



Monthly update

In our monthly note, we update price movements of major petrochemical products, manufacturing activity in key demand markets, recent announcements and valuations of Saudi petrochemical companies & peers.

Price movement of key petrochemical products

Products	1-Month*	Y-o-Y
Ethylene	+17.3%	+41.8%
HDPE	+4.3%	+9.9%
LDPE	+3.4%	+21.8%
Propylene	+10.7%	+69.0%
Polypropylene	+7.9%	+32.4%
Methanol	+8.5%	+70.2%
Benzene	+0.5%	+77.1%
Ammonia	+14.0%	+14.0%
Urea	-9.1%	+13.6%

* Last month change

Summary

Stock	Rating	Price Target
SABIC	N	SAR97.0
Yansab	N	SAR58.0
SAFCO	UW	SAR62.0
APCC	N	SAR46.0
Tasnee	UR	Under Review
Sipchem	OW	SAR20.4

Saudi Petrochemicals sector

Spreads improve, slightly below our estimate

Aramco lowers Propane price for March: After increasing to the highest level in more than two years in February, Saudi Aramco has lowered Propane price for March to US\$480/t (-6% m-o-m), in line with our expectation. US Propane price also declined ~19% m-o-m in February. On the other hand, Aramco kept Butane price unchanged at US\$600/t for March. Meanwhile, Naphtha was marginally down ~1.2% m-o-m in February. As Brent oil price is trading in a tight range of US\$55-58 a barrel, we do not expect a significant upward movement in Naphtha price in the near-term. Despite an improvement in NGL discount to Naphtha (~5.5% on current Naphtha price), it is still lower than the 9-10% historical average. Unless oil price increases or NGLs demand remains strong, we expect a further reduction in Propane price for April as some Asian and European petchem cracker units could switch their feedstock mix depending on the feedstock prices.

Product prices advanced in February: Prices of most petrochemical products advanced in February with Ethylene (+17.3% m-o-m) and Propylene (+10.7%) increasing significantly, driven by improved demand coupled with tight supply primarily on account of maintenance shut-downs. Other polymer products such as HDPE (+4.3%), LDPE (+3.4%), Polypropylene (+7.9%) and Polystyrene (+4.6%) continued their upward journeys, mainly due to higher upstream costs and improved demand. However, we believe the current polymer prices may not sustain going forward because prices are usually strong in January and February (m-o-m). Historically, we observe that Polypropylene peaks in Q1. In five times out of last six years prices have increased on a m-o-m basis. Meanwhile prices of C5+ products of naphtha cracking, such as Benzene (+0.5% m-o-m) and Styrene (+0.4% m-o-m) remained almost unchanged. Methanol price also gained 8.5% in February. Snapping its upward journey, Urea (-9.1%) declined in February for the first time since July 2016.

Spreads improved on higher product prices: Overall as most products' prices have increased more than costs, spreads improved in February (m-o-m) but still marginally below our forecasts. Going forward, though spreads might improve on lower NGLs prices, Q1 margin for most companies is likely to be lower on a sequential basis.

Most coverage companies currently trading a fair price: While we reiterate our ratings and target prices (see left pane) for most of the companies under our coverage, we put Tasnee under review post its announcement of plan of sale of Cristal assets. We also upgrade Sipchem to Overweight after a recent decline in stock price (Target Price unchanged). Apart from Sipchem most of the companies are currently trading at around their fair prices in our view. We see limited upside potential unless product prices and/or spread rise further.

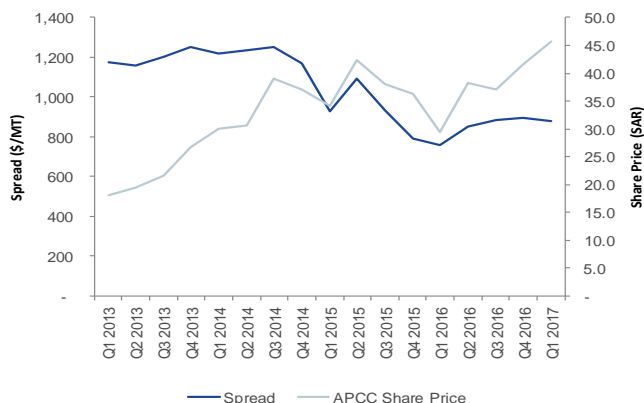
Oil prices marginally up: Crude oil price was marginally up 1.1% m-o-m in February. While on the one hand, OPEC is cutting production (94% of production cut quota reached in February as per Reuters survey) to balance the oil market, on the other, US is increasing production amid oil price recovery. US domestic crude production remains above 9m bpd for the second consecutive months on increased drilling activity, pushing US crude stock levels to a record highs last week. US oil rig count continued to rise for the ninth consecutive months in February (602 at the end of February vs. 566 at the end of January 2017; source: Baker Hughes). Nonetheless, demand continues to improve in February as global manufacturing activities continued to witness an improvement for the sixth consecutive month with JPM Global Manufacturing PMI rising to a 69-month high of 52.9.



Trading opportunities

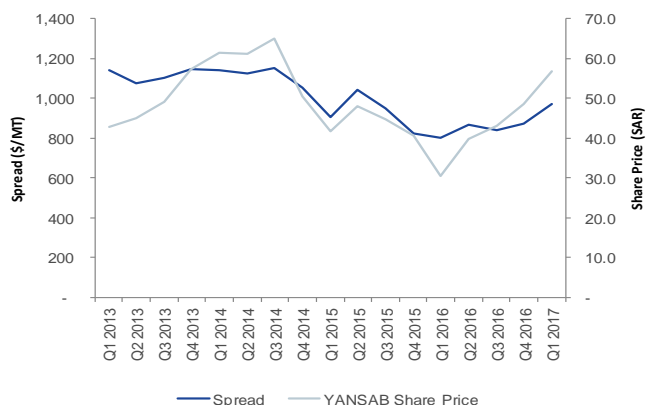
The following charts show the stock price movements vs. weighted price spreads (between the end product prices and key feedstock, unadjusted for production). Based on our tracker model, we expect SAFCO to continue moving higher in the near-term on positive divergence due to higher urea prices this quarter, while APCC could trade lower due to declining spread on higher NGLs prices in Q1.

Figure 1 APCC Price and Spread



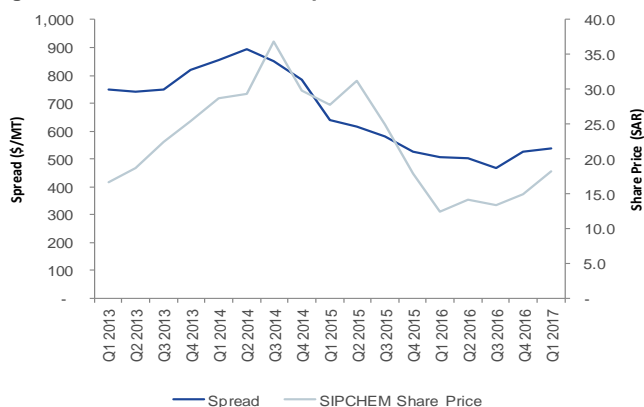
Source: Company data, Al Rajhi Capital, Bloomberg

Figure 2 YANSAB Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 3 SIPCHEM Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 4 SAFCO Price and Spread



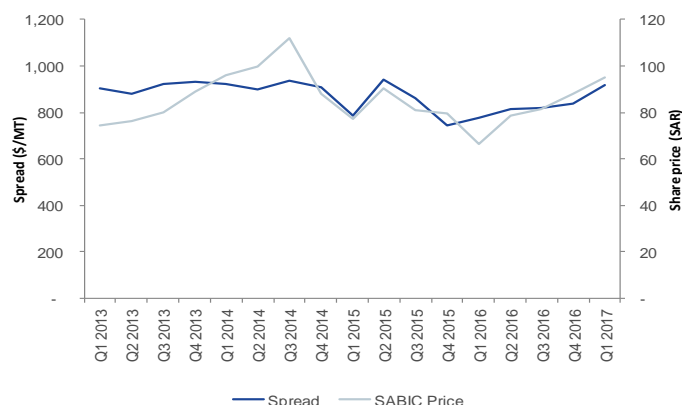
Source: Company data, Al Rajhi Capital, Bloomberg

Figure 5 Tasnee Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 6 SABIC Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg



Figure 7 Price movement of key petrochemicals, fertilizers and metals

Products	Recent Price*	% Change			
		1-Month**	QTD	YTD	1-Year
European Brent (US\$/bbl)	56.8	1.1	(2.2)	(2.2)	32.0
WTI (US\$/bbl)	54.2	1.1	(2.2)	(2.2)	29.0
Henry Hub Natural Gas (US\$/mmbtu)	2.5	(16.3)	(31.7)	(31.7)	55.6
Naphtha - Japan (US\$/ton)	508	(1.2)	2.3	2.3	55.5
Propane - Aramco (US\$/ton)	480	17.2	26.3	26.3	65.5
Butane - Aramco (US\$/ton)	600	21.2	42.9	42.9	87.5
Key petrochemicals (US\$/ton)					
Ethylene (FOB Japan)	1,290	17.3	17.3	17.3	41.8
HDPE (SE Asia)	1,220	4.3	4.3	4.3	9.9
LDPE (SE Asia)	1,370	3.4	6.2	6.2	21.8
Propylene (FOB Korea)	980	10.7	13.3	13.3	69.0
Polypropylene (SE Asia)	1,165	7.9	10.4	10.4	32.4
Methanol (CFR China)	371	8.5	6.0	6.0	70.2
MTBE (Asia)	660	(4.3)	(4.3)	(4.3)	28.2
Benzene (FOB Korea)	965	0.5	16.3	16.3	77.1
Toluene (CFR Japan)	700	(7.3)	2.9	2.9	21.7
Styrene (FOB Korea)	1,390	0.4	18.3	18.3	44.0
Polystyrene (Asia)	1,480	4.6	12.1	12.1	34.5
Other petrochemicals (US\$/ton)					
Mono-ethylene glycol - SABIC	1,180	7.3	12.4	12.4	55.3
Ethylene di-chloride (FOB NWE)	305	10.9	19.6	19.6	35.6
Vinyl Acetate Monomer (China)	760	2.0	4.1	4.1	(14.1)
Polyvinyl chloride (SE Asia)	950	5.0	5.6	5.6	30.1
Titanium Dioxide (Asia)	2,460	5.1	5.1	5.1	23.0
Acrylic Acid (China)	1,390	(2.8)	9.4	9.4	91.7
Fertilizers (US\$/ton)					
Ammonia (Middle East)	325	14.0	58.5	58.5	14.0
Urea (Middle East)	250	(9.1)	2.0	2.0	13.6
DAP (Middle East)	360	4.3	10.8	10.8	(2.7)
Metals					
Gold - US Spot (US\$/oz)	1,240	3.1	8.0	8.0	0.6
Aluminum - LME (US\$/ton)	1,920	5.8	12.7	12.7	20.3
Copper - LME (US\$/ton)	5,936	0.3	7.9	7.9	26.2

Source: Bloomberg, Argam, Al Rajhi Capital. * Last closing. ** 1-Month represents the last month change.

Figure 8 Historical 1-Year Forward PE Multiples Trend



Source: Bloomberg, Al Rajhi Capital

Figure 9 Historical 1-Year Forward EV/EBITDA Multiples Trend



Source: Bloomberg, Al Rajhi Capital



Figure 10 Margins and Valuation Metrics - Saudi petrochemical companies vs. global peers

Company Name	Market Cap (US\$ 'mn)	TTM Operating margin	TTM Net margin	2017 PE	P/B	2017E EV/Sales	2017E EV/EBITDA	TTM ROE	TTM Operating ROE	TTM ROA
Saudi Arabia										
SABIC	77,798	21.3	13.4	15.9x	1.8x	2.3x	7.6x	11.0	17.4	5.5
SAFCO	7,861	35.4	36.8	22.1x	4.2x	9.2x	17.5x	14.4	13.9	12.1
Sipchem	1,750	12.4	2.1	15.1x	1.1x	3.4x	8.7x	1.2	7.1	0.4
NIC	3,104	10.2	1.7	16.1x	1.4x	2.4x	9.6x	3.2	19.6	0.6
Yansab	8,437	35.7	33.0	14.7x	1.9x	4.1x	8.9x	14.6	15.7	11.2
APC	2,414	33.4	34.2	13.5x	3.0x	4.0x	10.3x	26.4	25.8	17.7
SPC	1,819	19.4	22.8	17.5x	1.2x	3.9x	13.9x	7.4	6.3	4.7
Saudi Kayan	3,340	11.4	1.6	19.8x	NA	3.7x	9.9x	NA	NA	NA
PetroRabigh	3,142	0.4	0.1	84.1x	1.4x	1.8x	20.4x	0.4	1.3	0.1
SIIG	2,586	16.3	8.0	11.6x	1.3x	3.4x	9.5x	6.6	13.5	1.8
Chemanol	241	(16.0)	(18.9)	15.3x	0.7x	2.1x	6.6x	(8.4)	(7.1)	(4.5)
Nama	141	(36.5)	NA	NA	1.7x	NA	NA	(119.7)	(22.5)	(41.4)
Alujain	386	18.7	7.7	19.0x	1.3x	2.2x	NA	10.2	24.6	3.4
National Petrochemical	2,611	16.6	6.5	12.6x	1.6x	3.1x	9.2x	6.6	16.8	1.8
Median		16.5	7.7	15.9x	1.4x	3.4x	9.5x	6.6	13.9	1.8
Average		12.8	11.5	21.3x	1.7x	3.5x	11.0x	(2.0)	10.2	1.0
Middle East & Africa (ex-Saudi Arabia)										
Industries Qatar	19,107	21.2	73.3	17.6x	2.1x	13.2x	58.8x	10.0	2.9	9.5
Mesaieed Petrochem	5,417	NA	NA	NA	NA	NA	NA	NA	NA	NA
Sidi Kerir	607	26.9	24.1	12.1x	4.3x	2.7x	9.2x	30.9	34.5	22.7
Al Qurain	1,151	12.5	18.1	NA	1.1x	NA	NA	9.0	6.2	5.4
Sasol	18,962	14.2	8.4	9.9x	1.2x	1.7x	5.4x	7.0	11.8	3.9
Median		17.7	21.1	12.1x	1.6x	2.7x	9.2x	9.5	9.0	7.5
Average		18.7	31.0	13.2x	2.2x	5.9x	24.5x	14.2	13.9	10.4
Europe										
BASF	86,962	11.2	7.0	17.0x	2.6x	1.6x	8.7x	12.9	20.5	5.5
Solvay	12,454	8.3	5.1	13.2x	1.2x	1.4x	6.7x	6.5	10.5	2.5
Lanxess	6,313	6.6	2.7	26.2x	2.6x	1.0x	7.4x	9.1	22.2	2.7
Arkema	7,409	9.5	5.7	14.7x	1.7x	1.1x	6.7x	10.5	17.7	4.8
Yara	10,411	9.2	6.7	14.2x	1.2x	1.0x	6.7x	8.6	11.8	5.3
Akzo Nobel	17,210	10.7	6.8	15.5x	2.5x	1.2x	8.2x	14.9	23.3	6.0
Clariant	6,227	NA	NA	NA	NA	NA	NA	NA	NA	NA
Median		9.4	6.2	15.1x	2.1x	1.1x	7.1x	9.8	19.1	5.1
Average		9.2	5.7	16.8x	2.0x	1.2x	7.4x	10.4	17.7	4.5
North America										
Eastman	11,882	15.6	9.6	11.2x	2.7x	2.0x	8.3x	20.7	31.3	5.5
Dow	76,997	7.1	9.0	15.5x	3.0x	1.8x	8.7x	16.7	14.4	5.9
Westlake	8,532	11.5	7.9	16.4x	2.4x	1.6x	7.9x	11.7	17.1	4.8
Celanese Corp	12,723	16.6	16.7	12.4x	4.9x	2.7x	9.6x	36.2	36.0	10.6
Methanex	4,671	1.4	(0.6)	13.4x	2.9x	2.1x	7.7x	(0.8)	1.7	(0.3)
LyondellBasell Industries	37,794	17.3	13.1	9.4x	6.3x	1.4x	6.7x	60.8	80.3	16.6
Huntsman Corp	5,485	6.7	3.4	12.6x	4.3x	1.0x	7.7x	23.9	47.4	3.4
Median		11.5	9.0	12.6x	3.0x	1.8x	7.9x	20.7	31.3	5.5
Average		10.9	8.4	13.0x	3.8x	1.8x	8.1x	24.2	32.6	6.7
Asia										
Indorama Ventures	4,988	6.3	6.4	17.3x	2.0x	0.9x	9.5x	17.9	19.0	6.7
Mitsui Chemicals	5,225	7.3	3.3	10.6x	1.4x	0.9x	7.3x	9.3	20.3	3.0
Sumitomo	9,449	6.9	2.7	14.9x	1.3x	1.1x	8.7x	6.4	16.1	1.8
Formosa Chemicals & Fibre Corp	18,027	9.8	13.0	14.1x	1.9x	1.9x	12.4x	14.7	11.0	8.0
Lotte Chemical Corp	11,170	19.3	13.6	6.4x	1.5x	0.9x	4.2x	18.0	26.7	11.1
Formosa Plastics Corp	18,689	5.1	18.9	17.2x	2.0x	3.1x	27.8x	11.9	3.2	7.9
LG Chem	17,756	9.6	6.2	12.7x	1.4x	0.9x	5.6x	8.3	14.3	6.4
Median		7.3	6.4	14.1x	1.5x	0.9x	8.7x	11.9	16.1	6.7
Average		9.2	9.2	13.3x	1.6x	1.4x	10.8x	12.4	15.8	6.4
Indices										
S&P500 Chemical Index	452,403	13.2	9.5	18.7x	4.7x	2.5x	10.7x	19.9	19.9	6.1
MSCI World Chemical Index	1,103,204	11.1	7.4	18.5x	3.0x	1.9x	10.0x	13.8	13.8	5.3
TASI	435,599	18.2	15.4	14.3x	1.6x	3.3x	10.5x	9.4	9.4x	2.3

Source: Bloomberg, Al Rajhi Capital. Notes: 1) Market cap as of March 1, 2017. 2) All valuation ratios as on latest trading prices.



Figure 11 Performance of Saudi petrochemical companies vs. global peers

Company	Currency	Last Price*	% Change				52-Week		Dividend	
			1 Month**	QTD	YTD	1 Year	High	Low	LTM	Yield
Saudi Arabia										
SABIC	SAR	96.87	1.4	5.9	5.9	42.0	98.5	73.3	5.0	5.2%
SAFCO	SAR	70.75	(2.6)	(5.2)	(5.2)	10.0	82.0	58.0	4.5	6.4%
Sipchem	SAR	17.70	(7.0)	(6.3)	(6.3)	33.5	19.8	11.8	NA	NA
NIC	SAR	17.29	8.9	(1.0)	(1.0)	99.0	20.0	8.8	NA	NA
Yansab	SAR	56.34	(4.8)	4.3	4.3	76.2	59.8	35.3	2.5	4.4%
APC	SAR	45.86	(0.1)	(0.2)	(0.2)	58.1	48.6	31.5	2.5	5.5%
SPC	SAR	15.55	(0.6)	5.4	5.4	97.1	15.9	8.3	0.5	3.2%
Saudi Kayan	SAR	8.30	(1.5)	(6.1)	(6.1)	70.1	9.5	4.9	NA	NA
PetroRabigh	SAR	13.36	9.8	13.6	13.6	43.7	13.6	8.7	NA	NA
SIG	SAR	21.53	13.4	14.1	14.1	88.5	23.5	11.4	NA	NA
Chemanol	SAR	7.51	4.3	(6.4)	(6.4)	31.1	8.4	4.9	NA	NA
Nama	SAR	4.15	(17.0)	(33.1)	(33.1)	(25.8)	7.2	3.6	NA	NA
Alujain	SAR	20.99	7.6	12.5	12.5	68.1	22.6	11.0	1.0	4.8%
National Petrochemical	SAR	20.40	(4.5)	(4.0)	(4.0)	36.6	22.8	13.4	NA	NA
Middle East & Africa (ex-Saudi Arabia)										
Industries Qatar	QAR	115.30	4.4	1.5	4.2	13.8	122.0	94.5	4.0	3.5%
Mesaieed Petrochem	QAR	15.70	0.4	(0.6)	0.9	(8.8)	21.0	14.5	0.7	4.5%
Sidi Kerir	EGP	18.67	(6.3)	8.9	(6.3)	89.9	22.2	10.7	0.4	2.1%
Al Qurain	KWd	325.00	14.0	41.3	14.0	96.2	330.0	184.0	10.0	3.1%
Sasol	ZAr	37,936.00	(6.6)	(5.3)	(5.0)	(7.7)	49,747.0	35,495.0	1,480.0	3.9%
Europe										
BASF	EUR	89.98	(1.5)	2.6	2.6	56.9	91.6	61.6	2.9	3.2%
Solvay	EUR	111.60	1.5	1.1	1.1	35.1	117.0	79.1	3.3	2.9%
Lanxess	EUR	65.80	(4.4)	5.3	5.3	75.1	68.8	37.3	0.6	0.9%
Arkema	EUR	92.81	0.1	(0.2)	(0.2)	68.9	97.2	57.3	1.9	2.0%
Yara	NOK	320.90	(8.4)	(5.9)	(5.9)	(0.5)	362.0	256.1	15.0	4.7%
Akzo Nobel	EUR	64.75	0.8	9.0	9.0	22.4	65.1	52.6	1.6	2.4%
Clariant	CHF	18.95	1.5	9.0	9.0	16.1	19.4	15.6	0.4	2.1%
North America										
Eastman	USD	81.47	3.5	7.9	7.9	30.4	82.1	62.7	1.9	2.3%
Dow	USD	63.46	4.4	10.5	10.5	35.2	64.4	47.5	1.8	2.9%
Westlake	USD	66.18	2.8	17.5	17.5	55.7	66.8	39.5	0.8	1.1%
Celanese Corp	USD	90.28	6.1	14.3	14.3	52.6	91.5	60.6	1.4	1.6%
Methanex	USD	52.00	1.9	16.7	16.7	69.5	53.4	26.8	1.1	2.1%
LyondellBasell Industries	USD	93.89	(2.2)	10.2	10.2	21.9	97.6	69.8	3.4	3.6%
Huntsman Corp	USD	23.03	10.8	20.2	20.2	119.1	23.4	11.1	0.5	2.2%
Asia										
Indorama Ventures	THB	36.00	1.4	9.1	9.1	70.4	37.8	22.1	0.5	1.5%
Mitsui Chemicals	JPY	576.00	7.3	9.1	9.1	59.3	599.0	320.0	9.0	1.6%
Sumitomo	JPY	634.00	3.8	14.6	14.6	31.8	658.0	396.0	13.0	2.1%
Formosa Chemicals & Fibre Corp	TWD	95.00	0.4	(1.3)	(1.3)	32.7	100.0	75.0	3.5	3.7%
Lotte Chemical Corp	KRW	364,500.00	(3.2)	(1.2)	(1.2)	15.4	410,000.0	249,000.0	4,000.0	1.1%
Formosa Plastics Corp	TWD	91.00	2.7	2.0	2.0	20.6	98.1	75.0	3.6	4.0%
LG Chem	KRW	283,000.00	8.0	8.4	8.4	(3.9)	341,000.0	215,500.0	5,000.0	1.8%
Indices										
S&P500 Chemical Index	USD	550.70	2.5	7.9	7.9	23.0	552.2	449.3	12.0	2.2%
MSCI World Chemical Index	USD	299.84	1.0	6.4	6.4	24.4	298.7	245.0	6.8	2.3%
TASI	SAR	6,966.53	(1.8)	(3.4)	(3.4)	14.3	7,290.3	5,327.5	234.6	3.4%

Source: Bloomberg, Al Rajhi Capital. * Last closing as of March 1, 2017. ** 1 Month represents the last month change.



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