

January 30, 2017

Rating
12- Month Target Price

Buy
SAR 16.00

PETRO RABIGH

4Q2016 First Look

Surprise Profit

Petro Rabigh (PR) continued its track record of volatile financials as it reported a net profit of SAR 183 million as compared to a loss of over SAR 1 billion for the similar quarter last year and a loss of SAR (217) million in 3Q. The Company has posted losses and profits in alternate quarters in 2016. In 2015, PR reported profits for the first two quarters followed by losses in the final two quarters (shutdown impact). Management has pointed towards a positive effect of inventory valuations in addition to relatively stable operations in the quarter although we would like to add that the ethane plant was shut down for about 3 weeks in the middle prompting our loss forecast. The Company has managed to post a minor profit of SAR 37 million for 2016; we expect better numbers in 2017. Maintain our SAR 16.00 target and Buy recommendation.

Revenues post an impressive rise

Revenues are up +178% Y/Y and +17% Q/Q to SAR 7.5 billion as product prices jumped in the quarter exceeding the rise in crude prices. To give a flavor, while Brent prices are up +14% Y/Y to an average of USD 51/bbl in 4Q, naphtha and propane prices have risen +15% and +25% respectively in the quarter. Ethylene prices have, on the other hand, decreased by -1% Y/Y and -11% Q/Q to USD 886/ton.

Gross margins top 6%; second time this year

Gross margins above 6% are similar to those posted in 2Q, for which the Company had also recorded a profit. At first look, it appears that refining margins have worked well for them this quarter versus the preceding quarter. Petrochemical spreads have also been stable Q/Q. As a result, Rabigh posted its highest gross profit of the year at SAR 460 million, versus a SAR (772) million loss last year and a petty gross profit of SAR 25 million last quarter.

Financial charges rising

Operating expenses are flat Y/Y but up +3% Q/Q to SAR 244 million and below the peak of SAR 283 million recorded in 2Q, causing no cause for concern. Higher energy costs have likely been offset by better efficiencies. On the back of elevated SAIBOR levels and higher debt, financial charges have risen some +39% Y/Y to SAR 99 million. Although SAIBOR has eased, interest rates are likely to rise from here and may result in further discomfort for the Company.

SAR 37 mln profit for 2016

Petro Rabigh posted a net profit of SAR 183 million as compared to our forecast of a SAR (545) million net loss due to positive impact of inventory valuations as feedstock prices improved. Net margins at 2.4% are the best for 2016. The earnings volatility, where PR has posted alternate quarters of profits and losses this year, add a measure of uncertainty. We expect SAR 192 million in net income for 2017 rising to SAR 560 million by 2019. We recommend a Buy with a SAR 16.00 target.

Expected Total Return

Price as on Jan-29, 2017	SAR 12.25
Upside to Target Price	30.6%
Expected Dividend Yield	0.0%
Expected Total Return	30.6%

Market Data

52 Week H/L	SAR 12.92/8.17
Market Capitalization	SAR 10,731 mln
Shares Outstanding	876 mln
Free Float	21.72%
12-Month ADTV	2,542,428

1-Year Price Performance



Source: Bloomberg



4Q2016E (SAR mln)	RC Est.	Actuals
Revenue	5,100	7,488
Gross Profit	(306)	460
Net Income	(545)	183
EPS (SAR)	(0.62)	(0.21)

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016A	2017E
Revenue	25,514	25,146	33,493
EBITDA	1,557	2,448	2,531
Net Profit	(759)	37	192
EPS (SAR)	(0.87)	0.04	0.22
DPS (SAR)	0.50	-	-

Key Financial Ratios

FY Dec31	2015A	2016A	2017E
BVPS (SAR)	9.53	9.55	9.75
ROAE	-9.1%	0.4%	2.3%
ROAA	-2.3%	0.1%	0.6%
EV/EBITDA	19.0x	11.3x	10.1x
P/E	-	291.4x	55.5x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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