

SIPCHEM



EVENT FLASH

First net loss on record

Sipchem reported a weak set of 3Q16 results, with a net loss of SR59mn. This is against a net income of SR72mn in 3Q15 and 26mn in 2Q16 and compares to the NCBC estimate of a net profit of SR22mn. We believe weak operating rates and gross margin led to the deviation in earnings. Gross margin stood at 12.4% in 3Q16, lower than our estimate of 18.7% and 25.9% in 3Q15.

- NCBC view on the results:** Sipchem reported a disappointing set of results with a net loss of SR59mn in 3Q16. This is the first net loss reported since inception. This compares to the NCBC and consensus estimate of a net profit of SR22mn and SR31mn, respectively. We believe lower than expected operating rates and gross margin led to the variance.
- Revenues stood at SR680mn in 3Q16, 18.1% lower than our estimate. This represents a decline of 16.0% YoY and 22.7% QoQ. We believe the shutdown and lower product prices impacted sales. Based on our calculation, Sipchem operated at 85% in 3Q16, below our estimate of 102%. This is also lower than 107% in 2Q16 but higher than 80% in 3Q15. In 3Q16, Sipchem conducted an 11-day shutdown at its IGC unit, with an estimated financial impact of SR17mn. We believe this shutdown impacted the operations at the downstream acetic acid and EA units. Moreover, the company mentioned that methanol sales were deferred to 4Q16 which further impacted sales.
- Gross profit came in at SR84mn in 3Q16, significantly below our estimates. This is the lowest gross profit since 3Q09. Gross margin stood at 12.4% in 3Q16, significantly lower than our estimate of 18.7%, 18.6% in 2Q16 and 25.9% in 3Q15. We believe this is due to 1) weak sales and 2) higher costs due to the shutdown. According to the management, the company's cost optimization initiative implemented in 2016, resulted in cost savings of SR20mn in 3Q16, which partially offset further decline at the gross level.
- In 3Q16, methanol prices remained flat QoQ at US\$226, while VAM fell 8.7% QoQ to US\$769. European ethylene prices remained flat QoQ at US\$987.
- We remain Overweight on Sipchem with a PT of SR16.0. Despite the weak 3Q16 results, expected improvement in operating rates and efficiency following shutdown, positive methanol outlook are the stocks' key positives. The stock is trading at a 2017E P/E of 13.1x, in-line with the sector average.

3Q16 Results Summary

SR mn	3Q16A	2Q16A	% QoQ	3Q15A	% YoY	3Q16E	% Var [^]
Sales	680	880	(22.7)	810	(16.0)	830	(18.1)
Gross income	84	164	(48.7)	209	(59.9)	155	(45.8)
Gross margin (%)	12.4%	18.6%	(6.2)	25.9%	(13.5)	18.7%	(6.3)
Operating income	24	99	(75.8)	157	(84.7)	93	(74.2)
Net income	(59)	26	NM	72	NM	22	NM
EPS	(0.16)	0.07	NM	0.20	NM	0.06	NM

Source: Company, NCBC Research [^] % Var indicates variance from NCBC estimates

OVERWEIGHT

Target price (SR) 16.0

Current price (SR) 12.4

STOCK DETAILS

M52-week range H/L (SR)	22/10
Market cap (\$mn)	1,216
Shares outstanding (mn)	367
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.9)	(13.2)	(44.1)
Rel. to market	(1.9)	3.7	(15.2)

Avg. daily turnover (mn)	SR	US\$
3M	3.7	1.0
12M	9.0	2.4

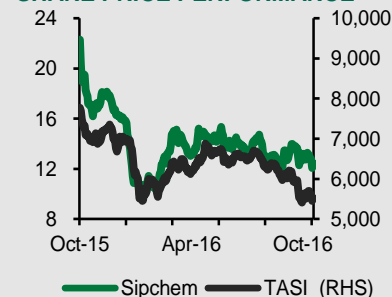
Reuters code	2310.SE
Bloomberg code	SIPCHEM AB
	www.sipchem.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	17.3	30.1	13.1
P/B (x)	0.8	0.8	0.7
EV/EBITDA (x)	10.2	9.8	8.9
Div Yield (%)	4.8	0.0	4.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam

+966 12 690 7811
i.ghulam@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price 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

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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