

Rating **Neutral**
12- Month Target Price **SAR 16.00**

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY (SIPCHEM)
4Q2016 First Look

Robust Performance

Sipchem returned back to profitability in 4Q, beating our forecasts and posting a net income of SAR 52 million, double that of last year. This reversed a first-ever net loss of SAR (59) million in the preceding quarter. Revenues were up +5% Y/Y and gross profit also more than doubled to SAR 212 million. Gross margins exceeded 23%, highest since 1Q, as Sipchem witnessed widening spreads on better output prices. Net margins at 5.7% were also the best for the year. Most other heads were close to estimates. We raise our target price from SAR 11.00 to SAR 16.00 on rollover of forecasts and tweaking of estimates but continue to recommend a Neutral as the stock has rallied strongly since result announcement, trading at 19.0x 2017E earnings.

Volumes and prices both on an upswing

Revenues registered SAR 914 million for the quarter, up +5% Y/Y and +34% Q/Q on the back of increase in production and sales volumes to the tune of 27% combined with an increase of +28% and +8% in methanol and EVA prices respectively. Gross profit has jumped +108% Y/Y and +152% Q/Q. Both the comparative quarters had faced shutdowns, particularly 4Q2015, when the methanol plant closed for 45 days. We had anticipated 5% higher revenues.

Efficiency gains

Gross margins also jumped to 23% from 12% in 4Q2015 and 18% in 3Q. Besides higher product prices, Sipchem has benefitted from better efficiency as well on a 90% utilization rate. There was a serious initiative of cost savings that included rationalizing employees, managing distribution costs and exploring new markets. We have confidence that management would continue to focus on optimizing costs at a time when higher energy prices are expected going forward. Operating expenses are up +7% Y/Y but down -5% Q/Q, another indicator of better efficiencies in 2016.

Investment income grows to SAR 11 mln

Although financial charges are down -5% Q/Q, they are up +26% Y/Y as a consequence of an increase in the SAIBOR as well as higher debt requirements to finance new plants and employee housing program. Investment income has risen to SAR 11 million in 4Q, double both Y/Y and Q/Q as Sipchem benefitted from higher deposit rates as liquidity tightened in the banking system coupled with better internal treasury management.

Stock up +5% post result

Net income of SAR 52 million reversed a loss of SAR (59) million in 3Q and doubled the net income of SAR 26 million in 4Q2016, impressing the market. We were more conservative with a bottomline forecast of SAR 28 million. Tweaking our estimates for 2017 and beyond as well as rolling over forecasts, our target price rises to SAR 16.00 from SAR 11.00. Trading at 2017E P/E of 19.0x, we remain Neutral.

Expected Total Return

Price as on Jan-30, 2017	SAR 18.87
Upside to Target Price	(15.2%)
Expected Dividend Yield	2.6%
Expected Total Return	(12.6%)

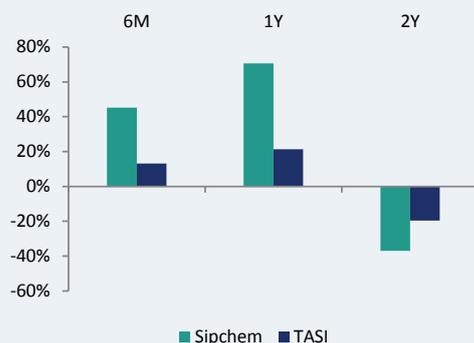
Market Data

52 Week H/L	SAR 19.6/10.3
Market Capitalization	SAR 6,918 million
Shares Outstanding	366.6 million
Free Float	88.4%
12-Month ADTV	658,465

1-Year Price Performance



Source: Bloomberg



4Q2016E (SAR) Mln	RC Est.	Actuals
Sales	872	914
Gross Profit	153	212
Net Income	28	52
EPS (SAR)	0.08	0.14

Key Financial Figures

FY Dec31 (SAR Mln)	2015A	2016A	2017E
Revenue	3,514	3,367	4,210
Gross Profit	833	689	1,137
Net Profit	288	70	366
EPS (SAR)	0.79	0.19	1.00
DPS (SAR)	0.50	0.50	0.50

Key Financial Ratios

FY Dec31	2015A	2016A	2017E
ROAA	1.7%	0.4%	2.2%
ROAE	4.9%	1.2%	6.2%
P/E	24.2x	99.5x	19.0x
P/B	1.2x	1.2x	1.2x
EV/EBITDA	10.8x	12.7x	9.5x

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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