



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

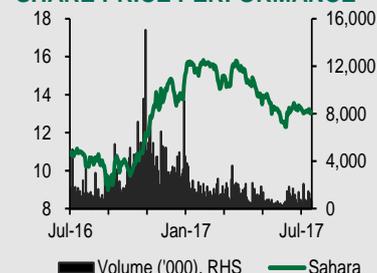
Reuters code	2260.SE
Bloomberg code	SPCO AB
	www.saharapcc.com

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

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

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.