

# PETROCHEM



## EVENT FLASH

### Higher G&A leads to greater losses

Petrochem announced its preliminary 2Q12 results on 18 July 2012 after market hours. Net loss came in at SR35.8mn higher than our estimate of SR20.1mn. Increased G&A expenses and raw materials costs due to the commissioning of its petrochemical complex expanded losses in 2Q12. We await full details before updating our model.

- **Operating loss:** 2Q12 operating loss came in at SR41.8mn higher than SR6.8mn in 2Q11 and the NCBC estimate of SR19.2mn. 2Q12 operating loss is higher than 1Q12 operating loss of SR22.6mn.
- **Net loss:** 2Q12 net loss came in at SR35.8mn higher than SR12.4mn in 2Q11 and the NCBC estimate of SR20.1mn. 2Q12 net loss is higher than 1Q12 net loss of SR21.6mn.
- Higher than expected general and administrative (G&A) expenses was the primary reason behind the deviation in operating and net loss in 2Q12.
- As its project (Saudi Polymers Co) started commissioning on 23 June 2012, Petrochem incurred higher G&A expenses and raw material costs which increased losses in 2Q12. The company did not report any sales as it is yet to start commercial production. We expect the company to start commercial operations in 3Q12.
- Saudi Polymers Co has the total capacity to produce about 3.4mn mtpa of petrochemical products such as polyethylene, polypropylene and polystyrene. Petrochem owns 65% in this project, while the remaining 35% is owned by Arabian Chevron Phillips Petrochemical Company Limited.
- We are currently Underweight on the stock with the price target of SR19.4. The stock currently trades at a 2012E P/E of 14.9x. We await detailed results before updating our estimates.

#### 2Q12 Results Summary

SR mn	2Q12A	1Q12A	2Q11A	% Y o Y	2Q12E	% Var^
Sales	-	-	-	-	-	-
Gross income	-	-	-	-	-	-
Operating income	(41.8)	(22.6)	(6.8)	516.3	(19.2)	117.3
Net income	(35.8)	(21.6)	(12.4)	189.4	(20.1)	77.9
EPS (SR)	(0.07)	(0.05)	(0.03)	189.4	(0.04)	77.9

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

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### UNDERWEIGHT

<b>Target price</b>	<b>19.4</b>
<b>Current price (SR)</b>	<b>18.5</b>

#### STOCK DETAILS

52-week range H/L (SR)	27/18
Market cap (\$ mn)	2,371
Shares outstanding (mn)	480
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(13.8)	(23.4)	(14.9)
Rel. to market	(11.1)	(11.6)	(18.1)

Avg daily turnover (mn)	SR	US\$
3M	11.1	3.0
12M	22.4	6.0

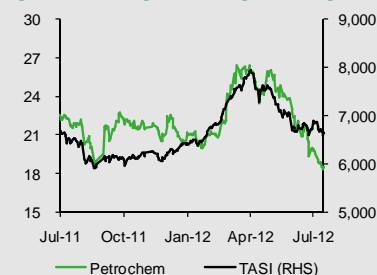
Reuters code	2002.SE
Bloomberg code	PETROCHEM AB
	<a href="http://www.petrochem.com.sa">www.petrochem.com.sa</a>

#### VALUATION MULTIPLES

	10A	11A	12E
P/E (x)	-	-	14.9
P/B (x)	1.9	1.9	1.7
EV/EBITDA (x)	-	-	14.2
Div Yield (%)	-	-	-

Source: NCBC Research estimates

#### SHARE PRICE PERFORMANCE



Source: Tadawul

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OVERWEIGHT:	Target price represents expected returns in excess of 15% in the next 12 months
NEUTRAL:	Target price represents expected returns between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

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