



EVENT FLASH

In-line operating income offset by higher non-Opex

Sipchem reported a weak set of 2Q16 result with a net income of SR26mn, down 76.4% YoY and 48.7% QoQ. The results were lower than the NCBC and consensus estimates of SR29mn and SR50mn, respectively. Although gross profit was in-line with our estimate, higher than expected finance charges and one-off expenses were the main reasons behind the deviation in earnings.

- Sipchem reported weaker than expected results with a net income of SR26mn, declining by 76.4% YoY. This is the lowest reported net income since 2Q09. Net income was lower than the NCBC and consensus estimates of SR29.2mn and SR50mn, respectively. Given that gross profit was in-line with our estimates, we believe the deviation in bottom-line is attributed to higher non-operating expenses. Sipchem highlighted that results were impacted by 1) an increase in financial charges on higher SIBOR rates, 2) one-off expenses related to employee early retirement program and 3) additional expenses related to the restructuring program.
- Based on our calculations, Sipchem facilities operated at 103% in 2Q16, higher than 92% in 2Q15 and our estimate of 96%. However, this is lower than 112% in 1Q16. In April 2016, Sipchem conducted a 16 days shutdown at its acetic acid, carbon monoxide and ethyl acetate units resulting in a financial impact of SR22.5mn reflected on 2Q16 results. Revenue stood at SR880mn in 2Q16, 9.6% higher than our estimate.
- Operating profit came in 5.8% higher than our estimate driven by lower than expected Opex (SR64.6mn in 2Q16 vs. our estimate of SR66.5mn). This is lower than SR70.0mn in 1Q16 but higher than SR60.0mn in 2Q15. The bottom-line was negatively impacted by one-off charges related to early retirement program and higher financial charges. Based on our calculation, financial expenses were SR63mn, higher than SR56mn in 1Q16 and SR49mn in 2Q15. An increase in SAIBOR and the issuance of a new sukuk at higher cost were the key reasons behind the increase. In 2Q16, Sipchem issued a new 5 years SR1.0bn sukuk to replace the old SR1.8bn issuance. The new issuance was priced at SAIBOR+2.35% vs. SAIBOR+1.5% earlier.
- In 2Q16, methanol prices increased 6.8% QoQ but declined 29.3% YoY to reach US\$228/mt. VAM declined 5.4% QoQ to US\$842/mt while acetic acid prices fell 4.9% QoQ to US\$306/mt.
- We remain Overweight on Sipchem with a PT of SR15.9. Improvement in operating rates, positive methanol price outlook is the stock key catalysts.

2Q16 Results Summary

SR mn	2Q16A	1Q16A	% QoQ	2Q15A	% YoY	2Q16E % Var^
Revenue	880	892	(1.4)	1,007	(12.6)	802 9.6
Gross income	164	229	(28.7)	287	(43.1)	160 2.2
Gross margin (%)	18.6	25.7	(7.1)	28.5	(9.9)	19.9 (1.3)
Operating income	99	159	(37.8)	228	(56.5)	94 5.8
Net income	26	51	(48.7)	110	(76.4)	29 (10.7)
EPS (SR)	0.07	0.14	(48.7)	0.30	(76.4)	0.08 (10.7)

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

OVERWEIGHT

Target price	15.9
Current price (SR)	13.9

STOCK DETAILS

52-week range H/L (SR)	32/10
Market cap (\$ mn)	1,363
Shares outstanding (mn)	367
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	7.2	(3.2)	(56.5)
Rel. to market	7.4	1.0	(26.1)

Avg daily turnover (mn)	SR	US\$
3M	6.5	1.7
12M	12.4	3.3

Reuters code	2310.SE
Bloomberg code	SIPCHEM AB
	www.sipchem.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	19.4	23.2	12.6
P/B (x)	0.9	0.8	0.8
EV/EBITDA (x)	11.0	9.9	9.0
Div Yield (%)	4.3	0.0	4.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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