

EVENT FLASH

Weak results on lower income from JV's

SIIG reported a weak set of 3Q16 results, with a net income of SR163mn, significantly below the NCBC estimate of SR204mn. Although gross profit was in-line with our estimates, lower than expected income from SCP/JCP led to the deviation. We believe associate income stood at SR74mn in 3Q16, lower than our estimate of SR124mn and SR127mn in 2Q16.

- NCBC view on the results:** SIIG reported a weaker than expected set of 3Q16 results with a net income of SR163mn, 20.0% lower than the NCBC estimate of SR204mn and 22.4% below the consensus estimate of SR210mn. We believe lower than expected earnings from the JV's (SCP/JCP) led to the variance, as gross profit was in-line with our estimates.
- Based on our calculations, SIIG's share in associate income stood at SR74.2mn in 3Q16, lower than our estimate of SR124mn. We believe SCP/JCP contributed SR116mn to SIIG earnings in 3Q16, lower than our estimate of SR175mn, SR178mn in 2Q16 but higher than SR82mn in 3Q15. We believe lower than expected operating rates and sales volumes impacted SCP and JCP performance in 3Q16. We believe SCP and JCP facilities operated at 85% in 3Q16, lower than 2Q16 and our estimate of 95%.
- SIIG share in the net loss of nylon project stood at SR42mn in 3Q16, lower than our estimate and 2Q16 losses of SR51mn. The company stated earlier that the facility performance will remain weak due to high competition. We believe higher losses from this facility remain a key concern. Adjusting for nylon losses, SIIG net income could reach SR205mn.
- Revenue came in at SR1,601mn, in-line with our estimate. This is down 16.3% YoY and 2.5% QoQ. We believe Petrochem facilities operated at 91% in 3Q16, in-line with our estimate of 90% but lower than 93% in 2Q16. Gross margin came in at 34.9% in 3Q16, in-line with our estimate of 34.6%.
- In 3Q16, benzene prices grew 2.3% QoQ to US\$643 (down 6.6% YoY), while propylene grew 10.0% QoQ to US\$761 (flat YoY). PP prices increased 3.0% QoQ (down 7.8% YoY) while naphtha fell 5.6% QoQ and 16.1% YoY.
- We remain Overweight on SIIG with a PT of SR16.7. The stock is trading at 2017E P/E of 8.2x, significantly lower than the sector average of 13.0x. Higher operational efficiency at Petrochem following shutdowns in 4Q16 and the improvement in oil prices are the key catalysts.

3Q16 Results Summary

SR mn	3Q16A	2Q16A	% QoQ	3Q15A	% YoY	3Q16E	% Var^
Sales	1,601	1,642	(2.5)	1,912	(16.3)	1,588	0.8
Gross income	558	574	(2.8)	758	(26.4)	550	1.5
Gross margin (%)	34.9%	34.9%	(0.0)	39.6%	(4.8)	34.6%	0.3
Operating income	477	546	(12.6)	647	(26.3)	508	(6.1)
Net income	163	216	(24.5)	207	(21.3)	204	(20.0)
EPS	0.36	0.48	(24.5)	0.46	(21.3)	0.45	(20.0)

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

OVERWEIGHT

Target price (SR) 16.7

Current price (SR) 13.2

STOCK DETAILS

M52-week range H/L (SR)	19/10
Market cap (\$mn)	1,589
Shares outstanding (mn)	450
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.3	(9.8)	(31.4)
Rel. to market	12.3	7.2	(2.5)

Avg. daily turnover (mn)	SR	US\$
3M	9.3	2.5
12M	16.2	4.3

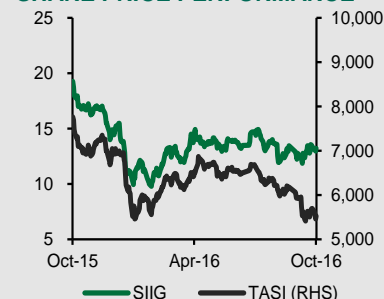
Reuters code	2250.SE
Bloomberg code	SIIG AB
	www.siig.com.sa

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	8.2	10.7	8.2
P/B (x)	0.8	0.8	0.7
EV/EBITDA (x)	5.2	6.7	5.7
Div Yield (%)	0.0	3.8	7.6

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

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

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