

May 10, 2017

Rating  
12- Month Target Price

Neutral  
SAR 19.00

## SAUDI INTERNATIONAL PETROCHEMICAL COMPANY (SIPCHEM)

1Q2017 First Look

### Strong Revenues Drive Bottomline

Sipchem posted an EPS of SAR 0.25, matching out forecast on the back of a +30% Y/Y jump in revenues although gross margins were only marginally better Y/Y. After reporting a loss in 3Q2016, Sipchem is firmly on the path to recovery with profitability again teasing the SAR 100 million mark, after almost two years. Some accounting heads have been reclassified in the financials to reflect the change to IFRS, which makes like for like comparison difficult as only summary financials have been reported. The Company has managed to expand net margins by over 230bps Y/Y, likely on the back of better operating efficiencies. We have tweaked our forecast for the full year and beyond and consequently raise our target price from SAR 16.00 to SAR 19.00. Trading at 15.2x 2017E earnings, above TASI's 14.3x, we recommend a Neutral.

#### Products prices push revenues up

Revenues registered a robust +30% growth Y/Y to SAR 1.2 billion on the back of both higher product prices and greater volume sales. During the quarter, methanol prices rocketed by +63% Y/Y to USD 347/ton while EVA jumped +14% Y/Y to USD 1,304/ton. However, VAM declined -13% Y/Y to USD 890/ton. While feedstock prices, butane and ethylene, have also grown, their rise was less significant than product prices. Gross profit has risen +31% Y/Y and +41% Q/Q to SAR 352 million. Gross margins at 29.4% are a marginal improvement over 29.1% in 1Q2016.

#### Operating profit up +40% Y/Y

We believe the cost saving initiatives have borne fruit in terms of better efficiencies. Operating profit has grown +40% Y/Y to SAR 165 million, similar to our forecast. We believe management would continue to focus on optimizing costs as another round of energy price hike is anticipated in the summer.

#### Target price swells to SAR 19

Given a better outlook on sales and product prices, we have revised upwards our forecasts for Sipchem for the full year 2017 and beyond. We now expect revenues at SAR 4.5 billion for the year versus SAR 4.2 billion earlier while net income is estimated at SAR 413 million as compared to SAR 366 million previously. Consequently, we also raise our target price from SAR 16.00 to SAR 19.00.

#### EPS matches estimates

Net income of SAR 91.7 million (EPS SAR 0.25), matched our SAR 91 million forecast although market was more optimistic at SAR 108 million. The stock price has underperformed YTD, falling -9.4% as compared to TASI's -4.0%. Trading close to our revised target price at a 2017E P/E of 15.2x (TASI at 14.3x), we would recommend fresh exposure only at dips.

#### Expected Total Return

|                         |           |
|-------------------------|-----------|
| Price as on May-9, 2017 | SAR 17.12 |
| Upside to Target Price  | 11.0%     |
| Expected Dividend Yield | 2.9%      |
| Expected Total Return   | 13.9%     |

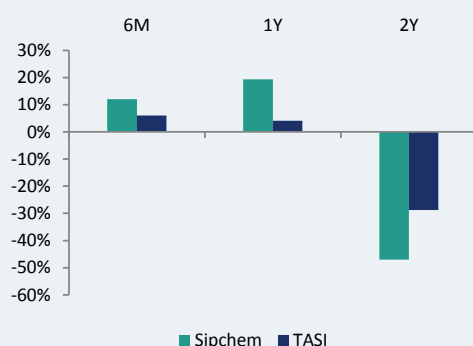
#### Market Data

|                       |                   |
|-----------------------|-------------------|
| 52 Week H/L           | SAR 19.75/10.80   |
| Market Capitalization | SAR 6,276 million |
| Shares Outstanding    | 366.6 million     |
| Free Float            | 88.2%             |
| 12-Month ADTV         | 664,292           |
| Bloomberg Code        | SIPCHEM AB        |

#### 1-Year Price Performance



Source: Bloomberg



| 1Q2017E (SAR mln) | RC Est. | Actuals |
|-------------------|---------|---------|
| Sales             | 937     | 1,200   |
| Gross Profit      | 237     | 212     |
| Net Income        | 91      | 92      |
| EPS (SAR)         | 0.25    | 0.25    |

#### Key Financial Figures

| FY Dec31 (SAR Mln) | 2016A | 2017E | 2018E |
|--------------------|-------|-------|-------|
| Revenue            | 3,367 | 4,456 | 4,590 |
| Gross Profit       | 690   | 1,159 | 1,262 |
| Net Profit         | 70    | 413   | 465   |
| EPS (SAR)          | 0.19  | 1.13  | 1.27  |
| DPS (SAR)          | 0.50  | 0.50  | 0.50  |

#### Key Financial Ratios

| FY Dec31  | 2016A | 2017E | 2018E |
|-----------|-------|-------|-------|
| ROAA      | 0.4%  | 2.5%  | 2.8%  |
| ROAE      | 1.2%  | 7.0%  | 7.5%  |
| P/E       | 89.6x | 15.2x | 13.5x |
| P/B       | 1.1x  | 1.1x  | 1.0x  |
| EV/EBITDA | 12.1x | 8.7x  | 8.1x  |

Muhammad Faisal Potrik

muhammed.faisal@riyadcapital.com

+966-11-203-6807

Abdullah A. Alrayes

abdullah.a.alrayes@riyadcapital.com

+966-11-203-6814

Riyad Capital is licensed by the Saudi Arabia

Capital Market Authority (No. 07070-37)

## Stock Rating

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

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

For any feedback on our reports, please contact [research@riyadcapital.com](mailto:research@riyadcapital.com)

## Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.