SIPCHEM: 1Q2017 came below estimates; however, Sales increased 31.3%QoQ due to strong recovery in sales prices, despite the seven days interruption in Diol plant (IDC). Higher operating rates and lower than expected production cost were offset by an increase in OPEX and minority interest. Gross margin stood at 29.4% vs. 27.2% in the prior quarter, which is the highest level since FY2016. Plants interruptions in 2Q2017 to weigh on performance in 2Q2017. World Methanol supply is expected to tighten in 2H2017. "Overweight" recommendation is reiterated with revised PT at SAR 20.30/share.

- Saudi International Petrochemical Company (Sipchem) result came below estimates, missing AJC and market consensus profits estimates of SAR 98.7mn and SAR 108.1mn, respectively. SIPCHEM posted net profit of SAR 91.7mn, indicating an increase of 86.4%YoY and 187.4%QoQ. The strong performance is primarily attributed to i) increase in average selling prices ii) higher sales volume due to improved operating rate, despite the impact of Diol plant (IDC) interruptions for 7 days. However, we expect that high operating rate and margin expansion were offset by an increase in SG&A, non-operating expenses and minority interest. Minority interest is expected to represent 35% of operating income, which is higher than the average of 19.9% in FY2016. On the other hand, we believe that the increase in non-operating expenses is subject to decline in the coming quarters, while operational efficiency and operating rate are expected to improve in 2H2017 after the plants maintenance in 2016 and overcoming the technical issue in 1Q2017.
- SIPCHEM's sales in 1Q2017 stood at SAR 1,200mn, above AJC estimates of SAR 1,080mn and SAR 920mn in 1Q2016. We believe that in addition to the sales prices improvement, the company's operating rate largely improved due to higher production efficiency after plants maintenance in 2Q2016. Moreover, we expect improved performance in the coming quarters due to higher operating rate and the optimistic outlook of methanol price, which is the key catalyst to support the company's downstream prices. During the quarter, average selling prices of Methanol increased by 19.5%QoQ and 62.7%YoY. VAM prices increased by 6.0%QoQ, registering a fall of 10.7%YoY. Acetic Acid (AA) jumped by 17%QoQ and 29.8%YoY. Ethylene derivatives prices showed an average increase of 1.0%QoQ and 8.8%YoY decline.
- Gross profit stood at SAR 352.3mn, above AJC estimates of SAR 308mn due to higher than expected sales volume and gross margins. Gross margin increased to 29.4% in 1Q2017 from 27.2% in 4Q2016 and 29.2% in 1Q2016, which is the highest since FY2016. Operating profit stood at SAR 230.7mn; below AJC estimates of SAR 238.2mn due to recorded higher managerial expenses (SG & A) at SAR 121.6mn, as compared to SAR 104.0mn in 1Q2016. (Please note that the company reclassified some expenses from COGS to OPEX due to the implementation of IFRS accounting standard).
- The company mentioned an additional decline in retained earnings of SAR 103mn on implementation of (IFRS). The total decline in retained earnings will be SAR 589mn as of Jan. 1, 2016.

AJC view: We believe that the company will continue to focus on production efficiency and cost optimization to mitigate the impact on performance. In addition, the company would be able to benefit more from methanol price recovery due to improvement in its market fundamentals, where an additional methanol demand of 3.39mn tons/year is expected in the market for 2017, while supply will be largely unchanged according to ICIS source. Thus, Methanol players are expected to witness an increase in Methanol prices and its derivatives. Therefore; we remain '**Overweight**' on the stock with a revised price of SAR 20.30/share. SIPCHEM Co. is expected to post SAR 463mn in net income (1.27 EPS) for FY2017, indicating an increase of 562%YoY. The company is trading at a forward PE and PB of 13.5x and 1.1x respectively based on our FY2017 earnings forecast.

Results Summary

SARmn (unless specified)	Q1-2016	Q4-2016	Q1-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	920	914	1,200	30.4%	31.3%	11.1%
Gross Profit	268.8	249.1	352.3	31.1%	41.4%	14.4%
Gross Margin	*29.2%*	*27.2%*	*29.4%*	-	-	-
EBIT	164.8	134.3	230.7	39.9%	71.8%	-3.1%
Net Profit	49.2	31.9	91.7	86.4%	187.4%	-7.1%
EPS	**0.14**	**0.09**	**0.25**	-	-	-

Source: Company reports, Aljazira Capital

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Recommendation	'Overweight'
Current Price* (SAR)	17.12
Target Price (SAR)	20.30
Upside / (Downside)	18.5%

*prices as of 9th of May 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E*
Revenue	3,515	3,367	4,842
Growth %	-14.8%	-4.2%	43.8%
Net Income	288	70.0	463.9
Growth %	-52.5%	-75.7%	562.4%
EPS	0.79	0.19	1.27

Source: Company reports, Aljazira Capital *Based on IFRS accounting policy

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E*
Gross Margin	23.7%	20.5%	30.0%
Net Margin	8.2%	2.1%	9.6%
P/E	17.94x	98.44x	13.53x
P/B	0.67x	0.92x	1.15x
EV/EBITDA (x)	6.70x	8.88x	5.48x
Dividend Yield	4.3%	0.0%	4.3%

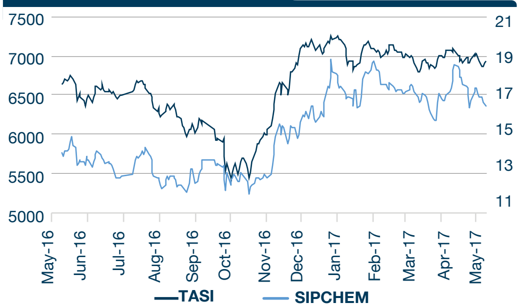
Source: Company reports, Aljazira Capital *Based on IFRS accounting policy

Key Market Data

Market Cap (bn)	6.31
YTD %	-9.0%
52 Week (High)	19.75
52 Week (Low)	11.80
Shares Outstanding (mn)	366.67

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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