

18 February 2014

**Stocks featured: recommendations**

	Rec	Last price	Tgt price	Upside CU
NIC (NIC AB; SAR)	Buy	31.40	39.00	24%
Maaden (MAADEN AB; SAR)	Buy	32.70	40.00	22%
SABIC (SABIC AB; SAR)	Buy	111.50	130.00	17%
Yansab (YANSAB AB; SAR)	Sell	71.50	68.00	-5%
Sipchem (SIPCHEM AB; SAR)	Sell	30.80	28.00	-9%
APC (APPC AB; SAR)	Sell	44.10	40.00	-9%
IQ (IQCD QD; QAR)	Sell	177.00	160.00	-10%
Orascom (OCI NA; EUR)	Sell	34.31	30.00	-13%
SAFCO (SAFCO AB; SAR)	Sell	166.25	145.00	-13%
Kayan (KAYAN AB; SAR)	Sell	15.10	11.50	-24%

**Stocks featured: recent performance**

	1M	3M	12M	ADTV, 3M, USD mn
NIC	-7.4%	2%	9%	13.9
Maaden	-1.5%	13%	-6%	17.0
SABIC	-3.5%	4%	19%	118.0
Yansab	-2.7%	5%	36%	8.4
Sipchem	-3.7%	14%	61%	4.9
APC	6.3%	9%	59%	7.1
IQ	1.7%	8%	12%	10.7
Orascom	2.3%	14%	18%	3.1
SAFCO	2.8%	6%	6%	9.0
Kayan	-5.6%	7%	30%	46.8

**Stocks featured: P/E**

Fiscal year end	12/13	12/14F	12/15F	12/16F
NIC	15.9x	10.0x	6.8x	6.5x
Maaden	17.0x	19.1x	10.2x	7.6x
SABIC	11.5x	10.5x	10.5x	10.5x
Yansab	12.3x	13.9x	12.9x	11.8x
Sipchem	13.5x	12.6x	14.5x	14.1x
APC	9.3x	16.0x	14.3x	13.7x
IQ	9.1x	10.4x	10.0x	10.2x
Orascom	n/a	70.8x	23.8x	18.3x
SAFCO	16.0x	13.5x	13.4x	13.3x
Kayan	neg	11.1x	14.1x	12.7x

Source: Bloomberg, company data, VTB Capital Research

**Views****MENA Petrochemicals****Valuations stretched; margins not geared to supercycle**

**Commodity petrochemical margins (marginal producer) are likely to head into top quartile (supercycle) levels and be sustained until 2017. This would disproportionately benefit marginal (highest cash costs) producers in Asia relative to MENA producers, whose margins have both a cyclical and a crude-linked component. Due to lower cyclical leverage and downside risk to crude prices, we advise investors to exit MENA petrochemicals except for select plays. We favour banks for regional allocations and Asian petrochemicals in sector allocations.**

**Commodity chemical cycle has turned a corner.** The commodity chemicals demand supply dynamic turned a corner in December, with stronger margin growth (marginal producers' margins) for aliphatics and a robust margin environment for aromatics. Although Chinese imports paint a mixed picture (PVC +10% in 2013, while PP -10% on volumes), we see little tail risk from inventory firesale (as evidenced by stabilised volumes on the Dalian) coupled with only marginal incremental supply from the Middle East. With demand and supply growth focused in Asia (North American operating rates are at peak anyway), we see a potential for rapid margin consolidation and supercycle margins to be achieved and sustained until 2017 when a new wave of North American and a few Middle Eastern plays kick in.

**Shale and coal to define sector longer term, both negative.** Longer term dynamics are likely to be impacted by two major upheavals: coal to chemicals technology and a continuous increase in shale production. While at the first stage of growth we see a major impact on C1 product class chains such as methanol, MEG, ammonia and urea, in the medium term, the coal to olefins and wet gas based feedstock processes could bring margins as low as third quartile levels. Feedstock availability (shale), technological viability (coal to olefins) and an environmental impact (coal) remain critical factors.

**Recommendations.** SABIC AB (Buy, 17% upside), MAADEN AB (Buy, +22%) and NIC AB (Buy, +24%) are our preferred names for value, while YANSAB AB (Sell, -5%), SIPCHEM AB (Sell, -16%), OCI NA (Sell, -12.5%), KAYAN AB (Sell, -24%), SAFCO AB (Sell, -13%), IQCD QD (Sell, -10%) and APPC AB (Sell, -9%) are seen as best avoided. MSCI inclusion led bullish sentiment is set to continue to provide a volatile backdrop to unimpressive earnings at IQCD QD. Our buys are a function of unique circumstances for SABIC (35% of EBITDA for international operations, elevated subsidiary valuations, inorganic growth appetite, operating leverage, balance sheet strength), NIC (AA plant start-up and deep value, which could be unlocked by the normalisation of hitherto challenged operations) and Maaden (DAP capacity expansion led NPV and Aluminium start-up led earnings growth is not priced in).

**Risks.** The major outlier risk to our margin thesis is a sharp slowdown in Asian demand or a rehabilitation of Iran in the international community.

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## Investment Summary

We downgrade the sector to Sell and believe that the only investible companies in it are SABIC AB (Buy, TP: SAR 130, 17% upside), NIC AB (Buy, TP SAR 39, 24% upside) and Maaden AB (Buy, TP SAR 40, 22% upside). We rate OCI NA (TP EUR 30, 12.5% downside), IQCD QD (TP QAR 160, 10% downside), YANSAB AB (TP SAR 65, 5% downside), APPC AB (TP SAR 40, 9% downside), SIPCHEM AB (TP SAR 26, 16% downside), KAYAN AB (TP SAR 11.5, 24% downside) and SAFCO AB (TP SAR 145, 13% downside) as Sell. The sell recommendation is a function of the limited absolute upside that we see in the names. Sector investors who share our view of an improving margin environment are best placed looking for opportunities in Asia. Thus, stretched valuations (on average 22% higher than the historical bull cycle EV/EBITDA of 9x), a downbeat view on crude (Brent 2014 at USD 100/bbl) and lower operating leverage (due to lower cost positioning resulting from feedstock advantages) are the key assumptions underpinning our stance.

We are of the opinion that the sector is likely to see top quartile cycle driven margins across major aliphatic and aromatic petrochemical products. Thus, marginal naphtha based producers are likely to see a bigger jump in margins relative to lower cost producers. Furthermore, the feedstock advantage driven margin contribution for MENA plays faces downside risks from a fall in naphtha (driven by Brent fall) and could lower headline prices even while boosting net margins for marginal producers. Strategically, within the different parts of the value chain, C1 feedstock driven products like methanol, ammonia and urea face the biggest challenge from the US shale revolution. A shift in the Asian consumption pattern to consumption-driven demand rather than investment-led demand could provide a boost to lower density polymers.

Value seeking investors can still find attractive plays in Middle Eastern laggards, which also offer downside protection from an abrupt decline in demand and macro volatility. These would include SABIC (35% of EBITDA for international operations, elevated subsidiary valuations, inorganic growth appetite, operating leverage, balance sheet strength), NIC (AA plant start-up and deep value, which could be unlocked by the normalisation of hitherto challenged operations) and MAADEN (DAP capacity expansion led NPV & Aluminium start-up led earnings growth is not in price) on account of unique value proposition. MSCI inclusion led bullish sentiment will continue to provide a volatile backdrop to unimpressive earnings at IQCD QD, in our view.

There are three major scenarios for global petrochemical demand. Trend growth, a demand shock and a bullish outbreak, in that order of likelihood. With Saudi Arabia being largely off-benchmark and 8 of the 10 companies in the sector being based out of Saudi Arabia, we see little reason for investors to own the sector under any of these scenarios. The key components of our sector outlook are:

- **Chinese demand shows mixed growth signals.** A spate of domestic capacity building and operational ramp-ups across the product spectrum from aliphatics to aromatics leave the domestic demand supply picture in disarray. We see strong consumer product demand, as in PVC imports (+10% in 2013), while semi industrial product imports such as PP (-10% in 2013) paint a mixed picture.
- **...Yet tail risks are limited, in our view.** A hallmark of the 2009-10 period was the secular uplift to Chinese and in effect global demand provided by the domestic stimulus. Back then, we believed the frontloading would lead to weaker demand in the ensuing period. While demand growth weakened, we are now off the bottom, and with limited new supply in the short term, we see the stage set for supercycle margins for the marginal producer over 2014-16.
- **Near-term supply base is limited; latent capacity rejuvenation is not a risk.** We see 20mnt from 2014-17 in a worst case scenario, with 15mnt as the most probable estimate. Furthermore, in terms of mothballed and latent capacity, we see an overhang risk to the tune of 5.7mnt in 2014 and reducing to 4.7mtpa by 2017. With a scheduled downtime of 5mnt per year for routine maintenance, we are comfortable with the latent capacity overhang risk.

- **Asian inventory stockpile risks are limited.** In 2011, the Dalian exchange market traded 190 contracts or 950mnt of LLDPE. The context to bear in mind is that global production of LLDPE is 23mnt. The hiking of the margin from 5% to 7-10% coupled with price volatility has dampened speculator enthusiasm. While the trading volumes remain elevated in the absolute sense, their decline in 2012 and stabilisation in 2013 gives us comfort that the risk of inventory firesale leading to a meltdown in market prices is limited.
- **European demand could spring a surprise.** From a base effect perspective, European operating rates are set to remain stable and with continued capacity rationalisations, the industry will likely be able to operate on a cash positive returns basis, albeit with a low level of returns. We foresee another 1mtpa of reduction in effective European capacity by 2015 unless import barriers are raised. However, the risk is to the upside and European demand would stop being a drag on global polymer demand growth if GDP growth rates do not go below -1%. A fledgling recovery in 2014 could see incremental import fulfilled demand growth of 170ktpa from Europe.
- **Asian producers could gain further from by-products.** Over the last 18 months the by-product market has reached a new equilibrium and organic category demand growth of c 5.5% would boost margins, in our view. Any decline in the crude price would only help to further increase product demand and increase margins for Asian producers.
- **Operating rates point to a healthy market.** European operating rates inching past 72% on installed capacity aggregate in 2013 points to a robust demand supply situation in even the most embattled segment of polyolefins. Aside from Chevron's shutdowns, North America is operating above 90% and we believe the industry is on the cusp of a margin supercycle.
- **Bullish for marginal producer margins like never before.** We highlighted the upside risks in our report, [MENA Petrochemicals – Best positioned for margin doldrums](#) of 13 September 2012. The relief is that the wave of Middle Eastern supply increases has largely come to an end and if global GDP growth rates of 3% can be sustained, the demand supply balance tilts in favour of the petrochemical producers, in our view. We believe the inflection point arrived in December 2013. Our demand growth estimates were too conservative, as the 5.3mtpa expected in 2012 was pushed back and domestic demand in Asia remained strong. Indeed in the last five years that we have been looking at the industry, we have never had such a bullish outlook for marginal producers' margins.
- **Shale's shadow looms larger than before, but 2017 is the horizon threshold.** Unlike our 2012 assessment, we believe that in the medium term shale will represent a credible threat to Middle Eastern export competitiveness, especially if crude prices (Brent) decline to USD 100/bbl or lower. The unprecedented expansion in supply (+55% trend line in 2013) would alleviate the feedstock constraints that existed 18 months ago. Considering the lead time for greenfield plants, however, this threat is only applicable beyond 2017.
- **Dry gas cost volatility raises uncertainty and would dampen the supply shock from the US.** If dry gas prices are at the USD 3/mmbtu level and the pricing-led energy equivalence of gas to crude is 17% (at the historically low end of the range of 25-65%, at a Brent crude price of USD 110/bbl), we believe that pricing energy links allow for a favourable environment for wet gas to be used as petrochemical feedstock. The recent volatility in dry gas prices, however, increases the risk for such projects stymying excess petrochemical supply growth in the US.

## Petrochemicals market outlook & price forecasts

We have assumed naphtha prices to average at USD 900/tonne for 2014 and USD 875/tonne in the medium-to-long term. The crude price assumption is one of USD 100/bbl (Brent) and we expect naphtha to trade at a premium driven by the strong petrochemical cracker demand. As for finished products we see strong gains for Polypropylene relative to current prices but see peak margins for most commodities except Middle Eastern granular urea. While our product prices appear stagnant in the near term, the assumption of rising margins in a falling crude price environment masks the normally expected gains. If crude prices (Brent) continue to hover around USD 110/bbl, the product prices bear an upside risk. This would be beneficial for MENA producers and immaterial for Asian producers. If the crude price falls to our assumed level, we see demand benefiting from a headline reduction in product prices even while margins inch higher for marginal, naphtha based producers. We see current margins for methanol and glycols in general as unsustainable.

To compute the commodity prices, we have developed a forecast for each commodity using the following approach for determining the three key elements of prices:

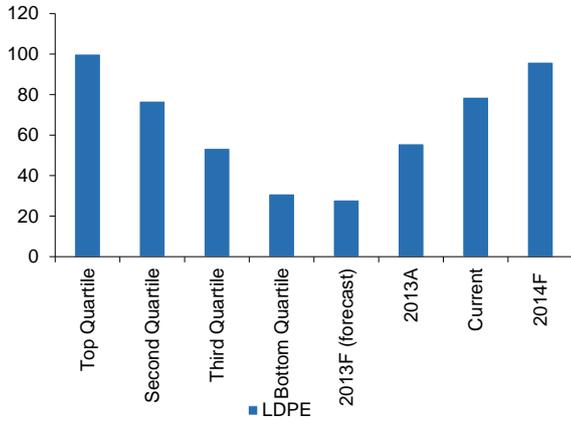
- **Margin derived from the petrochemical cycle.** The margin for a marginal producer (which has no feedstock pricing advantage) would depend on the stage in the petrochemical cycle (extent of demand vs. supply). We have estimated the long-term median margin in four quartiles of the petrochemical cycle (with the first quartile representing the top of the cycle) for each product's marginal producers. For this element of the margins, we have reverted to mid-range second and third quartile margin spectrums across most commodities, depending on leverage to consumer demand in the near term.
- **Feedstock price.** The feedstock prices are dependent on the naphtha prices, which we forecasted based on our assumptions for crude prices (USD 100/bbl for 2014 and beyond) and our longer-term crude to naphtha correlations.
- **Processing costs:** These are calculated to remain relatively constant and in line with historical levels.

**Figure 1: Price forecasts (USD/tonne)**

Product Prices (in USD/ton)	2014F			2015F		
	Old	New	Change	Old	New	Change
Naphtha	850	900	6%	850	875	3%
Methanol	330	475	44%	330	425	29%
Butanediol	2,800	2,400	-14%	2,800	2,400	-14%
MEG	1,000	1,000	0%	1,000	950	-5%
Acetic Acid	420	450	7%	420	400	-5%
VAM	1,180	900	-24%	1,180	900	-24%
LDPE	1,375	1,700	24%	1,375	1,650	20%
LLDPE	1,400	1,475	5%	1,400	1,500	7%
HDPE	1,360	1,500	10%	1,360	1,500	10%
PP	1,450	1,525	5%	1,450	1,535	6%
MTBE	1,180	1,000	-15%	1,180	1,000	-15%
PVC	1,060	1,100	4%	1,060	1,100	4%
Butene	1,100	1,050	-5%	1,100	1,050	-5%
Benzene	1,250	1,300	4%	1,250	1,275	2%
Polystyrene	1,550	1,800	16%	1,550	1,800	16%
Polycarbonates	2,850	2,700	-5%	2,850	2,700	-5%
Ammonia	525	500	-5%	525	500	-5%
Urea	324	440	36%	324	440	36%
DAP	500	400	-20%	500	450	-10%
Alumina	315	330	5%	315	330	5%
Aluminium	2,250	1,950	-13%	2,250	2,100	-7%
Ore fines	155	130	-16%	155	130	-16%
Steel (Rebar)	680	670	-1%	680	670	-1%
Ilmenite	315	270	-14%	315	270	-14%
Rutile	2,600	1,400	-46%	2,600	1,400	-46%
TiO2 Pigment	4,725	3,900	-17%	4,725	3,900	-17%

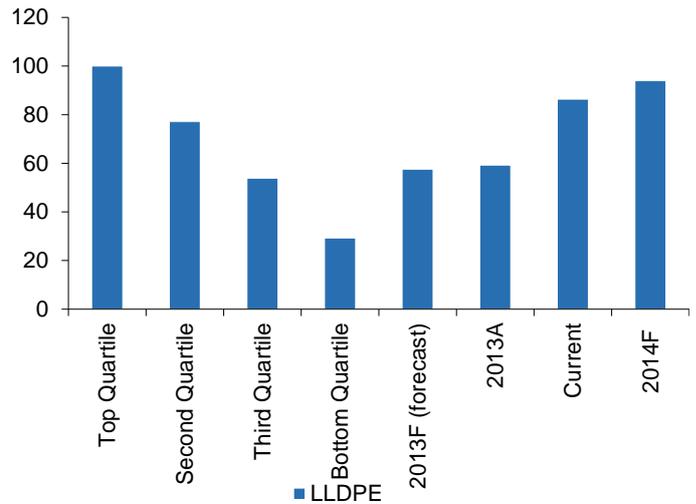
Source: VTB Capital Research

Figure 2: Marginal Producers' Margins - LDPE



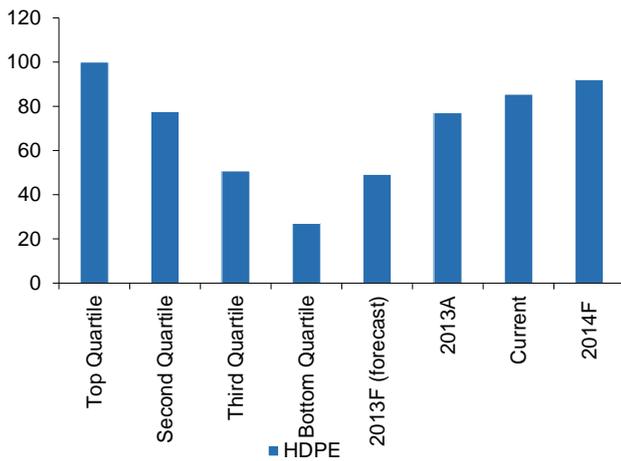
Source: BLOOMBERG, VTB Capital Research

Figure 3: Marginal Producers' Margins - LLDPE



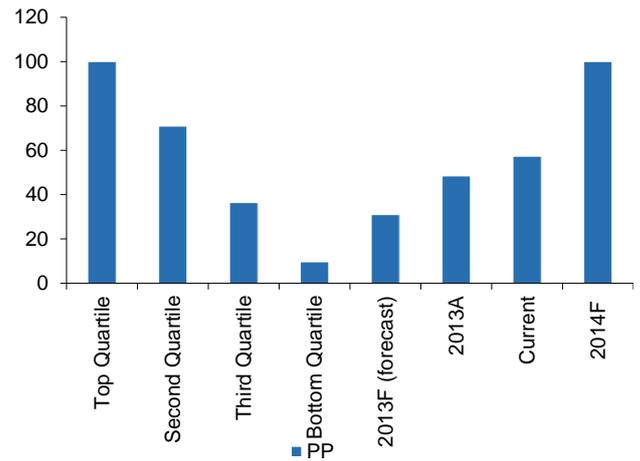
Source: BLOOMBERG, VTB Capital Research

Figure 4: Marginal Producers' Margins - HDPE



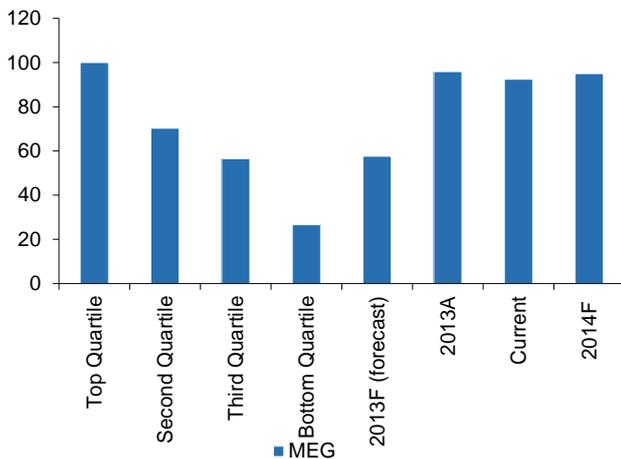
Source: BLOOMBERG, VTB Capital Research

Figure 5: Marginal Producers' Margins - PP



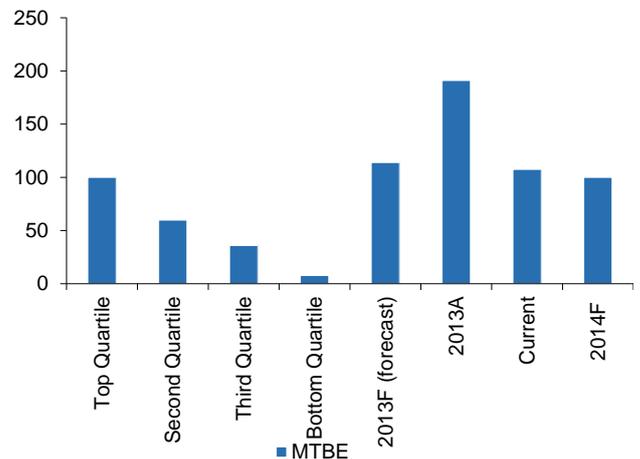
Source: BLOOMBERG, VTB Capital Research

Figure 6: Marginal Producers' Margins - MEG



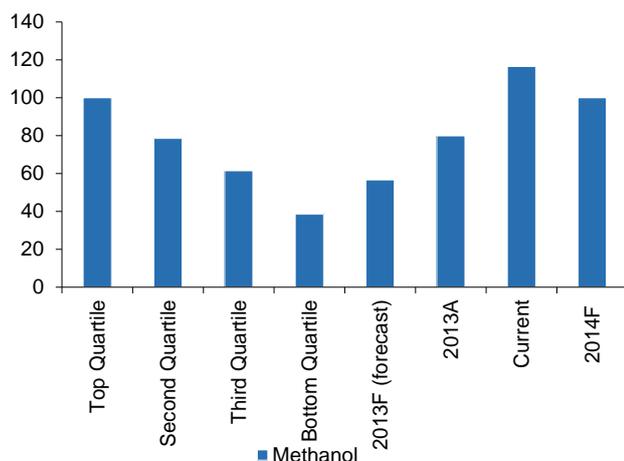
Source: BLOOMBERG, VTB Capital Research

Figure 7: Marginal Producers' Margins - MTBE



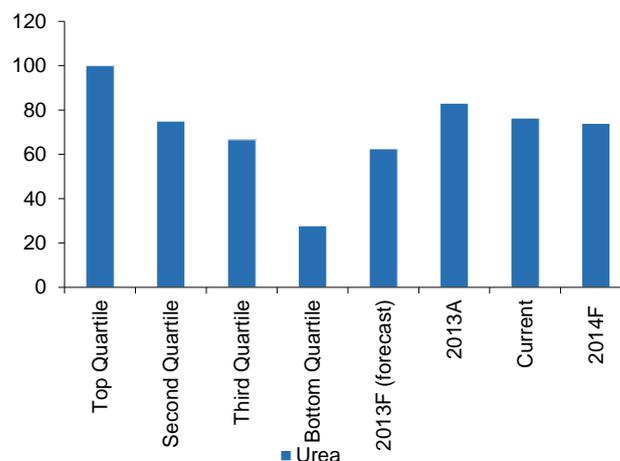
Source: BLOOMBERG, VTB Capital Research

Figure 8: Marginal Producers' Margins - Methanol



Source: BLOOMBERG, VTB Capital Research

Figure 9: Marginal Producers' Margins - Urea



Source: BLOOMBERG, VTB Capital Research

## VTB vs. Consensus & changes to estimates

**OCI** – We believe OCI's net income differential from consensus is driven primarily by our differentiated view on gas availability and prices for Egyptian plants, the backdated tax payments (which may be renegotiated) and the difference between shareholder vs. economic benefits from Sorfert, which would lead to a larger than expected minority interest charge on earnings.

**SABIC** – The differences are predicated on a more nuanced view of improvement in European margins and a less negative view on the drag from Kayan's contributions (which have been hitherto negative).

**Industries Qatar** – IQCD is likely to benefit from a slight improvement in urea prices in the short term (base effect) and we have priced in the best case scenario, 18% above consensus, even though we rate the stock as a Sell. With a large part of consensus being bullish on the stock, what we intend to demonstrate is the extreme multiples-re-rating-led valuations being priced in the stock.

**Yansab** – We do not see material differences between us vs. consensus on earnings longer term, but believe that the decreasing of MEG margins is being underestimated by the market for 2014.

**APC** – While APC product prices remain flattish, the decline in naphtha prices would lead to a decline in the advantaged feedstock driven component of margins. That decline would not be offset by the re-rating of the cyclical portion in 2014, as it would take a longer horizon to play out. Coupled with the political turmoil in Turkey (30% of volume uptake) we believe the surge in marketing and distribution cost dynamics is less appreciated by consensus.

**NIC** – NIC's 2015 forecast difference is an expectation of some sort of normalisation of TiO<sub>2</sub> operations and our bullish view on contributions from AA facilities and the ramp-up schedule. This would slowly converge to consensus levels in 2016.

**Sipchem** – We see a challenging environment for methanol and believe that 2015 itself might be an optimistic assumption vis-à-vis actuals. We believe the EVA plant commissioning schedule poses risks that consensus is not pricing in.

**Kayan** – For a less than viable plant, differences on earnings are immaterial in our view to the valuation case at current prices.

**Safco** – We have priced in a relatively upbeat price environment for urea, even though we have a Sell recommendation on the name to contrast the multiples expectation vis-à-vis consensus.

Maaden – Maaden’s 2012 net income was SAR 1.1bn, which for 2013 was SAR 1.7bn. Consensus expects aluminium operations to be loss making and is ignoring the incremental and remaining 25% utilisation from DAP facilities coupled with high downtime in 2013. We believe that while NPV dynamics are another matter, as far as earnings go, Maaden is one of the lowest cost producers on the cost curve and therefore should be able to make Aluminium operations profitable from a bottom line perspective.

**Figure 10: VTB Capital estimates vs. consensus (in millions of local currency)**

	2014 F EBITDA			2015F EBITDA			2014F Net Income			2015F Net Income		
	VTB	Cons*	Diff (%)	VTB	Cons*	Diff (%)	VTB	Cons*	Diff (%)	VTB	Cons*	Diff (%)
OCI	1,311	1,206	9%	1,291	1,349	-4%	296	450	-34%	384	537	-28%
SABIC	64,318	60,574	6%	64,430	61,303	5%	31,864	28,481	12%	31,913	29,164	9%
IQ	11,095	4,312	157%	11,062	4,446	149%	10,677	8,682	23%	10,536	8,897	18%
Yansab	4,327	4,475	-3%	4,225	4,073	4%	2,889	3,129	-8%	3,113	3,101	0%
APC	644	761	-15%	620	742	-16%	451	556	-19%	505	558	-9%
NIC	6,651	6,069	10%	8,321	6,324	32%	2,099	1,917	10%	3,069	2,005	53%
Sipchem	1,944	2,022	-4%	1,758	2,184	-19%	897	801	12%	778	909	-14%
Kayan	4,966	4,129	20%	4,799	4,243	13%	2,039	1,206	69%	1,609	1,339	20%
Safco	4,198	3,462	21%	4,198	3,907	7%	4,111	3,454	19%	4,136	3,759	10%
Maaden	2,973	4,046	-27%	5,187	5,061	2%	1,588	1,203	32%	2,960	1,545	92%

Source: VTB Capital Research; \*Bloomberg Consensus

**Figure 11: Changes to Forecasts (All figures in local currency million)**

	OCI	Sabic	IQ	Yansab	APC	NIC	Sipchem	Kayan	Safco	Maaden
	OCI NA	SABIC AB	IQCD QD	YANSAB AB	APPC AB	NIC AB	SIPCHEM AB	KAYAN AB	SAFCO AB	MAADEN AB
<b>Old 2014</b>										
Revenues	3,985	195,245	19,422	10,328	2,615	27,043	3,359	12,666	4,957	8,872
EBITDA	1,109	59,743	9,386	4,047	617	8,224	1,634	4,254	3,477	5,183
Net Income	460	30,659	8,406	3,122	441	3,242	765	1,677	3,465	2,860
<b>New 2014</b>										
Revenues	4,284	200,679	20,536	10,864	2,750	19,656	4,465	13,567	5,678	6,094
EBITDA	1,311	64,318	11,095	4,327	644	6,651	1,944	4,966	4,198	2,973
Net Income	296	31,864	10,677	2,889	451	2,099	897	2,039	4,111	1,588
<b>2014 Forecasts Change</b>										
Revenues	7%	3%	6%	5%	5%	-27%	33%	7%	15%	-31%
EBITDA	18%	8%	18%	7%	4%	-19%	19%	17%	21%	-43%
Net Income	-36%	4%	27%	-7%	2%	-35%	17%	22%	19%	-44%
<b>Old 2015</b>										
Revenues	3,985	195,326	19,422	10,328	2,615	28,935	3,354	12,666	4,957	12,642
EBITDA	1,110	59,762	9,386	4,023	581	8,850	1,611	4,232	3,477	6,621
Net Income	474	30,667	8,524	3,317	472	3,794	836	1,728	3,479	3,813
<b>New 2015</b>										
Revenues	4,262	200,365	20,471	10,782	2,768	23,499	4,300	13,317	5,678	10,684
EBITDA	1,291	64,430	11,062	4,225	620	8,321	1,758	4,799	4,198	5,187
Net Income	384	31,913	10,536	3,113	505	3,069	778	1,609	4,136	2,960
<b>2015 Forecasts Change</b>										
Revenues	7%	3%	5%	4%	6%	-19%	28%	5%	15%	-15%
EBITDA	16%	8%	18%	5%	7%	-6%	9%	13%	21%	-22%
Net Income	-19%	4%	24%	-6%	7%	-19%	-7%	-7%	19%	-22%

Source: VTB Capital Research

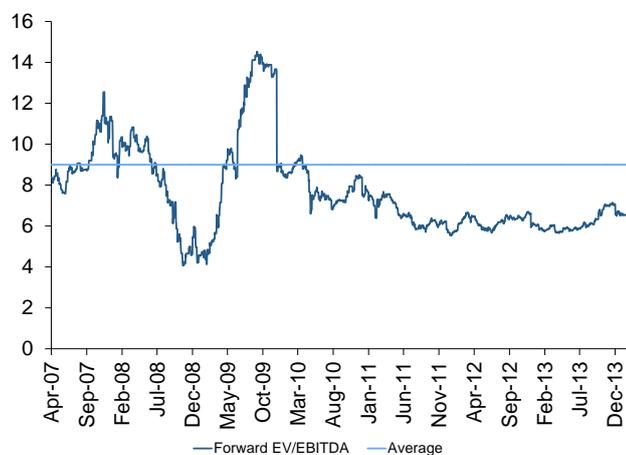
## Valuation

- We have assigned a generic sector forward EV/EBITDA multiple of 9.0x for the sector based on top quartile margin expectations, bringing it more in line with the global valuation cycle. While *prima facie* the multiple seems high, what must be considered is the adjustment for the minimal tax regime in Saudi Arabia and Qatar where these companies operate from (except OCI).
- Traditionally, the Middle Eastern fertilizer sector has traded at a premium to other petrochemicals because of the dividend policy pursued by sector participants. We thus assign premia to both SAFCO AB (20%) and MAADEN AB (25%).
- We prefer SABIC AB (Buy, TP: SAR 130, 17% upside), NIC AB (Buy, TP SAR 39, 24% upside) and MAADEN AB (Buy, TP SAR 40, 22% upside). We rate OCI NA (TP EUR 30, 12.5% downside), IQCD QD (TP QAR 160, 10% downside), YANSAB AB (TP SAR 65, 5% downside), APPC AB (TP SAR 40, 9% downside), SIPCHEM AB (TP SAR 26, 16% downside), KAYAN AB (TP SAR 11.5, 24% downside) and SAFCO AB (TP SAR 145, 13% downside) as Sell.

### Generic 'fair' EV/EBITDA set at 9x

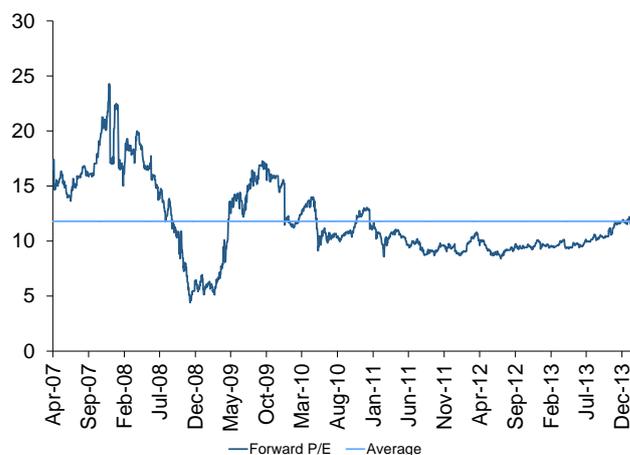
We are adopting a forward EV/EBITDA-based valuation methodology. Our generic sector EV/EBITDA multiple of 9x is close to the average historical forward EV/EBITDA for SABIC (longest trading history) for the peak cycle. Taxation rates are close to zero in the Middle East and hence elevated EV/EBITDA multiples are justified. On a like-to-like basis, we estimate that an EV/EBITDA of 9x in the Middle East represents a normalised 7.2x multiple outside the Middle East when accounting for a 25% corporate tax rate, all else being equal.

Figure 12: SABIC EV/EBITDA (2007 to date)



Source: Bloomberg

Figure 13: SABIC P/E (2007 to date)



Source: Bloomberg

Figure 14: Summary valuation

	OCI	SABIC	IQ	Yansab	APC	NIC	Sipchem	Kayan	Safco	Maaden
Generic composite sector forward EV/EBITDA	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Benchmark forward EV/EBITDA	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	10.8	10.3
Premium/Discount (%)	0%	0%	0%	0%	0%	0%	0%	0%	20%	25%
Composite normalized EBITDA (m LC)	1,108	64,318	11,095	4,327	644	6,651	1,944	4,799	4,198	5,187
Other components of EV (m, LC)	-	-	-	-	-	-	-	-	958	-
EV	9,972	578,862	99,854	38,940	5,799	59,857	17,500	43,191	46,296	53,433
Less: Net Debt	1,729	31,324	(1,280)	2,980	(492)	14,421	4,818	27,680	(2,025)	30,337
Others	-	-	-	-	-	-	-	-	-	19,275
Less: Minorities	2,143	191,638	8,596	-	-	21,809	3,424	-	-	9,322
Equity Value	6,099	355,899	92,538	35,960	6,291	23,627	9,258	15,512	48,321	33,049
No. of Shares	205	3,000	605	563	164	669	367	1,500	333	925
Equity Value/share	30	119	153	64	38	35	25	10	145	36
Dividend/share	-	5.4	8.8	3.1	1.9	-	2.0	-	12.3	-
Cost of equity	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Target Price	30	130	160	68	40	39	26	12	145	40
Current Market Price	34	112	177	72	44	31	31	15	166	33
2014F EPS (LC)	1.4	10.6	17.6	5.1	2.7	3.1	8.4	1.4	12.3	1.7
2014F DPS (LC)	-	5.4	8.8	3.1	1.9	-	2.0	-	12.3	-
Currency depreciation (to USD)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Expected 12M total return (USD)	-13%	21%	-5%	-0.6%	-5%	24%	-9%	-24%	-5%	22%
Upside to TP (LC)	-13%	17%	-10%	-5%	-9%	24%	-16%	-24%	-13%	22%
Dividend Yield (2014F)	0.0%	4.8%	5.0%	4.3%	4.4%	0.0%	6.3%	0.0%	7.4%	0.0%
Rating	Sell	Buy	Sell	Sell	Sell	Buy	Sell	Sell	Sell	Buy

Source: Bloomberg, Company data, VTB Capital Research

## Peer group valuations

The comparable and key variables are detailed in the tables below. We have utilised the industry peer groups of the petrochemicals, fertilizers, steel and construction segments to create a composite comparable peer with relative weights aligned with the EBITDA breakdown of our covered companies. For example, we have utilised the fertilizer and construction sector peer sets in a 70% and 30% weighed composite contribution to arrive at a comparable peer for OCI. The weights are largely a function of net EBITDA composition.

Figure 15: Composite peer group based relative valuation summary

Company	BBG ticker	MCap USD mn	Net Debt/ Mcap	P/E		EV/EBITDA		P/CF	Div yield, %	P/BV	Net Debt/EBITDA
				14F	15F	14F	15F				
OCI	OCIC EY	9,548	24%	23.8	18.3	8.2	7.8	7.1	0	3.8	1.3
Composite peer			9%	12.1	10.3	7.3	6.2	9.0	3.0	1.8	0.5
SABIC	SABIC AB	89,188	9%	10.5	10.5	7.5	7.0	7.5	4.8	1.9	0.5
Composite peer			22%	13.50	11.94	7.60	7.13	7.56	3.10	1.90	1.62
IQ	IQCD QD	29,407	-1%	10.0	10.2	10.3	10.1	14.6	5.0	2.7	-0.1
Composite peer			24%	12.41	10.89	7.07	6.55	7.74	3.11	1.61	1.39
Yansab	YANSAB AB	10,724	10%	13.9	12.9	10.0	9.9	10.1	4.3	2.5	0.7
Composite peer			23%	13.7	12.1	7.7	7.2	7.4	3.1	1.9	1.7
APC	APPC AB	1,928	-7%	16.0	14.3	10.5	10.4	9.4	3.4	2.9	3.1
Composite peer			23%	13.7	12.1	7.7	7.2	7.4	3.1	1.9	1.7
NIC	NIC AB	5,600	5%	10.0	6.8	6.8	5.2	4.5	4.0	1.6	0.2
Composite peer			18%	18.28	12.7	8.2	6.5	9.0	3.0	1.9	1.6
Sipchem	SIPCHEM AB	3,011	43%	12.6	14.5	9.9	10.4	7.2	6.3	1.9	2.5
Composite peer			23%	13.7	12.1	7.7	7.2	7.4	3.1	1.9	1.7
Kayan	KAYAN AB	6,039	122%	11.1	14.1	10.1	9.6	12.0	0	1.4	5.6
Composite peer			23%	13.7	12.1	7.7	7.2	7.4	3.1	1.9	1.7
Safco	SAFCO AB	14,775	-4%	13.5	13.4	12.7	12.7	15.4	7.4	6.7	-0.5
Composite peer			17%	11.5	10.1	7.0	6.5	8.9	3.3	1.6	1.0
Maaden	MAADEN AB	8,065	100%	19.1	10.2	22.9	13.6	-16.2	0.0	1.4	10.2
Composite peer			17%	11.5	10.1	7.0	6.5	8.9	3.3	1.6	1.0

Source: Bloomberg, VTB Capital Research

Figure 16: Petrochemical peer set

Company	BBG ticker	Price (LC)	Mcap USD mn	Net Debt/ Mcap		P/E		EV/EBITDA		P/CF		Div yield, %	P/BV	Net Debt/EBITDA	Change, %
				14F	15F	14F	15F	14F	15F	14F	15F				
<b>EM Petrochemicals</b>															
Petronas Chemicals Group BHD	PCHEM MK	6.7	16,149	-21%	14.3	14.0	7.2	6.8	11.5	11.1	3.4	2.4	(1.9)	4	
Braskem	BRKM5 BZ	18.41	5,432	129%	13.7	10.7	5.2	4.6	3.8	3.4	1.6	1.7	2.9	4	
Nan Ya Plastics	1303 TT	64.2	16,663	15%	18.6	16.2	17.1	16.2	n/a	n/a	3.6	1.9	2.2	7	
Formosa Petrochemical	6505 TT	76.5	23,816	22%	25.8	22.3	16.5	16.1	n/a	n/a	3.2	3.1	2.9	(13)	
Formosa Plastics	1301 TT	76.9	16,062	9%	18.8	16.2	20.2	17.2	18.6	13.8	3.4	2.0	1.7	(3)	
China Petroleum & Chem	009830 KS	19800	87,173	60%	7.0	6.7	4.1	3.9	3.0	2.7	5.3	0.9	1.5	(10)	
PTT Thailand	PTTGC TB	74	10,285	17%	8.8	8.6	6.2	5.8	6.3	6.0	5.0	1.4	0.9	(11)	
<b>Median</b>				<b>17%</b>	<b>14.3</b>	<b>14.0</b>	<b>7.2</b>	<b>6.8</b>	<b>6.3</b>	<b>6.0</b>	<b>3.4</b>	<b>1.9</b>	<b>1.7</b>	<b>(3)</b>	
<b>Developed Market Petrochemicals</b>															
Celanese Corporation	CE US	52.24	8,325	24%	10.6	10.0	7.0	6.6	8.0	7.6	1.2	3.7	1.3	7	
BASF	BAS GY	80.57	102,027	15%	13.7	12.5	7.9	7.3	8.8	8.5	3.5	2.9	2.9	15	
DOW	DOW US	46.37	56,156	27%	15.7	13.2	8.1	7.5	9.2	8.6	3.0	2.4	1.7	41	
Lyondell	LYB US	82.62	46,101	4%	11.4	10.1	7.0	6.6	9.1	8.3	2.4	4.0	0.3	38	
Sumitomo Chemical	4005 JT	431	6,690	137%	20.0	11.7	7.4	7.1	4.4	3.8	2.2	1.5	4.3	28	
Mitsubishi Gas Chemical	4182 JT	680	3,212	46%	12.9	8.3	10.2	8.5	6.4	5.0	1.8	1.1	3.2	(5)	
Mitsui Chemicals	4183 JT	268	2,670	198%	neg	18.9	11.3	9.3	6.8	4.0	1.3	0.7	7.5	15	
<b>Median</b>				<b>27%</b>	<b>13.3</b>	<b>11.7</b>	<b>7.9</b>	<b>7.3</b>	<b>8.0</b>	<b>7.6</b>	<b>2.2</b>	<b>2.4</b>	<b>2.9</b>	<b>15</b>	

Source: Bloomberg, VTB Capital Research

Figure 17: Fertilizer peer set

Company	BBG ticker	Price (LC)	Mcap USD mn	Net Debt/ Mcap		P/E		EV/EBITDA		P/CF		Div yield, %	P/BV	Net Debt/EBITDA	Change, %
				14F	15F	14F	15F	14F	15F	14F	15F				
Incitec Pivot	IPL AU	2.98	4,422	34%	14.5	11.3	8.8	7.5	9.7	9.7	3.5	1.1	2.2	(18)	
Yara	YAR NO	250	11,395	5%	10.2	9.7	5.8	5.4	7.0	7.0	4.2	1.3	0.3	(24)	
Agrium	AGU US	88.32	12,692	25%	11.3	9.7	7.2	6.3	8.2	8.2	3.1	1.8	1.4	(21)	
CF Industries	CF US	228.68	13,106	14%	11.7	10.5	6.7	6.7	13.0	13.0	1.7	2.4	0.8	4	
Mosaic	MOS US	47.98	20,439	0%	16.9	13.7	9.6	8.0	10.6	10.6	2.1	1.5	0.0	(22)	
Phosagro	PHOR RX	1149	4,272	20%	10.9	9.3	6.8	5.9	6.8	6.8	3.5	2.4	1.1	(21)	
<b>Median</b>				<b>17%</b>	<b>11.5</b>	<b>10.1</b>	<b>7.0</b>	<b>6.5</b>	<b>8.9</b>	<b>8.9</b>	<b>3.3</b>	<b>1.6</b>	<b>1.0</b>	<b>(21)</b>	

Source: Bloomberg, VTB Capital Research

Figure 18: Steel peer set

Company	BBG ticker	Price (LC)	Mcap USD mn	Net Debt/ Mcap		P/E		EV/EBITDA		P/CF		Div yield, %	P/BV	Net Debt/EBITDA	Change, %
				14F	15F	14F	15F	14F	15F	14F	15F				
Novolipetsk Steel	NLMK RX	53.74	9,247	29%	16.4	5.8	6.8	5.9	6.8	5.9	6.8	1.3	0.9	1.5	(24)
Posco	005490 KS	291000	23,883	27%	10.9	10.3	6.7	6.6	7.4	6.6	7.4	2.8	0.6	1.4	(16)
Salzgitter	SZG GR	31.788	2,595	28%	65.8	15.1	5.5	4.3	5.3	4.3	5.3	0.8	0.5	1.2	(10)
Arcelor Mittal	MT NA	12.25	27,715	57%	19.9	13.1	5.3	4.6	5.6	4.6	5.6	1.5	0.6	1.9	1
JSW Steel	JSW IB	44.75	1,186	112%	7.0	7.5	4.8	4.8	3.9	4.8	3.9	4.1	1.0	2.6	(40)
SAIL	SAIL IB	62.4	4,166	101%	10.4	9.2	10.1	8.5	5.9	8.5	5.9	3.1	0.5	5.1	(33)
Baoshan	600019 CG	3.84	10,433	43%	8.7	7.7	4.3	3.8	3.3	3.8	3.3	4.9	0.6	1.3	(24)
<b>Median</b>					<b>10.9</b>	<b>9.2</b>	<b>5.5</b>	<b>4.8</b>	<b>5.6</b>	<b>4.8</b>	<b>5.6</b>	<b>2.8</b>	<b>0.6</b>	<b>1.5</b>	<b>(24)</b>

Source: Bloomberg, VTB Capital Research

Figure 19: Construction peer set

Company	BBG ticker	Mcap USD mn	Net Debt/ Mcap		P/E		EV/EBITDA		P/CF		Div yield, %	P/BV	Net Debt/EBITDA	Change, %	
			14F	15F	14F	15F	14F	15F	14F	15F					
Tekfen	TKFEN TI	4.78	809	-14%	8.9	7.1	4.7	3.5	6.6	3.5	6.6	2.3	0.9	(0.8)	(45)
Saipem	SPM IM	16.31	9,780	61%	19.3	10.7	7.9	5.8	6.1	5.8	6.1	1.7	1.5	3.0	(21)
Abdullah Khodari & sons	ALKHODAR AB	33.3	472	78%	19.8	11.4	12.4	9.3	9.4	9.3	9.4	1.6	2.1	5.4	33
Arabtec	ARTC UH	4.97	4,248	-4%	37.6	30.8	18.8	13.9	29.4	13.9	29.4	1.1	3.1	(0.7)	103
Murray Roberts	MUR SJ	2767	1,116	-32%	10.9	9.7	3.6	2.9	5.7	2.9	5.7	2.8	1.6	(1.7)	(8)
Sino Thai Construction	STEC TB	14.6	685	-22%	13.6	12.1	7.8	5.4	9.2	5.4	9.2	3.8	3.0	(2.2)	(44)
<b>Median</b>				<b>-9%</b>	<b>13.6</b>	<b>10.7</b>	<b>7.9</b>	<b>5.6</b>	<b>9.2</b>	<b>5.6</b>	<b>9.2</b>	<b>2.3</b>	<b>2.1</b>	<b>-0.8</b>	<b>(21)</b>

Source: Bloomberg, VTB Capital Research

Figure 20: Key figures

	OCI		Sabic		IQ		Yansab		APC		NIC		Sipchem		Kayan		Safco		Maa'den	
	14F	15F	14F	15F	14F	15F	14F	15F	14F	15F	14F	15F	14F	15F	14F	15F	14F	15F	14F	15F
<b>Income metrics</b>																				
Revenues	4,284	4,262	200,679	200,365	20,536	20,471	10,864	10,782	2,750	2,768	19,656	23,499	4,465	4,300	13,567	13,317	5,678	5,678	6,094	10,684
% growth	7%	-1%	6%	0%	6%	0%	16%	-1%	-1%	1%	8%	20%	13%	-4%	31%	-2%	34%	0%	1%	75%
EBITDA	1,311	1,291	64,318	64,430	11,095	11,062	4,327	4,225	644	620	6,651	8,321	1,944	1,758	4,966	4,799	4,198	4,198	2,973	5,187
% growth	18%	-2%	14%	0%	18%	0%	6%	-2%	-17%	-4%	49%	25%	14%	-10%	97%	-3%	32%	0%	68%	74%
% margin	31%	30%	32%	32%	54%	54%	40%	39%	23%	22%	34%	35%	44%	41%	37%	36%	74%	74%	49%	49%
Net Income	296	384	31,864	31,913	10,677	10,536	2,889	3,113	451	505	2,099	3,069	897	778	2,039	1,609	4,111	4,136	1,588	2,960
% growth	292%	30%	26%	0%	16%	-1%	9%	8%	-19%	12%	77%	46%	45%	-13%	N/A	-21%	30%	1%	-6%	86%
% margin	7%	9%	16%	16%	52%	51%	27%	29%	16%	18%	11%	13%	20%	18%	15%	12%	72%	73%	26%	28%
<b>Cash flow metrics</b>																				
Working capital changes	(20)	1	(2,676)	72	(274)	(57)	(29)	7	170	(1)	(658)	(1,737)	(198)	(34)	(3,074)	(7)	(328)	-	848	(1,420)
Operating cash flow	862	941	60,387	63,242	10,724	10,909	3,903	4,124	820	625	4,686	5,461	1,636	1,620	1,403	4,334	4,208	4,536	3,836	3,310
Investing cash flow	(193)	(192)	(14,521)	(14,501)	(4,617)	(2,681)	(435)	(431)	(44)	(44)	(1,024)	(1,216)	(249)	(173)	-	-	(212)	(215)	(5,743)	(5,661)
Dividends	-	-	(16,087)	(16,112)	(5,338)	(5,268)	(1,733)	(2,179)	(248)	(278)	(840)	(2,149)	(716)	(621)	-	-	(4,111)	(4,136)	-	-
Change in debt	-	-	-	-	(69)	(65)	(1,787)	(1,277)	(38)	-	(6,883)	-	(766)	(690)	5,219	(2,145)	-	-	36	37
Financing cash flow	-	-	(16,087)	(16,112)	(5,395)	(5,321)	(3,520)	(3,456)	(285)	(278)	(7,723)	(2,149)	(1,482)	(1,310)	5,219	(2,145)	(4,111)	(4,136)	73	76
Net change in cash	669	749	29,779	32,629	712	2,907	(51)	237	491	303	(4,061)	2,096	(95)	137	6,622	2,189	(115)	185	(1,834)	(2,275)
FCF	1,010	987	44,309	47,184	7,342	9,518	3,992	3,940	773	577	4,680	5,065	1,576	1,621	1,892	4,793	3,605	3,933	(1,865)	(1,833)
Interest payments	369	266	-	-	65	62	296	-	-	-	1,121	937	179	163	531	557	-	-	285	607
FCFE	707	769	44,309	47,184	7,208	9,390	1,921	2,663	735	577	(3,324)	4,127	630	768	6,580	2,091	3,605	3,933	(2,113)	(2,403)
<b>Balance sheet</b>																				
Cash & marketable securities	1,924	2,673	67,327	99,955	2,861	5,769	2,055	2,292	1,035	1,338	1,118	3,215	2,758	2,896	6,892	9,081	2,025	2,210	2,502	227
Average assets	8,629	9,148	373,143	406,095	44,603	49,819	23,122	22,791	3,617	3,847	43,573	47,658	17,036	16,747	53,910	53,340	9,693	9,693	66,547	70,360
Total working capital	289	287	46,127	46,055	3,902	3,890	3,259	3,235	82	83	8,885	10,621	438	402	881	865	639	639	1,654	3,327
Payable receivable deficit	-	-	11,299	11,281	821	819	1,086	1,078	(55)	(55)	2,571	3,074	242	217	(476)	(467)	(42)	(42)	(244)	-
Short term debt	1,952	1,952	24,704	24,704	172	177	1,169	1,052	88	88	5,039	5,039	678	678	5,212	3,648	-	-	1,244	1,282
Long term debt	1,701	1,701	73,947	73,947	1,409	1,339	5,523	2,706	455	455	11,363	10,500	6,898	6,209	29,359	28,778	-	-	31,595	31,595
Net debt	1,729	980	31,324	(1,304)	(1,280)	(4,253)	2,980	1,466	(492)	(796)	14,421	12,324	4,818	3,990	27,680	23,345	(2,025)	(2,210)	30,337	32,649
Total short term liabilities	4,100	4,100	45,344	45,311	2,636	2,633	2,897	2,791	677	679	9,021	9,352	2,071	2,048	8,251	6,654	921	921	7,281	7,514
Total long term liabilities	2,426	2,426	88,281	88,281	1,663	1,605	4,027	2,867	483	483	10,500	10,500	7,050	6,360	29,526	28,945	503	503	32,370	32,408
Total liabilities	6,527	6,527	133,624	133,592	4,298	4,238	6,924	5,658	1,160	1,163	19,521	19,852	9,120	8,408	37,778	35,599	1,424	1,424	39,650	39,922
Shareholder's equity	1,827	2,211	171,998	187,799	40,287	45,555	16,199	17,133	2,457	2,684	13,253	14,174	5,976	6,133	16,133	17,741	8,269	8,269	21,347	24,308
<b>Leverage</b>																				
Net debt/EBITDA	1.3	0.8	0.5	(0.0)	(0.1)	(0.4)	0.7	0.3	(0.8)	(1.3)	2.2	1.5	2.5	2.3	5.6	4.9	(0.5)	(0.5)	10.2	6.3
Interest/EBITDA	0.3	0.2	-	-	0.0	0.0	0.1	-	-	-	0.2	0.1	0.1	0.1	0.1	0.1	-	-	0.1	0.1
Net debt/Market Cap	25%	14%	9%	0%	-1%	-4%	7%	4%	-7%	-11%	69%	59%	43%	35%	122%	103%	-4%	-4%	100%	108%
<b>Returns</b>																				
ROE	16%	17%	19%	17%	27%	23%	18%	18%	18%	19%	16%	22%	15%	13%	13%	9%	50%	50%	7%	12%
ROIC	11%	12%	17%	17%	27%	26%	17%	17%	20%	23%	0%	0%	10%	9%	5%	5%	65%	68%	3%	6%
ROA	3%	4%	9%	8%	24%	21%	12%	14%	12%	13%	5%	6%	5%	5%	4%	3%	42%	43%	2%	4%
<b>Valuation</b>																				
P/B	3.8	3.2	1.9	1.8	2.7	2.4	2.5	2.3	2.9	2.7	1.6	1.5	1.9	1.8	1.4	1.3	6.7	6.7	1.4	1.2
P/E	23.8	18.3	10.5	10.5	10.0	10.2	13.9	12.9	16.0	14.3	10.0	6.8	12.6	14.5	11.1	14.1	13.5	13.4	19.1	10.2
EV/EBITDA	8.2	7.8	7.5	7.0	10.3	10.1	10.0	9.9	10.5	10.4	6.8	5.2	9.9	10.4	10.1	9.6	12.7	12.7	22.9	13.6
Dividend Yield	0%	0%	5%	5%	5%	5%	4%	5%	3%	4%	4%	10%	6%	5%	0%	0%	7%	7%	0%	0%
FCF/EV	9%	10%	9%	10%	6%	9%	9%	9%	11%	9%	10%	12%	8%	9%	4%	10%	7%	7%	-3%	-3%
FCF/Market Cap	14%	14%	13%	14%	7%	9%	10%	10%	11%	8%	22%	24%	14%	14%	8%	21%	7%	7%	-6%	-6%
FCFE/Market Cap	10%	11%	13%	14%	7%	9%	5%	7%	10%	8%	-16%	20%	6%	7%	29%	9%	7%	7%	-7%	-8%

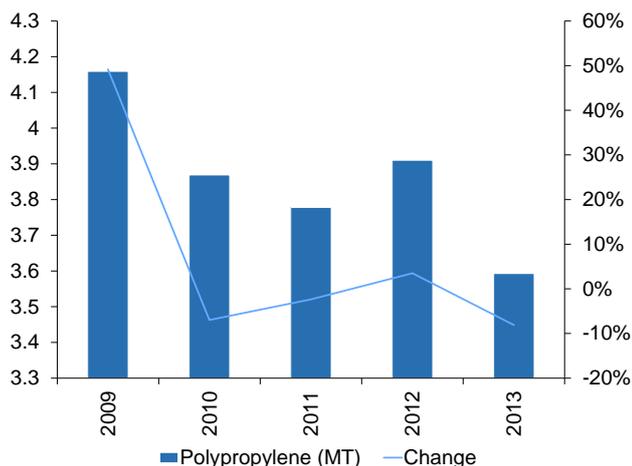
Source: Company data, VTB Capital Research

## Key Sector Themes

### What happened to Chinese imports?

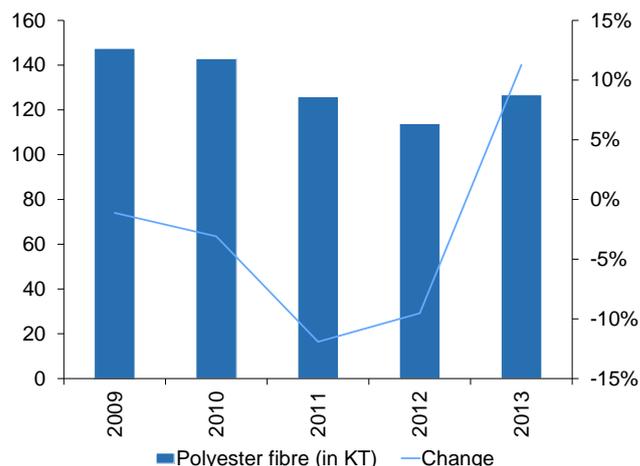
Chinese imports draw a mixed picture as the domestic capacity ramp-up is leaving import trends in disarray. A decline in PP imports implies a lower inventory level in a higher volume market, yet PVC imports suggest apparel demand based challenges might be less steep than previously assumed. China opened 4.7mtpa of polyester capacity in 2013 alone.

Figure 21: Chinese Imports: PP



Source: VTB Capital Research

Figure 22: Chinese Imports: Polyester



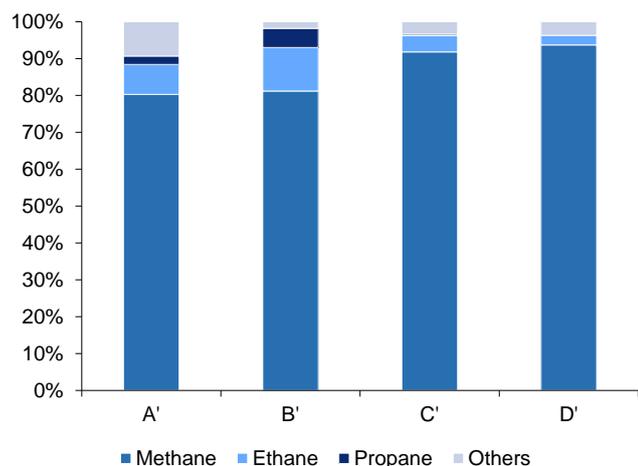
Source: VTB Capital Research

### Shale feedstock availability is no longer a constraint

The lifecycle from blueprint to construction for a greenfield petrochemical capacity ranges between three and four years. The same for greenfield expansion is between 18-24 months, but the size is constrained by existing infrastructural bottlenecks and yields on average of less than 6% of existing nameplate capacity. We will primarily focus on North America, as European Union, Russian and Chinese growth prospects for shale are limited, as per the current regulatory and economic outlook.

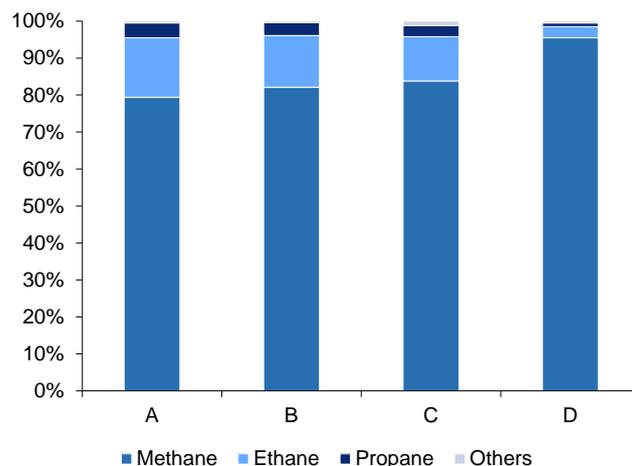
If we consider Marcellus's 1H13 production, annual output from Marcellus in 2013 would have been c.2,880bcf. This would translate to 280bcf of C1+ hydrocarbons on average. A single world-scale ethylene cracker has a capacity of 55.25bcf per annum. With a mixed-feed cracker, the ethylene requirement could be lowered to c.35bcf. Coupled with Barnett, the development of flow rates in Marcellus itself and the new kid on the block, Utica (68% NGLs), we see significant potential for three to four world-scale crackers being set up, if the economics were favourable. When we analysed the situation two years ago, we hypothesised that the 10mtpa of new cracker capacity being announced in the US would not have sufficient feedstock. Those concerns have been laid to rest with the substantial ramp-up of flow-through rates. Between 1H12 and 1H13, Marcellus production went up by over 55%.

Figure 23: Shale composition: Barnett



Source: OGJ, VTB Capital Research

Figure 24: Shale composition: Marcellus



Source: OGJ, VTB Capital Research

*Shale gas/liquids could be a distinct threat over the longer term...if prices remain below USD 5/mmbtu*

### High dry gas costs would be a dampener for margins

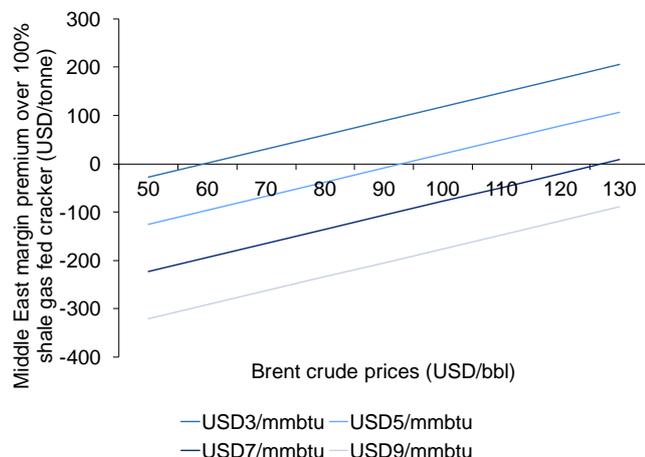
Shale is an ubiquitous term, popping up in every energy and petrochemical conversation without reprieve. As per US energy administration data estimates, horizontal drilling technologies have led to shale gas accounting for nearly 39% of US dry gas production in 2012, up from 4% in 2005.

The question arises as to what determines the usage for incremental new supply and the flexible part of existing stock (well served with infrastructure for transport). If the gas prices are at the USD 3/mmbtu level and the pricing-led energy equivalence of gas to crude is 17% (at a historically low end of the range of 25-65%, at a Brent crude price of USD 110/bbl), we believe that there is an increasing incentive for shale gas to be utilised for conversion to LNG or for petrochemical production, with capex intensity lower for petrochemicals. However if gas prices rise above USD 5/mmbtu in the medium term and oil prices moderate then the feedstock competitiveness is not enough to displace existing Middle Eastern export volumes. The assumption is that tariff barriers will prevent large-scale displacement of overseas naphtha crackers by new US capacity. Without regulatory barriers, the economics for export would remain attractive for new ethylene crackers being set up in the US; however, competitive dynamics would stymie margins.

We explain the rationale for our assertion above by noting that a tonne/annum of ethylene cracker capacity on a world-scale cracker needs USD 1,400 to USD 1,800 of investment depending on configuration. Project dynamics with a 7% ROIC (unlevered) threshold would demand a USD 300/tonne net cash margin. Current margins are well above those thresholds. Coupled with the low cost of debt and leverage, project dynamics are attractive. Furthermore, an LNG plant is built with a 30-year life-cycle assumption, and a petrochemical plant is built on a 15-20-year life-cycle assumption.

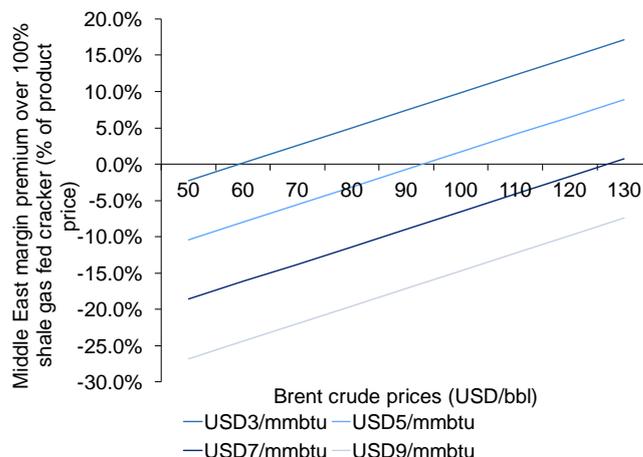
In the longer run, for shale gas to be a material threat to the export competitiveness of Middle Eastern mixed feed crackers (assuming crude prices stay at or above USD 88/bbl), shale-gas based feedstock prices (for C2/C3) will need to be below USD 5/mmbtu.

**Figure 25: Middle Eastern cost premium to shale (USD/tonne)**



Source: VTB Capital Research

**Figure 26: Middle Eastern cost premium to shale (% of end product price)**



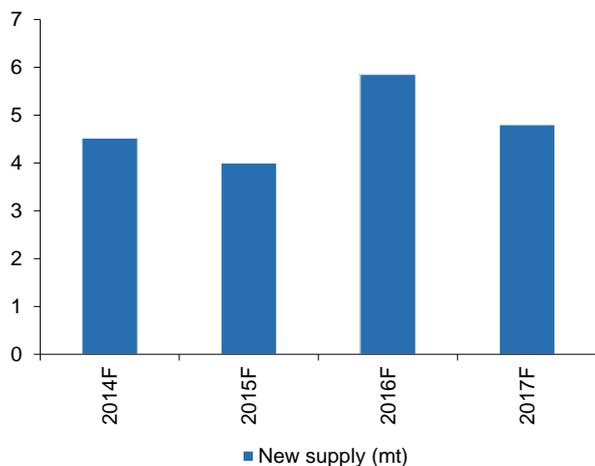
Source: VTB Capital Research

### Planned new supply appears limited in short term

We see total ethylene cracker capacity addition in 2014-2017 at 20mnt in a worst case scenario, with a likely addition of 14-15mnt. Furthermore, in terms of mothballed and latent capacity, we see an overhang risk to the tune of 5.7mnt in 2014, reducing to 4.7mtpa by 2017. With a scheduled downtime of 5mtpa per year for routine maintenance, we are comfortable with the latent capacity overhang risk.

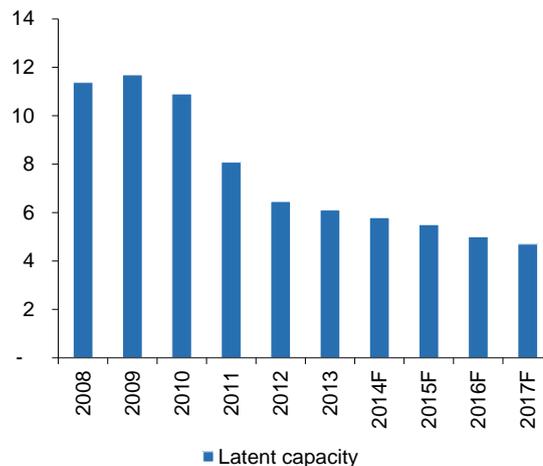
A big question mark hangs over a batch of North American and Asian capacities, which could add 11.6mtpa over 2016 and beyond, effecting a 7.5% capacity increase on ethylene nameplate capacity. Assuming a global GDP growth rate of 3%, we believe the additional capacity will match the organic demand growth in a conservative scenario. The most obvious risk to the scenario is the availability of shale-based ethane on which several of these projects are predicated. In an equilibrium, if the naphtha content of new crackers is high, ethane availability becomes less of an issue, yet the substitution of European plays would be swifter. On the other hand, if project economics require a higher ethane content, feedstock availability would prove to be the limiting factor on capacity growth.

**Figure 27: New Supply (mt)**



Source: Company data, VTB Capital Research

**Figure 28: Latent capacity**



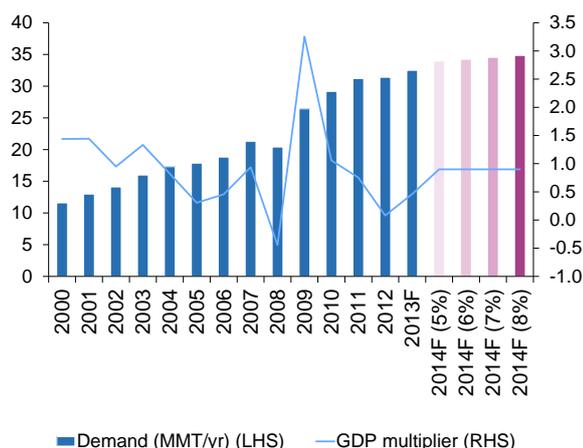
Source: Company data, VTB Capital Research

## Chinese demand growth has stabilised; is sustainable

A hallmark of the 2009-10 period was the secular uplift to Chinese and in effect global demand provided by the domestic stimulus. Chinese demand growth was heavily inflated by domestic stimulus. In our 2012 report we highlighted that considering ethylene (the single largest product segment by volume) as a gauge, the average GDP multiplier for Chinese ethylene demand for 2000-2008 was 0.8. Demand had a c.7.84% CAGR during that period, but then we saw a surge in demand for the next three years at a c.15.23% CAGR. This was primarily driven by the investment stimulus and credit expansion in the domestic economy, as export demand in finished products and components remained weak during the period. Back then, we believed the frontloading would lead to weaker demand in the ensuing period. While demand growth weakened we are now off the bottom, and with limited new supply in the short term, we see the stage set for supercycle margins for the marginal producer over 2014-16. Furthermore, by concentrating on the butadiene and aromatics heavy structures, investors can seek to leverage off the secular uptrend in commodity chemical margins.

We evaluate four new scenarios for the 2014-16 period on the basis of various GDP growth scenarios and believe that the effective global operating rates are likely to edge higher by an incremental 127bp to 211bp. This would firmly position the industry for an onset of top quartile margins.

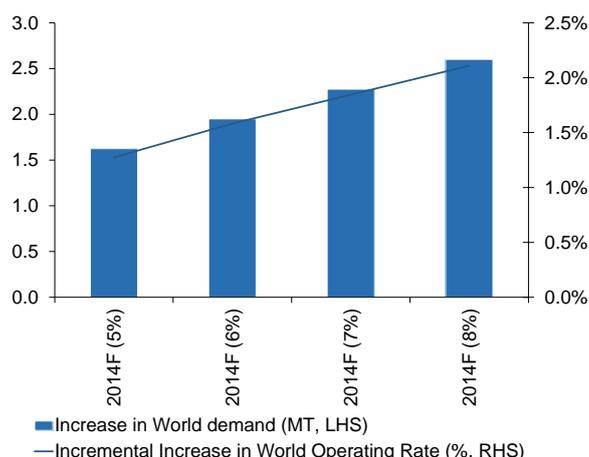
Figure 29: Chinese demand under different scenarios



Source: VTB Capital Research

*In a downbeat scenario, a managed demand slowdown in China could keep margins below second quartile until 2013*

Figure 30: Global operating rates: incremental decline under different scenarios of China slowdown



Source: VTB Capital Research

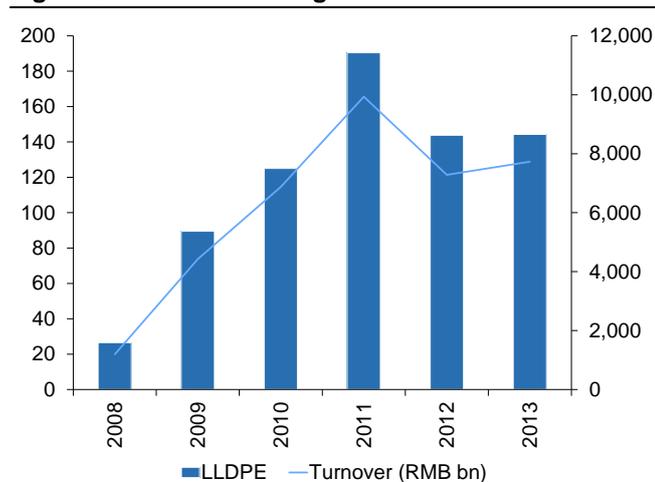
We highlighted the upside risks in our earlier report: "Chinese demand growth accounted for a 71% share of global demand growth over 2008-10. If we include the Middle East and India, their total share of global demand growth was 89%. Hence, any sharp slowdown in Asia would have a highly detrimental impact on the margins and operating rates globally. The relief is that the wave of Middle Eastern supply increases has largely come to an end and if global GDP growth rates of 3% can be sustained, the demand supply balance tilts in favour of the petrochemical producers, in our view." We believe the inflection point arrived in December 2013. Our demand growth estimates were too conservative, as we expected, as the 5.3mtpa expected in 2012 was pushed back and domestic demand in Asia remained strong. Indeed in the last five years that we have been looking at the industry, we have never had such a bullish outlook for marginal producers' margins.

## Chinese inventories pose limited risk

After the Chinese government's USD 1.5tn stimulus, LLDPE was being traded in the Dalian futures market as a proxy to crude oil (which it is to some degree due to the naphtha link), even though the basis risk was substantial. The surge in volumes on the Dalian exchange pointed to a minimum of sixth months of domestic demand inventory

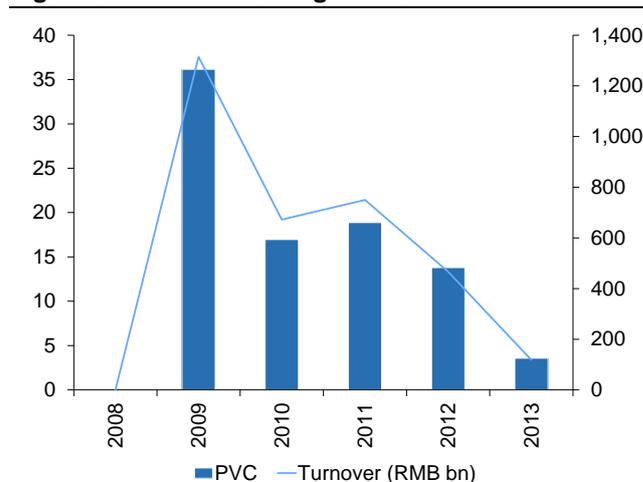
stockpile in China. The contract stipulated a 5% deposit margin, which was later increased to 7%. Every contract in the LLDPE figure below equals 5 tonnes of LLDPE. In 2010, the market traded 125 million contracts or 625mnt of LLDPE. In 2011, the market traded 190 contracts or 950mnt of LLDPE. The context to bear in mind is that global production of LLDPE is 23mnt. While the trading volumes remain elevated in the absolute sense, their decline in 2012 and stabilisation in 2013 gives us comfort that the risk of inventory firesale leading to a meltdown in market prices is limited. This is corroborated by a relatively more fundamental PVC market wherein contract volumes fell to 17.87mnt, which might seem high at 57% of the annual global market size, but margining means that less than 6% is actually in storage. The figures are also in line with numbers suggested by our dialogue with market participants. The hiking of the margin from 5% to 10% has further dampened speculator enthusiasm.

Figure 31: Dalian Exchange: LLDPE



Source: Dalian Stock Exchange, VTB Capital Research

Figure 32: Dalian Exchange: PVC



Source: Dalian Stock Exchange, VTB Capital Research

*European and North American demand growth is needed for supercycle margins to be achieved by 2014...unlikely in our view*

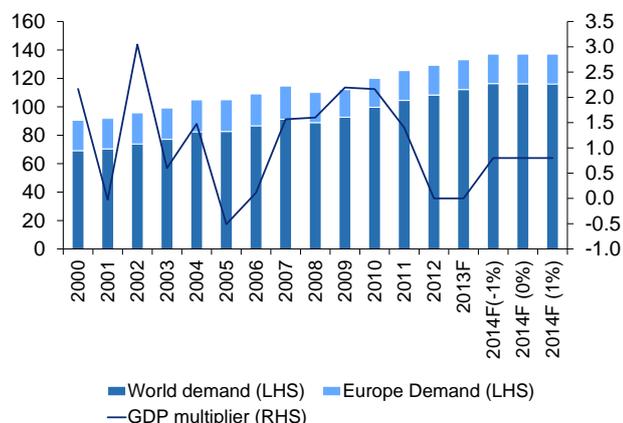
### European demand base has stabilised

The case for demand growth has never been predicated on European or North American demand. To put things in perspective, between 2000 and 2010, European and North American ethylene demand declined 5.3% and 9.4%, respectively. In the same period, Chinese demand rose 45% on a cumulative basis and Indian demand rose 15%. Middle Eastern demand grew a whopping 94.2% (cumulative basis) from a small base. Thus, from a 50.55% share of global demand, the North American and European share of global demand decreased to a combined 37.1% by 2010. What these figures mask is that the balance of trade has changed, with Europe becoming a net importer of ethylene and the North American export share dwindling, as Middle Eastern and Asian production increasingly grabbed export and Asian market share.

From a base effect perspective, European operating rates are set to remain stable and with continued capacity rationalisations, the industry will likely be able to operate on a cash positive returns basis, albeit with a low level of returns. We foresee another 1mtpa of reduction in effective European capacity by 2015 unless import barriers are raised. However the risk is to the upside and European demand would stop being a drag on global polymer demand growth if GDP growth rates do not go below -1%.

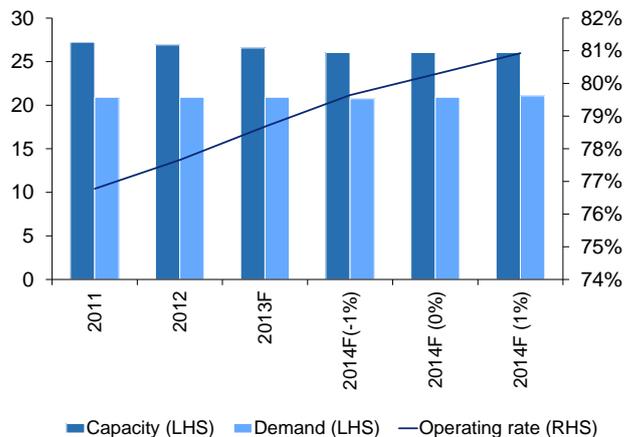
We forecast demand for three GDP growth rate scenarios for Europe and see limited material impact to global demand on the downside, if any. A fledgling recovery in 2014 could see incremental import fulfilled demand growth of 170ktpa from Europe.

**Figure 33: European demand under different scenarios**



Source: VTB Capital Research

**Figure 34: European operating rates: Ethylene**

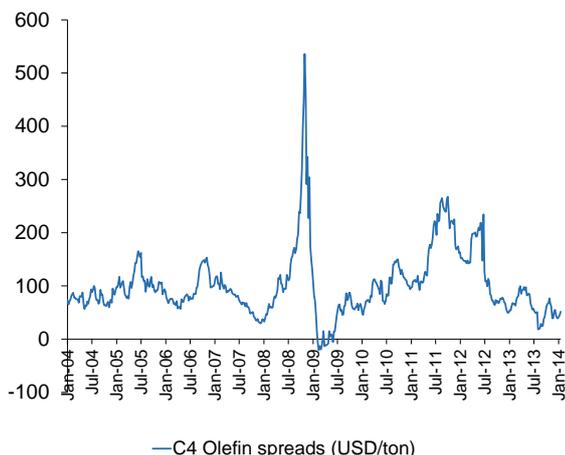


Source: VTB Capital Research

### By-product margins to recover

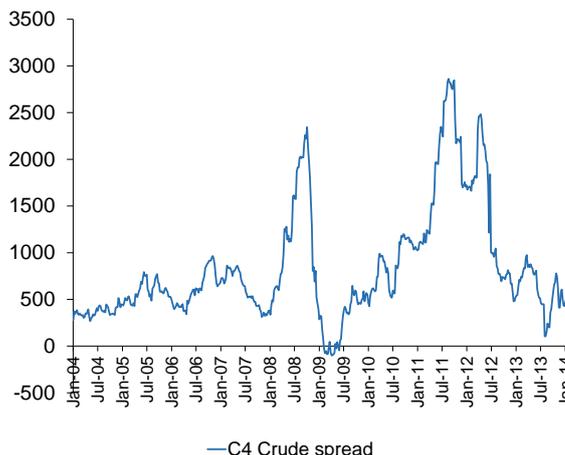
It was the by-product (especially C4) margins that sustained the cash returns from the Asian petrochemical plants in spite of the overall weak demand environment for polyolefins in 2010-11. In our earlier report in 2012, we had highlighted the elevated margins and the expected weakening of butadiene and by-product margins due to the supply ramp-up coupled with low demand growth. Over the last 18 months the market has reached a new equilibrium and organic category demand growth and limited future supply would boost margins in our view. Any decline in the crude price would only help to boost product demand and increase margins for Asian producers.

**Figure 35: C4 Olefin spreads**



Source: Bloomberg, VTB Capital Research

**Figure 36: C4 crude spread**



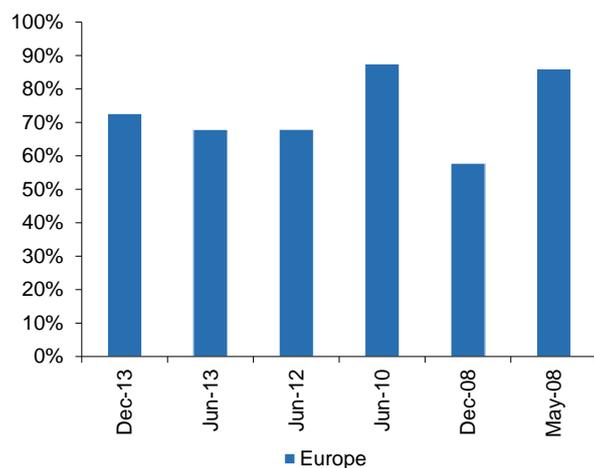
Source: Bloomberg, VTB Capital Research

### Operating rates to inch higher

Operating rates are a critical measure of supply demand dynamics. Since the ethylene market is the largest polymer segment it acts as a barometer for cyclical demand supply dynamics. Sub categories such as aromatics and long chain aliphatics are generally better positioned than the ethylene precursor dynamics suggest, as there is a lack of raw material based arbitrage in these sub segments. The figures below show a stabilisation and even an onset of recovery in the most embattled segment viz – Europe (high cost base of crackers coupled with a domestic demand decline). The Middle East as the lowest cost producer is only constrained by operational factors

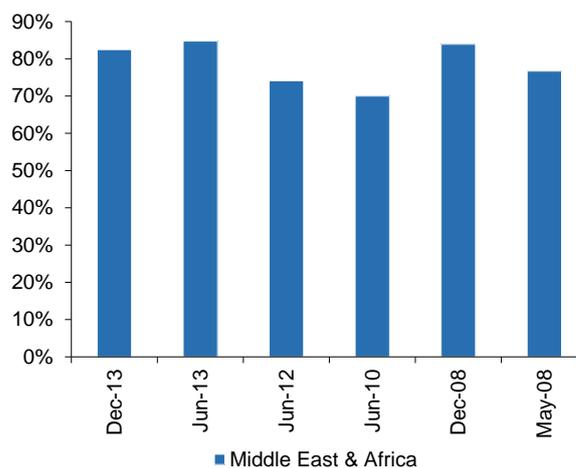
rather than demand and supply led forces *per se*. North American figures for June 2013 and June 2012 are affected by shutdowns, particularly the Chevron facility shutdowns (operational issues) in 2013. These operations have recovered and the normalised operating rate even in June would have been closer to 83% if it had not been for the shutdowns. Asia Pacific operating rates mask the healthy state of the market as excess capacity continues to grow into domestic demand growth and accommodate imports from North America and the Middle East. Chinese effective capacity increased by 10.5% in 2013 alone.

Figure 37: Operating Rates – Europe



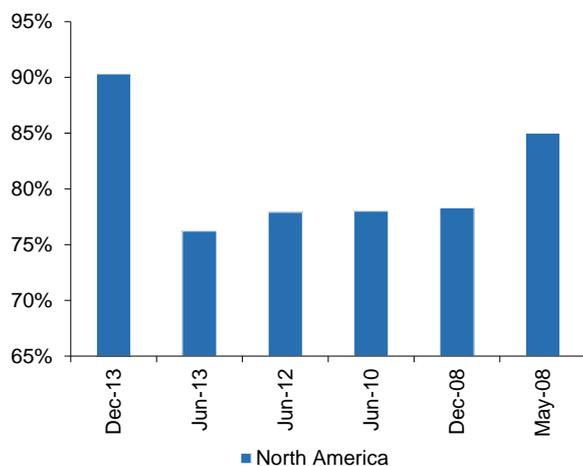
Source: VTB Capital Research

Figure 38: Operating Rates – Middle East & Africa



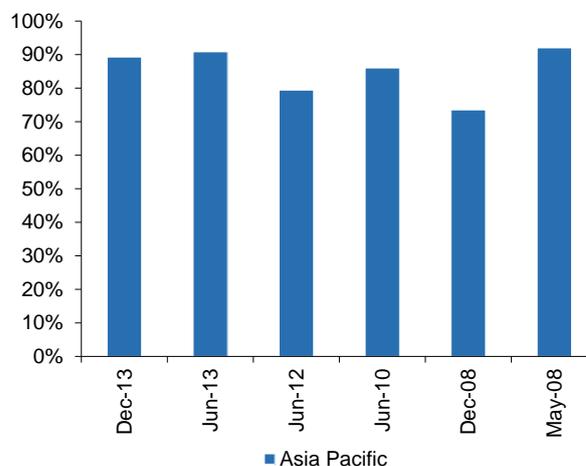
Source: VTB Capital Research

Figure 39: Operating Rates – North America



Source: VTB Capital Research

Figure 40: Operating Rates – Asia Pacific



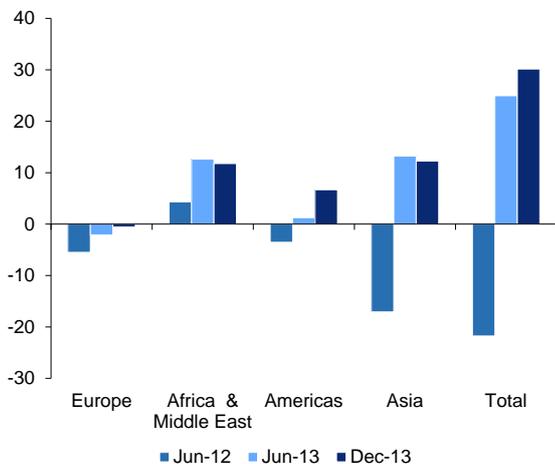
Source: VTB Capital Research

## Margins – On the cusp of the supercycle

Between June 2010 and June 2012, the global ethylene cracker market saw an annualised production decline of 21.6mtpa. This decline was obviously demand led, and in the worst case scenario all of the production could return, thus hampering high effective operating rates and a surge in margins to the first quartile. Between June 2012 and June 2013, the rebound in production was at 46.7mtpa on an annualised basis. Not only did that cover the temporary production rationalisation, but also added another 25mtpa (annualised) to global volumes. In order to reach top quartile margins, we had earlier forecasted a threshold of 14mtpa of demand recovery. This was exceeded in June 2013. We had seen a spate of shutdowns in North America over the summer period and hence effective operating rates were boosted by the idling of capacity. By December, another 5mtpa of additional production volume (annualised)

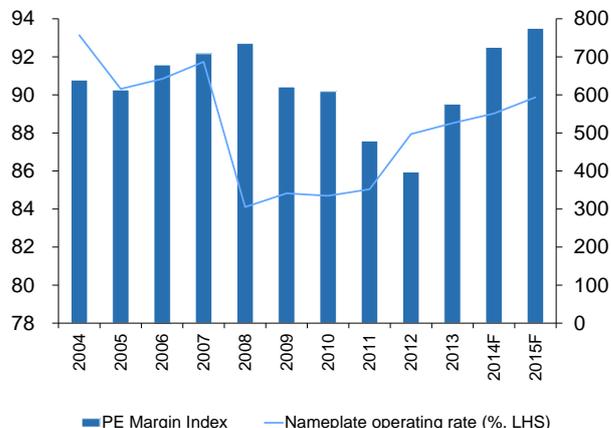
was absorbed by the market. With limited new supply, we see the demand supply cycle in polyethylene hitting supercycle margins and staying in that zone for 18 months.

**Figure 41: Production variance, Jun-2010 base (mt)**



Source: VTB Capital Research

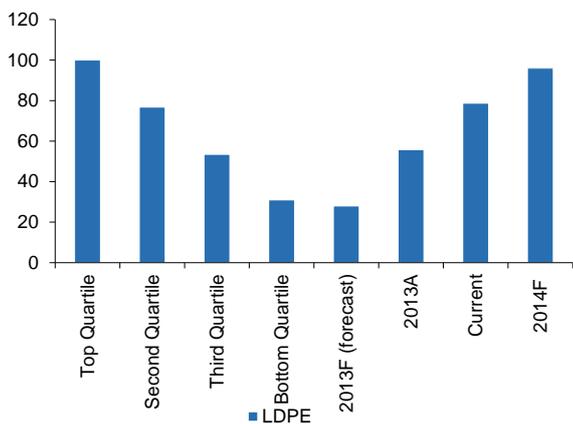
**Figure 42: Margins to expand**



Source: VTB Capital Research

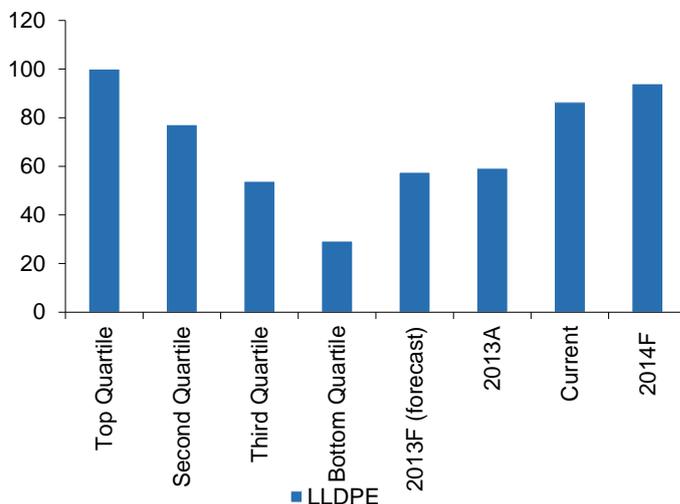
We see different product segments at varying levels of margins for 2014. Industrial demand leverage into polymer demand is set to be limited, in our view, and a consumer demand segment would outperform. Hence, versatile polymers such as Polypropylene and polymers in food and film packaging (LLDPE) are our favoured sub categories. We see the recent polypropylene margin weakness as temporary, as the tailwind from increasing shale-based NGL feedstock restricts output coupled with an organic consumer category growth led demand move.

**Figure 43: Marginal Producers' Margins - LDPE**



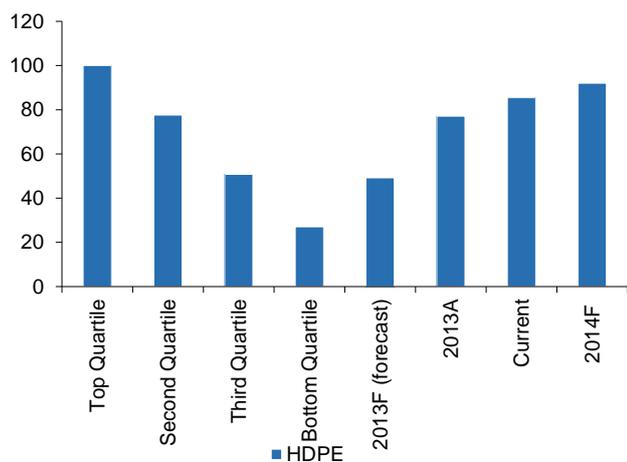
Source: Bloomberg, VTB Capital Research

**Figure 44: Marginal Producers' Margins - LLDPE**



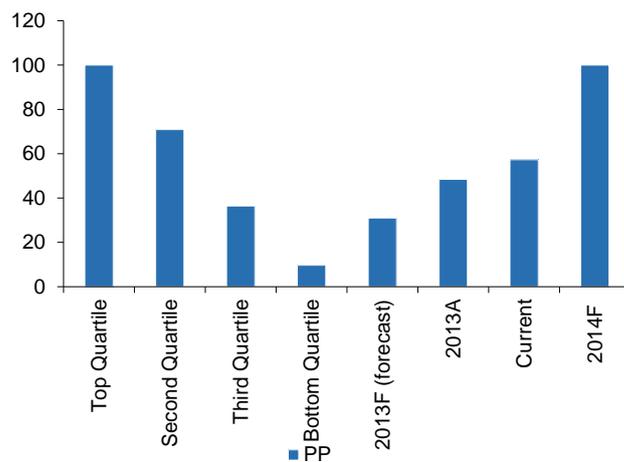
Source: Bloomberg, VTB Capital Research

Figure 45: Marginal Producers' Margins - HDPE



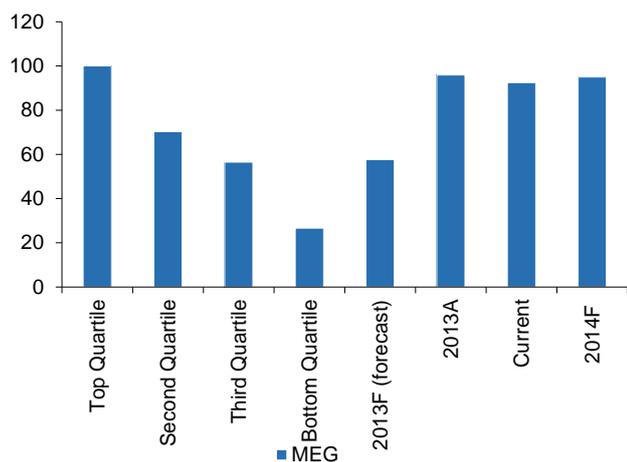
Source: Bloomberg, VTB Capital Research

Figure 46: Marginal Producers' Margins - PP



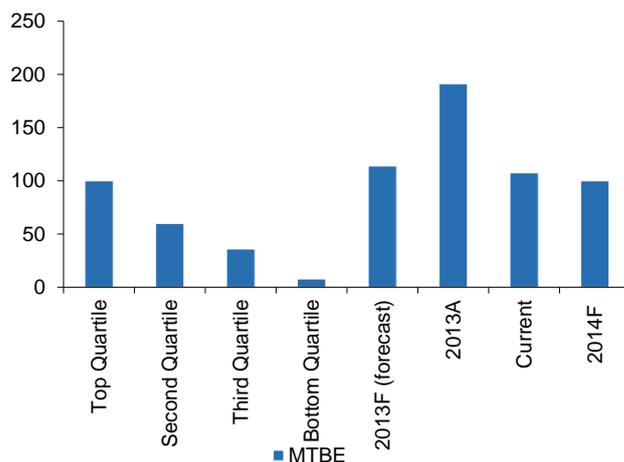
Source: Bloomberg, VTB Capital Research

Figure 47: Marginal Producers' Margins - MEG



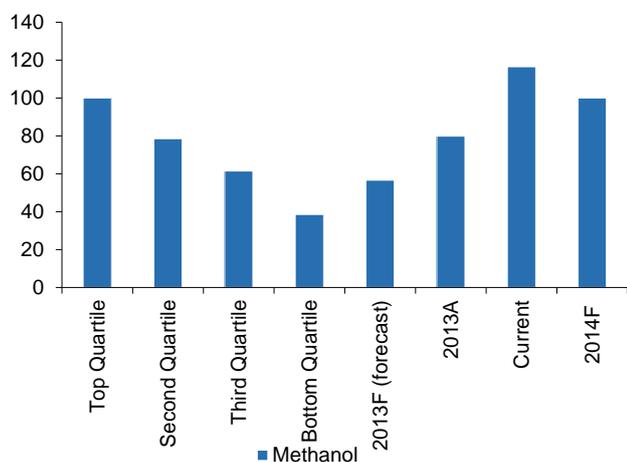
Source: Bloomberg, VTB Capital Research

Figure 48: Marginal Producers' Margins - MTBE



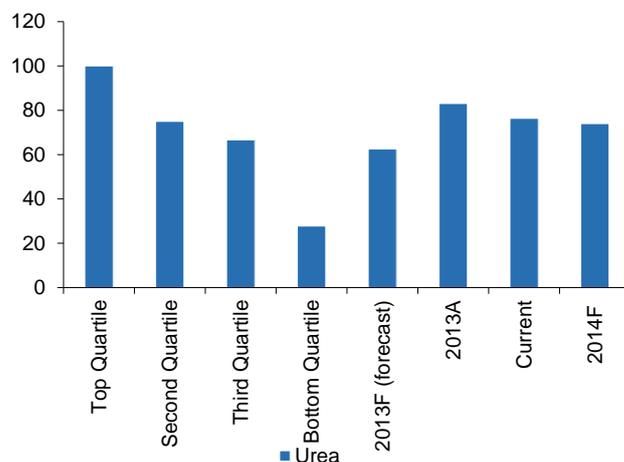
Source: Bloomberg, VTB Capital Research

Figure 49: Marginal Producers' Margins - Methanol



Source: Bloomberg, VTB Capital Research

Figure 50: Marginal Producers' Margins - Urea



Source: Bloomberg, VTB Capital Research

## Coal caps long-term margin upside beyond 2017

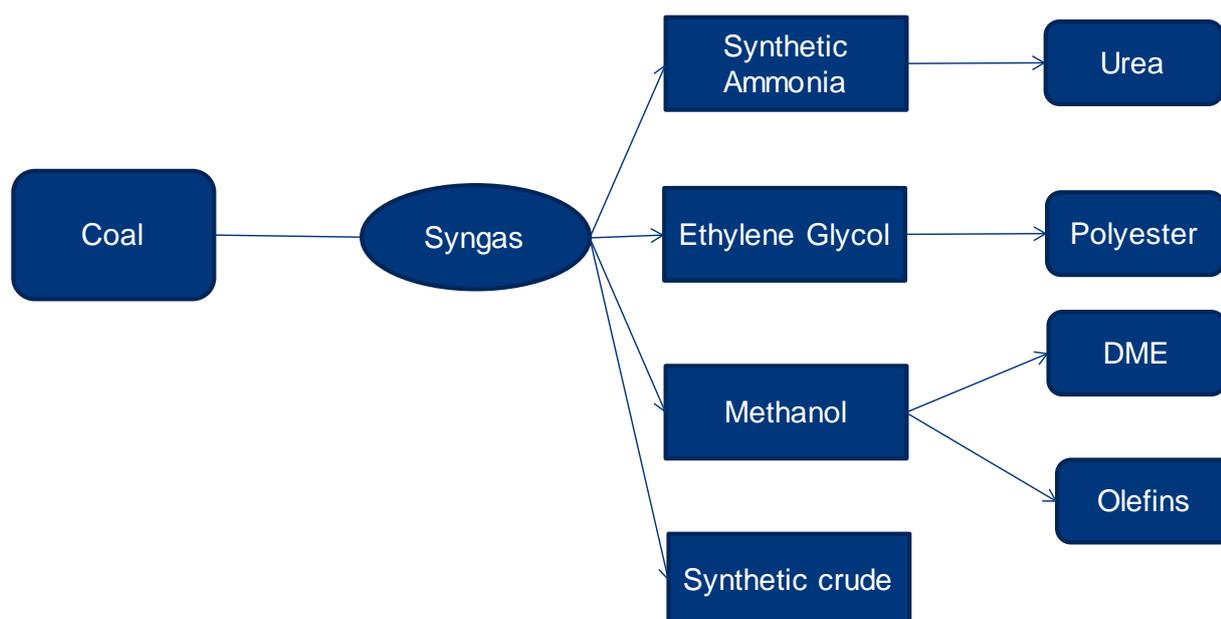
Much of the growth in global ethylene demand post 2008 has arisen from China (c.55%) and it is also the world's top producer and consumer of coal. Due to the nature of the logistical challenges, the location of plants is closer to stranded coal deposits. China recently approved over 100mnt of new coal production capacity in 2013 (the figure for 2012 was c.17mnt). The world's first large-scale Coal to Olefin project was opened in China in 2010 and also a Coal to propylene plant was opened in 2011. Datang's coal to propylene project, in work for several years, started in 2012. Currently China has the equivalent of 400ktpa of ethylene and 1.4mtpa of propylene capacity generated by coal feedstock.

A typical coal-based olefin capacity costs c.USD 4000/tonne of olefin output (3x the naphtha cracker). Our concern stems from an observation that is seen in industries such as aluminium – project economics are rarely a concern when import substitution is targeted. Over 120 coal to chemical plants have been approved in China with close to half in the coal to olefins sector and a relatively large 25% of them in the coal to MEG sector.

Cost dynamic based decision-making, however, is driven more by capex/depreciation rather than variable opex. This is best illustrated by considering the MEG production cost. With Brent at USD 100/bbl, the naphtha-driven cost is c.USD 1000/tonne, while for coal the price is USD 550/tonne if lignite coal prices were at USD 200/tonne. The depreciation charge would be USD 400/tonne.

If all the announced capacity were to be brought online, margins in the sector would likely come under pressure by 2017. Until 2016, however, we only see the potential for six plants to come online in the coal to olefins segment. At the same time, Shenhua, a leading industry player has been repeatedly censored and production rates have been lowered by the regulator on account of environmental standards compliance. Technical issues are another challenge. Lack of water in inner Mongolia is yet another issue. At the same time, if ROIC thresholds were lowered, an upside to margins beyond 2017 would be capped by the new capacity.

Figure 51: Coal to chemicals



Source: VTB Capital Research

## MENA Producers: Limited upside; best avoided

- When playing the cyclical demand supply cycle in Chemicals, the highest operating leverage is in Asian plays followed by the US and then the Middle East. Coupled with premium valuations, and the off-benchmark nature of most MENA plays (excluding IQCD), we see little reason to hold any of these names.
- Industry margins in Asia and North America are driven by the commodity cycle and this is an exposure we find attractive over the next 18 months (unlike 18 months ago when we sought leverage to the crude price that MENA players provide).
- Cash margins for MENA producers are a composite function of both commodity cycle driven margins as well as raw material cost advantage driven margins. With a downside risk to crude prices and all-time high valuations post the 2008 crisis, we see little value in holding most Middle Eastern players. Furthermore, regulatory resource allocation unwillingness leaves little room for medium-term volume growth in Middle Eastern plays. Best avoided.

The cash margins for Middle Eastern chemical plays are dependent on the commodity petrochemical prices, the demand supply dynamics led cyclical portion of the margin and production costs. The naphtha based crackers operate at the highest end of the cash cost curve and accrue only a cycle-led margin, Middle Eastern producers on the other hand accrue both a cycle led margin as well as a raw material price advantage driven margin. The price of petrochemical commodities is determined by marginal producers' cash costs and a cycle driven cash margin. For the sake of clarity we repeat the illustration made earlier in our previous report.

### Margin determinants: stylised facts

We identify the following factors as the principal determinants of the individual producers' margins:

- **Naphtha – oil link.** The marginal producer of commodity petrochemicals in the polyethylenes operates on naphtha as a feedstock. Naphtha is a light crude fraction and hence highly correlated to crude prices and priced in a narrow -5% to 10% premium to the Brent benchmark. The discount/premium is dependent on the refining and petrochemical demands and refining product slate composition. Naphtha is used as a raw material by marginal producers of polyethylene and polypropylenes (the two products accounting for c.70% of Middle Eastern volumetric production). Hence, the end product prices are directly correlated to naphtha and therefore crude prices.
- **Processing costs.** The processing costs comprise of fixed and variable components of the cost involved in actual production. These range from energy to materials such as catalysts. The processing costs are typically similar across world-scale crackers.
- **Cycle-led margin.** The extent of the supply-demand balance dictates the cash margins of the marginal producers and these are referred to as the cycle-led margins in Figures below.
- **Tariffs.** Tariff barriers are dependent on geography, origin of product and destination, but are a component of the final product price.

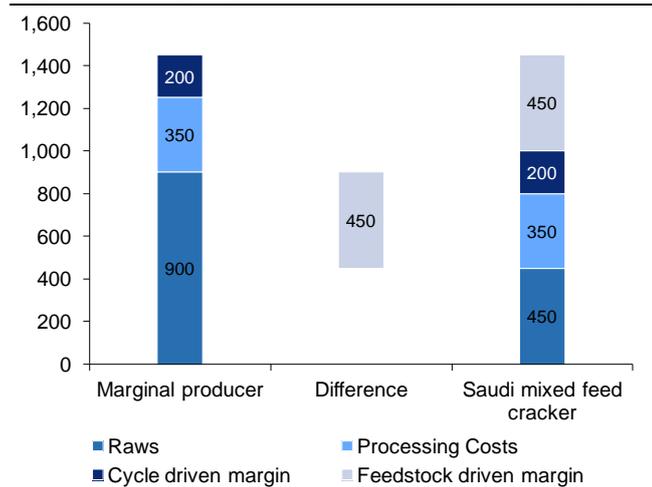
### Case studies: polyethylene and propylene

We illustrate the margin structure for the Middle Eastern companies and why their margin structure is different from those of marginal producers on a generic basis. In summary, the two key drivers of margins and earnings for Middle Eastern producers are the crude price driven naphtha prices and the demand vs. supply dynamics.

In the polyethylene margin illustration below, the key difference between a Saudi mixed feed producer and a marginal producer is that while the raws cost is USD 900/tonne for the marginal producer, it is only USD 450/tonne for the Saudi mixed feed producer. Thus, in addition to the USD 200/tonne of cycle-driven margin that the marginal producer makes, the Saudi producer makes an additional USD 450/tonne, which is advantaged feedstock driven. No matter how poorly placed the demand supply cycle is, if all else is equal (naphtha prices), the Saudi producer will make the USD 450/tonne even while the cycle-driven margin might be zero. In addition, being the lowest cost producer, the Saudi producer will also run at full operational availability, unlike the marginal producer, which might have to pare down production, operating at the highest end of the cash cost curve.

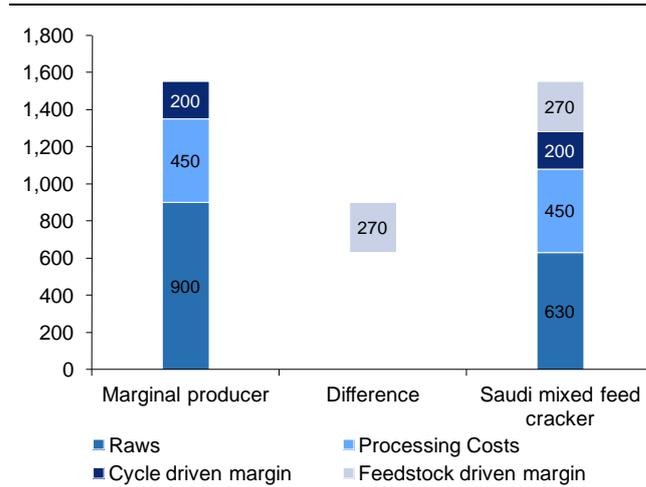
A similar illustration is provided for propylene below wherein the difference in feedstock costs is USD 270/tonne and accounts for the advantaged feedstock driven margin component. The advantaged feedstock driven margin is directly related to naphtha prices and hence the higher the naphtha price, the higher the feedstock-driven margin (in absolute terms). We have also illustrated below, in percentile terms, the extent of the raw material cost difference between different operators and cracker types. Our base case assumption is of naphtha prices at USD 850/tonne. The leverage to rising crude prices differs across different product groups and is illustrated in detail for each company under coverage in the latter section.

**Figure 52: Polyethylene illustration (USD/tonne)**



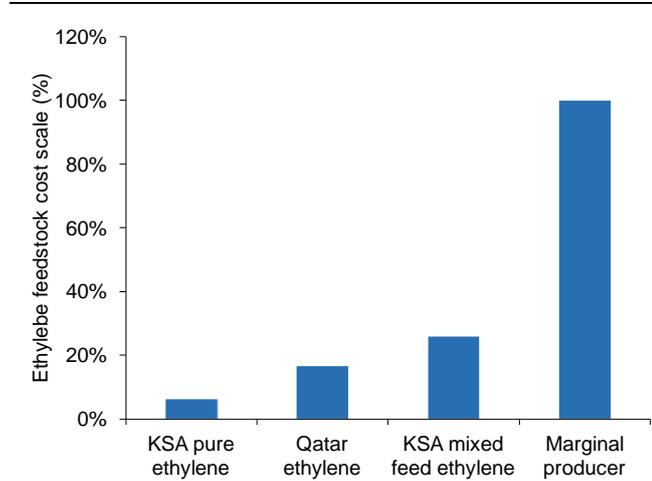
Source: VTB Capital Research

**Figure 53: Polypropylene illustration (USD/tonne)**



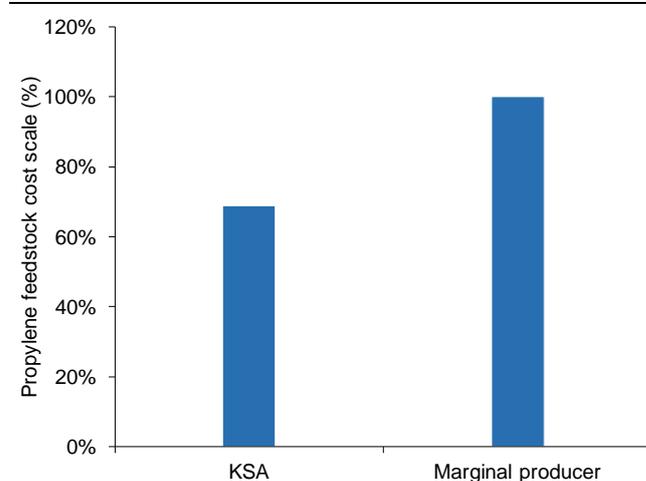
Source: VTB Capital Research

**Figure 54: Ethylenes: Raws cost differential**



Source: VTB Capital Research

**Figure 55: Propylenes: Raws cost differential**

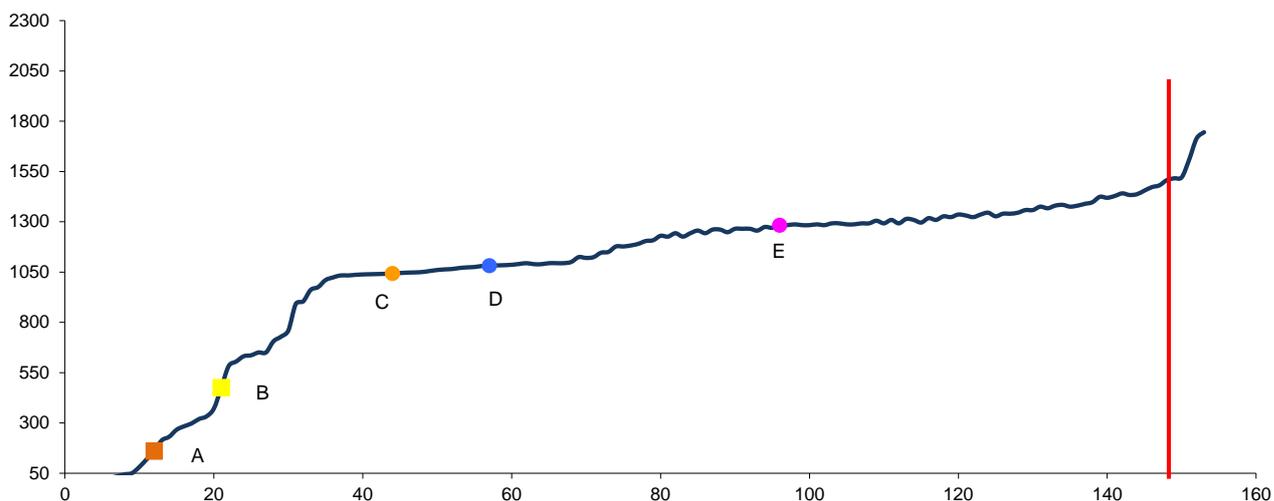


Source: VTB Capital Research

## Cash cost curve: Who has the edge

With cyclical demand and supply dynamics expected to drive margins, we look for high operating leverage, which is a function of higher costs. A, B, C, D, E refer to Middle East pure ethane, Middle East mixed feed, North American aggregate average, South East Asian average and North East Asia, respectively. Thus, from a structural vantage point (irrespective of valuations) the higher the naphtha feedstock content and the higher C4/aromatics content of the output, the better the margin expansion outlook.

Figure 56: Ethylene: Cash cost curve

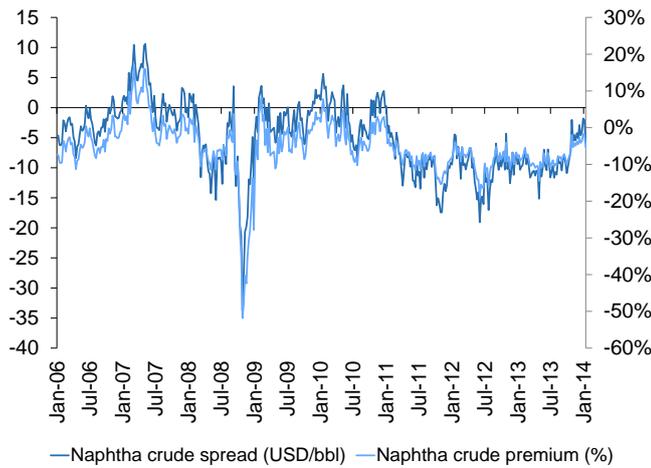


Source: VTB Capital Research, A – Middle East Ethane, B – Middle East Mixed, C – North America, D – South East Asia, E – North East Asia

## Asian assets: leveraged to the upside

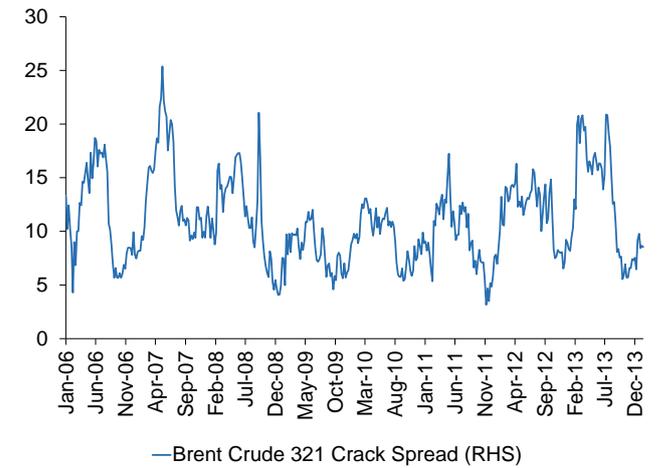
**Naphtha.** Naphtha is the predominant precursor for Asian producers and accounts for over 85% of the input volume. The competition for naphtha for petrochemical plants arises from the refining product slate's attractiveness, petrochemical demand and usage of ethane in the petrochemical input mix. We expect rising refining capacity in Asia coupled with relatively weaker gasoline demand to keep spreads below the peaks seen earlier this year and at levels where the naphtha premium to crude does not significantly move above USD 2/bbl. A decline in crude prices could push spreads higher, but absolute levels of naphtha prices would decline, providing a boost to the cycle-driven margins on which the Asian producers rely. This is because the overall petrochemical product price would decline, spurring uptake and substitution led demand. While obviously detrimental for MENA producers, it would aid Asian and North American producers in that order.

Figure 57: Naphtha Crude Spread



Source: Bloomberg, VTB Capital Research

Figure 58: Brent 321 Crack Spread

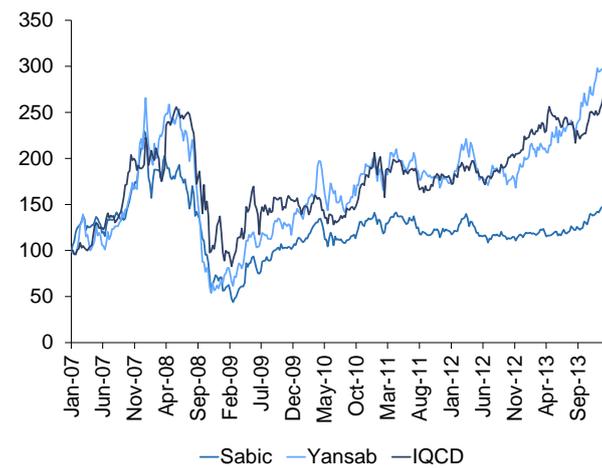


Source: Bloomberg, VTB Capital Research

### Valuation divergence: SABIC is not the benchmark

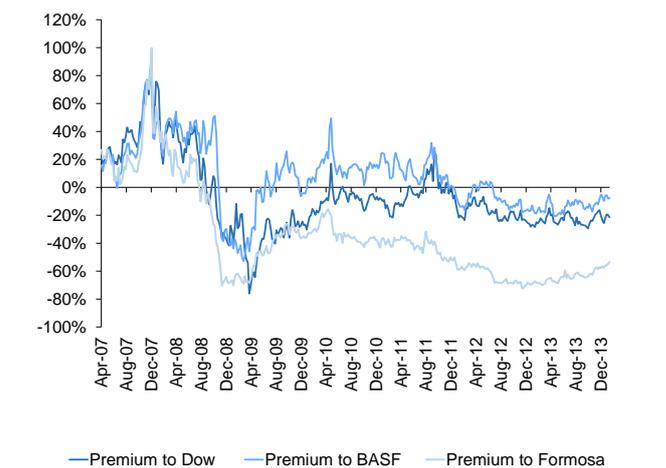
Within the MENA petrochemicals space there is a valuation divergence between SABIC vs. the other chemical plays. As seen below, SABIC's absolute and relative value cannot be deemed to reflect sector aggregates. This is also why SABIC's relative valuation compared to its international peers appears attractive. To some extent, the market is already pricing in top quartile margins for peers, while the domestic retail-driven Saudi market is writing off SABIC's European operations. Hence, while we like SABIC in MENA for both its relatively higher cost structure (overseas operations contribute 25% of EBITDA) that provides operational leverage and attractive valuations, the rest of MENA chemical plays offer little upside, in our view.

Figure 59: MENA plays: SABIC still offers value



Source: Bloomberg, VTB Capital Research

Figure 60: SABIC's Forward P/E Premia: Attractive

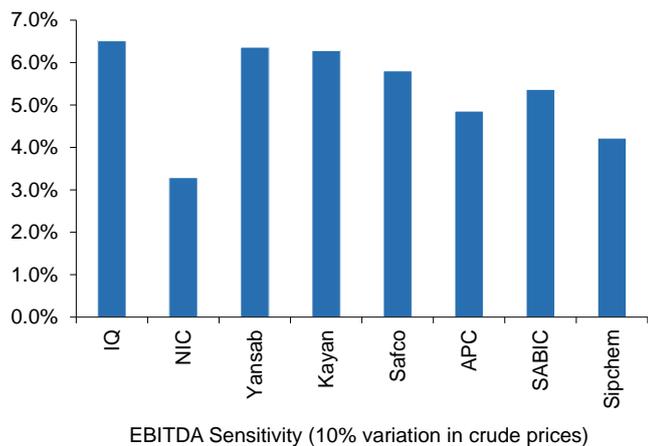


Source: Bloomberg, VTB Capital Research

### MENA plays – Less about commodity cycle, more about crude

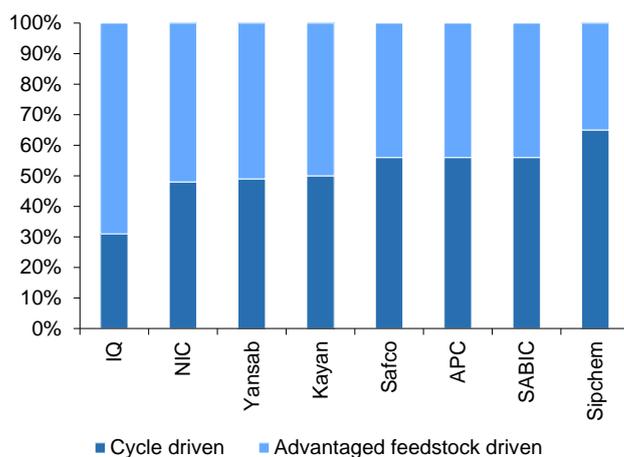
Among MENA plays, the C1 feedstock linked plays viz. Sipchem and Saftco are more leveraged to cycle driven margins. Other higher cyclical margin exposures are in APPC due to its high cost raw material base and SABIC from its overseas PP and C2+ product line. Furthermore, with our in-house view of crude having a bearish slant (Brent crude forecasts of USD 100/bbl for 2014 and 2015), we would remain cautious on the leverage to crude in the EBITDA of MENA plays. NIC APC and Sipchem are the safer plays in this aspect. SABIC has a slightly lower risk among large caps.

**Figure 61: EBITDA leverage to crude**



Source: Company data, VTB Capital Research, Top quartile cycle margin assumption

**Figure 62: Margin contribution**



Source: Company data, VTB Capital Research, Top quartile cyclical margin, USD 110/bbl Brent crude)

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## Company Pages

## VTB Capital Facts & Forecasts

Saudi Arabia

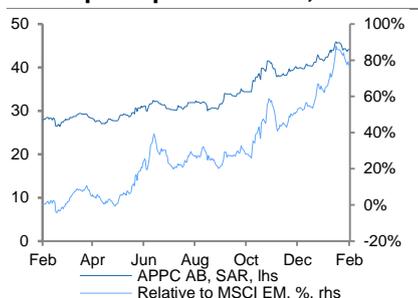
Materials / Commodity  
Chemicals

# Advanced Petrochemical Company

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
APPC AB	SAR	44.10	40.00	Sell

## Share price performance, 12-mo



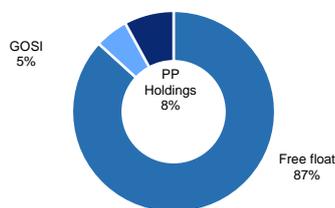
## Company description

Advanced Petrochemical Company (Saudi Arabia) – One of very rare pure play polypropylene producers globally operating out of Saudi Arabia.

## Company website

<http://www.advancedpetrochem.com>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	164.0	164.0	164.0	164.0	164.0	164.0
Avg market cap, SAR mn	4,260	5,197	7,232	7,232	7,232	7,232
EV, SAR mn	4,260	5,197	7,232	7,232	7,232	7,232
<b>Ratios &amp; analysis</b>						
P/E, x	13.0x	9.3x	16.0x	14.3x	13.7x	13.3x
EV/EBITDA, x	7.8x	6.7x	11.2x	11.7x	11.7x	11.7x
P/B, x	2.1x	2.3x	2.9x	2.7x	2.5x	2.3x
Dividend yield (ords), %	7.2%	6.3%	3.4%	3.8%	4.0%	4.1%
EPS, SAR	2.00	3.40	2.75	3.08	3.23	3.31
CFPS, SAR	3.51	4.59	5.00	3.81	3.82	3.82
Free CFPS, SAR	3.09	3.98	4.71	3.52	3.52	3.52
DPS (ords), SAR	1.86	2.00	1.51	1.69	1.78	1.82
Payout ratio (ords), %	92.8%	58.8%	55.0%	55.0%	55.0%	55.0%
BPS, SAR	12.46	13.74	14.98	16.37	17.82	19.31
Revenues growth, %	-11%	13%	-1%	1%	-	-
EPS growth, %	-36%	70%	-19%	12%	5%	3%
EBITDA margin, %	22.0%	27.8%	23.4%	22.4%	22.4%	22.4%
Net margin, %	13.3%	20.0%	16.4%	18.2%	19.1%	19.6%
ROE, %	16.1%	24.7%	18.4%	18.8%	18.1%	17.2%
ROIC, %	12.4%	21.1%	17.2%	19.9%	21.3%	22.2%
Capex/Revenues, %	4%	4%	2%	2%	2%	2%
Capex/Depreciation, x	0.5x	0.5x	0.2x	0.3x	0.4x	0.5x
Net debt/Equity, %	17%	2%	-20%	-30%	-37%	-43%
Net debt/EBITDA, x	0.6x	0.0x	(0.8x)	(1.3x)	(1.8x)	(2.2x)
Net interest cover, x	16.2x	38.4x	n/a	n/a	n/a	n/a
<b>Income statement summary, SAR mn</b>						
Revenues	2,472	2,786	2,750	2,768	2,768	2,768
Cost of sales	(1,892)	(1,971)	(2,064)	(2,106)	(2,106)	(2,106)
SG&A and other opexp.	(37)	(42)	(41)	(42)	(42)	(42)
EBITDA	544	773	644	620	620	620
Depreciation & amortization	(197)	(208)	(200)	(121)	(97)	(83)
Operating profit	346	566	445	498	523	537
Non-operating gains/(exp.)	3	6	6	6	7	7
EBIT	346	566	445	498	523	537
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	328	557	451	505	529	544
Income tax	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-
VTBC Net income	328	557	451	505	529	544
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	576	753	820	625	626	626
Working capital changes	59	(10)	170	(1)	(1)	(1)
Capex	(97)	(110)	(41)	(42)	(42)	(42)
Other investing activities	(76)	(1)	(3)	(3)	(3)	(3)
Free cash flow	506	653	773	577	578	578
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(305)	(328)	(248)	(278)	(291)	(299)
Net change in borrowings	(113)	(233)	(38)	-	-	-
Other financing cash flow	-	-	-	-	-	-
Movement in cash	(14)	82	491	303	290	283
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	462	544	1,035	1,338	1,629	1,911
PP&E	2,215	2,163	2,004	1,924	1,868	1,827
Goodwill	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	578	519	578	584	588	591
Total assets	3,255	3,225	3,617	3,847	4,085	4,330
Interest bearing debt	813	580	543	543	543	543
Other liabilities	400	391	618	620	620	620
Total liabilities	1,213	971	1,160	1,163	1,163	1,163
Total shareholder's equity	2,043	2,254	2,457	2,684	2,922	3,167
Minority interest	-	-	-	-	-	-
Net working capital	263	253	82	83	83	83
Net Debt	350	36	(492)	(796)	(1,086)	(1,369)
Capital	2,855	2,834	2,999	3,227	3,465	3,709
FCF yield, %	11.9%	12.6%	10.7%	8.0%	8.0%	8.0%
Net sales, chg	-11%	13%	-1%	1%	-	-
EBITDA, chg	-28%	42%	-17%	-4%	-	-
Net income, chg	-36%	70%	-19%	12%	5%	3%
EBIT margin, %	14%	20%	16%	18%	19%	19%

## SELL

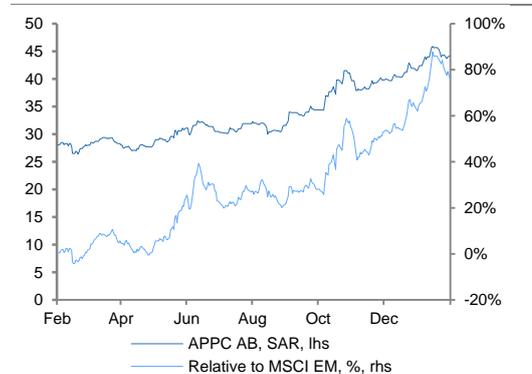
Primary ticker: **APPC AB**

Currency: **SAR**

### Stock Data

Last price	44.10
Last price date	12 Feb 2014
Target price	40.00
Target price established	13 Feb 2014
Upside/(downside), %	-9%
52 week price range	26.40 - 45.90
Market cap, USD / SAR mn	1,928 / 7,232
EV, USD / SAR mn	1,928 / 7,232
# shares outstanding, mn	164
Free float	87%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	6.3%	9%	59%	77%
Price relative	8%	14%	76%	103%
ADTV (USD mn)	7.18	7.06	5.57	8.61

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	9.3x	16.0x	14.3x	13.7x
EV/EBITDA, x	6.7x	11.2x	11.7x	11.7x
P/B, x	2.3x	2.9x	2.7x	2.5x
FCF yield, %	12.6%	10.7%	8.0%	8.0%
DY (ords), %	6.3%	3.4%	3.8%	4.0%
Net sales, SAR mn	2,786	2,750	2,768	2,768
EBITDA, SAR mn	773	644	620	620
Net income, SAR mn	557	451	505	529
Net sales, chg	13%	-1%	1%	-
EBITDA, chg	42%	-17%	-4%	-
Net income, chg	70%	-19%	12%	5%
EPS, SAR	3.40	2.75	3.08	3.23
DPS (ord.), SAR	2.00	1.51	1.69	1.78
BPS, SAR	13.74	14.98	16.37	17.82
EBITDA margin, %	27.8%	23.4%	22.4%	22.4%
ROE, %	25%	18%	19%	18%
Net Debt, SAR mn	36	(492)	(796)	(1,086)
ND/EBITDA, x	0.0x	(0.8x)	(1.3x)	(1.8x)
Net int. cover, x	38.4x	n/a	n/a	n/a

Source: Bloomberg, Company data, VTB Capital Research

## Advanced Petrochemical Company

### Reinvestment strategy to dictate upside

**Advanced Petrochemicals Company is among the stocks that are the least leveraged to crude, in a commodity spectrum (polypropylene) that we like, yet is unappealing on valuations. We believe that either the dividend payout ratios are likely to increase, or the company will invest in a greenfield PP or higher order derivative chemicals complex. We downgrade APPC to Sell with a TP of SAR 40.**

**We continue to like PP exposure.** Polypropylene prices have closed the premium with replacement polymers e.g. HDPE and we believe they are likely to expand margins once residual demand recovers in Turkey.

**Little feedstock constraint; we expect a new greenfield project.** While the cheap ethane feedstock supply remains constrained, the start-up of new refining facilities would lead to a relief for propane supplies in Saudi Arabia. We believe a capacity expansion in the form of a greenfield project is a distinct possibility over the next 24 months and could be a game changer.

**Least exposure to advantaged-feedstock-based margin.** PP only receives a c 30% raws discount to naphtha-based competitors, unlike PE facilities on mixed feedstock (50%). This therefore provides the least leverage to the advantaged-feedstock-driven portion of the margin and a better hedge against falling crude prices, relative to its MENA peers. Furthermore in an environment wherein we prefer the cyclical demand supply cycle led margin component, APPC provides a good structural positioning to play the theme.

**Increase in payout ratio could lead to a re-rating.** The company has historically paid out less than 50% of its free cash flow as dividends. With a cash positive balance sheet and no major capex outlays, a boost to payout ratios could offer further expansion of multiples.

**Valuation.** We value APC via a multiples-based method with a generic sector 12mo forward EV/EBITDA of APC at 9x. We have put APC multiples in line with the sector, though the pure play exposure would likely fetch a premium. Our normalised EBITDA estimate is SAR 0.64bn. Using a net debt assumption of SAR -492mn, we arrive at a Target Price of SAR 40. APC trades at a 2014F P/E of 16x against peers at 13.7x. On 2014F EV/EBITDA, the company trades at 10.5x against peers at 7.7x.

**Risks.** A compelling investment programme could provide upside. An increase in the dividend payout could potentially lead to a multiples re-rating.

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**Figure 63: Income Statement (Figures in '000 SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	<b>2,790,923</b>	<b>2,472,436</b>	<b>2,785,602</b>	<b>2,749,907</b>	<b>2,767,939</b>	<b>2,767,939</b>
<b>EBITDA</b>	<b>751,324</b>	<b>543,671</b>	<b>773,136</b>	<b>644,290</b>	<b>619,913</b>	<b>619,913</b>
D&A	217,596	197,270	207,631	199,665	121,497	97,249
<b>EBIT</b>	<b>533,728</b>	<b>346,401</b>	<b>565,505</b>	<b>444,625</b>	<b>498,416</b>	<b>522,665</b>
Finance Income (Expense)	(22,594)	(21,442)	(14,718)	-	-	-
Other income (expense)	1,670	3,278	6,074	6,256	6,444	6,637
<b>PBT</b>	<b>512,804</b>	<b>328,237</b>	<b>556,861</b>	<b>450,882</b>	<b>504,860</b>	<b>529,302</b>
Net income before minorities	512,804	328,237	556,861	450,882	504,860	529,302
Share of minorities	-	-	-	-	-	-
Gains/(losses)/(deconsolidation)	-	-	-	-	-	-
<b>Income before Zakat</b>	<b>512,804</b>	<b>328,237</b>	<b>556,861</b>	<b>450,882</b>	<b>504,860</b>	<b>529,302</b>
Zakat	-	-	-	-	-	-
%Zakat	-	-	-	-	-	-
<b>Net income</b>	<b>512,804</b>	<b>328,237</b>	<b>556,861</b>	<b>450,882</b>	<b>504,860</b>	<b>529,302</b>
<b>Adjusted net income (pre-exceptionals)</b>	<b>512,804</b>	<b>328,237</b>	<b>556,861</b>	<b>450,882</b>	<b>504,860</b>	<b>529,302</b>
Number of shares ('000)	163,995	163,995	163,995	163,995	163,995	163,995
EPS	3.1	2.0	3.4	2.7494	3.1	3.2
Adjusted EPS (pre-exceps)	3.1	2.0	3.4	2.7	3.1	3.2
DPS	1.7	1.9	2.0	1.5	1.7	1.8
Payout ratio (%)	55%	93%	59%	55%	55%	55%

Source: Company data, VTB Capital Research

**Figure 64: Balance Sheet (Figures in '000 SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	2,279,686	2,215,248	2,162,605	2,004,189	1,924,211	1,868,482
Intangibles	75,539	-	-	-	-	-
Investments	-	-	-	-	-	-
Other	18,292	133,092	88,580	91,237	93,975	96,794
<b>Total non-current assets</b>	<b>2,373,517</b>	<b>2,348,340</b>	<b>2,251,185</b>	<b>2,095,426</b>	<b>2,018,186</b>	<b>1,965,275</b>
Cash	476,475	462,293	543,893	1,034,942	1,338,250	1,628,749
Accounts receivable	343,283	282,764	265,994	329,989	332,153	332,153
Inventories	155,837	140,748	145,195	137,495	138,397	138,397
Other	30,970	21,021	18,757	19,320	19,899	20,496
<b>Total current assets</b>	<b>1,006,564</b>	<b>906,826</b>	<b>973,839</b>	<b>1,521,746</b>	<b>1,828,699</b>	<b>2,119,795</b>
<b>TOTAL ASSETS</b>	<b>3,380,081</b>	<b>3,255,166</b>	<b>3,225,024</b>	<b>3,617,173</b>	<b>3,846,884</b>	<b>4,085,070</b>
Debt	175,000	312,500	125,000	87,500	87,500	87,500
Accounts payable	407,807	160,648	158,235	384,987	387,511	387,511
Other	2,482	217,468	204,248	204,248	204,248	204,248
<b>Total current liabilities</b>	<b>585,290</b>	<b>690,616</b>	<b>487,483</b>	<b>676,735</b>	<b>679,259</b>	<b>679,259</b>
Debt	750,000	500,000	455,000	455,000	455,000	455,000
Other	16,469	21,918	28,491	28,491	28,491	28,491
<b>Total non-current liabilities</b>	<b>766,469</b>	<b>521,918</b>	<b>483,491</b>	<b>483,491</b>	<b>483,491</b>	<b>483,491</b>
Minorities	-	-	-	-	-	-
Shareholders' Equity	2,028,323	2,042,632	2,254,050	2,456,947	2,684,134	2,922,320
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3,380,081</b>	<b>3,255,166</b>	<b>3,225,024</b>	<b>3,617,173</b>	<b>3,846,884</b>	<b>4,085,070</b>

Source: Company data, VTB Capital Research

**Figure 65: Cash Flow Statement (Figures in '000 SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	751,324	543,671	773,136	644,290	619,913	619,913
Working capital change	(41,727)	58,906	(9,735)	169,894	(1,121)	(597)
Other	(15,637)	(27,001)	(10,522)	6,256	6,444	6,637
Cash earnings ex zakat & Interest	693,960	575,576	752,879	820,440	625,237	625,953
Zakat	(10,169)	-	-	-	-	-
Net interest paid	(234)	-	-	-	-	-
<b>Operating cash flow</b>	<b>683,557</b>	<b>575,576</b>	<b>752,879</b>	<b>820,440</b>	<b>625,237</b>	<b>625,953</b>
CAPEX	(23,624)	(96,648)	(110,180)	(41,249)	(41,519)	(41,519)
Intangibles	(19,483)	-	-	-	-	-
Acquisitions (net of disposals)	-	-	-	-	-	-
Other	-	(75,945)	(983)	(2,657)	(2,737)	(2,819)
<b>Cash flow before financing</b>	<b>640,450</b>	<b>402,983</b>	<b>641,716</b>	<b>776,534</b>	<b>580,980</b>	<b>581,615</b>
<b>Financing cash flows</b>	<b>(620,589)</b>	<b>(417,165)</b>	<b>(560,116)</b>	<b>(285,485)</b>	<b>(277,673)</b>	<b>(291,116)</b>
Net borrowing	(338,750)	(112,500)	(232,500)	(37,500)	-	-
New equity	-	-	-	-	-	-
Dividends	(281,839)	(304,665)	(327,616)	(247,985)	(277,673)	(291,116)
Other	-	-	-	-	-	-
<b>Net Cash Flow</b>	<b>19,861</b>	<b>(14,182)</b>	<b>81,600</b>	<b>491,049</b>	<b>303,307</b>	<b>290,499</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts & Forecasts

Qatar

Materials / Commodity  
Chemicals

# Industries Qatar

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
IQCD QD	QAR	177.00	160.00	Sell

## Share price performance, 12-mo



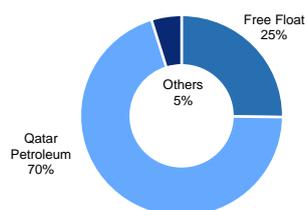
## Company description

Industries Qatar (Qatar) – The largest industrial conglomerate in Qatar producing petrochemicals, steel and fertilizers

## Company website

<http://www.industriesqatar.com.qa>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2011	2012	2013F	2014F	2015F	2016F
<b>Company data</b>						
Weighted avg # shares, mn	550.0	605.0	605.0	605.0	605.0	605.0
Avg market cap, QAR mn	67,962	77,052	96,315	107,085	107,085	107,085
EV, QAR mn	76,864	82,291	104,816	114,805	111,832	108,907
<b>Ratios &amp; analysis</b>						
P/E, x	9.4x	9.1x	10.4x	10.0x	10.2x	10.2x
EV/EBITDA, x	9.9x	8.4x	11.1x	10.3x	10.1x	9.8x
P/B, x	2.8x	2.5x	2.8x	2.7x	2.3x	2.1x
Dividend yield (ords), %	4.5%	5.4%	4.8%	5.0%	4.9%	4.9%
EPS, QAR	13.11	13.95	15.25	17.65	17.42	17.35
CFPS, QAR	13.29	14.99	10.55	17.73	18.03	18.02
Free CFPS, QAR	10.69	12.27	4.17	12.14	15.73	15.71
DPS (ords), QAR	5.50	6.82	7.63	8.82	8.71	8.67
Payout ratio (ords), %	38.2%	48.9%	50.0%	50.0%	50.0%	50.0%
BPS, QAR	44.02	50.14	57.78	66.62	75.34	84.03
Revenues growth, %	34%	13%	4%	6%	0%	-
EPS growth, %	42%	6%	9%	16%	-1%	0%
EBITDA margin, %	50.9%	52.5%	48.4%	54.0%	54.0%	54.0%
Net margin, %	47.9%	45.1%	47.5%	52.0%	51.5%	51.3%
ROE, %	30.2%	27.8%	26.4%	26.5%	23.1%	20.7%
ROIC, %	28.8%	31.7%	25.2%	25.8%	24.2%	22.8%
Capex/Revenues, %	9%	10%	20%	17%	7%	7%
Capex/Depreciation, x	2.2x	1.7x	52.6x	11.2x	3.5x	3.2x
Net debt/Equity, %	0%	-12%	-1%	-3%	-9%	-14%
Net debt/EBITDA, x	0.0x	(0.4x)	(0.1x)	(0.1x)	(0.4x)	(0.6x)
Net interest cover, x	49.6x	32.1x	141.6x	166.9x	171.8x	191.3x
<b>Income statement summary, QAR mn</b>						
Revenues	16,549	18,698	19,444	20,536	20,471	20,471
Cost of sales	(7,654)	(7,598)	(8,692)	(8,023)	(7,996)	(7,996)
SG&A and other opexp.	(1,143)	(1,291)	(1,342)	(1,418)	(1,413)	(1,413)
EBITDA	8,428	9,810	9,410	11,095	11,062	11,062
Depreciation & amortization	(675)	(1,097)	(75)	(312)	(421)	(469)
Operating profit	7,753	8,712	9,334	10,783	10,641	10,593
Non-operating gains /(exp.)	-	-	-	-	-	-
EBIT	7,753	8,712	9,334	10,783	10,641	10,593
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	7,924	8,410	9,237	10,686	10,545	10,503
Income tax	-	-	-	-	-	-
Minority interests	7	31	(8)	(9)	(9)	(9)
VTBC Net income	7,931	8,441	9,229	10,677	10,536	10,494
<b>Cash flow statement summary, QAR mn</b>						
Cash flow from operations	8,041	9,071	6,384	10,724	10,909	10,899
Working capital changes	(489)	(468)	(2,929)	(274)	(57)	(73)
Capex	(1,470)	(1,919)	(3,959)	(3,480)	(1,487)	(1,487)
Other investing activities	(1,788)	246	(1,083)	(1,137)	(1,194)	(1,254)
Free cash flow	6,469	7,423	2,522	7,342	9,518	9,502
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(3,027)	(4,125)	(4,615)	(5,338)	(5,268)	(5,247)
Net change in borrowings	(680)	(989)	5	(69)	(65)	(262)
Other financing cash flow	390	-	11	12	13	13
Movement in cash	1,466	2,283	(3,257)	712	2,907	2,662
<b>Balance sheet summary, QAR mn</b>						
Cash and equivalents	6,960	5,406	2,149	2,861	5,769	8,431
PP&E	9,589	3,055	6,939	10,106	11,172	12,190
Goodwill	169	-	-	-	-	-
Investments	2,551	-	-	-	-	-
Other assets	17,509	24,427	30,093	31,635	32,879	34,205
Total assets	36,778	32,887	39,181	44,603	49,819	54,826
Interest bearing debt	925	813	613	399	327	284
Other liabilities	3,285	908	2,574	2,717	2,722	2,736
Total liabilities	10,147	2,553	4,225	4,298	4,238	3,989
Total shareholder's equity	26,237	30,334	34,949	40,287	45,555	50,802
Minority interest	395	-	8	17	26	35
Net working capital	3,512	829	3,694	3,902	3,890	3,890
Net Debt	(98)	(3,761)	(499)	(1,280)	(4,253)	(7,178)
Capital	27,162	31,147	35,561	40,686	45,882	51,086
FCF yield, %	8.7%	9.6%	2.6%	6.9%	8.9%	8.9%
Net sales, chg	34%	13%	4%	6%	0%	-
EBITDA, chg	45%	16%	-4%	18%	0%	-
Net income, chg	42%	6%	9%	16%	-1%	0%
EBIT margin, %	47%	47%	48%	53%	52%	52%

## SELL

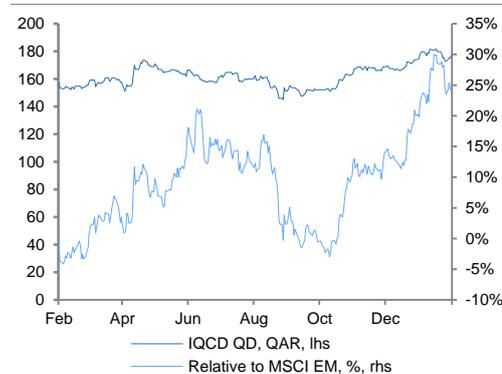
Primary ticker: IQCD QD

Currency: QAR

### Stock Data

Last price	177.0
Last price date	12 Feb 2014
Target price	160.0
Target price established	13 Feb 2014
Upside/(downside), %	-10%
52 week price range	145.0 - 181.8
Market cap, USD / QAR mn	29,408 / 107,085
EV, USD / QAR mn	31,742 / 115,586
# shares outstanding, mn	605
Free float	25%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	1.6%	8%	12%	34%
Price relative	3%	13%	24%	53%
ADTV (USD mn)	15.58	10.75	9.71	3.29

### Key financial highlights

Fiscal year end	12/12	12/13F	12/14F	12/15F
P/E, x	9.1x	10.4x	10.0x	10.2x
EV/EBITDA, x	8.4x	11.1x	10.3x	10.1x
P/B, x	2.5x	2.8x	2.7x	2.3x
FCF yield, %	9.6%	2.6%	6.9%	8.9%
DY (ords), %	5.4%	4.8%	5.0%	4.9%
Net sales, QAR mn	18,698	19,444	20,536	20,471
EBITDA, QAR mn	9,810	9,410	11,095	11,062
Net income, QAR mn	8,441	9,229	10,677	10,536
Net sales, chg	13%	4%	6%	0%
EBITDA, chg	16%	-4%	18%	0%
Net income, chg	6%	9%	16%	-1%
EPS, QAR	13.95	15.25	17.65	17.42
DPS (ord.), QAR	6.82	7.63	8.82	8.71
BPS, QAR	50.14	57.78	66.62	75.34
EBITDA margin, %	52.5%	48.4%	54.0%	54.0%
ROE, %	28%	26%	27%	23%
Net Debt, QAR mn	(3,761)	(499)	(1,280)	(4,253)
ND/EBITDA, x	(0.4x)	(0.1x)	(0.1x)	(0.4x)
Net int. cover, x	32.1x	141.6x	166.9x	171.8x

Source: Bloomberg, Company data, VTB Capital Research

## Industries Qatar

### MSCI inclusion boosts sentiment

**We revise our TP on Industries Qatar based on a higher price forecast for urea (from USD 324/tonne to USD 440/tonne) but maintain our Sell recommendation as valuations remain elevated. We continue to see several headline risks across different product segments and believe that the valuations skew the risk reward unfavourably. We think much of the recent rally was sentiment led, predicated on MSCI inclusion, and the market has chosen to completely ignore earnings fundamentals.**

**Liquidity and MSCI inclusion driving new institutional support.** UAE and Qatari markets are seeing improved liquidity and foreign flows as the deadline to MSCI inclusion gets closer. Industries Qatar, by virtue of being the biggest market cap and among the most liquid stocks, is likely to have the largest Qatari market weight. This has led to a strong undercurrent of support for the stock, with valuations based on factors extraneous to earnings. We believe this is one trend that might continue into 1Q, 2Q and 3Q14, until MSCI inclusion fervour plays out. We would maintain a Sell recommendation throughout this likely volatile period.

**Earnings are irrelevant?** At the end of 3Q12, IQCD reported QAR 2.6bn of earnings, segment product prices were strong and the stock had an EV of QAR 76.4bn. The market cap was at 77.4bn (QAR is pegged to USD). 4Q earnings were viewed as the result of a one-off operational issue and the QAR 1.78bn of 4Q12 net income saw the stock's market cap at QAR 85.3bn and EV at QAR 81.5bn. By the time operational normalised in 1Q13 and the stock reported a net income of QAR 2.5bn, the market cap had advanced to QAR 97.3bn and EV was at QAR 93bn. Adjusting for a dividend of QAR 4.67bn the market cap is now c.QAR 17bn higher with little to show for earnings. Clearly the market is ignoring earnings or assuming growth in urea prices to USD 500/t.

**Growth prospects a cause for concern.** Industries Qatar lacks material growth prospects in terms of volume throughput, with Qatar Petroleum, the parent sovereign operator taking a more hands on approach. The forays of steel plants into Algeria et al show little financial discipline.

**Valuation.** IQCD trades at a 2014F P/E of 10.0x and with a downside risk to earnings, which makes the discount to peers at 12.4x unattractive. Furthermore, the current valuation discounts the incrementally lower ROIC (320bp lower, on our estimates) forays into Algeria, which faces a much higher degree of political risk. Also, we see limited domestic expansion opportunities. While MSCI inclusion would be a positive event for 2014, we see EM investors opting for assets with a higher degree of operating leverage and better product mix.

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**Figure 66: Income Statement (Figures in '000 QAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013F	2014F	2015F	2016F
<b>Revenues</b>	<b>16,549,447</b>	<b>18,698,305</b>	<b>19,444,139</b>	<b>20,535,871</b>	<b>20,471,440</b>	<b>20,471,440</b>
<b>EBITDA</b>	<b>8,427,789</b>	<b>9,809,665</b>	<b>9,409,721</b>	<b>11,094,855</b>	<b>11,061,937</b>	<b>11,061,937</b>
D&A	675,096	1,097,483	75,283	311,937	421,327	469,290
<b>EBIT</b>	<b>7,752,693</b>	<b>8,712,182</b>	<b>9,334,438</b>	<b>10,782,918</b>	<b>10,640,610</b>	<b>10,592,647</b>
Finance Costs	(156,428)	(271,229)	(65,912)	(64,625)	(61,935)	(55,379)
Other income (expense)	327,805	(30,622)	(31,541)	(32,487)	(33,461)	(34,465)
<b>PBT</b>	<b>7,924,070</b>	<b>8,410,331</b>	<b>9,236,985</b>	<b>10,685,805</b>	<b>10,545,213</b>	<b>10,502,803</b>
Taxes	-	-	-	-	-	-
Effective tax rate (%)	-	-	-	-	-	-
Net income before minorities	7,924,070	8,410,331	9,236,985	10,685,805	10,545,213	10,502,803
Share of minorities	(6,761)	(30,577)	7,881	9,117	8,997	8,961
Gains/(losses)/(deconsolidation)						
Steel Price cap effect						
<b>Net income</b>	<b>7,930,831</b>	<b>8,440,908</b>	<b>9,229,104</b>	<b>10,676,688</b>	<b>10,536,215</b>	<b>10,493,841</b>
<b>Adjusted net income (pre-exceptionals)</b>	<b>7,930,831</b>	<b>8,440,908</b>	<b>9,229,104</b>	<b>10,676,688</b>	<b>10,536,215</b>	<b>10,493,841</b>
Number of shares ('000)	550,000	605,000	605,000	605,000	605,000	605,000
EPS	14.4	14.0	15.3	17.6	17.4	17.3
Adjusted EPS (pre-exceps)	14.4	14.0	15.3	17.6	17.4	17.3
DPS	5.5	6.8	7.6	8.8	8.7	8.7
Payout ratio (%)	38%	49%	50%	50%	50%	50%

Source: Company data, VTB Capital Research

**Figure 67: Balance Sheet (Figures in '000 QAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013F	2014F	2015F	2016F
PP&E	9,589,230	3,054,991	6,938,751	10,106,409	11,172,238	12,190,105
Intangibles	169,250	-	-	-	-	-
Investments	2,550,974	-	-	-	-	-
Other	12,015,111	21,659,718	22,742,704	23,879,839	25,073,831	26,327,523
<b>Total non-current assets</b>	<b>24,324,565</b>	<b>24,714,709</b>	<b>29,681,455</b>	<b>33,986,248</b>	<b>36,246,069</b>	<b>38,517,627</b>
Cash	6,960,094	5,405,900	2,149,280	2,861,242	5,768,644	8,430,841
Accounts receivable	2,665,175	-	3,111,062	3,285,739	3,275,430	3,275,430
Inventories	2,230,641	1,506,822	2,916,621	3,080,381	3,070,716	3,070,716
Other	597,875	1,260,027	1,323,028	1,389,180	1,458,639	1,531,571
<b>Total current assets</b>	<b>12,453,785</b>	<b>8,172,749</b>	<b>9,499,991</b>	<b>10,616,542</b>	<b>13,573,429</b>	<b>16,308,558</b>
<b>TOTAL ASSETS</b>	<b>36,778,350</b>	<b>32,887,458</b>	<b>39,181,447</b>	<b>44,602,790</b>	<b>49,819,498</b>	<b>54,826,185</b>
Debt	1,327,330	161,782	166,635	171,635	176,784	182,087
Accounts payable	1,384,261	678,075	2,333,297	2,464,305	2,456,573	2,456,573
Other	1,130,460	(0)	(0)	(0)	(0)	(0)
<b>Total current liabilities</b>	<b>3,842,051</b>	<b>839,857</b>	<b>2,499,932</b>	<b>2,635,939</b>	<b>2,633,356</b>	<b>2,638,660</b>
Debt	5,535,140	1,483,589	1,483,589	1,409,410	1,338,939	1,071,151
Other	769,826	229,602	241,082	253,136	265,793	279,083
<b>Total non-current liabilities</b>	<b>6,304,966</b>	<b>1,713,191</b>	<b>1,724,671</b>	<b>1,662,546</b>	<b>1,604,732</b>	<b>1,350,234</b>
Minorities	394,610	-	7,881	16,999	25,996	34,957
Shareholders' Equity	26,236,723	30,334,410	34,948,962	40,287,306	45,555,414	50,802,334
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>36,778,350</b>	<b>32,887,458</b>	<b>39,181,447</b>	<b>44,602,790</b>	<b>49,819,498</b>	<b>54,826,185</b>

Source: Company data, VTB Capital Research

**Figure 68: Cash Flow Statement (Figures in '000 QAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013F	2014F	2015F	2016F
EBITDA	8,427,789	9,809,665	9,409,721	11,094,855	11,061,937	11,061,937
Working capital change	(488,522)	(467,857)	(2,928,641)	(273,581)	(57,217)	(72,932)
Other	177,442	(271,269)	(31,541)	(32,487)	(33,461)	(34,465)
Cash earnings ex zakat and interest	8,116,709	9,070,539	6,449,540	10,788,787	10,971,258	10,954,540
Tax paid	-	-	-	-	-	-
Net interest paid	(75,579)	-	(65,912)	(64,625)	(61,935)	(55,379)
<b>Operating cash flow</b>	<b>8,041,130</b>	<b>9,070,539</b>	<b>6,383,628</b>	<b>10,724,162</b>	<b>10,909,323</b>	<b>10,899,160</b>
CAPEX	(1,470,474)	(1,919,208)	(3,959,043)	(3,479,595)	(1,487,157)	(1,487,157)
Intangibles	-	-	-	-	-	-
Acquisitions (net of disposals)	-	-	-	-	-	-
Other	(1,788,103)	246,381	(1,082,986)	(1,137,135)	(1,193,992)	(1,253,692)
<b>Cash flow before financing</b>	<b>4,782,553</b>	<b>7,397,712</b>	<b>1,341,599</b>	<b>6,107,432</b>	<b>8,228,175</b>	<b>8,158,312</b>
<b>Financing cash flows</b>	<b>(3,316,873)</b>	<b>(5,114,302)</b>	<b>(4,598,219)</b>	<b>(5,395,470)</b>	<b>(5,320,772)</b>	<b>(5,496,115)</b>
Net borrowing	(679,623)	(989,302)	4,853	(69,180)	(65,321)	(262,484)
New equity	-	-	-	-	-	-
Dividends	(3,027,250)	(4,125,000)	(4,614,552)	(5,338,344)	(5,268,108)	(5,246,921)
Other	390,000	-	11,480	12,054	12,657	13,290
<b>Net Cash Flow</b>	<b>1,465,680</b>	<b>2,283,410</b>	<b>(3,256,620)</b>	<b>711,962</b>	<b>2,907,402</b>	<b>2,662,197</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts &amp; Forecasts

Saudi Arabia

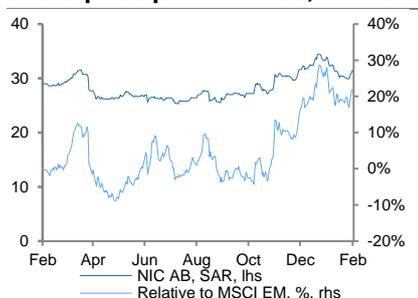
Materials / Commodity  
Chemicals

# National Industrialization Company

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
NIC AB	SAR	31.40	39.00	Buy

## Share price performance, 12-mo



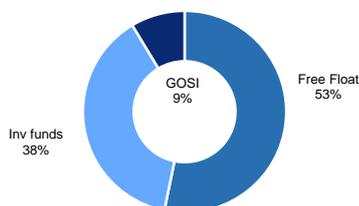
## Company description

National Industrialization Company (Saudi Arabia) – A Saudi industrial company operating in both petrochemicals and TiO<sub>2</sub> value chain with a global TiO<sub>2</sub> operating footprint.

## Company website

<http://www.tasnee.com>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	668.9	668.9	668.9	668.9	668.9	668.9
Avg market cap, SAR mn	21,552	18,809	21,004	21,004	21,004	21,004
EV, SAR mn	42,888	42,822	42,194	40,098	36,511	31,969
<b>Ratios &amp; analysis</b>						
P/E, x	12.2x	15.9x	10.0x	6.8x	6.5x	6.3x
EV/EBITDA, x	7.9x	9.6x	6.3x	4.8x	4.3x	3.8x
P/B, x	1.1x	1.0x	0.9x	0.8x	0.7x	0.6x
Dividend yield (ords), %	-	-	4.0%	10.2%	10.7%	11.2%
EPS, SAR	2.64	1.77	3.14	4.59	4.80	5.01
CFPS, SAR	4.49	4.89	7.00	8.16	10.60	11.45
Free CFPS, SAR	0.24	0.94	7.00	7.57	9.72	10.92
DPS (ords), SAR	-	-	1.26	3.21	3.36	3.50
Payout ratio (ords), %	-	-	40.0%	70.0%	70.0%	70.0%
BPS, SAR	29.32	29.26	34.04	39.65	45.52	51.65
Revenues growth, %	-9%	2%	8%	20%	4%	0%
EPS growth, %	-28%	-33%	77%	46%	5%	4%
EBITDA margin, %	30.5%	24.6%	33.8%	35.4%	34.7%	34.6%
Net margin, %	9.8%	6.5%	10.7%	13.1%	13.2%	13.7%
ROE, %	14.6%	9.9%	15.8%	21.7%	21.2%	20.7%
ROIC, %	13.0%	8.9%	16.2%	21.9%	24.2%	27.7%
Capex/Revenues, %	18%	18%	5%	5%	5%	3%
Capex/Depreciation, x	2.3x	2.3x	0.8x	1.0x	1.0x	0.6x
Net debt/Equity, %	74%	88%	63%	46%	29%	12%
Net debt/EBITDA, x	2.7x	3.9x	2.2x	1.5x	1.0x	0.5x
Net interest cover, x	5.2x	5.1x	4.8x	7.5x	8.9x	12.7x
<b>Income statement summary, SAR mn</b>						
Revenues	17,921	18,201	19,656	23,499	24,322	24,440
Cost of sales	(11,006)	(12,253)	(11,408)	(13,267)	(13,894)	(13,986)
SG&A and other opexp.	(1,457)	(1,480)	(1,598)	(1,910)	(1,977)	(1,987)
EBITDA	5,458	4,469	6,651	8,321	8,451	8,468
Depreciation & amortization	(1,364)	(1,399)	(1,306)	(1,295)	(1,290)	(1,274)
Operating profit	4,094	3,069	5,345	7,026	7,161	7,193
Non-operating gains/(exp.)	(224)	(187)	(187)	(187)	(187)	(187)
EBIT	4,094	3,069	5,345	7,026	7,161	7,193
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	3,077	2,277	4,037	5,903	6,173	6,439
Income tax	-	-	-	-	-	-
Minority interests	(1,313)	(1,092)	(1,938)	(2,833)	(2,963)	(3,091)
VTBC Net income	1,764	1,185	2,099	3,069	3,210	3,348
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	3,002	3,269	4,686	5,461	7,091	7,660
Working capital changes	(1,616)	(94)	(658)	(1,737)	(372)	(53)
Capex	(3,147)	(3,213)	(1,078)	(1,270)	(1,311)	(828)
Other investing activities	-	-	-	-	-	-
Free cash flow	160	626	4,680	5,065	6,503	7,305
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	-	-	(840)	(2,149)	(2,247)	(2,344)
Net change in borrowings	3,807	1,499	(6,883)	-	-	-
Other financing cash flow	(1,735)	(2,769)	-	-	-	-
Movement in cash	1,819	(1,277)	(4,061)	2,096	3,587	4,542
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	6,456	5,179	1,118	3,215	6,802	11,344
PP&E	23,596	25,086	24,710	24,540	24,420	23,834
Goodwill	-	-	94	184	272	356
Investments	-	-	-	-	-	-
Other assets	15,523	16,868	17,651	19,719	20,162	20,225
Total assets	45,575	47,133	43,573	47,658	51,655	55,760
Interest bearing debt	813	613	399	327	284	258
Other liabilities	4,943	5,138	5,263	5,594	5,665	5,675
Total liabilities	25,966	27,559	20,802	21,132	21,203	21,214
Total shareholder's equity	12,067	11,993	13,253	14,174	15,137	16,142
Minority interest	7,542	7,580	9,518	12,351	15,314	18,405
Net working capital	8,028	8,227	8,885	10,621	10,994	11,047
Net Debt	14,567	17,243	14,421	12,324	8,737	4,195
Capital	12,880	12,606	13,652	14,501	15,421	16,399
FCF yield, %	0.7%	3.3%	22.3%	24.1%	31.0%	34.8%
Net sales, chg	-9%	2%	8%	20%	4%	0%
EBITDA, chg	-19%	-18%	49%	25%	2%	0%
Net income, chg	-28%	-33%	77%	46%	5%	4%
EBIT margin, %	23%	17%	27%	30%	29%	29%

## BUY

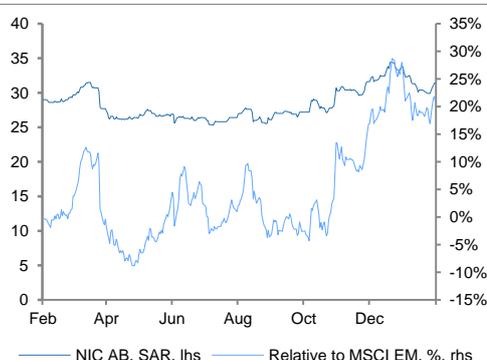
Primary ticker: NIC AB

Currency: SAR

### Stock Data

Last price	31.40
Last price date	12 Feb 2014
Target price	39.00
Target price established	13 Feb 2014
Upside/(downside), %	24%
52 week price range	25.20 - 34.50
Market cap, USD / SAR mn	5,600 / 21,004
EV, USD / SAR mn	12,133 / 45,505
# shares outstanding, mn	669
Free float	53%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	-7.4%	2%	9%	23%
Price relative	-6%	6%	21%	41%
ADTV (USD mn)	14.92	13.86	10.65	13.96

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	15.9x	10.0x	6.8x	6.5x
EV/EBITDA, x	10.3x	6.8x	5.2x	4.7x
P/B, x	1.0x	0.9x	0.8x	0.7x
FCF yield, %	3.3%	22.3%	24.1%	31.0%
DY (ords), %	-	4.0%	10.2%	10.7%
Net sales, SAR mn	18,201	19,656	23,499	24,322
EBITDA, SAR mn	4,469	6,651	8,321	8,451
Net income, SAR mn	1,185	2,099	3,069	3,210
Net sales, chg	2%	8%	20%	4%
EBITDA, chg	-18%	49%	25%	2%
Net income, chg	-33%	77%	46%	5%
EPS, SAR	1.77	3.14	4.59	4.80
DPS (ord.), SAR	-	1.26	3.21	3.36
BPS, SAR	29.26	34.04	39.65	45.52
EBITDA margin, %	24.6%	33.8%	35.4%	34.7%
ROE, %	10%	16%	22%	21%
Net Debt, SAR mn	17,243	14,421	12,324	8,737
ND/EBITDA, x	3.9x	2.2x	1.5x	1.0x
Net int. cover, x	5.1x	4.8x	7.5x	8.9x

Source: Bloomberg, Company data, VTB Capital Research

## National Industrialization Company

### Deep value but operations disappoint

**National Industrialization Company (NIC/Tasnee) is a challenging company to forecast earnings for due to a lack of transparency coupled with operational challenges. With all the residual optimism after 18 months of continuous operational disappointments, we reiterate our Buy recommendation, but reduce our TP to SAR 39.**

**Midstream margins expanded, but NIC's operational showed little improvement.** From elevated levels of USD 2,600/t in mid-2012, rutile prices tumbled to USD 1,350/t. The finished product, pigment, saw prices decline from USD 4,800/t to USD 4,000/t, while remaining at USD 4,300/t in 4Q13. As we forecasted earlier in our 2012 note, the midstream margins expanded. Yet due to operational constraints, NIC's TiO<sub>2</sub> subsidiary Cristal Global failed to demonstrate any impact of these improvements at the group level in 4Q13 results. While the margin expansion trend started in 3Q12, none of that has ever really manifested in NIC's results due to a combination of unfortunate operational challenges. Now that the margins have stabilised for the midstream and might compress somewhat over the next six months, NIC offers little to be confident about.

**Petrochemicals segment disappointed too.** With availability below 85%, the track record for utilisation remained low, even for NIC's petrochemical facilities. While we are bullish on the margin environment, NIC's ability to benefit from them can be deemed questionable.

**New TiO<sub>2</sub> JV is a distraction.** We expect little by the way of incremental value impact (sub USD 60mn at the NIC level) from the Cristal Toho Titanium Sponge JV. For NIC's USD 5.5bn market cap, the impact is not material. Furthermore it distracts management focus from the existing Cristal facilities.

**New capacity to offer limited relief.** With little volume growth across the Saudi petrochemical space, NIC's stakes in the AA project and the exposure to higher margin Acrylate product slate is attractive. However the project only offers 20% EPS upside. Cash on cash returns are unlikely to be above 7% (unlevered) but the debt dynamics make the equity returns attractive (c 18%).

**Valuation.** We value NIC via a multiples-based method with a generic sector 12mo forward EV/EBITDA of 9.0x. Our normalised EBITDA estimate is SAR 6.65bn. Using a net debt assumption of SAR 14.4bn we arrive at a Target Price of SAR 39. NIC trades at a 2014F P/E of 10.0x vs. peers at 18.3x. On 2014F EV/EBITDA, the company trades at 6.3x vs. peers at 8.2x.

**Risks.** Delays in the commissioning of the AA plant.

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**Figure 69: Income Statement (Figures in million SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	<b>19,649</b>	<b>17,921</b>	<b>18,201</b>	<b>19,656</b>	<b>23,499</b>	<b>24,322</b>
<b>EBITDA</b>	<b>6,703</b>	<b>5,458</b>	<b>4,469</b>	<b>6,651</b>	<b>8,321</b>	<b>8,451</b>
D&A	1,296	1,364	1,399	1,306	1,295	1,290
<b>EBIT</b>	<b>5,407</b>	<b>4,094</b>	<b>3,069</b>	<b>5,345</b>	<b>7,026</b>	<b>7,161</b>
Finance cost	693	794	606	1,121	937	801
Other income (expense)	(1)	(224)	(187)	(187)	(187)	(187)
<b>PBT</b>	<b>4,714</b>	<b>3,077</b>	<b>2,277</b>	<b>4,037</b>	<b>5,903</b>	<b>6,173</b>
Taxes	546	-	-	-	-	-
Effective tax rate (%)	0	-	-	-	-	-
Net income before minorities	4,167	3,077	2,277	4,037	5,903	6,173
Share of minorities	1,726	1,313	1,092	1,938	2,833	2,963
Gains/(losses)/(deconsolidation)	-	-	-	-	-	-
<b>Net income</b>	<b>2,441</b>	<b>1,764</b>	<b>1,185</b>	<b>2,099</b>	<b>3,069</b>	<b>3,210</b>
<b>Adjusted net income (pre-exceptionals)</b>	<b>2,441</b>	<b>1,764</b>	<b>1,185</b>	<b>2,099</b>	<b>3,069</b>	<b>3,210</b>
Number of shares (mn)	669	669	669	669	669	669
EPS	3.6	2.6	1.8	3.1	4.6	4.8
Adjusted EPS (pre-exceps)	3.6	2.6	1.8	3.1	4.6	4.8
DPS	0.7	-	-	1.3	3.2	3.4
Payout ratio (%)	20%	0%	0%	40%	70%	70%

Source: Company data, VTB Capital Research

**Figure 70: Balance Sheet (Figures in million SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	21,936	23,596	25,086	24,710	24,540	24,420
Intangibles	3,569	-	-	94	184	272
Investments	809	-	-	-	-	-
Other	753	5,491	6,058	6,058	6,058	6,058
<b>Total non-current assets</b>	<b>27,067</b>	<b>29,087</b>	<b>31,143</b>	<b>30,861</b>	<b>30,782</b>	<b>30,749</b>
Cash	4,637	6,456	5,179	1,118	3,215	6,802
Accounts receivable	4,140	3,855	3,948	4,263	5,096	5,275
Inventories	3,693	5,514	5,846	6,313	7,547	7,812
Other	391	663	1,017	1,017	1,017	1,017
<b>Total current assets</b>	<b>12,861</b>	<b>16,488</b>	<b>15,989</b>	<b>12,712</b>	<b>16,875</b>	<b>20,906</b>
<b>TOTAL ASSETS</b>	<b>39,928</b>	<b>45,575</b>	<b>47,133</b>	<b>43,573</b>	<b>47,658</b>	<b>51,655</b>
Debt	4,974	3,431	5,039	5,039	5,039	5,039
Accounts payable	1,028	1,342	1,567	1,692	2,023	2,093
Other	1,953	1,832	2,291	2,291	2,291	2,291
<b>Total current liabilities</b>	<b>7,955</b>	<b>6,605</b>	<b>8,896</b>	<b>9,021</b>	<b>9,352</b>	<b>9,423</b>
Debt	11,363	17,591	17,383	10,500	10,500	10,500
Other	2,833	1,770	1,280	1,280	1,280	1,280
<b>Total non-current liabilities</b>	<b>14,197</b>	<b>19,361</b>	<b>18,663</b>	<b>11,780</b>	<b>11,780</b>	<b>11,780</b>
Minorities	6,754	7,542	7,580	9,518	12,351	15,314
Shareholders' Equity	11,023	12,067	11,993	13,253	14,174	15,137
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>39,928</b>	<b>45,575</b>	<b>47,133</b>	<b>43,573</b>	<b>47,658</b>	<b>51,655</b>

Source: Company data, VTB Capital Research

**Figure 71: Cash Flow Statement (Figures in million SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	6,703	5,458	4,469	6,651	8,321	8,451
Working capital change	(1,205)	(1,616)	(94)	(658)	(1,737)	(372)
Other	(892)	(47)	(499)	(187)	(187)	(187)
Cash earnings ex zakat and interest	4,607	3,795	3,875	5,806	6,398	7,892
Tax paid	(546)	-	-	-	-	-
Net interest paid	(693)	(794)	(606)	(1,121)	(937)	(801)
<b>Operating cash flow</b>	<b>3,368</b>	<b>3,002</b>	<b>3,269</b>	<b>4,686</b>	<b>5,461</b>	<b>7,091</b>
CAPEX	(4,101)	(3,147)	(3,213)	(983)	(1,175)	(1,216)
Intangibles	(100)	-	-	(95)	(95)	(95)
Acquisitions (net of disposals)	79	(107)	(63)	54	54	54
Other	(364)	-	-	-	-	-
<b>Cash flow before financing</b>	<b>(1,117)</b>	<b>(253)</b>	<b>(7)</b>	<b>3,662</b>	<b>4,245</b>	<b>5,834</b>
<b>Financing cash flows</b>	<b>602</b>	<b>2,072</b>	<b>(1,270)</b>	<b>(7,723)</b>	<b>(2,149)</b>	<b>(2,247)</b>
Net borrowing	1,268	3,807	1,499	(6,883)	-	-
New equity	-	-	-	-	-	-
Dividends	(499)	-	-	(840)	(2,149)	(2,247)
Other	(167)	(1,735)	(2,769)	-	-	-
<b>Net Cash Flow</b>	<b>(515)</b>	<b>1,819</b>	<b>(1,277)</b>	<b>(4,061)</b>	<b>2,096</b>	<b>3,587</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts &amp; Forecasts

Egypt

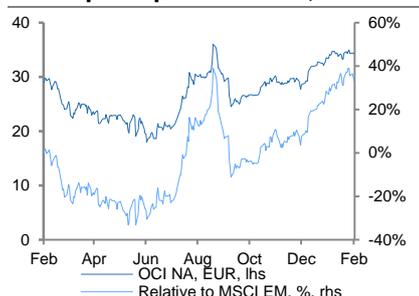
Materials / Fertilizers

# Orascom Construction Industries

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
OCI NA	EUR	34.30	30.00	Sell

## Share price performance, 12-mo



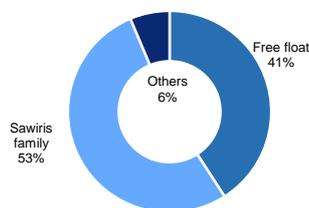
## Company description

Orascom Construction Industries (Egypt) is an Egyptian industrial company in both the construction and urea segments. The company's geographical exposure ranges from GCC to North African countries such as Algeria.

## Company website

<http://www.orascomci.com>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2011	2012	2013F	2014F	2015F	2016F
<b>Company data</b>						
Weighted avg # shares, mn	205.1	205.0	205.0	205.0	205.0	205.0
Avg market cap, EUR mn	n/a	n/a	n/a	n/a	n/a	n/a
EV, EUR mn	n/a	n/a	n/a	n/a	n/a	n/a
<b>Ratios &amp; analysis</b>						
P/E, x	n/a	n/a	70.8x	23.8x	18.3x	9.8x
EV/EBITDA, x	n/a	n/a	8.8x	8.2x	7.8x	7.0x
P/B, x	n/a	n/a	3.5x	3.8x	3.2x	2.4x
Dividend yield (ords), %	n/a	n/a	-	-	-	-
EPS, EUR	2.69	(4.09)	0.37	1.44	1.87	3.50
CFPS, EUR	0.95	(5.95)	3.35	4.21	4.59	5.40
Free CFPS, EUR	3.20	(0.72)	4.51	4.93	4.81	4.33
DPS (ords), EUR	1.53	-	-	-	-	-
Payout ratio (ords), %	56.7%	-	-	-	-	-
BPS, EUR	11.61	7.10	7.47	8.91	10.79	14.28
Revenues growth, %	7%	8%	-7%	7%	-1%	-
EPS growth, %	24%	-252%	-109%	292%	30%	87%
EBITDA margin, %	25.1%	20.2%	27.8%	30.6%	30.3%	30.3%
Net margin, %	14.0%	-19.6%	1.9%	6.9%	9.0%	16.8%
ROE, %	23.2%	-57.5%	4.9%	16.2%	17.4%	24.5%
ROIC, %	10.4%	-5.2%	7.7%	11.5%	12.5%	16.0%
Capex/Revenues, %	8%	10%	5%	5%	5%	5%
Capex/Depreciation, x	1.7x	0.8x	0.3x	0.4x	0.5x	1.4x
Net debt/Equity, %	79%	182%	141%	82%	37%	2%
Net debt/EBITDA, x	2.0x	3.4x	2.2x	1.3x	0.8x	0.1x
Net interest cover, x	6.2x	0.7x	1.2x	2.2x	3.3x	n/a
<b>Income statement summary, EUR mn</b>						
Revenues	3,958	4,267	3,985	4,284	4,262	4,262
Cost of sales	(2,641)	(2,705)	(3,162)	(2,618)	(2,714)	(2,713)
SG&A and other opexp.	(240)	(259)	(242)	(260)	(258)	(258)
EBITDA	995	864	1,108	1,311	1,291	1,292
Depreciation & amortization	(180)	(549)	(565)	(482)	(420)	(139)
Operating profit	815	315	543	828	871	1,153
Non-operating gains/(exp.)	14	28	28	28	28	28
EBIT	815	315	543	828	871	1,153
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	698	(104)	125	488	633	1,181
Income tax	(123)	(692)	(22)	(88)	(114)	(213)
Minority interests	55	42	27	104	135	252
VTBC Net income	552	(837)	76	296	384	717
<b>Cash flow statement summary, EUR mn</b>						
Cash flow from operations	196	(1,219)	686	862	941	1,107
Working capital changes	119	85	19	(20)	1	-
Capex	(303)	(440)	(179)	(193)	(192)	(192)
Other investing activities	10	33	-	-	-	-
Free cash flow	656	(148)	925	1,010	987	887
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(313)	-	-	-	-	-
Net change in borrowings	537	1,112	-	-	-	-
Other financing cash flow	(11)	469	-	-	-	-
Movement in cash	84	(9)	507	669	749	916
<b>Balance sheet summary, EUR mn</b>						
Cash and equivalents	812	747	1,254	1,924	2,673	3,588
PP&E	2,566	2,638	2,253	1,963	1,735	1,788
Goodwill	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	4,209	4,741	4,722	4,742	4,740	4,740
Total assets	7,587	8,127	8,229	8,629	9,148	10,116
Interest bearing debt	n/a	n/a	n/a	n/a	n/a	n/a
Other liabilities	2,243	2,874	2,874	2,874	2,874	2,874
Total liabilities	5,057	6,527	6,527	6,527	6,527	6,527
Total shareholder's equity	2,381	1,456	1,531	1,827	2,211	2,928
Minority interest	149	144	171	275	410	661
Net working capital	(297)	288	269	289	287	287
Net Debt	2,001	2,905	2,399	1,729	980	65
Capital	n/a	n/a	n/a	n/a	n/a	n/a
FCF yield, %	n/a	n/a	17.3%	14.4%	14.0%	12.6%
Net sales, chg	7%	8%	-7%	7%	-1%	-
EBITDA, chg	23%	-13%	28%	18%	-2%	0%
Net income, chg	23%	-252%	-109%	292%	30%	87%
EBIT margin, %	21%	7%	14%	19%	20%	27%

## SELL

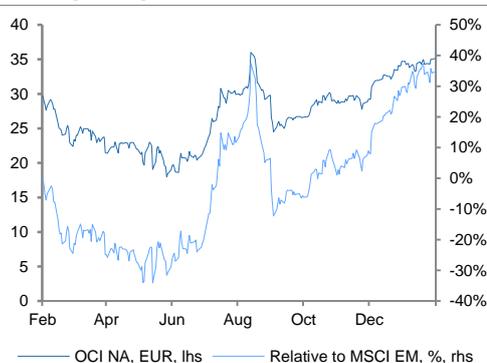
Primary ticker: OCI NA

Currency: EUR

### Stock Data

Last price	35.12
Last price date	17 Feb 2014
Target price	30.00
Target price established	13 Feb 2014
Upside/(downside), %	-15%
52 week price range	18.00 - 36.00
Market cap, USD / EUR mn	
EV, USD / EUR mn	
# shares outstanding, mn	205
Free float	41%
Benchmark Index (MXEF)	957.31

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	2.3%	22%	23%	
Price relative	4%	28%	37%	
ADTV (USD mn)	3.40	3.21	7.80	

### Key financial highlights

Fiscal year end	12/12	12/13F	12/14F	12/15F
P/E, x	n/a	70.8x	24.3x	18.7x
EV/EBITDA, x	n/a	8.8x	8.3x	7.9x
P/B, x	n/a	3.5x	3.9x	3.3x
FCF yield, %	n/a	17.3%	14.0%	13.7%
DY (ords), %	n/a	-	-	-
Net sales, EUR mn	4,267	3,985	4,284	4,262
EBITDA, EUR mn	864	1,108	1,311	1,291
Net income, EUR mn	(837)	76	296	384
Net sales, chg	8%	-7%	7%	-1%
EBITDA, chg	-13%	28%	18%	-2%
Net income, chg	-252%	-109%	292%	30%
EPS, EUR	(4.09)	0.37	1.44	1.87
DPS (ord.), EUR	-	-	-	-
BPS, EUR	7.10	7.47	8.91	10.79
EBITDA margin, %	20.2%	27.8%	30.6%	30.3%
ROE, %	-58%	5%	16%	17%
Net Debt, EUR mn	2,905	2,399	1,729	980
ND/EBITDA, x	3.4x	2.2x	1.3x	0.8x
Net int. cover, x	0.7x	1.2x	2.2x	3.3x

Source: Bloomberg, Company data, VTB Capital Research

## Orascom Construction Industries

### Egyptian exposure increases uncertainty

We initiated coverage of Orascom Construction Industries (OCI NV) following the listing of its GDRs on the Amsterdam stock exchange. The Amsterdam parent was responsible for the tender offer payments to Egyptian entity shareholders alongside a tax payout of EGP 7.1bn to the Egyptian authorities. Thus, while the Egyptian shares had a floor via the tender offer and hence our Buy recommendation on the Egyptian shares, the Amsterdam-listed entity was initiated with a Sell recommendation and a TP of EUR 30.

**Corporate earnings fundamentals remain weak on our view of urea and methanol outlook.** The longer term fundamentals of the corporate parent for both GDRs and Egyptian shares look weak. This is primarily on account of our downbeat view of longer term prospects for urea prices with the advent of shale gas and its impact on lower production costs for all C1 class of output chemicals, which include urea, ammonia and methanol. The threat is further exacerbated by the lack of transportation related arbitrage for urea, unlike that for natural gas. Thus, urea commodity prices are likely to remain capped at sub USD 400/t in the long term and not benefit from a commodity chemical supercycle in the medium term. Even methanol's current margins are likely to correct rapidly post February as temperatures rise in Asia.

**Algerian ramp-up slower; construction business likely to remain stellar.** The other elements of the investment story, i.e. the ramp-up of the Algerian fertilizer plant and backlog growth in the construction business, offer little change from market expectations, even though expectations for the ramp-up were perhaps more upbeat than the market's (4Q13 for full ramp-up). OCI's Besix subsidiary received another USD 670mn of contracts in GCC itself, while several other projects awarded worth another USD 600m add to the robust backlog. We like the construction business and its outlook in MENA.

**Egypt exposure is an irritant.** After a EGP 7.1bn tax settlement offer, it appears there is a logjam on the latest instalment payments by OCI. Cost increases in gas prices and irregular availability would further dent margins. The current popular political dispensation is likely to put a floor on the regulatory noise and reduce conflicts between the company and regulators further, but we await further clarity on this matter before turning more upbeat.

**Valuation.** We value OCI via a multiples-based method with a generic sector 12mo forward EV/EBITDA of 9.0x. Our normalised EBITDA estimate is EUR 1.1bn. Using a net debt assumption of EUR 1.7bn, we arrive at a Target Price of EGP 30. OCI trades at a 2015F P/E of 18.3x against peers at 12.1x.

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**Figure 72: Income Statement (Figures in million EUR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013F	2014F	2015F	2016F
<b>Revenues</b>	<b>3,958.0</b>	<b>4,267.3</b>	<b>3,985</b>	<b>4,284</b>	<b>4,262</b>	<b>4,262</b>
<b>EBITDA</b>	<b>994.6</b>	<b>864.0</b>	<b>1,108</b>	<b>1,311</b>	<b>1,291</b>	<b>1,292</b>
D&A	180.0	549.4	565	482	420	139
<b>EBIT</b>	<b>814.6</b>	<b>314.6</b>	<b>543.0</b>	<b>828.2</b>	<b>870.6</b>	<b>1,153.0</b>
Finance Costs	(131.3)	(446.8)	(447)	(369)	(266)	-
Other income (expense)	14.3	28.3	28	28	28	28
<b>PBT</b>	<b>697.6</b>	<b>(103.9)</b>	<b>125</b>	<b>488</b>	<b>633</b>	<b>1,181</b>
Taxes/Exceptionals/Provisions	123.1	691.6	22	88	114	213
Effective tax rate (%)	17.7%	-665.9%	18%	18%	18%	18%
Net income before minorities	574.5	(795.5)	102	400	519	969
Share of minorities	54.6	42.0	27	104	135	252
Gains/(losses)/(deconsolidation)	32.5	-	-	-	-	-
<b>Net income</b>	<b>552.4</b>	<b>(837.5)</b>	<b>76</b>	<b>296</b>	<b>384</b>	<b>717</b>
Number of shares (mn)	205.1	205.0	205	205	205	205
EPS	2.38	(4.09)	0.4	1.4	1.9	3.5
DPS	1.53	-	-	-	-	-
Payout ratio (%)	64.3%	0.0%	0%	0%	0%	0%

Source: Company data, VTB Capital Research

**Figure 73: Balance Sheet (Figures in million EUR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013F	2014F	2015F	2016F
PP&E	2,565.9	2,638.4	2,253	1,963	1,735	1,788
Intangibles	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other	1,637.0	1,319.4	1,319	1,319	1,319	1,319
<b>Total non-current assets</b>	<b>4,202.9</b>	<b>3,957.8</b>	<b>3,572</b>	<b>3,283</b>	<b>3,054</b>	<b>3,107</b>
Cash	811.9	747.4	1,254	1,924	2,673	3,588
Accounts receivable	-	-	-	-	-	-
Inventories	286.5	287.7	269	289	287	287
Other	2,285.5	3,133.6	3,134	3,134	3,134	3,134
<b>Total current assets</b>	<b>3,383.9</b>	<b>4,168.8</b>	<b>4,656</b>	<b>5,346</b>	<b>6,094</b>	<b>7,009</b>
<b>TOTAL ASSETS</b>	<b>7,586.8</b>	<b>8,126.6</b>	<b>8,229</b>	<b>8,629</b>	<b>9,148</b>	<b>10,116</b>
Debt	731.8	1,951.6	1,952	1,952	1,952	1,952
Accounts payable	583.4	-	-	-	-	-
Other	1,065.9	2,148.9	2,149	2,149	2,149	2,149
<b>Total current liabilities</b>	<b>2,381.2</b>	<b>4,100.4</b>	<b>4,100</b>	<b>4,100</b>	<b>4,100</b>	<b>4,100</b>
Debt	2,081.5	1,701.3	1,701	1,701	1,701	1,701
Other	594.1	724.9	725	725	725	725
<b>Total non-current liabilities</b>	<b>2,675.6</b>	<b>2,426.3</b>	<b>2,426</b>	<b>2,426</b>	<b>2,426</b>	<b>2,426</b>
Minorities	149.1	144.2	171	275	410	661
Shareholders' Equity	2,380.9	1,455.7	1,531	1,827	2,211	2,928
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>7,586.8</b>	<b>8,126.6</b>	<b>8,229</b>	<b>8,629</b>	<b>9,148</b>	<b>10,116</b>

Source: Company data, VTB Capital Research

**Figure 74: Cash Flow Statement (Figures in million EUR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013F	2014F	2015F	2016F
EBITDA	994.6	864.0	1,108	1,311	1,291	1,292
Working capital change	118.7	84.6	19	(20)	1	-
Other	(204.1)	(460.5)	28	28	28	28
Cash earnings ex taxes and interest	909.2	488.2	1,155	1,319	1,321	1,320
Tax liability	(123.1)	(691.6)	(22)	(88)	(114)	(213)
Interest and provisions	(590.4)	(1,015.3)	(447)	(369)	(266)	-
<b>Operating cash flow</b>	<b>195.7</b>	<b>(1,218.8)</b>	<b>686</b>	<b>862</b>	<b>941</b>	<b>1,107</b>
CAPEX	(302.6)	(439.8)	(179)	(193)	(192)	(192)
Intangibles	33.7	45.1	-	-	-	-
Acquisitions (net of disposals)	(65.4)	(10.5)	-	-	-	-
Other	9.8	33.3	-	-	-	-
<b>Cash flow before financing</b>	<b>(128.8)</b>	<b>(1,590.7)</b>	<b>507</b>	<b>669</b>	<b>749</b>	<b>916</b>
<b>Financing cash flows</b>	<b>213.1</b>	<b>1,581.5</b>	-	-	-	-
Net borrowing	537.0	1,112.3	-	-	-	-
New equity	-	-	-	-	-	-
Dividends	(313.2)	-	-	-	-	-
Other	(10.6)	469.2	-	-	-	-
<b>Net Cash Flow</b>	<b>84.3</b>	<b>(9.2)</b>	<b>507</b>	<b>669</b>	<b>749</b>	<b>916</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts &amp; Forecasts

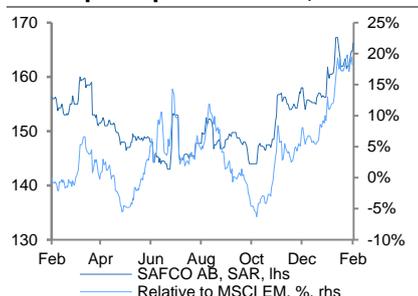
Saudi Arabia  
Materials / Fertilizers

# Saudi Arabian Fertilizer Company

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
SAFCO AB	SAR	166.25	145.00	Sell

## Share price performance, 12-mo



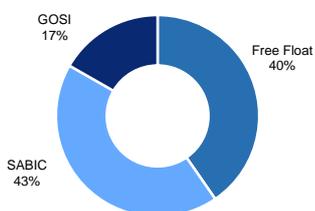
## Company description

Saudi Arabian Fertilizer Company (Saudi Arabia)  
– A pure play urea fertilizer company operating in Saudi Arabia.

## Company website

<http://www.safco.com.sa>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	333.3	333.3	333.3	333.3	333.3	333.3
Avg market cap, SAR mn	60,754	50,441	55,417	55,417	55,417	55,417
EV, SAR mn	57,200	48,301	53,392	53,206	53,047	52,911
<b>Ratios &amp; analysis</b>						
P/E, x	15.7x	16.0x	13.5x	13.4x	13.3x	13.3x
EV/EBITDA, x	14.8x	15.2x	12.7x	12.7x	12.6x	12.6x
P/B, x	6.9x	6.1x	6.7x	6.7x	6.7x	6.7x
Dividend yield (ords), %	2.7%	2.8%	2.9%	2.9%	2.9%	2.9%
EPS, SAR	11.60	9.48	12.33	12.41	12.48	12.54
CFPS, SAR	11.91	10.33	12.63	13.61	13.61	13.61
Free CFPS, SAR	9.95	6.88	10.82	11.80	11.80	11.80
DPS (ords), SAR	4.97	4.25	4.89	4.89	4.89	4.90
Payout ratio (ords), %	42.9%	44.8%	39.6%	39.4%	39.2%	39.1%
BPS, SAR	26.57	24.81	24.81	24.81	24.81	24.81
Revenues growth, %	-1%	-15%	34%	-	-	-
EPS growth, %	-29%	-18%	30%	1%	1%	0%
EBITDA margin, %	77.7%	74.8%	73.9%	73.9%	73.9%	73.9%
Net margin, %	77.6%	74.5%	72.4%	72.8%	73.2%	73.6%
ROE, %	43.7%	38.2%	49.7%	50.0%	50.3%	50.5%
ROIC, %	62.3%	43.3%	55.8%	58.3%	60.8%	63.1%
Capex/Revenues, %	12%	26%	4%	4%	4%	4%
Capex/Depreciation, x	1.6x	2.9x	0.5x	0.6x	0.6x	0.6x
Net debt/Equity, %	-40%	-26%	-24%	-27%	-29%	-30%
Net debt/EBITDA, x	(0.9x)	(0.7x)	(0.5x)	(0.5x)	(0.6x)	(0.6x)
Net interest cover, x	(988.9x)	n/a	n/a	n/a	n/a	n/a
<b>Income statement summary, SAR mn</b>						
Revenues	4,980	4,240	5,678	5,678	5,678	5,678
Cost of sales	(1,024)	(995)	(1,380)	(1,380)	(1,380)	(1,380)
SG&A and other opexp.	(87)	(74)	(100)	(100)	(100)	(100)
EBITDA	3,869	3,171	4,198	4,198	4,198	4,198
Depreciation & amortization	(348)	(374)	(425)	(400)	(377)	(356)
Operating profit	3,522	2,797	3,772	3,798	3,821	3,842
Non-operating gains/(exp.)	455	443	443	443	443	443
EBIT	3,522	2,797	3,772	3,798	3,821	3,842
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	3,973	3,241	4,216	4,241	4,265	4,285
Income tax	(107)	(80)	(105)	(105)	(106)	(106)
Minority interests	-	-	-	-	-	-
VTBC Net income	3,866	3,160	4,111	4,136	4,159	4,179
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	3,971	3,444	4,208	4,536	4,536	4,535
Working capital changes	128	295	(328)	-	-	-
Capex	(573)	(1,091)	(227)	(227)	(227)	(227)
Other investing activities	287	208	(52)	(55)	(58)	(60)
Free cash flow	3,318	2,294	3,605	3,933	3,932	3,932
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(3,250)	(3,975)	(4,111)	(4,136)	(4,159)	(4,179)
Net change in borrowings	(120)	(40)	-	-	-	-
Other financing cash flow	-	-	-	-	-	-
Movement in cash	314	(1,454)	(115)	185	160	136
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	3,594	2,140	2,025	2,210	2,370	2,506
PP&E	3,500	4,320	4,055	3,814	3,597	3,401
Goodwill	482	726	726	726	726	726
Investments	958	1,045	1,097	1,152	1,210	1,270
Other assets	1,498	1,228	1,790	1,790	1,790	1,790
Total assets	10,032	9,460	9,693	9,693	9,693	9,693
Interest bearing debt	813	613	399	327	284	258
Other liabilities	1,135	1,191	1,424	1,424	1,424	1,424
Total liabilities	1,175	1,191	1,424	1,424	1,424	1,424
Total shareholder's equity	8,857	8,269	8,269	8,269	8,269	8,269
Minority interest	-	-	-	-	-	-
Net working capital	686	311	639	639	639	639
Net Debt	(3,554)	(2,140)	(2,025)	(2,210)	(2,370)	(2,506)
Capital	9,670	8,881	8,668	8,596	8,552	8,526
FCF yield, %	5.5%	4.5%	6.5%	7.1%	7.1%	7.1%
Net sales, chg	-1%	-15%	34%	-	-	-
EBITDA, chg	-3%	-18%	32%	-	-	-
Net income, chg	-6%	-18%	30%	1%	1%	0%
EBIT margin, %	71%	66%	66%	67%	67%	68%

## SELL

Primary ticker: SAFCO AB

Currency: SAR

### Stock Data

Last price	166.3
Last price date	12 Feb 2014
Target price	145.0
Target price established	13 Feb 2014
Upside/(downside), %	-13%
52 week price range	143.0 - 167.3
Market cap, USD / SAR mn	14,776 / 55,417
EV, USD / SAR mn	14,236 / 53,392
# shares outstanding, mn	333
Free float	40%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	2.8%	6%	6%	-13%
Price relative	5%	10%	18%	-0%
ADTV (USD mn)	11.27	8.97	7.19	8.22

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	16.0x	13.5x	13.4x	13.3x
EV/EBITDA, x	15.2x	12.7x	12.7x	12.6x
P/B, x	6.1x	6.7x	6.7x	6.7x
FCF yield, %	4.5%	6.5%	7.1%	7.1%
DY (ords), %	2.8%	2.9%	2.9%	2.9%
Net sales, SAR mn	4,240	5,678	5,678	5,678
EBITDA, SAR mn	3,171	4,198	4,198	4,198
Net income, SAR mn	3,160	4,111	4,136	4,159
Net sales, chg	-15%	34%	-	-
EBITDA, chg	-18%	32%	-	-
Net income, chg	-18%	30%	1%	1%
EPS, SAR	9.48	12.33	12.41	12.48
DPS (ord.), SAR	4.25	4.89	4.89	4.89
BPS, SAR	24.81	24.81	24.81	24.81
EBITDA margin, %	74.8%	73.9%	73.9%	73.9%
ROE, %	38%	50%	50%	50%
Net Debt, SAR mn	(2,140)	(2,025)	(2,210)	(2,370)
ND/EBITDA, x	(0.7x)	(0.5x)	(0.5x)	(0.6x)
Net int. cover, x	n/a	n/a	n/a	n/a

Source: Bloomberg, Company data, VTB Capital Research

## Saudi Arabian Fertilizer Company

### No catalysts, no upside

**Saudi Arabian Fertilizer Company (SAFCO) is unlikely to see any upside from either volume growth, margin expansion or multiple expansion. We rate the company a Sell and have a Target Price of SAR 145. Safo's historically high payout ratios are better played via SABIC.**

**If feedstock costs rise, Safo is more exposed than others.** We see a marginal risk for feedstock costs to increase to USD 1.5/mmbtu in late 2015 and while the risk is long dated, we believe it could shave off 10% of EBITDA.

**Urea prices in the doldrums, we see limited upside.** From a medium-term perspective, the advent of shale gas is likely to lower production costs for all C1 class of output chemicals, which include urea, ammonia and methanol. The threat is further exacerbated by the lack of transportation-related arbitrage for urea, unlike that for natural gas. There is little scarcity of any other ingredients in the mix, unlike phosrock for DAP. Thus, urea commodity prices are likely to remain capped at sub USD 400/t in the long term and unlikely to benefit from a commodity chemical supercycle.

**Indian demand decline might surprise in medium term.** With a decline in growth rates and given the fiscal squeeze, 2014 elections might lead to a rationalisation of urea subsidies that could reduce export demand by as much as 3mnt. Furthermore, domestic gas price increases are expected to boost the production of domestic gas and allow for domestic urea capacity increases at cash costs of USD 330-350/t.

**Valuation.** We value SAFCO via a multiples-based method with a generic sector 12mo forward EV/EBITDA of 9x. We have placed SAFCO at a 20% premium to the sector to account for the historical premia as well as unique stock-specific investment dynamics related to balance sheet strength and investor profile. The stock has historically traded at elevated multiples due to its unique positioning (payout ratios are close to 100%) in the insulated Saudi equities market (foreigners account for less than 10% of traded value). The support from domestic pension and income seeking institutions (GOSI has a 16.7% stake, amongst the highest in the market in any stock) provides support to the elevated valuations. Our normalised EBITDA estimate is SAR 4.2bn. Using a net debt assumption of SAR -2bn (SAFCO is cash positive), we arrive at a Target Price of SAR 145. Safo trades at a 2014F P/E of 13.5x against peers at 11.5x. On 2014F EV/EBITDA, the company trades at 12.7x against peers at 7x.

**Risk.** Changes in commodity prices present a margin volatility risk.

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**Figure 75: Income Statement (Figures in million SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	<b>5,051</b>	<b>4,980</b>	<b>4,240</b>	<b>5,678</b>	<b>5,678</b>	<b>5,678</b>
<b>EBITDA</b>	<b>3,990</b>	<b>3,869</b>	<b>3,171</b>	<b>4,198</b>	<b>4,198</b>	<b>4,198</b>
D&A	314	348	374	425	400	377
<b>EBIT</b>	<b>3,677</b>	<b>3,522</b>	<b>2,797</b>	<b>3,772</b>	<b>3,798</b>	<b>3,821</b>
Finance Costs	-	4	-	-	-	-
Other income (expense)	511	455	443	443	443	443
<b>PBT</b>	<b>4,188</b>	<b>3,973</b>	<b>3,241</b>	<b>4,216</b>	<b>4,241</b>	<b>4,265</b>
Taxes	78	107	80	105	105	106
Effective tax rate (%)	0	0	0	0	0	0
Net income before minorities	4,110	3,866	3,160	4,111	4,136	4,159
Share of minorities	-	-	-	-	-	-
Gains/(losses)/(deconsolidation)/Discontinued income-						
<b>Net income</b>	<b>4,110</b>	<b>3,866</b>	<b>3,160</b>	<b>4,111</b>	<b>4,136</b>	<b>4,159</b>
% of Revenues	1	1	1	1	1	1
% Growth	0	(0)	(0)	0	0	0
<b>Adjusted net income (pre-exceptionals)</b>	<b>4,110</b>	<b>3,866</b>	<b>3,160</b>	<b>4,111</b>	<b>4,136</b>	<b>4,159</b>
Number of shares (mn)	250	333	333	333	333	333
EPS	16.4	11.6	9.5	12.3	12.4	12.5
Adjusted EPS (pre-exceps)	16.4	11.6	9.5	12.3	12.4	12.5
DPS	12.0	9.8	11.9	12.3	12.4	12.5
Payout ratio (%)	73%	84%	126%	100%	100%	100%

Source: Company data, VTB Capital Research

**Figure 76: Balance Sheet (Figures in million SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	3,195	3,500	4,320	4,055	3,814	3,597
Intangibles	85	482	726	726	726	726
Investments	1,319	958	1,045	1,097	1,152	1,210
Other	19	-	-	-	-	-
<b>Total non-current assets</b>	<b>4,618</b>	<b>4,940</b>	<b>6,092</b>	<b>5,878</b>	<b>5,693</b>	<b>5,533</b>
Cash	3,261	3,594	2,140	2,025	2,210	2,370
Accounts receivable	875	916	656	878	878	878
Inventories	372	423	342	681	681	681
Other	199	159	230	230	230	230
<b>Total current assets</b>	<b>4,708</b>	<b>5,092</b>	<b>3,368</b>	<b>3,815</b>	<b>4,000</b>	<b>4,160</b>
<b>TOTAL ASSETS</b>	<b>9,326</b>	<b>10,032</b>	<b>9,460</b>	<b>9,693</b>	<b>9,693</b>	<b>9,693</b>
Debt	80	40	-	-	-	-
Accounts payable	441	653	688	921	921	921
Other	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>521</b>	<b>693</b>	<b>688</b>	<b>921</b>	<b>921</b>	<b>921</b>
Debt	80	-	-	-	-	-
Other	515	482	503	503	503	503
<b>Total non-current liabilities</b>	<b>595</b>	<b>482</b>	<b>503</b>	<b>503</b>	<b>503</b>	<b>503</b>
Minorities	-	-	-	-	-	-
Shareholders' Equity	8,210	8,857	8,269	8,269	8,269	8,269
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>9,326</b>	<b>10,032</b>	<b>9,460</b>	<b>9,693</b>	<b>9,693</b>	<b>9,693</b>

Source: Company data, VTB Capital Research

**Figure 77: Cash Flow Statement (Figures in million SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	3,990	3,869	3,171	4,198	4,198	4,198
Working capital change	(59)	128	295	(328)	-	-
Other	260	84	58	443	443	443
Cash earnings ex zakat and interest	4,192	4,081	3,524	4,313	4,641	4,641
Tax paid	(78)	(107)	(80)	(105)	(105)	(106)
Net interest paid	-	(4)	-	-	-	-
<b>Operating cash flow</b>	<b>4,114</b>	<b>3,971</b>	<b>3,444</b>	<b>4,208</b>	<b>4,536</b>	<b>4,536</b>
CAPEX	(201)	(573)	(1,091)	(227)	(227)	(227)
Intangibles	-	-	-	-	-	-
Acquisitions (net of disposals)	-	-	-	67	67	67
Other	284	287	208	(52)	(55)	(58)
<b>Cash flow before financing</b>	<b>4,198</b>	<b>3,684</b>	<b>2,561</b>	<b>3,996</b>	<b>4,322</b>	<b>4,318</b>
<b>Financing cash flows</b>	<b>(3,193)</b>	<b>(3,370)</b>	<b>(4,015)</b>	<b>(4,111)</b>	<b>(4,136)</b>	<b>(4,159)</b>
Net borrowing	(193)	(120)	(40)	-	-	-
New equity	-	-	-	-	-	-
Dividends	(3,000)	(3,250)	(3,975)	(4,111)	(4,136)	(4,159)
Other	-	-	-	-	-	-
<b>Net Cash Flow</b>	<b>1,005</b>	<b>314</b>	<b>(1,454)</b>	<b>(115)</b>	<b>185</b>	<b>160</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts & Forecasts

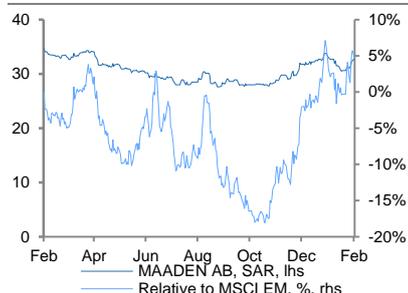
Saudi Arabia  
Materials / Fertilizers

# Saudi Arabian Mining Company

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
MAADEN AB	SAR	32.70	38.00	Buy

## Share price performance, 12-mo



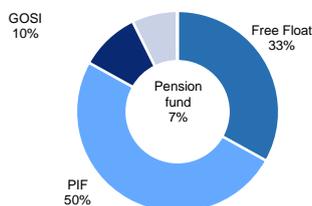
## Company description

Saudi Arabian Mining Company (Saudi Arabia) – The largest mining and non oil mineral explorer in Saudi Arabia operating in gold and phosphate segments. Future segments include a world scale vertically integrated aluminium smelter

## Company website

<http://www.maaden.com.sa>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	925.0	925.0	925.0	925.0	925.0	925.0
Avg market cap, SAR mn	29,058	28,597	30,248	30,248	30,248	30,248
EV, SAR mn	57,054	64,564	68,084	70,397	71,538	65,539
<b>Ratios &amp; analysis</b>						
P/E, x	26.6x	17.0x	19.1x	10.2x	7.6x	5.6x
EV/EBITDA, x	20.7x	36.4x	22.9x	13.6x	10.2x	7.3x
P/B, x	1.6x	1.4x	1.4x	1.2x	1.1x	1.0x
Dividend yield (ords), %	-	-	-	-	2.6%	6.3%
EPS, SAR	1.18	1.82	1.72	3.20	4.29	5.88
CFPS, SAR	2.28	1.96	4.15	3.58	5.67	8.03
Free CFPS, SAR	2.94	1.07	(2.02)	(1.98)	0.71	9.66
DPS (ords), SAR	-	-	-	-	0.86	2.06
Payout ratio (ords), %	-	-	-	-	20.0%	35.0%
BPS, SAR	19.54	21.36	23.08	26.28	29.71	33.53
Revenues growth, %	268%	8%	1%	75%	33%	18%
EPS growth, %	164%	54%	-6%	86%	34%	37%
EBITDA margin, %	49.5%	29.3%	48.8%	48.5%	49.7%	53.5%
Net margin, %	19.6%	27.8%	26.1%	27.7%	28.0%	32.4%
ROE, %	6.0%	8.5%	7.4%	12.2%	14.4%	17.5%
ROIC, %	4.1%	1.3%	3.3%	6.4%	8.5%	11.6%
Capex/Revenues, %	1%	13%	94%	53%	40%	-3%
Capex/Depreciation, x	0.0x	0.7x	5.2x	4.7x	4.4x	(0.3x)
Net debt/Equity, %	89%	114%	113%	107%	98%	71%
Net debt/EBITDA, x	7.4x	16.1x	10.2x	6.3x	4.8x	3.1x
Net interest cover, x	6.2x	3.7x	6.6x	6.6x	5.9x	7.5x
<b>Income statement summary, SAR mn</b>						
Revenues	5,577	6,047	6,094	10,684	14,169	16,755
Cost of sales	(2,636)	(4,097)	(2,942)	(5,183)	(6,713)	(7,291)
SG&A and other opexp.	(180)	(178)	(179)	(314)	(417)	(493)
EBITDA	2,761	1,772	2,973	5,187	7,039	8,971
Depreciation & amortization	(1,000)	(1,098)	(1,098)	(1,190)	(1,278)	(1,363)
Operating profit	1,761	674	1,874	3,997	5,761	7,608
Non-operating gains/(exp.)	5	1,325	300	150	-	-
EBIT	1,761	674	1,874	3,997	5,761	7,608
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	1,480	1,816	1,890	3,540	4,782	6,595
Income tax	-	-	-	-	-	-
Minority interests	(389)	(134)	(302)	(580)	(816)	(1,159)
VTBC Net income	1,091	1,682	1,588	2,960	3,965	5,436
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	2,107	1,814	3,836	3,310	5,240	7,431
Working capital changes	-	-	848	(1,420)	(819)	(526)
Capex	(39)	(783)	(5,735)	(5,650)	(5,615)	445
Other investing activities	(8,983)	(9,496)	(58)	(61)	(64)	(67)
Free cash flow	2,722	989	(1,865)	(1,833)	655	8,940
Share issue (reacquisition)	7,993	6,689	-	-	-	-
Dividends paid	-	-	-	-	(793)	(1,902)
Net change in borrowings	52	(63)	36	37	38	40
Other financing cash flow	-	-	37	39	41	43
Movement in cash	1,131	(1,839)	(1,834)	(2,275)	(1,103)	6,039
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	6,175	4,337	2,502	227	(876)	5,163
PP&E	41,490	55,124	59,711	64,121	68,409	66,550
Goodwill	1,492	486	486	486	486	486
Investments	1,167	1,161	1,219	1,280	1,344	1,412
Other assets	4,818	2,843	2,629	4,245	5,524	6,479
Total assets	55,142	63,951	66,547	70,360	74,887	80,090
Interest bearing debt	813	613	399	327	284	258
Other liabilities	5,386	6,141	6,811	7,046	7,546	8,017
Total liabilities	32,057	38,944	39,650	39,922	40,461	40,971
Total shareholder's equity	18,077	19,760	21,347	24,308	27,480	31,013
Minority interest	5,007	5,248	5,550	6,130	6,946	8,105
Net working capital	1,390	2,260	1,654	3,327	4,412	5,217
Net Debt	20,496	28,466	30,337	32,649	33,790	27,791
Capital	18,890	20,372	21,746	24,635	27,764	31,271
FCF yield, %	9.4%	3.5%	-6.2%	-6.1%	2.2%	29.6%
Net sales, chg	268%	8%	1%	75%	33%	18%
EBITDA, chg	221%	-36%	68%	74%	36%	27%
Net income, chg	164%	54%	-6%	86%	34%	37%
EBIT margin, %	32%	11%	31%	37%	41%	45%

## BUY

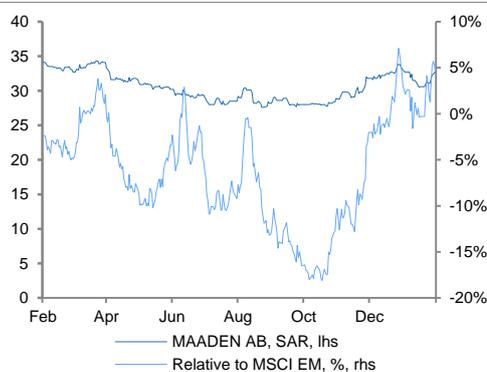
Primary ticker: MAADEN AB

Currency: SAR

### Stock Data

Last price	32.70
Last price date	12 Feb 2014
Target price	40.00
Target price established	13 Feb 2014
Upside/(downside), %	22%
52 week price range	27.40 - 34.30
Market cap, USD / SAR mn	8,065 / 30,248
EV, USD / SAR mn	18,154 / 68,084
# shares outstanding, mn	925
Free float	33%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	-1.5%	13%	-6%	38%
Price relative	0%	18%	5%	58%
ADTV (USD mn)	22.90	16.99	9.94	15.66

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	17.0x	19.1x	10.2x	7.6x
EV/EBITDA, x	36.4x	22.9x	13.6x	10.2x
P/B, x	1.4x	1.4x	1.2x	1.1x
FCF yield, %	3.5%	-6.2%	-6.1%	2.2%
DY (ords), %	-	-	-	2.6%
Net sales, SAR mn	6,047	6,094	10,684	14,169
EBITDA, SAR mn	1,772	2,973	5,187	7,039
Net income, SAR mn	1,682	1,588	2,960	3,965
Net sales, chg	8%	1%	75%	33%
EBITDA, chg	-36%	68%	74%	36%
Net income, chg	54%	-6%	86%	34%
EPS, SAR	1.82	1.72	3.20	4.29
DPS (ord.), SAR	-	-	-	0.86
BPS, SAR	21.36	23.08	26.28	29.71
EBITDA margin, %	29.3%	48.8%	48.5%	49.7%
ROE, %	9%	7%	12%	14%
Net Debt, SAR mn	28,466	30,337	32,649	33,790
ND/EBITDA, x	16.1x	10.2x	6.3x	4.8x
Net int. cover, x	3.7x	6.6x	6.6x	5.9x

Source: Bloomberg, Company data, VTB Capital Research

## Saudi Arabian Mining Company

### Execution is the key

**Saudi Arabian Mining Company (Maaden) remains a 'concept stock', to use a borrowed term. Earnings do not reflect the value of over 85% of the project NAV, as DAP ramp-up is yet to be completed, and Aluminium project viability (especially the refinery), has yet to be proven. Foreign Institutional Investors have largely abandoned the name and it trades on speculative newsflow. We believe this is the deepest value fundamental opportunity in the Saudi chemicals space and see 2014 and 2015 as pivotal years for the earnings trajectory to become clearer. We upgrade the stock to a Buy with a TP of SAR 40.**

**Company announced DAP project expansion; completely ignored.** Maaden is among the lowest cost DAP producers, if not the lowest, globally with cash costs sub USD 175/t. The most critical and scarce element of the DAP value chain is phosrock, of which Maaden has over a 15-year proven reserve life (for expanded production) at the very minimum. After a severe cost escalation in the middle of the 2008 crisis, Maaden's current integrated DAP facility cost USD 5bn, on our estimates, for a 2.9mtpa of capacity (Maaden's share is of 2.4mtpa). Unlevered ROICs in the current environment stand at 10.9%. With a short construction lead time, high debt portion (over 70%), equity returns are very attractive. Maaden announced another 3mtpa (Maaden's share of 1.8mtpa) of expansion by 2016 in a JV with Mosaic and SABIC, yet the market has completely ignored this.

**Government support provides low-cost financing, removes credit risk.** As it is 50% owned by PIF (a Ministry of Finance undertaking), Maaden's high debt load is guaranteed by the state, which removes tail risks.

**Aluminium smelter and refinery provide further EPS upside.** While the NPV merits of returns on the aluminium project are debatable, the earnings upside risk and cheap financing (LIBOR + 150bp) is underappreciated by the market.

**Valuation.** Maaden trades at a 2015F P/E of 10.2x, which reduces to 5.6x by 2017 with heavy earnings growth potential while 2015F peers are at 10.1x. Due to a number of moving parts, e.g. intensive capex, growing earnings, aluminium smelter and refinery commissioning, phase 1 DAP plant ramp-up and phase 2 construction, the market is placing a heavy discount on Maaden's fair value, in our view.

**Risks.** We continue to see the bauxite refinery as a higher risk project and are concerned by the high silica content in Saudi bauxite. Project cost escalation remains a fundamental risk.

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**Figure 78: Income Statement (Figures in million SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	<b>1,514</b>	<b>5,577</b>	<b>6,047</b>	<b>6,094</b>	<b>10,684</b>	<b>14,169</b>
<b>EBITDA</b>	<b>861</b>	<b>2,761</b>	<b>1,772</b>	<b>2,973</b>	<b>5,187</b>	<b>7,039</b>
D&A	194	1,000	1,098	1,098	1,190	1,278
<b>EBIT</b>	<b>667</b>	<b>1,761</b>	<b>674</b>	<b>1,874</b>	<b>3,997</b>	<b>5,761</b>
Finance charges	(11)	(286)	(183)	(285)	(607)	(979)
Other income (expense)	2	5	1,325	300	150	-
<b>PBT</b>	<b>658</b>	<b>1,480</b>	<b>1,816</b>	<b>1,890</b>	<b>3,540</b>	<b>4,782</b>
Taxes	120	-	-	-	-	-
Net income before minorities	538	1,480	1,816	1,890	3,540	4,782
Share of minorities	125	389	134	302	580	816
Gains/(losses)/(deconsolidation)/Provisions-						
<b>Net income</b>	<b>413</b>	<b>1,091</b>	<b>1,682</b>	<b>1,588</b>	<b>2,960</b>	<b>3,965</b>
<b>Adjusted net income (pre-exceptionals)</b>	<b>413</b>	<b>1,091</b>	<b>1,682</b>	<b>1,588</b>	<b>2,960</b>	<b>3,965</b>
Number of shares (M)	925	925	925	925	925	925
EPS	0.4	1.2	1.8	1.7	3.2	4.3
Adjusted EPS (pre-exceps)	0.4	1.2	1.8	1.7	3.2	4.3
DPS	-	-	-	-	-	0.9
Payout ratio (%)	0%	0%	0%	0%	0%	20%

Source: Company data, VTB Capital Research

**Figure 79: Balance Sheet (Figures in million SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	29,691	41,490	55,124	59,711	64,121	68,409
Intangibles	448	1,492	486	486	486	486
Investments	842	1,167	1,161	1,219	1,280	1,344
Other	-	-	-	-	-	-
<b>Total non-current assets</b>	<b>30,980</b>	<b>44,148</b>	<b>56,771</b>	<b>61,416</b>	<b>65,887</b>	<b>70,239</b>
Cash	5,044	6,175	4,337	2,502	227	(876)
Accounts receivable	482	555	612	366	534	708
Inventories	562	1,090	1,883	1,898	3,327	4,412
Other	6,505	3,173	348	366	384	403
<b>Total current assets</b>	<b>12,593</b>	<b>10,994</b>	<b>7,180</b>	<b>5,131</b>	<b>4,473</b>	<b>4,648</b>
<b>TOTAL ASSETS</b>	<b>43,574</b>	<b>55,142</b>	<b>63,951</b>	<b>66,547</b>	<b>70,360</b>	<b>74,887</b>
Debt	762	861	1,208	1,244	1,282	1,320
Accounts payable	1,342	255	235	609	534	708
Other	1,728	4,818	5,168	5,427	5,698	5,983
<b>Total current liabilities</b>	<b>3,833</b>	<b>5,934</b>	<b>6,611</b>	<b>7,281</b>	<b>7,514</b>	<b>8,012</b>
Debt	18,906	25,809	31,595	31,595	31,595	31,595
Other	951	314	738	775	813	854
<b>Total non-current liabilities</b>	<b>19,858</b>	<b>26,123</b>	<b>32,333</b>	<b>32,370</b>	<b>32,408</b>	<b>32,449</b>
Minorities	2,897	5,007	5,248	5,550	6,130	6,946
Shareholders' Equity	16,986	18,077	19,760	21,347	24,308	27,480
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>43,574</b>	<b>55,142</b>	<b>63,951</b>	<b>66,547</b>	<b>70,360</b>	<b>74,887</b>

Source: Company data, VTB Capital Research

**Figure 80: Cash Flow Statement (Figures in million SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	861	2,761	1,772	2,973	5,187	7,039
Working capital change	(406)	-	-	848	(1,420)	(819)
Other	(161)	(368)	224	300	150	-
Cash earnings ex zakat and interest	294	2,393	1,996	4,120	3,917	6,220
Tax paid	(186)	-	-	-	-	-
Net interest paid	(11)	(286)	(183)	(285)	(607)	(979)
<b>Operating cash flow</b>	<b>96</b>	<b>2,107</b>	<b>1,814</b>	<b>3,836</b>	<b>3,310</b>	<b>5,240</b>
CAPEX	(4,410)	(39)	(783)	(5,735)	(5,650)	(5,615)
Acquisitions (net of disposals)	-	-	-	50	50	50
Other	(178)	(8,983)	(9,496)	(58)	(61)	(64)
<b>Cash flow before financing</b>	<b>(4,491)</b>	<b>(6,914)</b>	<b>(8,465)</b>	<b>(1,907)</b>	<b>(2,351)</b>	<b>(389)</b>
<b>Financing cash flows</b>	<b>6,699</b>	<b>8,045</b>	<b>6,626</b>	<b>73</b>	<b>76</b>	<b>(714)</b>
Net borrowing	638	52	(63)	36	37	38
New equity	6,061	7,993	6,689	-	-	-
Dividends	-	-	-	-	-	(793)
Other	-	-	-	37	39	41
<b>Net Cash Flow</b>	<b>2,207</b>	<b>1,131</b>	<b>(1,839)</b>	<b>(1,834)</b>	<b>(2,275)</b>	<b>(1,103)</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts & Forecasts

Saudi Arabia

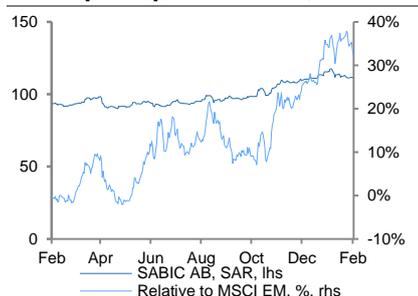
Materials / Commodity  
Chemicals

# Saudi Basic Industries

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
SABIC AB	SAR	111.50	130.00	Buy

## Share price performance, 12-mo



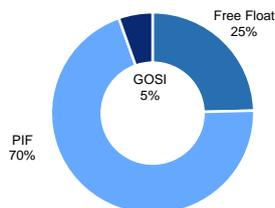
## Company description

Saudi Basic Industries (Saudi Arabia) – The largest commodity petrochemical producer in the Middle East with a global operating footprint.

## Company website

<http://www.sabic.com>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	3,000	3,000	3,000	3,000	3,000	3,000
Avg market cap, SAR mn	282,516	290,852	334,500	334,500	334,500	334,500
EV, SAR mn	456,524	469,030	482,899	450,271	417,867	383,442
<b>Ratios &amp; analysis</b>						
P/E, x	11.4x	11.5x	10.5x	10.5x	10.5x	10.4x
EV/EBITDA, x	8.4x	8.3x	7.5x	7.0x	6.5x	5.9x
P/B, x	1.4x	1.4x	1.4x	1.2x	1.1x	1.0x
Dividend yield (ords), %	5.3%	4.4%	4.8%	4.8%	4.8%	4.8%
EPS, SAR	8.26	8.41	10.62	10.64	10.65	10.68
CFPS, SAR	17.13	20.00	20.13	21.08	21.03	21.06
Free CFPS, SAR	9.35	9.44	14.77	15.73	15.66	16.35
DPS (ords), SAR	4.97	4.25	5.36	5.37	5.38	5.39
Payout ratio (ords), %	60.2%	50.5%	50.5%	50.5%	50.5%	50.5%
BPS, SAR	66.08	68.86	79.84	90.83	101.8	112.9
Revenues growth, %	0%	0%	6%	0%	0%	0%
EPS growth, %	-15%	2%	26%	0%	0%	0%
EBITDA margin, %	28.8%	30.0%	32.1%	32.2%	32.1%	32.0%
Net margin, %	13.1%	13.3%	15.9%	15.9%	15.9%	15.9%
ROE, %	16.8%	16.1%	18.5%	17.0%	15.7%	14.6%
ROIC, %	16.2%	16.0%	19.9%	21.5%	23.2%	25.6%
Capex/Revenues, %	6%	6%	6%	6%	6%	5%
Capex/Depreciation, x	0.8x	0.8x	0.9x	0.9x	0.9x	0.7x
Net debt/Equity, %	29%	30%	13%	0%	-11%	-20%
Net debt/EBITDA, x	1.0x	1.1x	0.5x	0.0x	(0.5x)	(1.1x)
Net interest cover, x	17.0x	24.3x	n/a	n/a	n/a	n/a
<b>Income statement summary, SAR mn</b>						
Revenues	189,026	189,038	200,679	200,365	201,150	201,917
Cost of sales	(116,014)	(121,446)	(118,369)	(122,336)	(121,856)	(122,485)
SG&A and other opexp.	(13,231)	(13,232)	(14,047)	(14,025)	(14,080)	(14,133)
EBITDA	54,348	56,622	64,318	64,430	64,531	64,624
Depreciation & amortization	(13,413)	(14,031)	(14,040)	(14,073)	(14,105)	(14,067)
Operating profit	40,935	42,591	50,278	50,356	50,427	50,557
Non-operating gains/(exp.)	2,312	1,557	1,557	1,557	1,557	1,557
EBIT	40,935	42,591	50,278	50,356	50,427	50,557
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	40,844	42,391	51,834	51,913	51,984	52,113
Income tax	(2,500)	(2,300)	(2,812)	(2,817)	(2,820)	(2,827)
Minority interests	(13,564)	(14,863)	(17,158)	(17,184)	(17,207)	(17,250)
VTBC Net income	24,780	25,228	31,864	31,913	31,956	32,036
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	51,381	59,997	60,387	63,242	63,087	63,176
Working capital changes	(12,923)	(14,358)	(2,676)	72	(180)	(176)
Capex	(10,861)	(11,650)	(12,368)	(12,348)	(12,397)	(10,425)
Other investing activities	(3,277)	(6,389)	-	-	-	-
Free cash flow	28,065	28,314	44,309	47,184	46,981	49,042
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(14,914)	(12,738)	(16,087)	(16,112)	(16,133)	(16,174)
Net change in borrowings	(6,976)	(13,571)	-	-	-	-
Other financing cash flow	(14,311)	(14,937)	-	-	-	-
Movement in cash	1,041	711	29,779	32,629	32,404	34,425
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	51,431	37,548	67,327	99,955	132,359	166,784
PP&E	165,440	165,212	165,693	166,121	166,566	165,077
Goodwill	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	121,563	136,251	140,123	140,019	140,280	140,535
Total assets	338,434	339,011	373,143	406,095	439,206	472,397
Interest bearing debt	813	613	399	327	284	258
Other liabilities	31,833	33,776	34,973	34,941	35,022	35,101
Total liabilities	140,196	132,427	133,624	133,592	133,673	133,752
Total shareholder's equity	147,801	156,221	171,998	187,799	203,622	219,484
Minority interest	50,436	50,362	67,520	84,704	101,911	119,161
Net working capital	46,436	43,452	46,127	46,055	46,236	46,412
Net Debt	56,933	61,103	31,324	(1,304)	(33,708)	(68,133)
Capital	148,614	156,834	172,397	188,126	203,906	219,742
FCF yield, %	9.9%	9.7%	13.2%	14.1%	14.0%	14.7%
Net sales, chg	0%	0%	6%	0%	0%	0%
EBITDA, chg	-10%	4%	14%	0%	0%	0%
Net income, chg	-15%	2%	26%	0%	0%	0%
EBIT margin, %	22%	23%	25%	25%	25%	25%

## BUY

Primary ticker: SABIC AB

Currency: SAR

### Stock Data

Last price	111.5
Last price date	12 Feb 2014
Target price	130.0
Target price established	13 Feb 2014
Upside/(downside), %	17%
52 week price range	90.25 - 117.8
Market cap, USD / SAR mn	89,191 / 334,500
EV, USD / SAR mn	128,760 / 482,900
# shares outstanding, mn	3,000
Free float	25%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	-3.5%	4%	19%	7%
Price relative	-2%	8%	32%	22%
ADTV (USD mn)	139.09	118.01	105.83	148.63

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	11.5x	10.5x	10.5x	10.5x
EV/EBITDA, x	8.3x	7.5x	7.0x	6.5x
P/B, x	1.4x	1.4x	1.2x	1.1x
FCF yield, %	9.7%	13.2%	14.1%	14.0%
DY (ords), %	4.4%	4.8%	4.8%	4.8%
Net sales, SAR mn	189,038	200,679	200,365	201,150
EBITDA, SAR mn	56,622	64,318	64,430	64,531
Net income, SAR mn	25,228	31,864	31,913	31,956
Net sales, chg	0%	6%	0%	0%
EBITDA, chg	4%	14%	0%	0%
Net income, chg	2%	26%	0%	0%
EPS, SAR	8.41	10.62	10.64	10.65
DPS (ord.), SAR	4.25	5.36	5.37	5.38
BPS, SAR	68.86	79.84	90.83	101.8
EBITDA margin, %	30.0%	32.1%	32.2%	32.1%
ROE, %	16%	19%	17%	16%
Net Debt, SAR mn	61,103	31,324	(1,304)	(33,708)
ND/EBITDA, x	1.1x	0.5x	0.0x	(0.5x)
Net int. cover, x	24.3x	n/a	n/a	n/a

Source: Bloomberg, Company data, VTB Capital Research

## Saudi Basic Industries

### Operating leverage; reasonable valuation

**Saudi Basic Industries Corp (SABIC) is our favoured MENA chemicals play. With the balance sheet turning cash positive by 2Q14, in our view, we believe the company is likely to either make for a breakthrough play in upstream shale assets or increase dividends. The first provides strategic growth opportunities, while the second would lead to a multiple re-rating. We maintain our Buy recommendation and increase our TP to SAR 130.**

**Strategic move likely in 2014.** Management has indicated a play for upstream shale assets that provide downstream feedstock synergies in 2014. The assessment appears credible with a cash positive balance sheet on the near-term horizon. Coupled with reduced expansion opportunities at home and an end to the capex cycle in Asia, we see significant free cash flow accrual in SABIC. With a cash balance war chest of USD 18bn, the range of targets is quite large. We believe the immediate benefit of a move would be the ROE boost afforded by leverage, especially with the very low cost dollar funding currently available to SABIC from domestic and international banks. Management has been very conservative in evaluating opportunities post the operational challenge of GE Plastics acquisition. We believe shale gas exposure would improve the risk profile of SABIC's asset base. We could also potentially see an expansion of the product slate into polyurethanes, high temperature coatings and energy storage in the near future. The recent commitment to explore Mauritania iron ore for Hadeed's vertical integration strategy bears a firmer commitment to the acquisition capex than we have seen since 2008.

**European recovery yet to play out.** SABIC's results suggest that European commodity chemical demand stabilisation is not fully factored in based on the operational rates of its European plants. With a higher cost structure and operational leverage we believe this offers attractive upside in a supercycle.

**Domestic operating rates struggled.** The recent earnings disappointments have largely been a function of the slower than anticipated ramp-up owing to a heavier than usual shutdown schedule. We see 5% EPS upside to 4Q numbers from operational normalisation alone.

**Product slate geared to attractive segments.** SABIC has significant exposure to LLDPE, MTBE, MEG, PP and vinyls, offering rather strong Asian consumer demand growth leverage. 48% of SABIC's EBITDA is comprised of an attractive product slate.

**Valuation.** SABIC trades at a 2014F P/E of 10.5x against peers at 13.5x. On 2014 EV/EBITDA, the company trades at 7.5x against peers at 7.6x.

**Risks.** A further slump in European demand.

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**Figure 81: Income Statement (Figures in million SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	<b>189,898</b>	<b>189,026</b>	<b>189,038</b>	<b>200,679</b>	<b>200,365</b>	<b>201,150</b>
<b>EBITDA</b>	<b>60,654</b>	<b>54,348</b>	<b>56,622</b>	<b>64,318</b>	<b>64,430</b>	<b>64,531</b>
D&A	11,815	13,413	14,031	14,040	14,073	14,105
<b>EBIT</b>	<b>48,838</b>	<b>40,935</b>	<b>42,591</b>	<b>50,278</b>	<b>50,356</b>	<b>50,427</b>
Finance Costs	2,993	2,402	1,756	-	-	-
Other income (expense)	2,039	2,312	1,557	1,557	1,557	1,557
<b>PBT</b>	<b>47,885</b>	<b>40,844</b>	<b>42,391</b>	<b>51,834</b>	<b>51,913</b>	<b>51,984</b>
Taxes	2,600	2,500	2,300	2,812	2,817	2,820
Effective tax rate (%)	5%	6%	5%	5%	5%	5%
Net income before minorities	45,285	38,344	40,091	49,022	49,096	49,163
Share of minorities	16,043	13,564	14,863	17,158	17,184	17,207
Gains/(losses)/(deconsolidation)	-	-	-	-	-	-
<b>Net income</b>	<b>29,242</b>	<b>24,780</b>	<b>25,228</b>	<b>31,864</b>	<b>31,913</b>	<b>31,956</b>
<b>Adjusted net income (pre-exceptionals)</b>	<b>29,242</b>	<b>24,780</b>	<b>25,228</b>	<b>31,864</b>	<b>31,913</b>	<b>31,956</b>
Number of shares (mn)	3,000	3,000	3,000	3,000	3,000	3,000
EPS	9.7	8.3	8.4	10.6	10.6	10.7
Adjusted EPS (pre-exceps)	9.7	8.3	8.4	10.6	10.6	10.7
DPS	3.9	5.0	4.2	5.4	5.4	5.4
Payout ratio (%)	40%	60%	50%	50%	50%	50%

Source: Company data, VTB Capital Research

**Figure 82: Balance Sheet (Figures in million SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	165,805	165,440	165,212	165,693	166,121	166,566
Intangibles	21,891	-	-	-	-	-
Investments	9,701	-	-	-	-	-
Other	2,986	36,698	38,770	38,770	38,770	38,770
<b>Total non-current assets</b>	<b>200,382</b>	<b>202,139</b>	<b>203,983</b>	<b>204,463</b>	<b>204,892</b>	<b>205,337</b>
Cash	50,389	51,431	37,548	67,327	99,955	132,359
Accounts receivable	31,426	31,542	30,086	31,939	31,889	32,014
Inventories	31,464	34,499	32,808	34,828	34,774	34,910
Other	19,122	18,824	34,586	34,586	34,586	34,586
<b>Total current assets</b>	<b>132,401</b>	<b>136,295</b>	<b>135,028</b>	<b>168,680</b>	<b>201,204</b>	<b>233,869</b>
<b>TOTAL ASSETS</b>	<b>332,784</b>	<b>338,434</b>	<b>339,011</b>	<b>373,143</b>	<b>406,095</b>	<b>439,206</b>
Debt	14,597	28,739	24,704	24,704	24,704	24,704
Accounts payable	16,388	19,604	19,443	20,640	20,607	20,688
Other	12,084	-	-	-	-	-
<b>Total current liabilities</b>	<b>43,070</b>	<b>48,343</b>	<b>44,146</b>	<b>45,344</b>	<b>45,311</b>	<b>45,392</b>
Debt	87,907	79,625	73,947	73,947	73,947	73,947
Other	12,601	12,228	14,334	14,334	14,334	14,334
<b>Total non-current liabilities</b>	<b>100,508</b>	<b>91,853</b>	<b>88,281</b>	<b>88,281</b>	<b>88,281</b>	<b>88,281</b>
Minorities	51,183	50,436	50,362	67,520	84,704	101,911
Shareholders' Equity	138,022	147,801	156,221	171,998	187,799	203,622
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>332,784</b>	<b>338,434</b>	<b>339,011</b>	<b>373,143</b>	<b>406,095</b>	<b>439,206</b>

Source: Company data, VTB Capital Research

**Figure 83: Cash Flow Statement (Figures in million SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	60,654	54,348	56,622	64,318	64,430	64,531
Working capital change	(15,612)	(12,923)	(14,358)	(2,676)	72	(180)
Other	2,694	14,858	21,788	1,557	1,557	1,557
Cash earnings ex zakat and interest	47,736	56,283	64,053	63,199	66,058	65,908
Tax paid	(2,600)	(2,500)	(2,300)	(2,812)	(2,817)	(2,820)
Net interest paid	(2,993)	(2,402)	(1,756)	-	-	-
<b>Operating cash flow</b>	<b>42,143</b>	<b>51,381</b>	<b>59,997</b>	<b>60,387</b>	<b>63,242</b>	<b>63,087</b>
CAPEX	(10,642)	(10,861)	(11,650)	(12,368)	(12,348)	(12,397)
Intangibles	(445)	-	-	(2,153)	(2,153)	(2,153)
Acquisitions (net of disposals)	-	-	-	-	-	-
Other	(1,163)	(3,277)	(6,389)	-	-	-
<b>Cash flow before financing</b>	<b>29,893</b>	<b>37,243</b>	<b>41,958</b>	<b>45,866</b>	<b>48,740</b>	<b>48,537</b>
<b>Financing cash flows</b>	<b>(30,152)</b>	<b>(36,202)</b>	<b>(41,246)</b>	<b>(16,087)</b>	<b>(16,112)</b>	<b>(16,133)</b>
Net borrowing	(8,096)	(6,976)	(13,571)	-	-	-
New equity	-	-	-	-	-	-
Dividends	(11,831)	(14,914)	(12,738)	(16,087)	(16,112)	(16,133)
Other	(10,225)	(14,311)	(14,937)	-	-	-
<b>Net Cash Flow</b>	<b>(259)</b>	<b>1,041</b>	<b>711</b>	<b>29,779</b>	<b>32,629</b>	<b>32,404</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts & Forecasts

Saudi Arabia

Materials / Commodity  
Chemicals

# Saudi International Petrochemical Company

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
SIPCHEM AB	SAR	30.80	26.00	Sell

## Share price performance, 12-mo



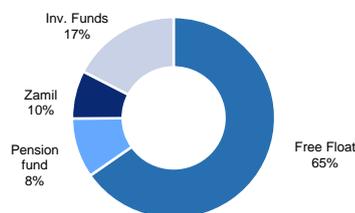
## Company description

Saudi International Petrochemical Company (Saudi Arabia) – A Saudi commodity petrochemical manufacturer with main products consisting of methanol and acetyl groups

## Company website

<http://www.sipchem.com>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	366.7	366.7	366.7	366.7	366.7	366.7
Avg market cap, SAR mn	7,323	8,388	11,293	11,293	11,293	11,293
EV, SAR mn	14,404	16,925	19,160	18,333	17,526	16,720
<b>Ratios &amp; analysis</b>						
P/E, x	12.2x	13.5x	12.6x	14.5x	14.1x	13.8x
EV/EBITDA, x	8.7x	9.9x	9.9x	10.4x	10.0x	9.6x
P/B, x	1.3x	1.4x	1.9x	1.8x	1.8x	1.7x
Dividend yield (ords), %	8.8%	5.9%	6.3%	5.5%	5.6%	5.8%
EPS, SAR	1.64	1.69	2.45	2.12	2.18	2.24
CFPS, SAR	3.58	2.81	4.46	4.42	4.33	4.33
Free CFPS, SAR	0.47	(0.51)	4.30	4.42	4.37	4.38
DPS (ords), SAR	1.75	1.35	1.95	1.69	1.74	1.78
Payout ratio (ords), %	106.7%	79.8%	79.8%	79.8%	79.8%	79.8%
BPS, SAR	15.34	15.80	16.30	16.73	17.17	17.62
Revenues growth, %	18%	1%	13%	-4%	0%	0%
EPS growth, %	-15%	3%	45%	-13%	3%	3%
EBITDA margin, %	42.1%	43.1%	43.6%	40.9%	40.6%	40.3%
Net margin, %	15.3%	15.7%	20.1%	18.1%	18.6%	19.0%
ROE, %	10.7%	10.7%	15.0%	12.7%	12.7%	12.7%
ROIC, %	10.7%	9.5%	10.7%	9.9%	10.5%	11.3%
Capex/Revenues, %	33%	35%	5%	4%	3%	3%
Capex/Depreciation, x	2.5x	2.6x	0.4x	0.3x	0.2x	0.2x
Net debt/Equity, %	57%	74%	61%	48%	36%	26%
Net debt/EBITDA, x	2.4x	3.2x	2.5x	2.3x	1.8x	1.4x
Net interest cover, x	6.2x	6.7x	7.3x	7.1x	7.8x	8.7x
<b>Income statement summary, SAR mn</b>						
Revenues	3,922	3,959	4,465	4,300	4,307	4,313
Cost of sales	(2,123)	(2,103)	(2,353)	(2,380)	(2,397)	(2,415)
SG&A and other opexp.	(147)	(149)	(168)	(161)	(162)	(162)
EBITDA	1,651	1,707	1,944	1,758	1,748	1,737
Depreciation & amortization	(514)	(539)	(629)	(611)	(588)	(564)
Operating profit	1,137	1,168	1,315	1,148	1,160	1,173
Non-operating gains/(exp.)	(14)	(3)	-	-	-	-
EBIT	1,137	1,168	1,315	1,148	1,160	1,173
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	939	991	1,136	985	1,012	1,038
Income tax	-	-	-	-	-	-
Minority interests	(314)	(316)	(307)	(266)	(273)	(280)
VTBC Net income	601	620	897	778	799	820
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	1,311	1,030	1,636	1,620	1,587	1,587
Working capital changes	(149)	(458)	(198)	(34)	(73)	(77)
Capex	(1,306)	(1,381)	(239)	(162)	(132)	(116)
Other investing activities	(141)	(406)	(10)	(10)	(11)	(11)
Free cash flow	173	(187)	1,576	1,621	1,603	1,606
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	(642)	(495)	(716)	(621)	(638)	(654)
Net change in borrowings	474	1,258	(766)	(690)	(621)	(559)
Other financing cash flow	(273)	(205)	-	-	-	-
Movement in cash	(576)	(200)	(95)	137	186	247
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	3,053	2,854	2,758	2,896	3,081	3,329
PP&E	10,902	12,048	11,658	11,209	10,754	10,305
Goodwill	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	1,234	1,833	2,620	2,642	2,728	2,817
Total assets	15,189	16,734	17,036	16,747	16,563	16,451
Interest bearing debt	813	613	399	327	284	258
Other liabilities	969	964	1,544	1,522	1,523	1,525
Total liabilities	8,054	9,306	9,120	8,408	7,789	7,231
Total shareholder's equity	5,626	5,794	5,976	6,133	6,295	6,460
Minority interest	1,509	1,634	1,940	2,206	2,480	2,760
Net working capital	833	307	438	402	402	402
Net Debt	4,032	5,489	4,818	3,990	3,184	2,378
Capital	6,438	6,407	6,374	6,460	6,578	6,718
FCF yield, %	2.4%	-2.2%	14.0%	14.4%	14.2%	14.2%
Net sales, chg	18%	1%	13%	-4%	0%	0%
EBITDA, chg	-7%	3%	14%	-10%	-1%	-1%
Net income, chg	-15%	3%	45%	-13%	3%	3%
EBIT margin, %	29%	30%	29%	27%	27%	27%

## SELL

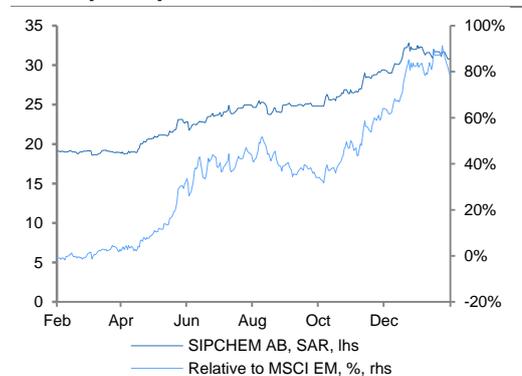
Primary ticker: SIPCHEM AB

Currency: SAR

### Stock Data

Last price	30.80
Last price date	12 Feb 2014
Target price	28.00
Target price established	13 Feb 2014
Upside/(downside), %	-9%
52 week price range	18.60 - 32.90
Market cap, USD / SAR mn	3,011 / 11,293
EV, USD / SAR mn	5,109 / 19,160
# shares outstanding, mn	367
Free float	65%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	-3.7%	14%	61%	45%
Price relative	-2%	19%	79%	66%
ADTV (USD mn)	4.00	4.90	3.77	7.99

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	13.5x	12.6x	14.5x	14.1x
EV/EBITDA, x	9.9x	9.9x	10.4x	10.0x
P/B, x	1.4x	1.9x	1.8x	1.8x
FCF yield, %	-2.2%	14.0%	14.4%	14.2%
DY (ords), %	5.9%	6.3%	5.5%	5.6%
Net sales, SAR mn	3,959	4,465	4,300	4,307
EBITDA, SAR mn	1,707	1,944	1,758	1,748
Net income, SAR mn	620	897	778	799
Net sales, chg	1%	13%	-4%	0%
EBITDA, chg	3%	14%	-10%	-1%
Net income, chg	3%	45%	-13%	3%
EPS, SAR	1.69	2.45	2.12	2.18
DPS (ord.), SAR	1.35	1.95	1.69	1.74
BPS, SAR	15.80	16.30	16.73	17.17
EBITDA margin, %	43.1%	43.6%	40.9%	40.6%
ROE, %	11%	15%	13%	13%
Net Debt, SAR mn	5,489	4,818	3,990	3,184
ND/EBITDA, x	3.2x	2.5x	2.3x	1.8x
Net int. cover, x	6.7x	7.3x	7.1x	7.8x

Source: Bloomberg, Company data, VTB Capital Research

## Saudi International Petrochemical Company

### Methanol correction looms large

**Saudi International Petrochemical Company (Sipchem) is a unique play on C1 based output class of chemicals such as methanol, butanediol, acetic acid and VAM. The company is coming off the EVA capex cycle with a start-up schedule for 1Q14. We are downbeat on the C1 based output class, as detailed earlier, on shale gas-based competition and coupled with stretched valuations, we see no upside in the name. We downgrade our recommendation to Sell and revise our TP to SAR 28.**

**Methanol and substitutes at all-time highs.** The domestic gas demand in Asia and shutdowns have boosted methanol prices to levels not seen since the 2008 peak. The energy methanol arbitrage shows methanol overvaluation to be above 35% and we view a swift correction as likely in the short term. US housing recovery has also shifted VAM prices north of USD 950/t, levels not seen in last five years. We see both a short term and longer term industry response stemming any further rise in product margins.

**Aggressive operating leverage.** With net debt to 2013 EBITDA hovering at 3.2x, we believe that until the EVA plant runs help pare down debt, the financial leverage in the company will remain quite high relative to other MENA plays. The ownership structure and consolidated nature of EBITDA further masks the extent of true leverage inherent in the company. While we do not foresee any financial distress, the investment profile is definitely riskier than those of their other MENA peers, and potential returns are lacking.

**Peak earnings priced in.** At peak cycle margins, the company's annual EPS is likely to be SAR 2.1. With a P/E of 15x, we would argue that the top quartile margins are already in the price. This comes at a time when both methanol and VAM are in the top quartile margins and at five-year highs. The cash flows continue to gear towards a continued heavy capex and only 1H14 can show the sustainable FCF that can be generated next from maintenance capex, irrespective of where the cyclical margins lie. Even looking at OCF, we believe valuations are at a 20% premium to other MENA peers. EVA's contribution to the bottom line for 2014F EPS is likely to be below 20%

**Valuation.** We value Sipchem via a multiples-based method with a generic sector 12mo forward EV/EBITDA at 9.0x. Our normalised EBITDA is SAR 1.9bn. Using a net debt assumption of SAR 4.8bn, we arrive at a Target Price of SAR 26. Sipchem trades at a 2014F P/E of 12.6x against peers at 13.7x. On 2014F EV/EBITDA, the company trades at 9.9x vs. peers at 7.7x.

**Risks.** The plant's operational track record elevates the operating risk profile.

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**Figure 84: Income Statement (Figures in '000 SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	<b>3,324,385</b>	<b>3,921,879</b>	<b>3,959,102</b>	<b>4,464,545</b>	<b>4,300,042</b>	<b>4,306,685</b>
<b>EBITDA</b>	<b>1,767,925</b>	<b>1,651,342</b>	<b>1,707,042</b>	<b>1,944,446</b>	<b>1,758,411</b>	<b>1,747,741</b>
D&A	465,950	514,392	538,715	629,336	610,768	587,908
<b>EBIT</b>	<b>1,301,976</b>	<b>1,136,950</b>	<b>1,168,327</b>	<b>1,315,110</b>	<b>1,147,643</b>	<b>1,159,833</b>
Finance Costs	(181,492)	(183,381)	(173,455)	(178,976)	(162,602)	(147,866)
Other income (expense)	10,968	(14,184)	(3,424)	-	-	-
<b>PBT</b>	<b>1,131,452</b>	<b>939,384</b>	<b>991,448</b>	<b>1,136,134</b>	<b>985,041</b>	<b>1,011,967</b>
Taxes	-	-	-	-	-	-
Net income before minorities	1,131,452	939,384	991,448	1,136,134	985,041	1,011,967
Share of minorities	399,756	314,497	315,730	306,756	265,961	273,231
Share of minorities (%)	0	0	0	0	0	0
Gains/(losses)/(deconsolidation)	-	-	-	-	-	-
<b>Income before Zakat</b>	<b>731,696</b>	<b>624,888</b>	<b>675,719</b>	<b>829,378</b>	<b>719,080</b>	<b>738,736</b>
Zakat	(25,798)	(23,718)	(55,270)	67,838	58,816	60,424
<b>Net income</b>	<b>705,898</b>	<b>601,170</b>	<b>620,449</b>	<b>897,216</b>	<b>777,896</b>	<b>799,160</b>
Number of shares ('000)	366,667	366,667	366,667	366,667	366,667	366,667
EPS	1.9	1.6	1.7	2.4	2.1	2.2
Adjusted EPS (pre-exceps)	1.9	1.6	1.7	2.4	2.1	2.2
DPS	-	1.7	1.3	2.0	1.7	1.7
Payout ratio (%)	0%	107%	80%	80%	80%	80%

Source: Company data, VTB Capital Research

**Figure 85: Balance Sheet (Figures in '000 SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	9,807,702	10,901,504	12,048,080	11,657,810	11,209,452	10,753,811
Intangibles	73,146	-	-	-	-	-
Investments	184,869	-	-	-	-	-
Other	-	98,793	193,309	202,975	213,123	223,780
<b>Total non-current assets</b>	<b>10,065,716</b>	<b>11,000,297</b>	<b>12,241,389</b>	<b>11,860,785</b>	<b>11,422,575</b>	<b>10,977,591</b>
Cash	3,629,881	3,053,454	2,853,683	2,758,412	2,895,824	3,081,362
Accounts receivable	687,909	670,711	-	822,675	774,922	775,987
Inventories	281,081	277,956	307,066	195,728	185,392	185,706
Other	-	186,508	1,332,206	<b>1,398,817</b>	<b>1,468,757</b>	<b>1,542,195</b>
<b>Total current assets</b>	<b>4,598,871</b>	<b>4,188,630</b>	<b>4,492,955</b>	<b>5,175,631</b>	<b>5,324,894</b>	<b>5,585,250</b>
<b>TOTAL ASSETS</b>	<b>14,664,587</b>	<b>15,188,927</b>	<b>16,734,344</b>	<b>17,036,417</b>	<b>16,747,469</b>	<b>16,562,841</b>
Debt	15,785	642,344	677,652	677,652	677,652	677,652
Accounts payable	774,895	115,205	(0)	580,404	558,060	559,480
Other	526,610	631,023	812,458	812,458	812,458	812,458
% Growth in Other	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>1,317,290</b>	<b>1,388,572</b>	<b>1,490,110</b>	<b>2,070,514</b>	<b>2,048,170</b>	<b>2,049,590</b>
Debt	5,758,518	6,442,697	7,664,972	6,898,475	6,208,627	5,587,765
Other	567,251	222,334	151,231	151,231	151,231	151,231
<b>Total non-current liabilities</b>	<b>6,325,769</b>	<b>6,665,031</b>	<b>7,816,203</b>	<b>7,049,706</b>	<b>6,359,858</b>	<b>5,738,995</b>
Minorities	1,391,308	1,509,493	1,633,728	1,940,484	2,206,445	2,479,676
Shareholders' Equity	5,630,220	5,625,831	5,794,304	5,975,713	6,132,996	6,294,579
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>14,664,587</b>	<b>15,188,927</b>	<b>16,734,344</b>	<b>17,036,417</b>	<b>16,747,469</b>	<b>16,562,841</b>

Source: Company data, VTB Capital Research

**Figure 86: Cash Flow Statement (Figures in '000 SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	1,767,925	1,651,342	1,707,042	1,944,446	1,758,411	1,747,741
Working capital change	183,833	(148,781)	(457,921)	(197,543)	(34,195)	(73,397)
Other	20,949	(167,390)	(163,847)	-	-	-
Cash earnings ex zakat and interest	1,972,707	1,335,171	1,085,274	1,746,903	1,724,216	1,674,344
Zakat	(25,798)	(23,718)	(55,270)	67,838	58,816	60,424
Net interest paid	(181,492)	-	-	(178,976)	(162,602)	(147,866)
<b>Operating cash flow</b>	<b>1,765,417</b>	<b>1,311,453</b>	<b>1,030,004</b>	<b>1,635,765</b>	<b>1,620,430</b>	<b>1,586,902</b>
CAPEX	(703,430)	(1,306,293)	(1,381,207)	(239,066)	(162,409)	(132,267)
Intangibles	(13,895)	-	-	-	-	-
Acquisitions (net of disposals)	(182,959)	-	-	-	-	-
Other	(94,517)	(141,146)	(405,782)	(9,665)	(10,149)	(10,656)
<b>Cash flow before financing</b>	<b>770,616</b>	<b>(135,986)</b>	<b>(756,985)</b>	<b>1,387,034</b>	<b>1,447,872</b>	<b>1,443,979</b>
<b>Financing cash flows</b>	<b>1,238,621</b>	<b>(440,442)</b>	<b>557,213</b>	<b>(1,482,304)</b>	<b>(1,310,460)</b>	<b>(1,258,440)</b>
Net borrowing	1,296,705	473,750	1,257,583	(766,497)	(689,847)	(620,863)
New equity	91,367	-	-	-	-	-
Dividends	-	(641,667)	(495,000)	(715,807)	(620,613)	(637,577)
Other	(149,451)	(272,525)	(205,370)	-	-	-
<b>Net Cash Flow</b>	<b>2,009,238</b>	<b>(576,427)</b>	<b>(199,772)</b>	<b>(95,271)</b>	<b>137,412</b>	<b>185,539</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts & Forecasts

Saudi Arabia

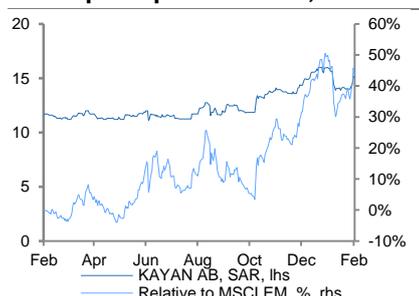
Materials / Commodity  
Chemicals

# Saudi Kayan

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
KAYAN AB	SAR	15.10	8.40	Sell

## Share price performance, 12-mo



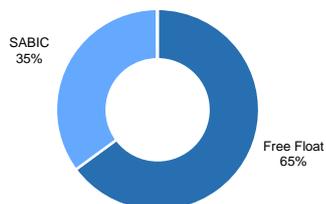
## Company description

Saudi Kayan (Saudi Arabia) – A Saudi commodity chemical manufacturer producing a range of aliphatic and aromatic products along with specialized polycarbonates.

## Company website

<http://www.saudikayan.com>

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	1,500	1,500	1,500	1,500	1,500	1,500
Avg market cap, SAR mn	22,817	18,354	22,650	22,650	22,650	22,650
EV, SAR mn	51,929	47,436	54,408	53,291	52,545	52,374
<b>Ratios &amp; analysis</b>						
P/E, x	neg	neg	11.1x	14.1x	12.7x	11.7x
EV/EBITDA, x	27.5x	18.8x	11.0x	11.1x	11.0x	11.0x
P/B, x	1.6x	1.3x	1.9x	2.2x	2.6x	3.4x
Dividend yield (ords), %	-3.4%	-3.8%	18.0%	14.2%	15.8%	17.1%
EPS, SAR	(0.51)	(0.23)	1.36	1.07	1.19	1.29
CFPS, SAR	0.77	0.94	0.94	2.89	2.88	2.88
Free CFPS, SAR	0.32	0.39	1.26	3.20	3.17	2.97
DPS (ords), SAR	(0.51)	(0.46)	2.72	2.14	2.38	2.59
Payout ratio (ords), %	100.0%	200.0%	200.0%	200.0%	200.0%	200.0%
BPS, SAR	9.63	9.40	8.04	6.96	5.77	4.48
Revenues growth, %	295%	9%	31%	-2%	-	-
EPS growth, %	209%	-55%	-689%	-21%	11%	9%
EBITDA margin, %	19.9%	24.4%	36.6%	36.0%	35.9%	35.7%
Net margin, %	-8.1%	-3.3%	15.0%	12.1%	13.4%	14.6%
ROE, %	-5.3%	-2.5%	16.9%	15.4%	20.6%	28.9%
ROIC, %	-0.4%	0.5%	5.3%	4.7%	5.3%	5.9%
Capex/Revenues, %	72%	38%	25%	10%	10%	10%
Capex/Depreciation, x	3.3x	1.7x	1.4x	0.5x	0.5x	0.6x
Net debt/Equity, %	202%	206%	263%	293%	345%	442%
Net debt/EBITDA, x	15.4x	11.5x	6.4x	6.4x	6.3x	6.3x
Net interest cover, x	(0.3x)	0.5x	4.7x	3.7x	4.2x	4.6x
<b>Income statement summary, SAR mn</b>						
Revenues	9,482	10,353	13,567	13,317	13,317	13,317
Cost of sales	(7,204)	(7,397)	(8,038)	(7,966)	(7,989)	(8,013)
SG&A and other opexp.	(393)	(429)	(562)	(552)	(552)	(552)
EBITDA	1,885	2,526	4,966	4,799	4,776	4,752
Depreciation & amortization	(2,064)	(2,291)	(2,494)	(2,732)	(2,557)	(2,402)
Operating profit	(179)	235	2,472	2,067	2,219	2,351
Non-operating gains/(exp.)	70	99	99	99	99	99
EBIT	(179)	235	2,472	2,067	2,219	2,351
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	(772)	(346)	2,039	1,609	1,788	1,940
Income tax	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-
VTBC Net income	(772)	(346)	2,039	1,609	1,788	1,940
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	1,149	1,403	1,403	4,334	4,321	4,317
Working capital changes	(180)	(564)	(3,074)	(7)	(23)	(24)
Capex	(6,810)	(3,959)	(3,407)	(1,390)	(1,390)	(1,390)
Other investing activities	-	-	-	-	-	-
Free cash flow	486	588	1,892	4,793	4,752	4,462
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	-	-	(4,078)	(3,217)	(3,575)	(3,879)
Net change in borrowings	170	(328)	5,219	(2,145)	(1,095)	(1,348)
Other financing cash flow	-	-	-	-	-	-
Movement in cash	100	(300)	2,544	(1,028)	(349)	(1,176)
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	569	269	2,813	1,785	1,437	260
PP&E	40,271	38,910	42,620	39,888	37,331	35,196
Goodwill	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	6,058	7,038	4,399	4,371	4,395	4,419
Total assets	46,898	46,218	49,832	46,045	43,162	39,875
Interest bearing debt	813	613	399	327	284	258
Other liabilities	2,778	2,772	3,206	3,173	3,173	3,173
Total liabilities	32,458	32,124	37,778	35,599	34,504	33,156
Total shareholder's equity	14,440	14,094	12,055	10,446	8,658	6,719
Minority interest	-	-	-	-	-	-
Net working capital	3,748	3,977	881	865	865	865
Net Debt	29,111	29,083	31,758	30,641	29,895	29,724
Capital	15,253	14,706	12,453	10,773	8,942	6,976
FCF yield, %	2.1%	3.2%	8.4%	21.2%	21.0%	19.7%
Net sales, chg	295%	9%	31%	-2%	-	-
EBITDA, chg	376%	34%	97%	-3%	0%	0%
Net income, chg	209%	-55%	-689%	-21%	11%	9%
EBIT margin, %	-2%	2%	18%	16%	17%	18%

## SELL

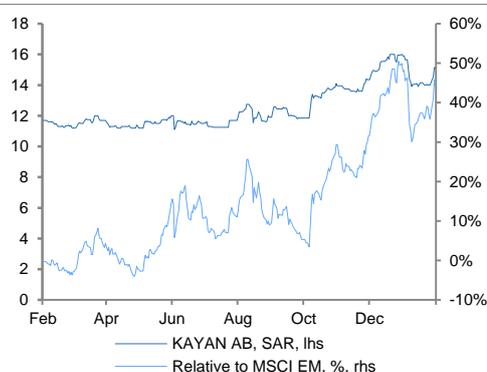
Primary ticker: KAYAN AB

Currency: SAR

### Stock Data

Last price	15.10
Last price date	12 Feb 2014
Target price	11.50
Target price established	13 Feb 2014
Upside/(downside), %	-24%
52 week price range	11.10 - 16.10
Market cap, USD / SAR mn	6,039 / 22,650
EV, USD / SAR mn	13,420 / 50,330
# shares outstanding, mn	1,500
Free float	35%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	-5.6%	7%	30%	-21%
Price relative	-4%	11%	44%	-10%
ADTV (USD mn)	46.38	46.82	24.43	40.33

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	neg	11.1x	14.1x	12.7x
EV/EBITDA, x	18.8x	10.1x	9.6x	8.7x
P/B, x	1.3x	1.4x	1.3x	1.2x
FCF yield, %	3.2%	8.4%	21.2%	21.0%
DY (ords), %	-	-	-	-
Net sales, SAR mn	10,353	13,567	13,317	13,317
EBITDA, SAR mn	2,526	4,966	4,799	4,776
Net income, SAR mn	(346)	2,039	1,609	1,788
Net sales, chg	9%	31%	-2%	-
EBITDA, chg	34%	97%	-3%	0%
Net income, chg	-55%	-689%	-21%	11%
EPS, SAR	(0.23)	1.36	1.07	1.19
DPS (ord.), SAR	-	-	-	-
BPS, SAR	9.40	10.76	11.83	13.02
EBITDA margin, %	24.4%	36.6%	36.0%	35.9%
ROE, %	-2%	13%	9%	9%
Net Debt, SAR mn	29,083	27,680	23,345	19,024
ND/EBITDA, x	11.5x	5.6x	4.9x	4.0x
Net int. cover, x	0.5x	4.7x	3.7x	4.2x

Source: Bloomberg, Company data, VTB Capital Research

## Saudi Kayan

### Caveat Emptor

**Saudi Kayan Petrochemical Company (Kayan) continues to be at the bottom of the pecking order for MENA petrochemicals and a stock that is best avoided. It is as strong a sell as they come. We reiterate our Sell recommendation and TP of SAR 11.5.**

**Short-term financial and design viability now suspect.** With over 24 months of intermittent operations and hardly a profitable quarter of operations at design load (93% capacity), we believe there is a credible reason to doubt the short-term financial viability of the plant itself and whether it will run as intended, if at all. We highlighted earlier that the project profile bears an elevated operational risk until the commissioning of all units is completed.

**Debt load onerous.** With total 2013 debt of SAR 29.3bn, the total cash repayment is limited to SAR 0.3bn for 2013. A significant improvement in operating cash flows would be required to make the debt burden sustainable.

**Consensus has begun to turn.** With 1 buy, 4 holds and 6 sells, consensus has turned on the stock. Since the market is 90% driven by retail investors, market participants continue to be in denial. Our TP is based on pretty upbeat assumptions, although we still arrive at a Sell recommendation for the stock.

**Interest rate movement could dent profitability; some rescue likely.** We believe the likelihood of covenants being broken on Kayan's debt are high and considering the nature of the project, SABIC – or the Ministry of Finance itself – is likely to step in with some form of assistance, which may or may not offer a free lunch to minority shareholders. The trigger for this would be a movement in interest rates. Under the current structure, over 30% of the potential normalised EBIT for 2014 would be impacted out by a 1% rise in the interest rate.

**Valuation.** We value Kayan via a multiples-based method with a generic sector 12mo forward EV/EBITDA of 9.0x. Our normalised EBITDA estimate is SAR 4.8bn (upbeat). Using a net debt assumption of SAR 27.7bn, we arrive at a Target Price of SAR 11.5. If Kayan was to run like a normal plant, it would trade at a 2014F P/E of 11.1x against peers at 13.7x, but with 2014 net debt at 5.6x EBITDA and 122% of the market cap. We believe that once the plant delivers a full quarter of design performance, the visibility of operational earnings would present a potential downside risk to current valuations.

**Risks.** The key upside risk relates to a rescue package provided by the government.

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**Figure 87: Income Statement (Figures in '000 SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	<b>2,403,406</b>	<b>9,482,234</b>	<b>10,352,654</b>	<b>13,566,603</b>	<b>13,316,777</b>	<b>13,316,777</b>
<b>EBITDA</b>	<b>395,671</b>	<b>1,885,367</b>	<b>2,526,242</b>	<b>4,966,046</b>	<b>4,799,042</b>	<b>4,775,874</b>
<b>EBIT</b>	<b>(67,137)</b>	<b>(178,841)</b>	<b>235,490</b>	<b>2,471,790</b>	<b>2,066,974</b>	<b>2,218,939</b>
Finance Income (Expense)	(113,172)	(523,909)	(483,394)	(531,245)	(556,793)	(529,869)
Other income (expense)	(4,527)	69,517	98,506	98,506	98,506	98,506
<b>PBT</b>	<b>(175,782)</b>	<b>(772,267)</b>	<b>(346,410)</b>	<b>2,039,051</b>	<b>1,608,687</b>	<b>1,787,576</b>
Taxes	(74,469)	-	-	-	-	-
<b>Net income</b>	<b>(250,251)</b>	<b>(772,267)</b>	<b>(346,410)</b>	<b>2,039,051</b>	<b>1,608,687</b>	<b>1,787,576</b>
<b>Adjusted net income (pre-exceptionals)</b>	<b>(250,251)</b>	<b>(772,267)</b>	<b>(346,410)</b>	<b>2,039,051</b>	<b>1,608,687</b>	<b>1,787,576</b>
Number of shares ('000)	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
EPS	(0.2)	(0.5)	(0.2)	1.4	1.1	1.2
Adjusted EPS (pre-exceps)	(0.2)	(0.5)	(0.2)	1.4	1.1	1.2
DPS	-	-	-	-	-	-
Payout ratio (%)	0%	0%	0%	0%	0%	0%

Source: Company data, VTB Capital Research

**Figure 88: Balance Sheet (Figures in '000 SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	37,363,141	40,270,525	38,910,201	42,620,054	39,887,985	37,331,051
Intangibles	133,550	-	-	-	-	-
Investments	4,159,006	-	-	-	-	-
Other	31,918	462,909	927,933	927,933	927,933	927,933
<b>Total non-current assets</b>	<b>41,687,615</b>	<b>40,733,434</b>	<b>39,838,134</b>	<b>43,547,987</b>	<b>40,815,918</b>	<b>38,258,984</b>
Cash	469,195	569,278	269,315	6,891,521	9,080,651	12,307,211
Accounts receivable	2,625,401	3,134,351	3,199,285	1,356,660	1,331,678	1,331,678
Inventories	1,545,137	1,959,998	2,175,760	1,356,660	1,331,678	1,331,678
Other	361,508	501,092	735,332	757,392	780,114	803,517
<b>Total current assets</b>	<b>5,001,241</b>	<b>6,164,719</b>	<b>6,379,692</b>	<b>10,362,234</b>	<b>12,524,120</b>	<b>15,774,083</b>
<b>TOTAL ASSETS</b>	<b>46,688,856</b>	<b>46,898,153</b>	<b>46,217,826</b>	<b>53,910,220</b>	<b>53,340,039</b>	<b>54,033,067</b>
Debt	529,610	1,165,658	1,737,377	5,212,131	3,648,492	2,553,944
% Growth in Debt				2	(0)	(0)
Accounts payable	782,348	1,346,234	1,398,444	1,832,587	1,798,840	1,798,840
Other	1,064,603	1,294,393	1,206,445	1,206,445	1,206,445	1,206,445
<b>Total current liabilities</b>	<b>2,376,561</b>	<b>3,806,285</b>	<b>4,342,266</b>	<b>8,251,163</b>	<b>6,653,777</b>	<b>5,559,229</b>
Debt	28,980,594	28,514,737	27,614,659	29,359,106	28,777,624	28,777,624
% of Initial debt repaid				0	(0)	-
Other	119,399	137,096	167,276	167,276	167,276	167,276
<b>Total non-current liabilities</b>	<b>29,099,993</b>	<b>28,651,833</b>	<b>27,781,935</b>	<b>29,526,382</b>	<b>28,944,900</b>	<b>28,944,900</b>
Minorities	-	-	-	-	-	-
Shareholders' Equity	15,212,302	14,440,035	14,093,625	16,132,676	17,741,362	19,528,938
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>46,688,856</b>	<b>46,898,153</b>	<b>46,217,826</b>	<b>53,910,220</b>	<b>53,340,039</b>	<b>54,033,067</b>

Source: Company data, VTB Capital Research

**Figure 89: Cash Flow Statement (Figures in '000 SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	395,671	1,885,367	2,526,242	4,966,046	4,799,042	4,775,874
Working capital change	(2,616,435)	(179,691)	(563,879)	(3,073,807)	(6,503)	(23,403)
Other	264,112	(556,572)	(559,358)	(489,234)	98,506	98,506
Cash earnings ex zakat and minorities	(1,956,652)	1,149,104	1,403,005	1,403,005	4,891,045	4,850,977
Zakat	(377)	-	-	-	-	-
Net interest paid	(152,919)	-	-	-	(556,793)	(529,869)
<b>Operating cash flow</b>	<b>(2,109,948)</b>	<b>1,149,104</b>	<b>1,403,005</b>	<b>1,403,005</b>	<b>4,334,252</b>	<b>4,321,107</b>
CAPEX	(2,324)	(1,219,212)	(1,374,609)	-	-	-
Intangibles	(3,092)	-	-	-	-	-
Acquisitions (net of disposals)	(3,051,162)	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Cash flow before financing</b>	<b>(5,166,526)</b>	<b>(70,108)</b>	<b>28,396</b>	<b>1,403,005</b>	<b>4,334,252</b>	<b>4,321,107</b>
<b>Financing cash flows</b>	<b>3,420,777</b>	<b>170,191</b>	<b>(328,359)</b>	<b>5,219,201</b>	<b>(2,145,122)</b>	<b>(1,094,548)</b>
Net borrowing	3,420,777	170,191	(328,359)	5,219,201	(2,145,122)	(1,094,548)
New equity	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Net Cash Flow</b>	<b>(1,745,749)</b>	<b>100,083</b>	<b>(299,963)</b>	<b>6,622,206</b>	<b>2,189,130</b>	<b>3,226,560</b>

Source: Company data, VTB Capital Research

## VTB Capital Facts & Forecasts

Saudi Arabia

Materials / Commodity  
Chemicals

# Yanbu National Petrochemical Company

Prices as of: 12 February 2014

Ticker	CCY	Current	12mo TP	Rating
YANSAB AB	SAR	71.50	61.00	Sell

## Share price performance, 12-mo

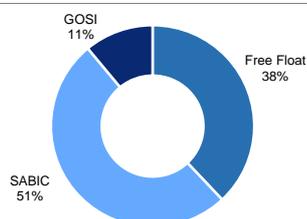


## Company description

Yanbu National Petrochemical Company (Saudi Arabia) – A commodity petrochemical producer based in Saudi Arabia with a product slate consisting of polyethylene, polypropylene and MEG

## Company website

## Shareholder structure



Source: Company data, VTB Capital Research

## Research team

[Digvijay Singh](#) / +971 4 377 0819

Last model update on: 17 February 2014

IFRS	2012	2013	2014F	2015F	2016F	2017F
<b>Company data</b>						
Weighted avg # shares, mn	562.5	562.5	562.5	562.5	562.5	562.5
Avg market cap, SAR mn	26,239	32,419	40,219	40,219	40,219	40,219
EV, SAR mn	33,809	37,134	43,198	41,685	40,449	39,227
<b>Ratios &amp; analysis</b>						
P/E, x	10.7x	12.3x	13.9x	12.9x	11.8x	11.8x
EV/EBITDA, x	8.7x	9.1x	10.0x	9.9x	9.6x	9.4x
P/B, x	2.0x	2.2x	2.5x	2.3x	2.2x	2.1x
Dividend yield (ords), %	-	1.7%	4.3%	5.4%	6.0%	5.9%
EPS, SAR	4.35	4.70	5.14	5.53	6.08	6.05
CFPS, SAR	5.95	6.44	6.94	7.33	7.22	7.17
Free CFPS, SAR	6.49	7.10	7.10	7.00	6.94	6.89
DPS (ords), SAR	-	1.00	3.08	3.87	4.25	4.24
Payout ratio (ords), %	-	21.2%	60.0%	70.0%	70.0%	70.0%
BPS, SAR	23.04	26.74	28.80	30.46	32.28	34.10
Revenues growth, %	-4%	1%	16%	-1%	-	-
EPS growth, %	-23%	8%	9%	8%	10%	0%
EBITDA margin, %	41.9%	43.5%	39.8%	39.2%	39.0%	38.7%
Net margin, %	26.3%	28.3%	26.6%	28.9%	31.7%	31.6%
ROE, %	18.9%	17.6%	17.8%	18.2%	18.8%	17.8%
ROIC, %	12.7%	13.8%	15.0%	15.0%	16.7%	16.8%
Capex/Revenues, %	4%	2%	4%	4%	4%	4%
Capex/Depreciation, x	0.3x	0.2x	0.4x	0.4x	0.7x	0.7x
Net debt/Equity, %	58%	31%	18%	9%	1%	-5%
Net debt/EBITDA, x	1.9x	1.2x	0.7x	0.3x	0.1x	(0.2x)
Net interest cover, x	8.0x	11.5x	11.1x	n/a	n/a	n/a
<b>Income statement summary, SAR mn</b>						
Revenues	9,299	9,354	10,864	10,782	10,782	10,782
Cost of sales	(5,236)	(5,111)	(6,340)	(6,361)	(6,386)	(6,411)
SG&A and other opexp.	(169)	(170)	(197)	(196)	(196)	(196)
EBITDA	3,894	4,073	4,327	4,225	4,200	4,175
Depreciation & amortization	(1,018)	(1,080)	(1,043)	(1,003)	(660)	(649)
Operating profit	2,875	2,993	3,283	3,222	3,541	3,526
Non-operating gains/(exp.)	31	29	30	30	30	30
EBIT	2,875	2,993	3,283	3,222	3,541	3,526
Net interest income/(exp.)	-	-	-	-	-	-
Profit before tax	2,546	2,762	3,017	3,252	3,571	3,556
Income tax	(100)	(118)	(128)	(138)	(152)	(151)
Minority interests	-	-	-	-	-	-
VTBC Net income	2,446	2,645	2,889	3,113	3,419	3,405
<b>Cash flow statement summary, SAR mn</b>						
Cash flow from operations	3,345	3,620	3,903	4,124	4,061	4,036
Working capital changes	(3)	8	(29)	7	(18)	(18)
Capex	(342)	(204)	(435)	(431)	(431)	(431)
Other investing activities	-	-	-	-	-	-
Free cash flow	3,648	3,994	3,992	3,940	3,903	3,877
Share issue (reacquisition)	-	-	-	-	-	-
Dividends paid	-	(561)	(1,733)	(2,179)	(2,393)	(2,383)
Net change in borrowings	(3,073)	(1,279)	(1,787)	(1,277)	(917)	(663)
Other financing cash flow	-	-	-	-	-	-
Movement in cash	(69)	1,576	(51)	237	319	558
<b>Balance sheet summary, SAR mn</b>						
Cash and equivalents	530	2,106	2,055	2,292	2,611	3,169
PP&E	16,498	15,623	15,015	14,443	14,214	13,996
Goodwill	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	5,361	5,171	6,053	6,057	6,094	6,133
Total assets	22,388	22,901	23,122	22,791	22,919	23,298
Interest bearing debt	813	613	399	327	284	258
Other liabilities	1,327	1,036	1,889	1,900	1,920	1,941
Total liabilities	9,427	7,857	6,924	5,658	4,761	4,119
Total shareholder's equity	12,961	15,043	16,199	17,133	18,158	19,180
Minority interest	-	-	-	-	-	-
Net working capital	3,312	3,247	3,259	3,235	3,235	3,235
Net Debt	7,570	4,715	2,980	1,466	230	(991)
Capital	13,774	15,656	16,597	17,460	18,442	19,437
FCF yield, %	13.9%	12.3%	9.9%	9.8%	9.7%	9.6%
Net sales, chg	-4%	1%	16%	-1%	-	-
EBITDA, chg	-16%	5%	6%	-2%	-1%	-1%
Net income, chg	-23%	8%	9%	8%	10%	0%
EBIT margin, %	31%	32%	30%	30%	33%	33%

## SELL

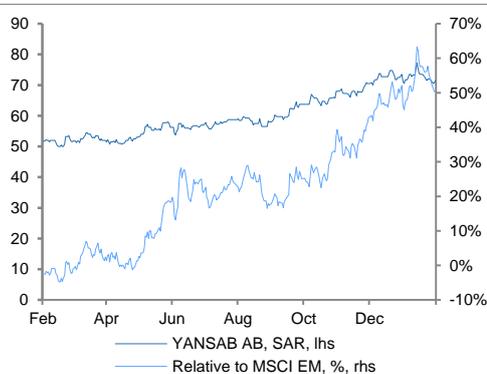
Primary ticker: YANSAB AB

Currency: SAR

### Stock Data

Last price	71.50
Last price date	12 Feb 2014
Target price	68.00
Target price established	13 Feb 2014
Upside/(downside), %	-5%
52 week price range	50.00 - 77.25
Market cap, USD / SAR mn	10,724 / 40,219
EV, USD / SAR mn	11,518 / 43,198
# shares outstanding, mn	563
Free float	38%
Benchmark Index (MXEF)	953.30

### Share price performance, 12-mo



	1M	3M	12M	3Y
Price	-2.7%	5%	36%	53%
Price relative	-1%	9%	51%	76%
ADTV (USD mn)	9.56	8.40	7.10	15.75

### Key financial highlights

Fiscal year end	12/13	12/14F	12/15F	12/16F
P/E, x	12.3x	13.9x	12.9x	11.8x
EV/EBITDA, x	9.1x	10.0x	9.9x	9.6x
P/B, x	2.2x	2.5x	2.3x	2.2x
FCF yield, %	12.3%	9.9%	9.8%	9.7%
DY (ords), %	1.7%	4.3%	5.4%	6.0%
Net sales, SAR mn	9,354	10,864	10,782	10,782
EBITDA, SAR mn	4,073	4,327	4,225	4,200
Net income, SAR mn	2,645	2,889	3,113	3,419
Net sales, chg	1%	16%	-1%	-
EBITDA, chg	5%	6%	-2%	-1%
Net income, chg	8%	9%	8%	10%
EPS, SAR	4.70	5.14	5.53	6.08
DPS (ord.), SAR	1.00	3.08	3.87	4.25
BPS, SAR	26.74	28.80	30.46	32.28
EBITDA margin, %	43.5%	39.8%	39.2%	39.0%
ROE, %	18%	18%	18%	19%
Net Debt, SAR mn	4,715	2,980	1,466	230
ND/EBITDA, x	1.2x	0.7x	0.3x	0.1x
Net int. cover, x	11.5x	11.1x	n/a	n/a

Source: Bloomberg, Company data, VTB Capital Research

## Yanbu National Petrochemical Company

### Earnings to be hit by MEG decline

Yansab is one of the operational success stories of Saudi chemical expansion, (unlike Kayan and Petrorabigh). The stock has benefited from an improvement in sentiment post the initiation of dividends, but valuations appear stretched in the short term (MEG and glycol top margins overshot on temporary shutdowns in Asia). We adjust our TP higher for top quartile margins but the extended valuations lead us to maintain our Sell on Yansab (TP SAR 68). We prefer to play the dividend payout story via the parent, SABIC.

**Dividends in line with expectations, limited yield compression.** We had conservatively forecast an annual dividend of SAR 1.6 per share, rising to SAR 4.9 in the medium term. Yansab announced a 1H13 dividend of SAR 1 per share. With the current implicit yield at 2.8%, we see limited scope for share price upside led by yield compression. A decline in oil prices and increase in domestic interest rates all carry downside risks.

**We like the overall product portfolio, but MEG bears margin risks.** While we like the aromatics and LLDPE portion of the product slate, the 40% EBITDA exposure to MEG is a medium-term concern considering that over 30% of the Chinese coal to chemicals capacity is targeted at domestic substitution of imported MEG (55% of global export demand). We see limited margin upside in MEG from current levels.

**Most bullish argument 24 months ahead.** Yansab's net debt was SAR 4.7bn in 2013, a SAR 2.8bn drop from 2012 levels. In 2017, Yansab could generate over SAR 3.5bn of free cash flow, all else being equal. With a thrust on debt pay-down and complete dividend repatriation from parent SABIC, future dividend yields north of 8% are a possibility if peak pricing can be sustained over that period and beyond, which is unlikely in our view.

**Valuation.** We value Yansab via a multiples-based method with a generic sector 12mo forward EV/EBITDA of 9.0x. Our normalised EBITDA estimate is SAR 4.3bn. Using a net debt assumption of SAR 3.9bn we arrive at a Target Price of SAR 68. Yansab trades at a 2014F P/E of 13.9x against peers at 13.7x. On 2014F EV/EBITDA, the company trades at 10.0x vs. peers at 7.7x.

**Risks.** A strong recovery in Asian MEG import demand presents a risk.

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## Financial Statements

**Figure 90: Income Statement (Figures in million SAR, except per share data)**

Income Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
<b>Revenues</b>	9,659	9,299	9,354	<b>10,864</b>	<b>10,782</b>	<b>10,782</b>
<b>EBITDA</b>	4,635	3,894	4,073	<b>4,327</b>	<b>4,225</b>	<b>4,200</b>
D&A	1,018	1,018	1,080	1,043	1,003	660
<b>EBIT</b>	<b>3,618</b>	<b>2,875</b>	<b>2,993</b>	<b>3,283</b>	<b>3,222</b>	<b>3,541</b>
Finance Income (Expense)	(413)	(361)	(260)	(296)	-	-
Other income (expense)	62	31	29	30	30	30
<b>PBT</b>	<b>3,267</b>	<b>2,546</b>	<b>2,762</b>	<b>3,017</b>	<b>3,252</b>	<b>3,571</b>
Taxes	92.3	99.6	117.6	128	138	152
Share of minorities	-	-	-	-	-	-
Gains/(losses)/(deconsolidation)	-	-	-	-	-	-
<b>Net income</b>	<b>3,174</b>	<b>2,446</b>	<b>2,645</b>	<b>2,889</b>	<b>3,113</b>	<b>3,419</b>
<b>Adjusted net income (pre-exceptionals)</b>	<b>3,174</b>	<b>2,446</b>	<b>2,645</b>	<b>2,889</b>	<b>3,113</b>	<b>3,419</b>
Number of shares ('000)	562,500	562,500	562,500	562,500	562,500	562,500
EPS	5.6	4.3	4.7	5.1	5.5	6.1
Adjusted EPS (pre-exceps)	5.6	4.3	4.7	5.1	5.5	6.1
DPS	-	-	1.0	3.1	3.9	4.3
Payout ratio (%)	0%	0%	21%	60%	70%	70%

Source: Company data, VTB Capital Research

**Figure 91: Balance Sheet (Figures in million SAR, except per share data)**

Balance Sheet (YE Dec)	2011	2012	2013	2014F	2015F	2016F
PP&E	17,588	16,498	15,623	15,015	14,443	14,214
Intangibles	234	-	-	-	-	-
Investments	-	-	-	-	-	-
Other	32	538	495	495	495	495
<b>Total non-current assets</b>	<b>17,855</b>	<b>17,036</b>	<b>16,119</b>	<b>15,510</b>	<b>14,938</b>	<b>14,710</b>
Cash	599	530	2,106	2,055	2,292	2,611
Accounts receivable	2,583	2,562	2,380	2,173	2,156	2,156
Inventories	1,170	1,112	1,119	2,173	2,156	2,156
Other	769	1,150	1,177	1,212	1,249	1,286
<b>Total current assets</b>	<b>5,121</b>	<b>5,353</b>	<b>6,782</b>	<b>7,612</b>	<b>7,853</b>	<b>8,210</b>
<b>TOTAL ASSETS</b>	<b>22,975</b>	<b>22,388</b>	<b>22,901</b>	<b>23,122</b>	<b>22,791</b>	<b>22,919</b>
Debt	2,077	1,279	1,298	1,169	1,052	947
Accounts payable	423	361	252	1,086	1,078	1,078
Other	1,055	831	623	642	661	681
<b>Total current liabilities</b>	<b>3,555</b>	<b>2,471</b>	<b>2,174</b>	<b>2,897</b>	<b>2,791</b>	<b>2,706</b>
Debt	6,542	6,821	5,523	3,866	2,706	1,894
Other	2,362	135	161	161	161	161
<b>Total non-current liabilities</b>	<b>8,905</b>	<b>6,956</b>	<b>5,683</b>	<b>4,027</b>	<b>2,867</b>	<b>2,055</b>
Shareholders' Equity	10,515	12,961	15,043	16,199	17,133	18,158
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>22,975</b>	<b>22,388</b>	<b>22,901</b>	<b>23,122</b>	<b>22,791</b>	<b>22,919</b>

Source: Company data, VTB Capital Research

**Figure 92: Cash Flow Statement (Figures in million SAR, except per share data)**

Cash Flow Statement (YE Dec)	2011	2012	2013	2014F	2015F	2016F
EBITDA	4,635	3,894	4,073	4,327	4,225	4,200
Working capital change	(976)	(3)	8	(29)	7	(18)
Other	(485)	(185)	(200)	30	30	30
Cash earnings ex zakat and interest	3,175	3,706	3,880	4,328	4,262	4,213
Zakat	(42)	-	-	(128)	(138)	(152)
Net interest paid	(413)	(361)	(260)	(296)	-	-
<b>Operating cash flow</b>	<b>2,720</b>	<b>3,345</b>	<b>3,620</b>	<b>3,903</b>	<b>4,124</b>	<b>4,061</b>
CAPEX	323	(342)	(204)	(435)	(431)	(431)
Acquisitions (net of disposals)	-	-	-	-	-	-
Other	4	-	-	-	-	-
<b>Cash flow before financing</b>	<b>3,047</b>	<b>3,003</b>	<b>3,416</b>	<b>3,468</b>	<b>3,693</b>	<b>3,630</b>
<b>Financing cash flows</b>	<b>(3,238)</b>	<b>(3,073)</b>	<b>(1,840)</b>	<b>(3,520)</b>	<b>(3,456)</b>	<b>(3,310)</b>
Net borrowing	(3,016)	(3,073)	(1,279)	(1,787)	(1,277)	(917)
New equity						
Dividends	-	-	(561)	(1,733)	(2,179)	(2,393)
Other	(222)	-	-	-	-	-
<b>Net Cash Flow</b>	<b>(191)</b>	<b>(69)</b>	<b>1,576</b>	<b>(51)</b>	<b>(237)</b>	<b>(319)</b>

Source: Company data, VTB Capital Research

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