

PETROCHEM



EVENT FLASH

Highest quarterly net income on record

Petrochem reported 3Q15 net income of SR321mn, the highest quarterly net income since inception. This is significantly higher than our estimate of SR207mn and consensus estimate of SR180mn. We believe the variance is primarily attributed to higher than expected gross margins and lower opex. Based on our calculations, gross margins came in at 42.1% in 3Q15, highest since inception. Net income increased 31.5% YoY and 5.1% QoQ.

- **NCBC view on the result:** Petrochem reported its highest ever quarterly net income of SR321mn in 3Q15, significantly higher than our estimate of SR207mn and the consensus estimate of SR180mn. We believe higher than expected gross margins led to the deviation in earnings
- Gross profit came in 30.3%, higher than our estimate. This may be attributed to better than expected operational efficiencies at its plants. According to our calculations, gross margins stood at 42.1% in 3Q15, significantly higher than our expectations of 32.2%, 37.5% in 2Q15 and 34.2% in 3Q14. This is the highest level of gross margins on record. We expect margins to normalize in the coming quarters as spreads decline.
- Based on our calculations, Petrochem facilities were operating at 95% in 3Q15, in-line with 2Q15 and our expectations. This is however higher than 79% in 3Q14.
- Based on our calculations, SG&A expenses stood at SR166mn in 3Q15, lower than our expectations of SR180mn. This is also lower than SR173mn in 2Q15 and SR215mn in 3Q14. This is the lowest opex since 3Q13.
- All profit lines increased 13-32% YoY and 3-5% QoQ mainly due to lower feedstock costs which expanded gross profit margins. Lower opex and higher sales volumes further expanded earnings growth on a YoY basis.
- Benchmark prices of key products such as polypropylene and polyethylene decreased 22-29% YoY and 9-15% QoQ. Naphtha prices declined 17.7% QoQ and 49.3% YoY, while styrene prices fell 31.0% YoY and 18.9% QoQ.
- We remain Neutral on Petrochem with a PT of SR21.1. The stock is trading at a 2016E P/E of 15.2x, higher than the sector average of 12.9x and therefore offering a limited upside potential.

3Q15 Results Summary

SR mn	3Q15A	2Q15A	% QoQ	3Q14A	% YoY	3Q15E	% Var [^]
Gross income	758	738	2.7	669	13.4	581	30.3
Operating income	592	565	4.8	453	30.6	401	47.6
Net income	321	305	5.1	244	31.5	207	55.0
EPS (SR)	0.67	0.64	5.1	0.51	31.5	0.43	55.0

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

NEUTRAL

Target price	21.1
Current price (SR)	21.4

STOCK DETAILS

52-week range H/L (SR)	35/18
Market cap (\$ mn)	2,742
Shares outstanding (mn)	480
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	13.5	(16.6)	(28.0)
Rel. to market	9.1	(0.1)	(6.7)

Avg daily turnover (mn)	SR	US\$
3M	10.6	2.8
12M	10.0	2.7

Reuters code	2002.SE
Bloomberg code	PETROCHEM AB
	www.petrochem.com.sa

VALUATION MULTIPLES

	14A	15E	16E
P/E (x)	13.3	13.8	15.2
P/B (x)	2.1	1.8	1.6
EV/EBITDA (x)	10.1	10.3	10.9
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam

+966 12 690 7811
i.ghulam@ncbc.com

19 OCTOBER 2015

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

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

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at Al Mather street in Riyadh, P.O. Box 22216, Riyadh 11495, Kingdom of Saudi Arabia.