



US\$2.445bn

Market cap

88%

Free float

US\$15.02mn

Avg. daily volume

Target price

20.94

0.2% over current

Consensus price

20.05

-4.1% over current

Current price

20.90

as at 16/1/2014

Research Department

ARC Research Team

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Existing rating

Underweight

Neutral

Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	1,544	2,340	2,715	2,345
Revenue Growth	1.2%	51.6%	16.0%	-13.6%
EBITDA (mn)	228	486	620	624
EBITDA Growth	-29.1%	113.3%	27.5%	0.6%
EPS	0.51	1.24	2.12	2.17
EPS Growth	-55.7%	144.3%	70.7%	2.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Sahara Petrochemical Co

Strong Q4 results

SPC reported strong Q4 results with its SAR178.2mn net profit (+176.3% y-o-y) beating our SAR150.6mn estimate (consensus: SAR155.2mn) by a wide margin. SPC's robust net profit growth came on the back of better-than-expected utilization rates at its sole operating unit - Al Waha, improved polypropylene prices and higher income from associates. We await detailed financials to analyze the reasons behind the strong performance. For now, we remain Neutral on the stock with a target price of SAR20.9 per share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenue yet to be declared:** SPC is yet to announce its Q4 revenue. In view of superior operating performance, we expect top line to exceed our estimate of SAR597.2mn (consensus: SAR613mn).
- Strong operating results:** SPC's gross profit of SAR115.9mn (67.2% y-o-y and 17.2% q-o-q) beat our expectation of SAR101.5mn on the back of better-than-expected operating rates and higher polypropylene (PP) prices. Improving macroeconomic conditions and a rise in industrial activities globally resulted in higher PP prices, which grew 2.4% q-o-q and 8.3% y-o-y. Strong gross profit led to a healthy operating profit of SAR87.6mn (vs. SAR74.6mn). However, it missed consensus estimate of SAR91mn.
- Net profit ahead of our estimate:** SPC reported a robust 176.3% y-o-y growth in net profit to SAR178.2mn on the back of higher income from associates. This can be attributed to a number of partnerships SPC has entered into with leading petrochemical companies to move further downstream.
- Valuation and conclusion:** Apart from increasing utilization rates at Al Waha, SAMAPCO and SAPCO, in which SPC has equity stakes, are expected to offer tailwinds in 2014. Additionally, the company is implementing its strategy of moving downstream as it is working on the proposed merger with Sipchem. For now, we reiterate our Neutral rating on the stock with a target price of SAR20.9 per share.

Figure 1 SPC: Summary of Q4 2013 results

SAR (mn)	Q4 2012	Q3 2013	Q4 2013	% chg y-o-y	% chg q-o-q	ARC est
Revenue	593.4	587.6	Not disclosed	n.a.	n.a.	597.2
EBITDA	160.4	122.6	Not disclosed	n.a.	n.a.	128.0
EBITDA margin	27.0%	20.9%	n.a.			21.4%
Operating profit	44.7	69.3	87.6	96.0%	26.4%	74.6
Net profit	64.5	148.4	178.2	176.3%	20.1%	150.6

Source: Company data, Al Rajhi Capital



Major Q4 Developments

SPC – Sipchem announce share swap ratio

SPC continued its non-binding negotiations with Sipchem and signed an MoU to initiate due diligence process over the proposed merger. In early December 2013, SPC announced that Sipchem will issue 0.685 new shares for every one share of Sahara, and added that it expects the deal to be complete by the end of H1 2014 (subject to regulatory approval). We expect the combined business to result in significant operation synergies and create a stronger platform to implement their long-term strategies.

SPC announces dividend for 2013

SPC declared a 2013 annual dividend of SAR0.85 per share (amounting to ~SAR373mn), a 70% increase over dividend paid in 2012. We believe strong financial performance coupled with positive developments in its JV activities boosted the dividend. At current price level, this translates into a dividend yield of around 4.1%.

SPC – Ma'aden obtain a long-term loan

SPC announced that SAMAPCO, a JV between SPC and Ma'aden, has signed a long-term loan agreement with Public Investment Fund. The loan amount of SAR660mn (US\$176mn) will be used to finance SAMAPCO – an EDC & caustic soda project. The tenure will be 14 years with one year grace period.

SPC completes planned maintenance at Al Waha

On December 24, SPC began planned maintenance at its Al Waha unit for 2 weeks and completed it in accordance with the announced schedule. Operations at Al Waha have improved over the past few quarters, although the plant continues to face technical glitches resulting in unplanned shutdowns (there was a 10-day emergency shutdown in September last year). Considering the successful completion of turnaround activities, we expect Al Waha to operate smoothly over the coming quarters.



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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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