



EVENT FLASH

In-line results, higher gross margin offset by high opex

SABIC reported an in-line set of 1Q17 results with a net income of SR5.24bn. Net income increased 80.1% YoY and 51.4% QoQ. We believe higher than expected gross margin was mitigated by higher opex. Gross margin stood at 37.2% in 1Q17, higher than our estimate of 31.3% but in-line with 37.1% in 4Q16. Opex stood at SR5.4bn in 1Q17, higher than our estimate of SR3.5bn due to reclassification of expenses to SG&A.

- SABIC reported an in-line set of 1Q17 results with a net income of SR5.24bn, increasing 80.1% YoY and 51.4% QoQ. The results were also in-line with the consensus estimate of SR5.4bn. We believe higher than expected gross margins were mitigated by higher opex.
- Sales stood at SR37.0bn in 1Q17, in-line with our estimates. This is an increase of 10.4% YoY and 8.6% QoQ. Based on our calculations, the petrochemical facilities operated at 89% in 1Q17, in-line with our estimate of 90% but lower than 93% in 4Q16.
- Gross margin came in at 37.2% in 1Q17, higher than our estimate of 31.3%. This is also higher than 30.2% in 1Q16 but in-line with 37.1% in 4Q16. We believe the YoY increase in gross margin is attributed to 1) higher petrochemical segment margins on an increase in PP-propane spreads (+20.3% YoY) and 2) higher fertilizer margins on an improvement in urea prices (+24.8% YoY). We believe the variance in gross margin against our estimate is mainly due to reclassification of expenses from COGS to SG&A.
- Operating profit stood at SR8.4bn in 1Q17, in-line with our estimate. We believe higher than expected gross margin was mitigated by higher opex, as certain expenses have been reclassified to SG&A. Opex stood at SR5.4bn, higher than our estimate of SR3.5bn, but lower than SR6.3bn in 4Q16.
- In 1Q17, PP and PE prices increased 2.0% QoQ and 5-20% YoY. EG rose 20.5% QoQ and 38.0% YoY. PP-propane spread fell 11.3% QoQ to US\$608.
- Following to the implementation of IFRS, SABIC restated its financials for 4Q16 and 1Q16. Net income for 4Q16 and 1Q16 has been revised down by 23.9% and 14.6% to SR3.46bn and SR2.91bn, respectively.
- Higher operational efficiency, strong balance sheet and an attractive dividend yield of 5.0% are the key strengths of the stock. The stock is trading at a 2017E P/E of 15.6x, lower than the sector average of 16.6x.

1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var^	% QoQ
Revenues	36,950	33,470	10.4	37,680	(1.9)	8.6
Gross income	13,740	10,110	35.9	11,785	16.6	9.0
Gross margin (%)	37.2%	30.2%	6.98	31.3%	5.91	0.13
Operating income	8,350	4,670	78.8	8,280	0.8	32.1
Net income	5,240	2,910	80.1	5,470	(4.2)	51.4
EPS (SR)	1.75	0.97	80.1	1.82	(4.2)	51.4

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

NEUTRAL

Target price (SR) 90.0*

Current price (SR) 99.6

*TP last updated in October 2016

STOCK DETAILS

M52-week range H/L (SR)	103/76
Market cap (\$mn)	79,672
Shares outstanding (mn)	3,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	2.9	3.4	16.7
Rel. to market	2.8	4.7	13.0

Avg daily turnover (mn)	SR	US\$
3M	315.5	84.1
12M	411.1	109.6

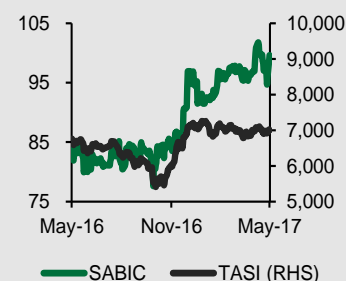
Reuters code	2010.SE
Bloomberg code	SABIC AB
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	16.7	15.6	16.6
P/B (x)	1.8	1.8	1.7
EV/EBITDA (x)	8.1	6.8	7.1
Div. Yield (%)	4.0	5.0	5.0

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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