

May 11, 2017

Rating **Neutral**
12- Month Target Price **SAR 19.00**

NATIONAL PETROCHEMICAL COMPANY (PETROCHEM)
1Q2017 First Look

Expected Total Return

| | |
|--------------------------|-----------|
| Price as on May-10, 2017 | SAR 19.06 |
| Upside to Target Price | (0.3%) |
| Expected Dividend Yield | 0.0% |
| Expected Total Return | (0.3%) |

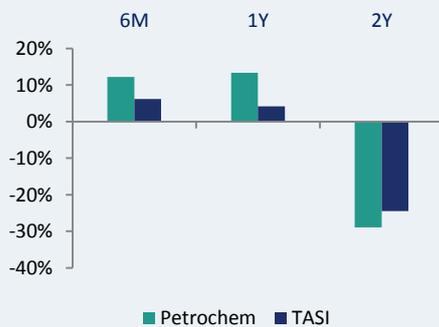
Market Data

| | |
|-----------------------|----------------|
| 52 Week H/L | SAR 22.8/13.4 |
| Market Capitalization | SAR 9,149 mln |
| Enterprise Value | SAR 20,526 mln |
| Shares Outstanding | 480.0 mln |
| Free Float | 17.5% |
| 12-Month ADTV (000's) | 234.1 |
| Bloomberg Code | PETROCHEM AB |

1-Year Price Performance



Source: Bloomberg



| Fig in SAR mln | RC. Est | Actuals |
|----------------|---------|---------|
| Revenue | 1,627 | 1,685 |
| Gross Profit | 532 | 502 |
| EBIT | 382 | 354 |
| Net Income | 171 | 168 |
| EPS (SAR) | 0.36 | 0.35 |

Margins Expand

National Petrochemical Company (Petrochem) reported its 1Q2017 results with an in-line earnings and revenue performance. EPS of SAR 0.35 came close to our estimate of SAR 0.34 and street's SAR 0.32. Despite a 60-day shutdown in 4Q2016, Petrochem managed a comeback in this quarter with a robust set of numbers, higher than 1Q2016. However, margins have weakened versus 2Q and 3Q of 2016 on account of higher feedstock prices, primarily a rally in propane prices; leading to contracting spreads in PP. However, Petrochem is advantaged with another 1-2 years of grace period unlike peers. We expect Petrochem to capitalize its costs well generating higher cash rates over the next few quarters. We maintain our estimates for 2017-19 assuming no shutdowns and also retain our target price at SAR 19.00. 2017E P/E of 12.6x is cheaper to TASI's 14.2x but without any dividend payouts and doubts of earnings sustainability, refrain us from a re-rating for now, despite lower than market valuations. Maintain Neutral.

Revenues in-line with estimates

Revenues of SAR 1.63 billion came in-line with our estimates of SAR 1.68 billion, increasing by +45% Q/Q due to effect of shutdown and feebly by -2% Y/Y due to lower realization. During 1Q2017, Petrochem's most product prices have registered moderate growth, PE up by +2% Q/Q and +6% Y/Y, while PP has grown by +2% Q/Q and +21% Y/Y and Polystyrene (PS) grew by +9% Q/Q and +19% Y/Y.

Spreads contract in key products

Gross profit of SAR 502 million came in-line with our estimate of SAR 532 million, increased by +18% Y/Y and almost 9.5x on a Q/Q basis from SAR 52 million due to shutdown. A 400 bps margin increase is expected to have driven from efficient operating rates coupled with subsidized energy rates, keeping costs lower. This is noteworthy, despite an increase in propane and ethylene prices in 1Q with propane up by +31% Q/Q and +48% Y/Y, while ethylene prices are up by +14% Q/Q and +13% Y/Y. Unlike falling spreads in PE and PP, PS spreads is higher aiding margin growth.

Earnings came close to estimates

Petrochem reported an operating profit of SAR 354 million, but missed modestly versus our estimate of SAR 382 million. We believe Petrochem has managed its costs well, with margins improving by 360 bps to 21% in 1Q2017. Petrochem reported a loss of SAR (110) million in 4Q2016 after its shutdown. Earnings of SAR 169 million is close to our estimate of SAR 171 million, reporting a +38% Y/Y growth, while on a Q/Q basis, it reversed its losses of SAR (124) million. Net margins also improved 260 bps on a Y/Y basis with a similar increase relative to other margins. Overall decent efforts in cost optimization led to an improvement though this was lower to 2Q and 3Q of 2016.

Maintain Neutral

We maintain our SAR 19.00 target price and await more clarity, until then retain our Neutral rating. Stock price rallied by +27% in 2016 but was down by -4% in 1Q2017, underperforming TASI's -3% in the quarter. We believe the stock is fairly valued, maintain Neutral.

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 | 395 | 727 | 747 |
| EPS (SAR) | 0.82 | 1.51 | 1.56 |
| DPS (SAR) | - | - | - |
| BVPS (SAR) | 23.33 | 24.84 | 26.40 |

Key Financial Ratios

| FY Dec31 | 2016A | 2017E | 2018E |
|-----------|-------|-------|-------|
| ROAA | 5% | 5% | 5% |
| ROAE | 4% | 6% | 6% |
| P/E | 23.2x | 12.6x | 12.2x |
| P/B | 0.8x | 0.8x | 0.7x |
| EV/EBITDA | 11.2x | 10.7x | 10.4x |
| EV/Sales | 3.4x | 3.0x | 3.0x |

Santhosh Balakrishnan

santhosh.balakrishnan@riyadcapital.com
+966-11-203-6809

Abdullah A.Alrayes

abdullah.a.alrayes@riyadcapital.com
+966-11-203-6814

Riyad Capital is licensed by the Saudi Arabia
Capital Market Authority (No. 07070-37)

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

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.

الرياض المالية
riyad capital



إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299
riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 07070-37 وسجل تجاري رقم 1010239234
الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712