

SAHARA PETROCHEMICAL

EVENT FLASH

In-line result supported by high associate income

Sahara reported an in-line set of 3Q16 results, with a net income of SR105mn. Net income declined 13.0% YoY, but increased 9.2% QoQ. We believe lower income at the operating level was offset by higher earnings from associates. We believe income from associates stood at SR50mn, higher than our estimate of SR44mn. Gross margin was at 32.5% in 3Q16, lower than 35.3% in 3Q15.

- Sahara reported an in-line set of 3Q16 results with a net income of SR105mn. Net income declined 13.0% YoY but increased 9.2% QoQ. The company attributed the YoY decline in net income to lower operating rates and sales volumes at Al Waha, higher losses at SAMAPCO and an increase in financial expenses. The QoQ improvement in earnings is mainly driven by higher earnings from SEPC and lower acrylic losses. We believe lower than expected income at the operating level was mitigated by higher than expected income from associates.
- Revenues stood at SR423mn in 3Q16, down 16.0% YoY and 5.9% QoQ. This is 4.8% below our estimate of SR445mn. Based on our calculations, Al Waha operated at 100% in 3Q16, below our estimate of 105%. This is lower than 110% in 2Q16 and 3Q15. Gross margin came in at 32.5% in 3Q16, lower than our estimate of 33.6%. This is in-line with 32.7% in 2Q16 but lower than 35.3% in 3Q15. We believe lower operating rates offset the positive impact of higher operational efficiency and increasing PP-propane spreads.
- Opex stood at SR41.2mn in 3Q16, lower than our estimate of SR45.8mn. This represents 9.7% of sales in 3Q16, lower than 10.3% in 2Q16 but higher than 5.4% in 3Q15.
- Based on our calculations, income from associates came-in at SR50mn in 3Q16, higher than our estimate of SR44mn. This is also higher than SR36mn in 2Q16. We believe the improvement is driven by 1) lower losses at the acrylic project benefiting from the start of commercial operations at the butanol facility and 2) higher earnings from SEPC.
- Prices of Sahara's products (PP, HDPE and LDPE) increased 1-3% QoQ but declined 5-8% YoY. Naphtha fell 5.6% QoQ and 16.1% YoY to US\$389.
- We are currently Neutral on the stock with a PT of SR9.9. Operational improvement at Al Waha and the new facilities are the stock's key catalysts. However, the stock is trading at a 2017E P/E of 15.7x, vs. 13.3x of sector.

3Q16 Results Summary

SR mn	3Q16A	2Q16A	% QoQ	3Q15A	% YoY	3Q16E	% Var [^]
Sales	423	449	(5.9)	503	(16.0)	445	(4.8)
Gross income	137	147	(6.7)	178	(22.8)	149	(8.0)
Gross margin (%)	32.5%	32.7%	(0.3)	35.3%	(2.9)	33.6%	(1.1)
Operating income	96	101	(4.8)	151	(36.3)	103	(7.1)
Net income	105	96	9.2	121	(13.0)	105	0.7
EPS	0.24	0.22	9.2	0.28	(13.0)	0.24	0.7

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

NEUTRAL

Target price (SR) 9.9

Current price (SR) 10.5

STOCK DETAILS

M52-week range H/L (SR)	13/7
Market cap (\$mn)	1,227
Shares outstanding (mn)	439
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.2)	(8.4)	(19.7)
Rel. to market	8.0	8.3	8.9

Avg. daily turnover (mn)	SR	US\$
3M	20.0	5.3
12M	29.8	7.9

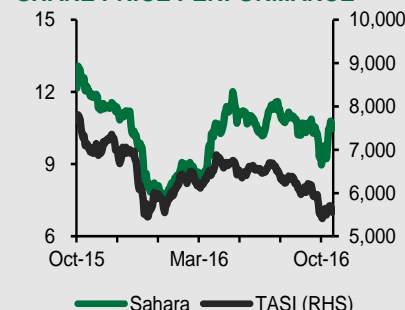
Reuters code	2260.SE
Bloomberg code	SPCO AB
	www.saharapcc.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	NM	13.6	15.7
P/B (x)	0.8	0.8	0.8
EV/EBITDA (x)	17.9	8.9	9.7
Div Yield (%)	4.8	4.8	4.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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Corporate website

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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

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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

NC: Not covered. NCBC does not cover this company

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