



US\$5.19bn	17.4%	US\$7.94mn
Market cap	Free float	Avg. daily volume

Target price	n/a	n/a
Consensus price	29.10	31.1% over current
Current price	22.20	as at 27/11/2010

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Not Rated

Petro Rabigh

Uncertain outlook

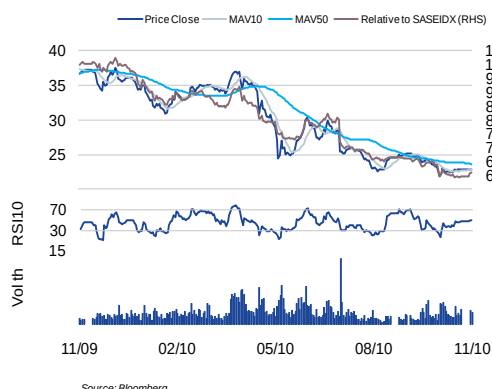
Key themes

We expect the Saudi petrochemicals sector to outperform global peers in the next few years given its feedstock cost advantages and strong demand growth from emerging economies. Petro Rabigh is backed by strong parent companies and its Phase 2 expansion will add to its top-line growth.

Implications

The company's integrated operating model almost guarantees low-cost supply of feedstock. While strategically we are positive, Petro Rabigh has high gearing which is unlikely to fall in the near term.

Performance



Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	29,423	45,628	47,089	47,493
Revenue Growth	349.7%	55.1%	3.2%	0.9%
EBITDA (mn)	(1,209)	2,049	3,616	4,175
EBITDA Growth	-7.1%		76.4%	15.5%
EPS	(1.64)	0.29	1.18	1.84
EPS Growth	14.1%		303.5%	56.3%

Source: Company data, Al Rajhi Capital

Valuation

Note. We have not provided an historical valuation chart here, because until this year Petro Rabigh was not profitable.

Petro Rabigh's Q3 results were below our forecasts, with weak revenues and weaker net profit. The disappointing performance confirms our caution about a company whose chief constraint is very high debt levels. We have lowered our 2010 earnings estimates by 67% to reflect the weak Q3 results. We do not have an investment rating or target price for Petro Rabigh.

Shutdown impacted Q3 2010 results: Revenues for Q3 2010 came in at SAR11.27bn, slightly below our estimate of SAR11.53bn. On a year-on-year basis, revenues increased by 54% benefiting from newly commissioned units and higher petrochemicals prices. On a quarter-on-quarter basis, revenues declined by 6% as the company faced technical difficulties which halted production at its polymers and monoethylene glycol units for around two weeks in August 2010.

Quarter-on-quarter decline in EBITDA: EBITDA for Q3 reached SAR296mn compared to an EBITDA loss of SAR569mn in Q3 2009, benefiting from the launch of production at Petro Rabigh's newly commissioned units. However, EBITDA declined by 50% to SAR296mn compared to Q2 and was significantly below our estimates. We attribute the reasons for this sharp decline to higher production cost, the impact of the plants shutdown and a quarter-on-quarter decline in basic petrochemicals prices (which we estimate at about 7%).

Strong parents but constrained by very high debt: One of Petro Rabigh's strategic advantages is its strong parentage: Saudi Aramco owns 37.5% of its shares, while Sumitomo Chemical of Japan also owns 37.5%. Part-ownership by Saudi Aramco helps assure supply of ethane; Saudi Aramco also handles marketing of Petro Rabigh's refining output within the Middle East, while Sumitomo Chemical handles marketing of all output outside the region – notably in key Asian markets. Unfortunately, this advantage is largely offset by Petro Rabigh's weak balance sheet. At the end of Q3, net debt of SAR25.28bn was little changed from the level of Q2. This figure is equivalent to 0.6x our estimate of 2010 revenues and to 12.3x our estimate of 2010 EBITDA. Among the petrochemicals stocks that we cover, Yansab and Saudi Kayan also have high gearing, but not as high as Petro Rabigh. We expect the net debt/EBITDA ratio to remain at over 6x for the next few years due to ongoing high capex needs.

Phase 2 expansion coupled with strong Asian demand to drive earnings:

We expect Petro Rabigh's Phase 2 expansion to come on stream by 2014. The project will add substantial ethane capacity (30mn scf per day) while increasing the company's output in high-growth chemicals like low-density polyethylene and acrylic acid. About 96% of Petro Rabigh's petrochemicals output is exported outside Saudi Arabia, with Asia accounting for 84% of the total. In contrast, only 35% of refined oil output is exported, with the rest consumed domestically.

Valuation and conclusion: Petro Rabigh's Q3 results were significantly lower than our expectations. In view of this, we have downgraded our net profit forecast by 67% for 2010 following release of the full Q3 results. The company's high debt is a significant constraint and helps explain why we do not predict a dividend payment till 2016. Petro Rabigh trades on a 2011 EV/EBITDA multiple of 11.1x, representing a 37% premium to SABIC on 8.1x. We do not have an investment rating or target price for Petro Rabigh, since it is not Sharia-compliant by our definition.



Corporate summary	Share information	Valuation
Petro Rabigh is the world's largest integrated refining and petrochemical complex. Incorporated in 2005, the company is owned jointly by Saudi Aramco and Japan's Sumitomo Chemical (37.5% each), with the rest being divested through an IPO in 2008. This is the first affiliate of the giant Saudi Aramco to be publicly listed on the TASI. The facility is an extension of Saudi Aramco's oil refining operations in Rabigh and represents the single largest investment by the company in the Kingdom, costing a total of US\$10bn.	Market cap (SAR/US\$) 19.48bn / 5.19bn 52-week range 21.85 - 37.50 Daily avg volume (US\$) 7.94mn Shares outstanding 876.0mn Free float (est) 17.4% Performance: 1M 3M 12M Absolute -1.3% -3.1% -40.2% Relative to index -1.2% -6.8% -40.1% Major Shareholder: Saudi Arabian Oil Co. (ARAMCO) 37.5% Sumitomo Chemical 37.5% Source: Bloomberg, Al Rajhi Capital	Period End 12/09A 12/10E 12/11E 12/12E Revenue (SARmn) 29,423 45,628 47,089 47,493 EBITDA (SARmn) (1,209) 2,049 3,616 4,175 Net Profit (SARmn) (1,433) 256 1,031 1,612 EPS (SAR) (1.64) 0.29 1.18 1.84 DPS (SAR) - - - - EPS Growth 14.1% na 303.5% 56.3% EV/EBITDA (x) na 18.0 11.1 10.4 P/E (x) na 78.5 19.4 12.4 P/B (x) 2.6 2.5 2.2 1.9 Dividend Yield 0.0% 0.0% 0.0% 0.0% Source: Company data, Al Rajhi Capital

Q3 2010 results: marred by shutdowns

Below we present the key details of Petro Rabigh's Q3 2010 results, together with our comments.

Figure 1. PetroRabigh: Q3 2010 results

	Q3 2009	Q2 2010	Q3 2010	% chg	Q3 2010	
(SAR mn)	actual	actual	actual	y-y	ARC est	Comment
Revenues	7,301	12,001	11,275	54.4%	11,533	Shutdown of Polymers and MEG units in August impacted revenue
Gross profit	(582)	785	448	-177.0%	n/a	Higher operating cost on account of shutdown resulted in lower gross profit
Gross margin	-8.0%	6.5%	4.0%	11.9pp	n/a	As above
EBITDA	(569)	587	296	-152.0%	n/a	EBITDA marred by shutdown
EBITDA margin (%)	-7.8%	4.9%	2.6%	10.4pp	n/a	As above
Depreciation & amortization	(176)	(504)	(509)	189.0%	n/a	In line with Q2 2010 numbers
Operating Profit	(746)	83	(213)	-71.4%	765	Well below our forecast
Net financing cost	(96)	39	(24)	-74.8%	(336)	Financing cost much lower than our estimate; this is hard to explain
Other	(3)	-	-	-100.0%	(229)	Better than our forecast
Net profit before tax after minority	(845)	122	(237)	-71.9%	200	Lower operating profit and increase in financing cost resulted in lower pre tax profit
Tax	-	-	-	n/a	(16)	No tax expenses in Q3 2010
Minority	-	-	-	n/a	-	
Net profit	(845)	122	(237)	-71.9%	185	Net profit declined due lower revenues and higher cost
Capex	1	(75)	(53)	-3898.2%	(1,038)	Well below our forecast
Capex / Sales	0.0%	0.6%	0.5%	0.5pp	9.0%	As above
Net debt	33,264	25,262	25,277	-24.0%	24,973	Close to our estimates
Net debt / Annualised EBITDA (x)	(14.6)	10.8	21.4		n/a	

Source: Company data, Al Rajhi Capital



We expect strong growth from a low base in 2011. However, we have cut our profit estimates for the next three years

We do not expect a dividend payment until 2016

Phase 2 expansion coupled with strong Asian demand should help drive medium-term earnings growth

Petro Rabigh has lower margins than the other petrochemicals suppliers due to its low-margin refining operations

Petro Rabigh currently trades on a 2010 EV/EBITDA multiple of 18.0x

Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue	6,543	29,423	45,628	47,089	47,493
Cost of Goods Sold	(7,165)	(29,878)	(42,877)	(42,767)	(42,701)
Gross Profit	(622)	(455)	2,751	4,322	4,793
Government Charges					
S.G. & A. Costs	(680)	(754)	(2,729)	(2,865)	(2,725)
Operating EBIT	(1,302)	(1,209)	22	1,456	2,067
Cash Operating Costs	(7,845)	(30,632)	(43,579)	(43,474)	(43,318)
EBITDA	(1,302)	(1,209)	2,049	3,616	4,175
Depreciation and Amortisation	-	-	(2,027)	(2,159)	(2,108)
Operating Profit	(1,302)	(1,209)	22	1,456	2,067
Net financing income/(costs)	45	(224)	238	(382)	(388)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses					
Net Profit Before Taxes	(1,256)	(1,433)	260	1,074	1,680
Taxes	-	-	(4)	(43)	(67)
Minority Interests					
Net profit available to shareholders	(1,256)	(1,433)	256	1,031	1,612
Dividends	-	-	-	-	-
Transfer to Capital Reserve					
	12/08A	12/09A	12/10E	12/11E	12/12E
Adjusted Shares Out (mn)	876.0	876.0	876.0	876.0	876.0
CFPS (SAR)	(1.434)	(1.636)	2.606	3.642	4.247
EPS (SAR)	(1.434)	(1.636)	0.292	1.177	1.841
DPS (SAR)	0	0	0	0	0
Growth	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue Growth		349.7%	55.1%	3.2%	0.9%
Gross Profit Growth		-26.8%		57.1%	10.9%
EBITDA Growth	207.8%	-7.1%		76.4%	15.5%
Operating Profit Growth	207.8%	-7.1%		6490.7%	41.9%
Net Profit Growth	183.9%	14.1%		303.5%	56.3%
EPS Growth		14.1%		303.5%	56.3%
Margins	12/08A	12/09A	12/10E	12/11E	12/12E
Gross profit margin	-9.5%	-1.5%	6.0%	9.2%	10.1%
EBITDA margin	-19.9%	-4.1%	4.5%	7.7%	8.8%
Operating Margin	-19.9%	-4.1%	0.0%	3.1%	4.4%
Pretax profit margin	-19.2%	-4.9%	0.6%	2.3%	3.5%
Net profit margin	-19.2%	-4.9%	0.6%	2.2%	3.4%
Other Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
ROCE	-3.2%	-3.0%	0.1%	4.0%	5.2%
ROIC	-5.1%	-3.0%	0.1%	4.0%	5.3%
ROE	-16.5%	-16.8%	3.2%	12.0%	16.2%
Effective Tax Rate	0.0%	0.0%	1.6%	4.0%	4.0%
Capex/Sales	141.2%	4.2%	1.0%	11.1%	11.1%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation Measures	12/08A	12/09A	12/10E	12/11E	12/12E
P/E (x)	na	na	78.5	19.4	12.4
P/CF (x)	na	na	8.8	6.3	5.4
P/B (x)	2.2	2.6	2.5	2.2	1.9
EV/Sales (x)	6.6	1.5	0.8	0.9	0.9
EV/EBITDA (x)	na	na	18.0	11.1	10.4
EV/EBIT (x)	na	na	1,670.3	27.7	20.9
EV/IC (x)	1.1	1.1	1.1	1.1	1.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



The balance sheet should expand from now on due to continuing investment

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	1,534	1,306	2,326	1,200	616
Current Receivables	2,348	4,682	5,605	5,651	5,699
Inventories	974	2,670	3,036	3,061	3,087
Other current assets	199	289	234	235	237
Total Current Assets	5,056	8,948	11,200	10,147	9,639
Fixed Assets	39,517	39,689	32,042	35,133	38,275
Investments	3,338	3,212	3,103	3,103	3,103
Goodwill	-	298	298	298	298
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	42,855	43,199	35,443	38,534	41,676
Total Assets	47,911	52,146	46,643	48,681	51,315
Short Term Debt	131	1,035	648	648	648
Accounts Payable	6,647	9,455	10,742	10,360	9,974
Accrued Expenses	421	848	934	942	950
Zakat Payable					
Dividends Payable					
Other Current Liabilities					
Total Current Liabilities	7,199	11,338	12,324	11,949	11,571
Long-Term Debt	31,439	32,961	26,211	27,592	28,992
Other LT Payables	-	-	-	-	-
Provisions	9	17	22	22	22
Total Non-current Liabilities	31,448	32,978	26,233	27,614	29,014
Minority interests					
Paid-up share capital	8,760	8,760	8,760	8,760	8,760
Total Reserves	504	(929)	(674)	358	1,970
Total Shareholders' Equity	9,264	7,831	8,086	9,118	10,730
Total Equity	9,264	7,831	8,086	9,118	10,730
Total Liabilities & Shareholders' Equity	47,911	52,146	46,643	48,681	51,315

We expect net debt/EBITDA to stay high for several years

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	30,035	32,689	24,532	27,039	29,024
Net Debt/EBITDA (x)	(23.08)	(27.04)	11.97	7.48	6.95
Net Debt to Equity	324.2%	417.4%	303.4%	296.6%	270.5%
EBITDA Interest Cover (x)	28.7	(5.4)	(8.6)	9.5	10.8
BVPS (SAR)	10.58	8.94	9.23	10.41	12.25

Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	(1,256)	(1,433)	260	1,074	1,680
Depreciation & Amortisation	-	-	2,027	2,159	2,108
Decrease in Working Capital	2,494	(1,105)	152	(448)	(455)
Other Operating Cashflow	282	1,073	(167)	(43)	(67)
Cashflow from Operations	1,520	(1,465)	2,272	2,743	3,266
Capital Expenditure	(9,240)	(1,226)	(459)	(5,250)	(5,250)
New Investments	(887)	125	109	-	-
Others					
Cashflow from investing activities	(10,127)	(1,101)	(350)	(5,250)	(5,250)
Net Operating Cashflow	(8,607)	(2,565)	1,921	(2,507)	(1,984)
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	4,568	-	-	-	-
Effects of Exchange Rates on Cash					
Other Financing Cashflow	2,932	2,337	0	-	-
Cashflow from financing activities	9,956	2,337	(901)	1,381	1,400
Total cash generated	1,348	(228)	1,020	(1,126)	(584)
Cash at beginning of period	186	1,534	1,306	2,326	1,200
Implied cash at end of year	1,534	1,306	2,327	1,200	616

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	141.2%	4.2%	1.0%	11.1%	11.1%

Source: Company data, Al Rajhi Capital

We project a capex/sales of 11% for 2010 and 2011



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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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