

May 14, 2017

Rating Buy
12- Month Target Price SAR 22.00

Expected Total Return

Price as on May-11, 2017	SAR 19.12
Upside to Target Price	15.1%
Expected Dividend Yield	5.2%
Expected Total Return	20.3%

Market Data

52 Week H/L	SAR 23.5/11.4
Market Capitalization	SAR 8,604 mln
Enterprise Value	SAR 22,525 mln
Shares Outstanding	450.0 mln
Free Float	80.4%
12-Month ADTV ('000's)	721.7
Bloomberg Code	SIIG AB

1-Year Price Performance



Fig in SAR mln	RC. Est	Actuals
Revenue	1,627	1,685
Gross Profit	532	502
EBIT	456	592
Net Income	146	310
EPS (SAR)	0.33	0.69

SAUDI INDUSTRIAL INVESTMENT GROUP (SIIG)

1Q2017 First Look

Record Earnings from Associates

Saudi Industrial Investment Group (SIIG) reported upbeat 1Q2017 results, the second best in its operational history following a large earnings surprise from associates, SCP and JCP. Both recorded stellar performance in addition to an in-line performance from its key subsidiary, Petrochem. EPS of SAR 0.69 beat our SAR 0.33 estimate and street's SAR 0.43, jumped five-fold surging by +496% Y/Y, also surged by almost 10 times Q/Q from poor earnings reported in 4Q2016 due to Petrochem's shutdown. With 1Q2017 core earnings partly driven by share of Petrochem's SAR 84 million net income, combined income of SAR 261 million from associates (JCP and SCP) was the key element of earnings surprise for SIIG with a solid +180% Y/Y and +72% Q/Q increase. PCC was the only weak spot in 1Q2017, as SIIG ceased to recognize its share of accumulated losses due to IFRS transition. It is also seeking buyers for a potential exit according to media reports due to continuous losses, but no official details are divulged at this point except its adjustment on the investment value. We revise our estimate for 2017-19 and view the earnings beat as largely positive for a rating upgrade. We raise our target price to SAR 22.00 (earlier SAR 18.00) and upgrade to Buy from Neutral. Valuations are also supportive with 2017E P/E of 9.3x cheaper to TASI's 14.2x and Petrochem's 12.6x.

Revenue in-line with estimates

During 1Q2017, SIIG (through Petrochem) made decent revenue growth as most product prices were stable, PE is up by +2% Q/Q and +6% Y/Y, while PP has grown by +2% Q/Q and +21% Y/Y, however polystyrene (PS) grew by +9% Q/Q and +19% Y/Y. Despite the feeble rise, it managed to record in-line revenues of SAR 1.68 billion.

Margins improve on cost optimization

Gross profit SAR 502 million inclined by +18% Y/Y and rose a record 9.5x on a Q/Q basis due to shutdown impact in 4Q2016, which led to feeble gross profit of SAR 52 million. Overall, stood in line with our estimate of SAR 532 million. Gross margins improved 400 bps as spreads were higher in PS, with +10% Q/Q and +24% Y/Y growth in styrene prices. However, other feedstock costs rallied, notably due to sharp rise in propane prices. We believe Petrochem managed costs well, despite propane up by +31% Q/Q and +48% Y/Y, while ethylene prices were up by +14% Q/Q and +13% Y/Y.

Associates record bumper growth

With robust performance from associates (JCP and SCP), share of associate income stood at SAR 261 million in 1Q2017 from SAR 152 million (excluding PCC) in 4Q2016, though break-up is not available. Associate income jumped three-fold on a Y/Y basis from SAR 93 million in 1Q2016. With such record earnings from associates, earnings of SAR 310 million proved to be an easy walk for SIIG as it beat estimates of SAR 146 million and consensus of SAR 187 million. Net margins are at its best after a gap of three years to 18.4% from 5.3% in 1Q2016 and 1.6% in 4Q2016.

Upgrade to Buy and raise target price to SAR 22.00

We revise our 2017-19 estimates after accounting for 35 days maintenance on SCP in 2Q and relative adjustments on accumulated losses in PCC. We recommend Buy.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,065	6,842	6,957
EBITDA	1,826	1,926	1,976
Net Profit	486	925	967
EPS (SAR)	1.08	2.06	2.15
DPS (SAR)	0.50	1.00	1.00
BVPS (SAR)	12.20	13.26	14.40

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	6%	13%	13%
ROAE	9%	16%	15%
P/E	17.7x	9.3x	8.9x
P/B	1.6x	1.4x	1.3x
EV/EBITDA	12.3x	11.7x	11.4x
EV/Sales	3.7x	3.3x	3.2x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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