Saudi Basic Industries Corp. (SABIC)

Result Flash Note 1Q-2017 **May 2017**

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Please read Disclaimer on the back

SABIC: Q12017 earnings came in-line with our estimates; margin expansion, hikes in sales' prices and better performance of metals segment led the strong performance. Weak margins of Propane/Butane derivatives were partly offset by higher margin of ethane downstream products. Better production efficiency and an increase in all product prices led to gross margin of 37.2% in 1Q2017 from 30.2% in 1Q2016. Dividend payment is expected to raise towards SAR 4.5 per-share in 2017. We remain "Neutral" on the stock with a PT of SAR 98.0/share.

- Saudi Basic Industries Corporation (SABIC) announced its 1Q2017 result showing a deviation of 3.8% from AJC estimates and 0.4% from the market consensus of SAR 5,219mn. SABIC posted net income of SAR 5.24bn; indicating an increase of 80.1%YoY and 51.4%QoQ. We believe that the YoY strong result is mainly attributed to i) higher product spreads due to margin expansion in Ethane-based products. ii) higher average sales prices iii) better performance from the metals segment after a prominent increase in steel prices. In addition, the strong performance on QoQ basis in the bottom line is primarily ascribed to Ibn Rushd impairment losses of SAR 330mn, in 4Q2016, along with higher selling prices and slight margin expansion in 1Q2017. On the other hand, the deviation of 1Q2017 earnings from our estimates is attributed mainly to the higher than expected gross margin due to higher spreads between ethane derivatives (45% of feedstock).
- SABIC's revenue in 1Q2017 stood at SAR 36.95bn, which is in-line with AJC estimates of SAR 37.4bn with a 1.3% deviation. We believe that the stability in revenue and continued high operating rate in 1Q2017 are due to solid global demand and better performance of the metals segment with the steel price hike of 9%YoY. During the quarter, the average selling prices of petrochemical unit increased by around 8.9%QoQ, where MEG, Polypropylene and PE products prices rose by 29.5%, 2.4% and 1.2% in 1Q2017 respectively. On the other hand, the fertilizer segment was substantially supported by shutdown in some global plants, where Urea prices hiked by 22.1%YoY and 13.5%QoQ. Ammonia price declined 4.5%YoY, but increased by 65.4%QoQ.
- Gross profit stood at SAR 13.74bn depicting an increase of 35.9%YoY and 8.9%QoQ, significantly above our forecast of SAR 11.3bn due to the implementation of IFRS accounting policy. Gross margin stood at 37.2% in 1Q2017, well above 30.2% in 1Q2016 and 37.1% in 4Q2017. We believe the company's overall 1Q2017 gross margin performance still benefitted from the higher spreads across some products despite the increase in Propane and Butane fuel cost. We believe that SABIC's implementation of cost efficiency measures since 2016 continue leading to a strong upsurge in the gross margin for the quarter. Furthermore, gross margin is subject to hike further in 2Q2017 due to current discount in feedstock prices by Aramco (Propane & Butane). Operating profit for 1Q2017 stood at SAR 8.35bn depicting an increase of 78.8%YoY and 32.1%QoQ; higher than our estimates of SAR 8.0bn. The company continue to show more control in its expenses, as it reduced OPEX (SG & A) by SAR 50mn to stand at SAR 5.39bn, as compared to SAR 5.44bn in 1Q2017.

Ajc View: The company benefitted from the high spreads across some products based on Ethane and despite margin contraction in products based on liquid gas such as propane and butane (almost 35% of SABIC feedstock). In 1Q2017, Saudi Propane average price significantly rose by 27.4%QoQ to an average price of USD 471 per MT; however, polypropylene prices increased by only 2.4%QoQ. Consequently, higher increase in propane price than Polypropylene prices led to lower PP-Propane spreads in 1Q2017. PP-Propane spread expanded by 12.2%QoQ. On the other hand, improved metals segments, global demand stability, investment diversification and better production efficiency are the key factors for SABIC. SABIC Co. is expected to post SAR 21.2bn in net income (7.05 EPS) for FY2017, indicating an increase of 18.6%YoY for the year supported by better margins and current better oil fundamentals. The company is trading at a forward PE and P/B of 14.0x and 1.75x respectively based on our 2017 earnings forecast. We expect the company to hike its dividend payment to SAR 4.5 DPS (4.6% D/Y) in 2017 from SAR 4 DPS in 2016.

Results Summary

SARmn (unless specified)	Q1-2016	Q4-2016	Q1-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	33,470	34,031	36,950	10.4%	8.6%	-1.3%
Gross Profit	10,110	12,610	13,740	35.9%	8.9%	17.2%
Gross Margin	*30.2%*	*37.0%*	*37.2%*	-	-	-
EBIT	4,670	6,320	8,350	78.8%	32.1%	-0.4%
Net Profit	2,910	3,460	5,240	80.1%	51.4%	3.8%
EPS	**0.97**	**1.15**	**1.74**	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	'Neutral'
Current Price* (SAR)	99.75
Target Price (SAR)	**98.20**
Upside / (Downside)	**-1.6%**

*prices as of 1st of May 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E*
Revenue	148,086	132,827	152,716
Growth %	-21.3%	-10.3%	15.0%
Net Income	18,769	17,839	21,152
Growth %	-19.6%	-5.0%	18.6%
EPS	6.26	5.95	7.05

Source: Company reports, Aljazira Capital *Based on IFRS accounting policy

Key Market Data

Market Cap (bn)	299.3
YTD %	9.1%
52 Week (High)	102.50
52 Week (Low)	76.00
Shares Outstanding (mn)	3000.0

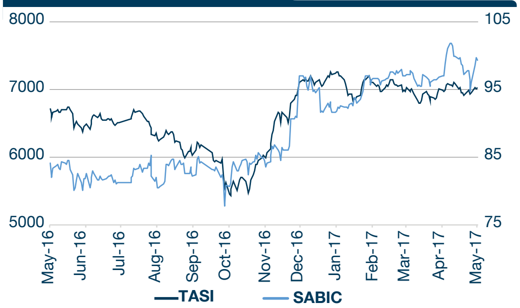
Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E*
Gross Margin	29.1%	30.8%	36.5%
Net Margin	12.7%	13.4%	13.9%
P/E	12.23x	15.39x	14.01x
P/B	1.42x	1.68x	1.75x
EV/EBITDA (x)	5.65x	6.43x	6.54x
Dividend Yield	7.2%	4.4%	4.6%

Source: Company reports, Aljazira Capital *Based on IFRS accounting policy

Price Performance



Source: Bloomberg, Aljazira Capital

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

الجزيرة كابيتال
الجزيرة للأسواق المالية ALJAZIRA CAPITAL

RESEARCH DIVISION

Acting Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst
Sultan Al Kadi
+966 11 2256374
s.alkadi@aljaziracapital.com.sa

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

Analyst
Muhanad Al-Odan
+966 11 2256115
M.alodan@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers
Mansour Hamad Al-shuaibi
+966 12 6618443
m.alshuaibi@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers Central Region
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer