



EVENT FLASH

Weak results despite higher than expected top-line

Petrochem reported a weaker than expected set of 4Q16 results with a net loss of SR127mn, higher than the NCBC estimate of a loss of SR93mn. We believe higher than expected sales were offset by higher opex and non-opex. Sales stood at SR1,163mn in 4Q16, higher than our estimate of SR570mn. We believe the company used inventories to minimize the impact of shutdown. However, opex stood at SR151mn in 4Q16, higher than our estimate of SR114mn, thus mitigating the impact of higher sales on net income.

- **NCBC view on the results:** Petrochem reported a disappointing set of 4Q16 results with a net loss of SR127mn, higher than the NCBC estimate of a net loss of SR93mn and consensus estimate of a loss of SR63mn. This compares to a net profit of SR191mn in 3Q16 and SR178mn in 4Q15. This is the first reported net loss since 3Q13. We believe higher than expected sales were mitigated by higher operating and non-operating expenses.
- Revenue came in at SR1,163mn, significantly higher than our estimate of SR570mn. This is down 29.7% YoY and 27.4% QoQ. The better than expected top-line came-in despite the major two month shutdown at in 4Q16. We believe the company used inventories to mitigate the impact of the shutdown.
- Gross margin came in at 3.5% in 4Q16, lower than our estimate of 6.3% and 34.9% in 3Q16. We believe lower PP-naphtha spread and the two months shutdown impacted gross margins in 4Q16. PP-naphtha spread declined 5.9% QoQ (+20.8% YoY) to US\$577 in 4Q16.
- The company reported an operating loss of SR111mn in 4Q16, higher than our estimate of a loss of SR78mn. We believe higher than expected opex mitigated the improvement at the gross level. Opex stood at SR151mn in 4Q16, higher than our estimate of SR114mn but in-line with SR152mn in 3Q16. The deviation increased at the net level which we believe is due to higher than expected non-operating expenses.
- We remain Overweight on the stock with a PT of SR17.3/share. Operational improvement following the major shutdown in 4Q16, is expected to be a key earnings driver in the near term. Moreover, the stock is trading at a 2017E P/E of 12.9x, lower than the sector average of 16.2x, thus offering an attractive investment opportunity.

4Q16 Results Summary

SR mn	4Q16A	3Q16A	% QoQ	4Q15A	% YoY	4Q16E	% Var^
Revenues	1,163	1,601	(27.4)	1,655	(29.7)	570	103.9
Gross income	40	558	(92.8)	546	(92.6)	36	12.7
Gross margin (%)	3.5%	34.9%	(31.4)	33.0%	(29.5)	6.3%	(2.8)
Operating income	(111)	406	NM	373	NM	(78)	NM
Net income	(127)	191	NM	178	NM	(93)	NM
EPS (SR)	(0.26)	0.40	NM	0.37	NM	(0.19)	NM

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

OVERWEIGHT

Target price 17.3

Current price (SR) 19.1

STOCK DETAILS

52-week range H/L (SR)	23/11
Market cap (\$ mn)	2,441
Shares outstanding (mn)	480
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.7)	20.3	30.2
Rel. to market	0.3	(5.2)	6.1

Avg daily turnover (mn)	SR	US\$
3M	4.5	1.2
12M	6.1	1.6

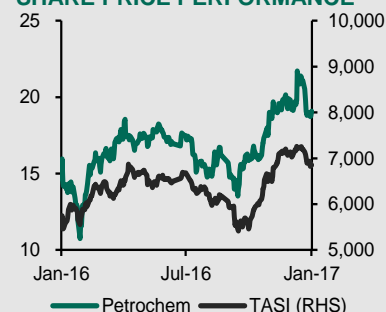
Reuters code	2002.SE
Bloomberg code	PETROCH AB
	www.petrochem.com.sa

VALUATION MULTIPLES

	15A	16A	17E
P/E (x)	10.1	23.2	12.9
P/B (x)	1.6	1.5	1.4
EV/EBITDA (x)	8.3	11.5*	9.5
Div Yield (%)	0.0	0.0	2.6

Source: NCBC Research estimates, *-estimate

SHARE PRICE PERFORMANCE



Source: Tadawul

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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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