

SAHARA PETROCHEMICALS

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NCB Capital

EVENT FLASH

Higher income from SEPC offset acrylic weakness

Sahara reported a broadly in-line results with a net income of SR88.6mn. This is a decline of -14.3% YoY and -7.6% QoQ. Associate income stood at SR106mn in 2Q17, higher than our estimate of SR101mn. We believe higher than expected income from SEPC offset the losses of the acrylic facility.

- Sahara reported a broadly in-line 2Q17 results with a net income of SR88.6mn, declining -14.3% YoY and -7.6% QoQ. However, this is 12.2% higher than the consensus estimate of SR79mn. We believe higher than expected income from SEPC mitigated the losses of the acrylic facility. Sahara's income from associates stood at SR106mn in 2Q17, higher than our estimate of SR101mn and broadly in-line with SR103mn in 1Q17.
- According to our calculations, Al-Waha contributed SR37.7mn to Sahara net income in 2Q17. This is higher than SR31.5mn in 1Q17. We believe Al-Waha operated at 100% in 2Q17, higher than 96% in 1Q17 but lower than 110% in 2Q16. The YoY decline in operating rates is due to a 33 days shutdown which started on March 2017. We believe Al-Waha gross margin came in at 24.7% in 2Q17, in-line with our estimate but lower than 32.7% in 2Q16. We believe weak gross margin is due to 1) the impact of the shutdown and 2) lower PP-propane spread (down -13.9% YoY and -6.2% QoQ).
- We believe higher than expected income from SEPC led to the variance. Based on our calculations, SEPC contributed SR65.1mn, higher than SR63.7mn in 1Q17 and our estimate of SR54mn. We believe operational efficiency mitigated the impact of lower polymer prices and lower PP-propane spread. However, this was partially offset by higher losses at the acrylic facility. The acrylic facility recorded a profit of SR2.8mn in 1Q17. We believe the weak performance of the acrylics facility is due to lower prices in 2Q17.
- SG&A came in at SR10mn, higher than SR7.2 in 1Q17 and our estimates of SR8.1mn. The higher than expected SG&A was offset by a decline in Zakat expenses. Zakat expenses came in at SR6.4mn, lower than our estimate of SR8.3mn and 1Q17 of SR8.0mn
- In 2Q17, PP prices declined -4.5% QoQ (+2.9% YoY) to US\$1,002, while HDPE prices fell -4.0% QoQ to US\$1,110. PP-propane spread declined -13.9% YoY and -6.2% QoQ to US\$570.
- We are Neutral on Sahara with a PT of SR13.5. Improvement in Al-Waha operating rates following shutdown is a positive. However, normalizing PP-propane spread, ongoing losses at SAMAPCO and acrylic facility, lack of operational visibility after the deconsolidation of Al-Waha are the key risks. The stock is trading at 2018E P/E of 14.6x vs. the sector average of 13.3x.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Net income	89	103	(14.3)	84	6.0	(7.6)
EPS (SR)	0.20	0.24	(14.3)	0.19	6.0	(7.6)

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

NEUTRAL

Target price (SR)	13.5
Current price (SR)	13.1
Upside/Downside (%)	3.5

STOCK DETAILS

M52-week range H/L (SR)	16/9
Market cap (\$mn)	1,528
Shares outstanding (mn)	439
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.2)	(12.3)	20.0
Rel. to market	4.3	(13.5)	7.5

Avg daily turnover (mn)	SR	US\$
3M	11.0	2.9
12M	25.9	6.9

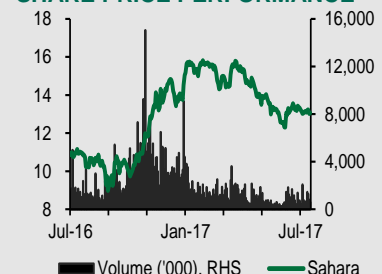
Reuters code	2260.SE
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	12.8	14.6	14.6
P/B (x)	1.1	1.1	1.1
EV/EBITDA (x)	7.3	12.6	12.4
Div. Yield (%)	5.7	5.7	5.7

Source: NCBC Research estimates

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

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

NC: Not covered. NCBC does not cover this company

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