



EVENT FLASH

Strong results on margin expansion

Sipchem reported a better than expected 2Q17 result with a net income of SR59.8mn, higher than SR11.4mn in 2Q16. This was significantly higher than the NCBC estimate of SR34.5mn. We believe this is due to higher than expected gross margin which stood at 30.6% in 2Q17, higher than our estimate of 25.3%.

- Sipchem reported strong results with a net income of SR59.8mn. This is significantly higher than SR11.4mn in 2Q16 but shows a decline of 34.7% QoQ. Net income is significantly higher than the NCBC and consensus estimate of SR34.5mn and SR32.0mn, respectively. We believe higher than expected gross margin was the key reason behind the variance.
- Revenues stood at SR918mn in 2Q17, in-line with our estimates. This is a decline of 23.4% QoQ but flat YoY. Based on our calculation, Sipchem facilities operated at 95% in 2Q17, in-line with our estimate but lower than 106% of 2Q16. We believe lower operating rate is due to a 3-5 weeks shutdown at the CO/acetic acid and VAM facilities in 2Q17.
- Gross profit stood at SR281mn in 2Q17, 23.6% higher than our estimate due to higher margins. Gross margin came-in at 30.6% in 2Q17, higher than our estimate of 25.3% and 29.4% in 1Q17. Margin expansion was recorded, which was a surprise, and may attributed to a lower than expected expense from the shutdown in 2Q17.
- EBIT stood at SR176mn in 2Q17, higher than our estimate of SR120mn due to higher gross margin. Opex came in at SR105.6mn in 2Q17, in-line with our estimate but lower than SR121.6mn in 1Q17. A one-off gain of SR7.5mn was recorded in 2Q17 related to employee end of service benefits.
- In 2Q17, methanol prices increased 20.2% YoY but declined 20.8% QoQ to US\$274. Ethylene increased 14.4% YoY and 8.9% QoQ to US\$1,138.
- On April 2017, Sipchem completed a 19 days shutdown at its BDO facility with a financial impact of SR6mn. In May 2017, Sipchem had 3-5 weeks shutdown at its CO/acetic acid and VAM facilities. The financial impact was not disclosed.
- We are Overweight on the stock with a PT of SR16.6. Sipchem's key positives are 1) higher operational efficiency after 2Q17 shutdowns, 2) positive methanol outlook and 3) commercial operations of the new projects. The stock is trading at 2018E P/E of 12.8x, lower than sector average of 13.5x.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Revenues	918	924	(0.6)	899	2.2	(23.4)
Gross income	281	215	30.6	227	23.6	(20.2)
Gross margin (%)	30.6%	23.3%	7.31	25.3%	5.32	1.23
Operating income	176	107	64.5	120	45.7	(23.9)
Net income	60	11	424.6	35	73.1	(34.7)
EPS (SR)	0.16	0.03	424.6	0.09	73.1	(34.7)

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

OVERWEIGHT

Target price (SR)	16.6
Current price (SR)	14.1
Upside/Downside (%)	17.6

STOCK DETAILS

M52-week range H/L (SR)	20/12
Market cap (\$mn)	1,380
Shares outstanding (mn)	367
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.2	(19.8)	(0.6)
Rel. to market	2.9	(24.3)	(11.5)

Avg daily turnover (mn)	SR	US\$
3M	12.1	3.2
12M	11.6	3.1

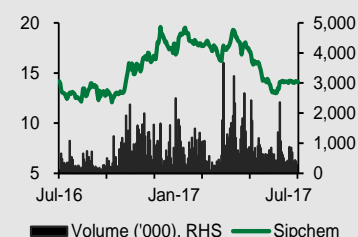
Reuters code	2310.SE
Bloomberg code	SIPCHEM AB
	www.sipchem.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	16.7	12.8
P/B (x)	1.0	0.9	0.9
EV/EBITDA (x)	10.6	8.3	7.6
Div. Yield (%)	0.0	0.0	1.8

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

Other Definitions

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

NC: Not covered. NCBC does not cover this company

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