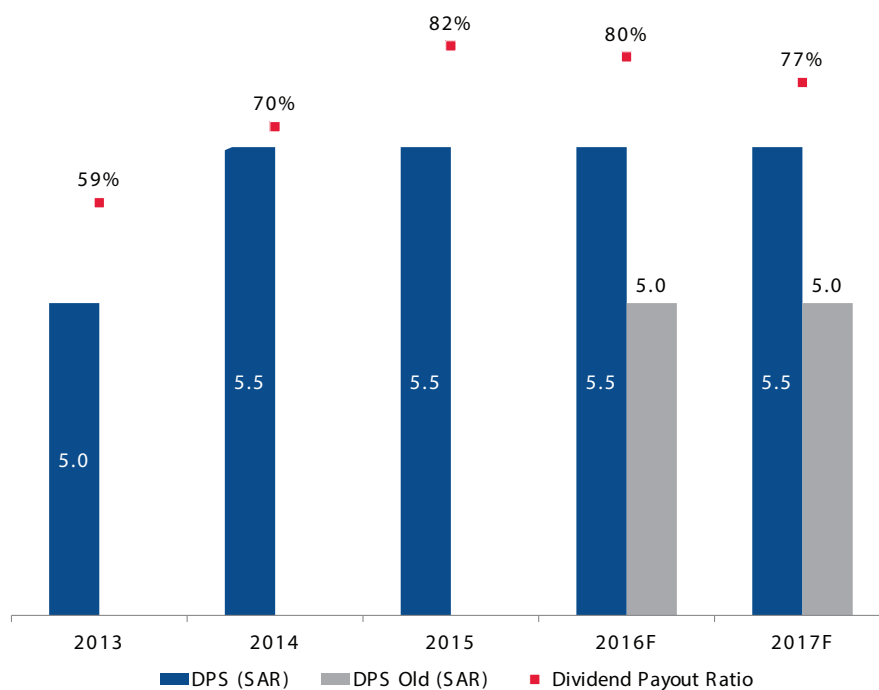
- We have increased our DPS forecasts from SAR 5 to SAR 5.5 for both 2016 and 2017, implying an average payout of around 79% for these two years.

Figure 1 Leverage Trend



Source: Company reports, NBK Capital

Figure 2 Dividend Trend



Source: Company reports and NBK Capital

Figure 3 Earnings Forecasts: NBK Capital versus Consensus

SAR million	2015F			2016F		
	NBK Capital	Consensus	Difference	NBK Capital	Consensus	Difference
Revenues	151,841	155,346	-2%	159,561	166,576	-4%
EBITDA	45,483	44,897	1%	48,152	47,855	1%
Net Income	20,105	19,218	5%	20,502	20,808	-1%
EPS (SAR)	6.7	6.4	5%	6.8	6.9	-1%

Source: Company reports and NBK Capital

FINANCIAL STATEMENTS

Income Statement (SAR Millions)		Historical		Forecast		
Fiscal Year Ends December	2013	2014	2015	2016	2017	
Revenue	189,038	188,775	151,841	159,561	170,970	
Cost of Sales	(133,729)	(136,375)	(108,189)	(116,108)	(124,509)	
Gross Profit	55,310	52,400	43,652	43,453	46,461	
Selling/General/Admin. Expenses	(12,719)	(13,615)	(12,563)	(10,052)	(10,771)	
EBITDA	56,622	53,686	45,483	48,152	50,838	
Depreciation/Amortization	(14,031)	(14,777)	(14,394)	(14,752)	(15,148)	
Operating Income	42,591	38,909	31,089	33,401	35,690	
Net Income before Taxes	42,391	39,449	32,325	33,754	36,665	
Provision for Income Taxes	(2,300)	(2,100)	(2,150)	(2,400)	(2,400)	
Net Income after Taxes	40,091	37,349	30,175	31,354	34,265	
Minority Interest	(14,863)	(13,915)	(10,070)	(10,851)	(12,782)	
Net Income	25,228	23,433	20,105	20,502	21,483	
EPS (SAR)	8.4	7.8	6.7	6.8	7.2	

Balance Sheet (SAR Millions)		Historical		Forecast		
Fiscal Year Ends December	2013	2014	2015	2016	2017	
ASSETS						
Cash and Cash Equivalents	68,228	72,955	69,522	74,548	75,650	
Total Receivables, Net	34,182	30,168	33,192	30,586	31,568	
Inventory	32,442	32,551	29,311	25,339	27,340	
Total Current Assets	134,852	135,674	132,025	130,473	134,558	
Property/Plant/Equipment, Net	165,435	164,333	161,358	154,611	147,962	
Other long term assets	16,587	21,547	18,857	19,050	19,248	
TOTAL ASSETS	339,071	341,053	331,739	323,633	321,267	

LIABILITIES & EQUITY

Accounts Payables	19,504	17,659	14,430	14,480	18,227
Bank Borrowings	7,917	13,973	12,715	11,897	11,897
Total Current Liabilities	44,466	43,789	39,303	38,534	42,281
Bank Borrowings (Long Term)	73,947	69,176	57,741	46,401	35,304
Minority Interest	50,385	49,458	49,458	49,458	49,458
Other Liabilities, Total	14,001	16,010	19,014	19,014	19,014
Total Liabilities	182,799	178,434	165,515	153,407	146,057
Total Equity	156,271	162,619	166,224	170,226	175,209
TOTAL LIABILITIES AND EQUITY	339,071	341,053	331,739	323,633	321,267

Source: Company reports and NBK Capital

Cash Flow (SAR Millions)	Historical		Forecast		
	2013	2014	2015	2016	2017
Cash from Operating Activities	59,997	54,171	46,611	51,769	49,191
Cash from Investing Activities	(18,039)	(25,684)	(10,781)	(7,233)	(7,710)
Cash from Financing Activities	(41,246)	(33,066)	(39,263)	(39,509)	(40,379)
Net Change in Cash	711	4,726	(3,433)	5,027	1,102

Key Metrics and Ratios	Historical		Forecast		
	2013	2014	2015	2016	2017

Growth

Revenue	0%	0%	-20%	5%	7%
Operating Profit	4%	-9%	-20%	7%	7%
EBITDA	4%	-5%	-15%	6%	6%
Net Profit	2%	-7%	-14%	2%	5%

Margin and Profitability

EBITDA margin	30%	28%	30%	30%	30%
Net Profit Margin (before minorities)	21%	12%	20%	20%	20%

Valuation

EPS (SAR)	8.4	7.8	6.7	6.8	7.2
DPS (SAR)	5.0	5.5	5.5	5.5	5.5
Payout Ratio (%)	59%	70%	82%	80%	77%
Dividend Yield (%)	6.1%	6.7%	6.7%	6.7%	6.7%
P/E (x)	9.7	10.5	12.2	12.0	11.4
P/BV (x)	1.6	1.5	1.5	1.4	1.4
EV/Sales (x)	2.0	2.0	2.5	2.3	2.2
EV/EBITDA (x)	6.6	7.0	8.2	7.8	7.4

Source: Company reports and NBK Capital

RISK AND RECOMMENDATION GUIDE*

RECOMMENDATION		UPSIDE (DOWNSIDE)		
BUY		MORE THAN 15%		
HOLD		BETWEEN -15% AND 15%		
SELL		LESS THAN -15%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

*In exceptional situations, the analyst can exercise discretion and assign a recommendation for a stock which differs from the one indicated by the bands.

DISCLAIMER

The information, opinions, tools, and materials contained in this report (the "Content") are not addressed to, or intended for publication, distribution to, or use by, any individual or legal entity who is a citizen or resident of or domiciled in any jurisdiction where such distribution, publication, availability, or use would constitute a breach of the laws or regulations of such jurisdiction or that would require Watani Investment Company KSCC ("NBK Capital") or its parent company, its subsidiaries or its affiliates (together "NBK Group") to obtain licenses, approvals, or permissions from the regulatory bodies or authorities of such jurisdiction. The Content, unless expressly mentioned otherwise, is under copyright to NBK Capital. Neither the Content nor any copy of it may be in any way reproduced, amended, transmitted to, copied, or distributed to any other party without the prior express written consent of NBK Capital. All trademarks, service marks, and logos used in this report are trademarks or service marks or registered trademarks or registered service marks of NBK Capital.

The Content is provided to you for information purposes only and is not to be used, construed, or considered as an offer or the solicitation of an offer to sell or to buy or to subscribe for any investment (including but not limited to securities or other financial instruments). No representation or warranty, express or implied, is given by NBK Capital or any of its respective directors, partners, officers, affiliates, employees, advisors, or representatives that the investment referred to in this report is suitable for you or for any particular investor. Receiving this report shall not mean or be interpreted that NBK Capital will treat you as its customer. If you are in doubt about such investment, we recommend that you consult an independent investment advisor since the investment contained or referred to in this report may not be suitable for you and NBK Capital makes no representation or warranty in this respect.

The Content shall not be considered investment, legal, accounting, or tax advice or a representation that any investment or strategy is suitable or appropriate for your individual circumstances or otherwise constitutes a personal recommendation to you. NBK Capital does not offer advice on the tax consequences of investments, and you are advised to contact an independent tax adviser.

The information and opinions contained in this report have been obtained or derived from sources that NBK Capital believes are reliable without being independently verified as to their accuracy or completeness. NBK Capital believes the information and opinions expressed in this report are accurate and complete; however, NBK Capital gives no representations or warranty, express or implied, as to the accuracy or completeness of the Content. Additional information may be available upon request. NBK Capital accepts no liability for any direct, indirect, or consequential loss arising from the use of the Content. This report is not to be relied upon as a substitution for the exercise of independent judgment. All technical recommendations should be combined with a review of the fundamentals of the company before making any investment decision. In addition, NBK Capital may have issued, and may in the future issue, other reports that are inconsistent with and reach different conclusions from the information presented in this report. Those reports reflect the different assumptions, views, and analytical methods of the analysts who prepared the reports, and NBK Capital is under no obligation to ensure that such other reports are brought to your attention. NBK Capital may be involved in many businesses that relate to companies mentioned in this report and may engage with them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions, and estimates contained in this report reflect a judgment at the report's original date of publication by NBK Capital and are subject to change without notice.

The value of any investment or income may fall as well as rise, and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price, or income of that investment. In the case of investments for which there is no recognized market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

NBK Capital has not reviewed the addresses of, the hyperlinks to, or the websites referred to in the report and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to NBK Capital's own website material) is provided solely for your convenience and information, and the content of the linked site does not in any way form part of this document. Accessing such websites or following such links through this report or NBK Capital's website shall be at your own risk.

NBK Group may have a financial interest in one or any of the securities that are the subject of this report. Funds managed by NBK Group may own the securities that are the subject of this report. NBK Group may own units in one or more of the aforementioned funds.

NBK Group may be in the process of soliciting or executing fee-earning mandate or doing business for companies that are either the subject of this report or are mentioned in this report. As a result, you should be aware that NBK Group may have material conflict of interest that could affect the objectivity of this report.

© COPYRIGHT NOTICE

This is a publication of NBK Capital. No part of this publication may be reproduced or duplicated without the prior consent of NBK Capital.

NBK CAPITAL**Kuwait****Watani Investment Company KSCC****Head Office**

38th Floor, Arraya II Tower
Al Shuhada Street, Block 6, Sharq
P.O. Box 4950, Safat 13050, Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research

35th Floor, Arraya II Tower
Al Shuhada Street, Block 6, Sharq
P.O. Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E. menaresearch@nbkcapital.com.kw

Brokerage

37th Floor, Arraya II Tower
Al Shuhada Street, Block 6, Sharq
P.O. Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E. brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Partners Limited**

Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506 Dubai, UAE
T. +971 4 365 2800
F. +971 4 365 2805

Turkey**Watani Investment Company KSCC**

Representative office
Türkiye Istanbul Irtibat Bürosu
Maslak Mahallesi Bilim Sokak No.5
Sun Plaza Kat 30
34398 Sarıyer, Istanbul, Turkey
T. +90 212 276 5400
F. +90 212 276 5401

Egypt**NBK Capital Securities Egypt SAE**

20 Aisha El Taymouria Street
Garden City
Cairo, Egypt
T. +20 2 2798 5900
F. +20 2 2798 5905

NATIONAL BANK OF KUWAIT**Kuwait****National Bank of Kuwait SAKP**

Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
T. +965 2242 2011
F. +965 2243 1888
Telex: 22043-22451 NATBANK

Jordan**National Bank of Kuwait SAK**

Head Office
Al Hajj Mohd Abdul Rahim Street
Hijazi Plaza, Building # 70
P.O. Box 941297
Amman – 11194, Jordan
T. +962 6 580 0400
F. +962 6 580 0441

United Kingdom**National Bank of Kuwait**

(International) PLC
Head Office
13 George street
London, W1U 3QJ, UK
T. +44 20 7224 2277
F. +44 20 7224 2101

China**National Bank of Kuwait SAK**

Shanghai Representative Office
Suite 1003, 10th floor
Azia Center
1233 Lujiazui Ring Road
Shanghai 200120
China
T. +86 21 6888 1092
F. +86 21 5047 1011

INTERNATIONAL NETWORK**Bahrain****National Bank of Kuwait SAK**

Bahrain Branch
GB Corp Tower, Block 346
Road 4626, Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
T. +973 17 155 555
F. +973 17 104 860

Lebanon**National Bank of Kuwait**

(Lebanon) SAL
Sanayeh Head Office
BAC Building, Justinien Street
P.O. Box 11-5727, Riad El-Solh
1107 2200 Beirut, Lebanon
T. +961 1 759 700
F. +961 1 747 866

France**National Bank of Kuwait**

(International) PLC
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris, France
T. +33 1 5659 8600
F. +33 1 5659 8623

United States of America**National Bank of Kuwait SAK**

New York Branch
299 Park Avenue, 17th Floor
New York, NY 10171
USA
T. +1 212 303 9800
F. +1 212 319 8269

Saudi Arabia**National Bank of Kuwait SAK**

Jeddah Branch
Al-Khalidiah District
Al-Mukmal Tower, P.O. Box 15385
Jeddah 21444, Saudi Arabia
T. +966 2 603 6300
F. +966 2 603 6318

Iraq**Credit Bank of Iraq**

Street 9, Building 187
Sadoun Street, District 102
P.O. Box 3420
Baghdad, Iraq
T. +964 1 7182198/7191944
+964 1 7188406/7171673
F. +964 1 7170156

Turkey**Turkish Bank**

Head Office
Valikonagi Avenue No. 1
P.O. Box: 34371 Nisantasi
Istanbul
T. +90 212 373 6373
F. +90 212 225 0353

Singapore**National Bank of Kuwait SAK**

Singapore Branch
9 Raffles Place #44-01
Republic Plaza
Singapore 048619
T. +65 6222 5348
F. +65 6224 5438

United Arab Emirates**National Bank of Kuwait SAK**

Dubai Branch
Sheikh Rashed Road, Port Saeed Area
ACICO Business Park
P.O. Box 9293, Dubai, U.A.E
T. +971 4 2929 222
F. +971 4 2943 337

Egypt**National Bank of Kuwait, Egypt**

13 Al Themar Street,
Gameat Al Dowal AlArabia
Fouad Mohie El Din Square
Mohandessin, Giza
T. +202 333 888 16\17
F. +202 333 79302

KUWAIT ▪ DUBAI ▪ ISTANBUL ▪ CAIRO