



Monthly update

In our monthly note, we update price movements of major petrochemical products, manufacturing activity in key demand markets, recent announcements and valuations of Saudi petrochemical companies & peers.

Price movement of key petrochemical products

Products	1-Month*	Y-o-Y
Ethylene	-15.5%	-9.5%
HDPE	-4.9%	-4.1%
LDPE	-7.3%	+4.1%
Propylene	-14.8%	+26.5%
Polypropylene	-7.3%	+2.9%
Methanol	-21.3%	+28.1%
Benzene	-16.6%	+30.9%
Ammonia	+4.6%	+3.0%
Urea	-14.0%	+10.3%

* Last month change

Summary

Stock	Rating	Price Target
SABIC	N	SAR97.0
Yansab	N	SAR58.0
SAFCO	UW	SAR62.0
APCC	N	SAR46.0
Tasnee	UR	Under Review
Sipchem	OW	SAR20.4

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Saudi Petrochemicals sector
Most products witness sharp m-o-m fall

Aramco set NGL prices lower for April. Aramco has lowered Propane price for April to US\$430/t (-10.4% m-o-m), its lowest level this year and in line with our expectations. After keeping Butane unchanged in March, Aramco has also lowered Butane price to US\$490/t, down by US\$110/t, its steepest decline since November 2014. Meanwhile, Naphtha price declined by more than 7% in March, broadly tracking Oil prices (-5% m-o-m). Given the recent decline in Naphtha price amid weak oil prices, Propane discount to Naphtha has reached ~10%, which is in line with its historical average. While Oil prices is likely to hinge upon OPEC and non-OPEC compliance and US crude inventory levels, we expect NGL prices to remain broadly unchanged to slightly up for May unless oil price increases further or demand remains strong.

Product prices fell in March: As expected, key petrochemical products' prices declined in March with Ethylene and Propylene prices slipping around 15% (m-o-m) each, largely on weak demand and upstream costs. Snapping its upward journey, other polymer products such as HDPE (-4.9% m-o-m), LDPE (-7.3%), Polypropylene (-7.3%) and Polystyrene (-10.8%) were also down, mainly due to lower upstream costs coupled with weak downstream demand (source: polymerupdate). We expect prices to remain under pressure in the coming months as product demand generally remains low sequentially during the second quarter. Meanwhile, prices of C5+ products of Naphtha cracking, such as Benzene (-16.6% m-o-m) and Styrene (-16.2% m-o-m) declined significantly. Methanol prices (-21.3% m-o-m) fell to its lowest level since October 2016 on weak demand in China, following a shutdown of a few MTO plants due to poor margins (source: Platts). Urea (-14.0%) prices continued to decline for the second consecutive month in March.

Spreads narrowed on lower product prices: Product spreads have narrowed (m-o-m) in March as decline in product prices were only partially offset by lower costs across the board. We expect spreads to remain under pressure going forward, primarily due to weak seasonal demand in Q2.

Positive fundamentals are already priced in for most companies: We believe that most of our petchem companies under coverage are trading at around their fair price except Sipchem. Hence, we keep our ratings and target prices (see left pane) unchanged for all the petchem companies under our coverage. In our view, unless product prices and/or spreads increase further, we see limited upside potential for companies under our coverage (ex-Sipchem).

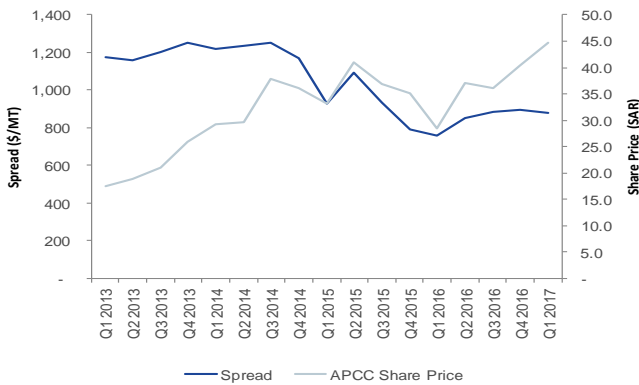
Oil prices slipped in March: Crude oil prices have dropped ~5% m-o-m in March, taking the Q1 decline to ~7%, due to concerns on US crude inventories reaching all-time highs because of weaker than expected demand globally and increased drilling activities in the US, which might challenge OPEC's production cut efforts (95% of production cut quota reached in March as per Reuters survey) to balance the oil market. In our view, there may be supply side risks in 2017 in the absence of an extension of the OPEC deal or if US production picks up. Meanwhile, US producers continued to add oil rigs for the tenth consecutive month in March (662 at the end of March vs. 602 at the end of February 2017; source: Baker Hughes). Nevertheless, demand continues to improve in March as global manufacturing activities continued to expand for the seventh consecutive month with the JPM Global Manufacturing PMI rising to 53 in March.



Trading opportunities

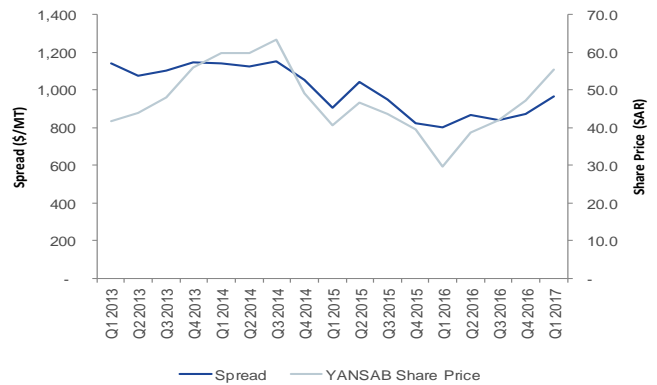
We have analyzed historic stock price movements vs. weighted price spreads (between the end product prices and key feedstock, unadjusted for production). Our tracker model shows that the stock price movements and relevant weighted price spread are highly correlated in the past and we expect the trend to continue going forward. Based on our tracker model, we expect APCC is likely to move lower due to declining spread on higher Propane price in Q1.

Figure 1 APCC Price and Spread



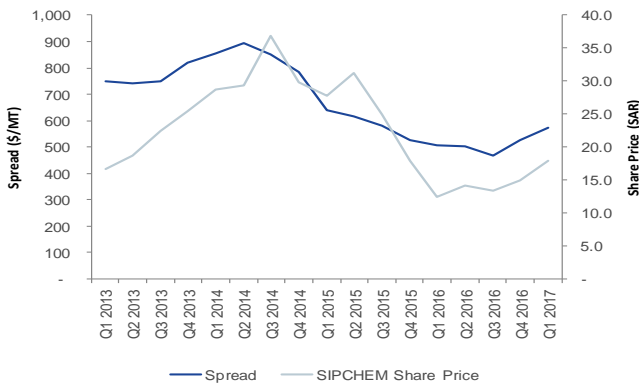
Source: Company data, Al Rajhi Capital, Bloomberg

Figure 2 YANSAB Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 3 SIPCHEM Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 4 SAFCO Price and Spread



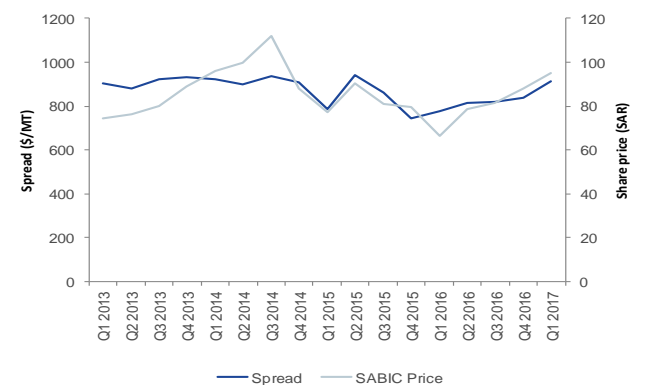
Source: Company data, Al Rajhi Capital, Bloomberg

Figure 5 Tasnee Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg

Figure 6 SABIC Price and Spread



Source: Company data, Al Rajhi Capital, Bloomberg



Figure 7 Price movement of key petrochemicals, fertilizers and metals

Products	Recent Price*	% Change			
		1-Month**	QTD***	YTD	1-Year
European Brent (US\$/bbl)	53.5	(5.0)	(7.0)	(5.9)	8.9
WTI (US\$/bbl)	50.4	(7.0)	(9.7)	(10.0)	21.1
Henry Hub Natural Gas (US\$/mmbtu)	3.1	23.3	(15.8)	(17.1)	62.9
Naphtha - Japan (US\$/ton)	480	(7.4)	(5.5)	(3.3)	22.6
Propane - Aramco (US\$/ton)	430	(5.9)	26.3	13.2	34.4
Butane - Aramco (US\$/ton)	490	0.0	42.9	16.7	40.0
Key petrochemicals (US\$/ton)					
Ethylene (FOB Japan)	1,090	(15.5)	(0.9)	(0.9)	(9.5)
HDPE (SE Asia)	1,160	(4.9)	(0.9)	(0.9)	(4.1)
LDPE (SE Asia)	1,270	(7.3)	(1.6)	(1.6)	4.1
Propylene (FOB Korea)	835	(14.8)	(3.5)	(3.5)	26.5
Polypropylene (SE Asia)	1,080	(7.3)	2.4	2.4	2.9
Methanol (CFR China)	292	(21.3)	(16.6)	(16.6)	28.1
MTBE (Asia)	575	(12.9)	(16.7)	(16.7)	(0.9)
Benzene (FOB Korea)	805	(16.6)	(3.0)	(3.0)	30.9
Toluene (CFR Japan)	640	(8.6)	(5.9)	(5.9)	3.2
Styrene (FOB Korea)	1,165	(16.2)	(0.9)	(0.9)	5.4
Polystyrene (Asia)	1,320	(10.8)	0.0	0.0	5.2
Other petrochemicals (US\$/ton)					
Mono-ethylene glycol - SABIC	1,035	(12.3)	(1.4)	(1.4)	19.0
Ethylene di-chloride (FOB NWE)	340	11.5	33.3	33.3	51.1
Vinyl Acetate Monomer (China)	845	11.2	15.8	15.8	(4.0)
Polyvinyl chloride (SE Asia)	940	(1.1)	4.4	4.4	17.5
Titanium Dioxide (Asia)	2,460	0.0	5.1	5.1	23.0
Acrylic Acid (China)	1,230	(11.5)	(3.1)	(3.1)	69.7
Fertilizers (US\$/ton)					
Ammonia (Middle East)	340	4.6	65.9	65.9	3.0
Urea (Middle East)	215	(14.0)	(12.2)	(12.2)	10.3
DAP (Middle East)	385	6.9	18.5	18.5	4.1
Metals					
Gold - US Spot (US\$/oz)	1,259	0.1	8.9	9.7	3.5
Aluminum - LME (US\$/ton)	1,940	1.7	14.6	13.9	27.4
Copper - LME (US\$/ton)	5,817	(1.5)	6.3	5.7	19.2

Source: Bloomberg, Argaam, Al Rajhi Capital. * Last closing. ** 1-Month represents the last month change. *** represents Q1 2017

Figure 8 Historical 1-Year Forward PE Multiples Trend



Source: Bloomberg, Al Rajhi Capital

Figure 9 Historical 1-Year Forward EV/EBITDA Multiples Trend



Source: Bloomberg, Al Rajhi Capital



Figure 10 Margins and Valuation Metrics - Saudi petrochemical companies vs. global peers

Company Name	Market Cap (US\$ 'mn)	TTM Operating margin	TTM Net margin	2017 PE	P/B	2017E EV/Sales	2017E EV/EBITDA	TTM ROE	TTM Operating ROE	TTM ROA
Saudi Arabia										
SABIC	78,868	21.3	13.4	15.8x	1.8x	2.3x	7.6x	11.0	17.4	5.5
SAFCO	7,444	35.4	36.8	20.6x	4.0x	8.7x	16.2x	14.4	13.9	12.1
Sipchem	1,691	12.4	2.1	13.2x	1.1x	3.1x	8.3x	1.2	7.1	0.4
NIC	3,113	11.5	1.4	16.9x	1.4x	2.2x	9.1x	2.6	21.9	0.5
Yansab	8,695	35.7	33.0	15.0x	2.0x	4.3x	9.1x	14.6	15.7	11.2
APC	2,387	33.4	34.2	12.9x	3.0x	3.8x	10.0x	26.4	25.8	17.7
SPC	1,823	19.6	22.5	17.6x	1.2x	3.8x	13.5x	7.3	6.4	4.7
Saudi Kayan	3,240	11.4	1.6	20.6x	0.9x	3.5x	9.7x	1.0	7.6	0.3
PetroRabigh	2,976	0.4	0.1	79.6x	1.3x	1.8x	20.2x	0.4	1.3	0.1
SIIG	2,328	16.3	8.2	10.1x	1.2x	3.3x	9.1x	6.8	13.5	1.9
Chemanol	226	(16.0)	(18.9)	14.3x	0.7x	2.0x	6.4x	(8.4)	(7.1)	(4.5)
Nama	132	NA	NA	NA	1.6x	NA	NA	NA	NA	(41.4)
Alujain	378	18.7	7.7	18.6x	1.2x	2.2x	NA	10.2	24.6	3.4
National Petrochemical	2,569	16.6	6.7	12.9x	1.6x	3.1x	9.2x	6.8	16.7	1.8
Median		16.6	7.7	15.8x	1.4x	3.1x	9.1x	6.8	13.9	1.9
Average		16.7	11.4	20.6x	1.6x	3.4x	10.7x	7.3	12.7	1.0
Middle East & Africa (ex-Saudi Arabia)										
Industries Qatar	18,228	21.2	73.3	16.6x	2.0x	12.5x	54.2x	10.0	2.9	9.5
Mesaieed Petrochem	5,114	NA	NA	NA	1.3x	NA	NA	7.3	(0.1)	7.2
Sidi Kerir	580	28.3	41.7	8.0x	3.3x	1.7x	5.1x	49.6	33.6	39.1
Al Qurain	1,226	12.4	19.5	NA	1.1x	NA	NA	9.3	5.9	5.5
Sasol	19,612	14.2	8.4	11.0x	1.3x	1.8x	5.9x	7.0	11.8	3.9
Median		17.7	30.6	11.0x	1.3x	1.8x	5.9x	9.3	5.9	7.2
Average		19.0	35.7	11.9x	1.8x	5.3x	21.7x	16.6	10.8	13.0
Europe										
BASF	91,361	11.2	7.0	17.3x	2.7x	1.6x	8.8x	12.9	20.5	5.5
Solvay	12,867	8.3	5.1	14.2x	1.2x	1.5x	6.9x	6.5	10.5	2.5
Lanxess	6,118	6.0	2.5	19.8x	2.3x	0.8x	6.2x	7.9	19.1	2.2
Arkema	7,476	9.5	5.7	14.6x	1.7x	1.0x	6.6x	10.5	17.7	4.8
Yara	10,532	9.2	6.7	14.6x	1.2x	1.0x	6.8x	8.6	11.8	5.3
Akzo Nobel	21,005	10.7	6.8	18.6x	3.0x	1.4x	9.8x	14.9	23.3	6.0
Clariant	6,245	7.3x	4.3x	15.3x	2.5x	1.3x	8.4x	10.4x	17.5	3.2x
Median		9.2	5.7	15.3x	2.3x	1.3x	6.9x	10.4	17.7	4.8
Average		8.9	5.5	16.4x	2.1x	1.2x	7.6x	10.2	17.2	4.2
North America										
Eastman	11,700	15.6	9.6	10.9x	2.6x	2.0x	8.2x	20.4	33.1	5.6
Dow	76,820	7.1	9.0	15.4x	2.9x	1.8x	8.7x	16.7	14.4	5.9
Westlake	8,467	11.5	7.9	16.5x	2.4x	1.6x	7.8x	11.7	17.1	4.8
Celanese Corp	12,927	16.6	16.7	12.7x	5.0x	2.8x	9.7x	36.2	36.0	10.6
Methanex	4,196	1.4	(0.6)	9.9x	2.6x	1.8x	6.3x	(0.8)	1.7	(0.3)
LyondellBasell Industries	36,349	17.3	13.1	9.0x	6.0x	1.4x	6.4x	60.8	80.3	16.6
Huntsman Corp	5,861	6.7	3.4	13.3x	4.5x	1.0x	7.9x	23.9	47.4	3.4
Median		11.5	9.0	12.7x	2.9x	1.8x	7.9x	20.4	33.1	5.6
Average		10.9	8.4	12.5x	3.7x	1.8x	7.9x	24.2	32.9	6.7

Source: Bloomberg, Al Rajhi Capital. Notes: 1) Market cap as of April 4, 2017. 2) All valuation ratios as on latest trading prices.



Figure 11 Performance of Saudi petrochemical companies vs. global peers

Company	Currency	Last Price*	% Change				52-Week		Dividend	
			1 Month**	QTD***	YTD	1 Year	High	Low	LTM	Yield
Saudi Arabia										
SABIC	SAR	96.96	(0.1)	5.8	6.0	38.2	99.0	74.3	5.0	5.2%
SAFCO	SAR	66.73	(1.1)	(6.8)	(9.3)	4.8	82.0	58.0	2.5	3.7%
Sipchem	SAR	17.34	0.2	(6.2)	(8.3)	31.6	19.8	11.8	NA	NA
NIC	SAR	17.41	0.6	0.4	(0.3)	90.3	20.0	8.9	NA	NA
Yansab	SAR	57.87	5.0	8.8	10.0	62.0	59.8	37.0	3.0	5.2%
APC	SAR	45.95	1.0	1.9	3.1	43.4	48.6	33.1	2.7	5.8%
SPC	SAR	15.49	(0.7)	4.9	5.0	89.8	15.9	8.3	0.5	3.2%
Saudi Kayan	SAR	8.14	(5.3)	(10.3)	(7.9)	60.9	9.5	5.0	NA	NA
PetroRabigh	SAR	12.70	(3.3)	8.0	8.0	20.7	14.0	8.7	NA	NA
SIG	SAR	19.46	(4.7)	9.2	3.1	59.2	23.5	11.4	NA	NA
Chemanol	SAR	6.95	(7.6)	(13.3)	(13.3)	20.9	8.4	4.9	NA	NA
Nama	SAR	3.90	(5.7)	(36.3)	(37.1)	(33.2)	7.2	3.6	NA	NA
Alujain	SAR	20.14	(2.5)	9.8	7.9	48.7	22.6	11.0	1.0	5.0%
National Petrochemical	SAR	20.01	0.9	(4.0)	(5.8)	20.5	22.8	13.4	NA	NA
Middle East & Africa (ex-Saudi Arabia)										
Industries Qatar	QAR	108.60	(4.5)	(2.9)	(6.0)	3.8	122.0	94.5	4.0	3.7%
Mesaieed Petrochem	QAR	14.82	(0.7)	(1.8)	(1.4)	(19.3)	21.0	14.4	0.6	4.0%
Sidi Kerir	EGP	19.85	5.2	14.6	6.3	75.7	22.2	10.7	0.4	2.0%
Al Qurain	KWd	345.00	4.6	47.8	6.2	88.8	370.0	188.0	10.0	2.9%
Sasol	ZAr	40,500.00	6.1	(1.2)	10.0	(3.4)	48,972.0	34,655.0	1,390.0	3.4%
Europe										
BASF	EUR	92.98	5.7	5.8	6.0	46.4	93.8	61.6	2.9	3.1%
Solvay	EUR	114.85	4.2	3.7	4.0	34.8	117.0	79.1	3.3	2.8%
Lanxess	EUR	62.22	(1.9)	0.3	(0.4)	49.6	68.8	37.3	0.6	1.0%
Arkema	EUR	92.56	1.1	(0.6)	(0.5)	44.0	97.2	63.2	1.9	2.1%
Yara	NOK	335.50	3.9	(3.1)	(1.6)	13.1	362.0	256.1	15.0	4.5%
Akzo Nobel	EUR	77.69	22.8	30.9	30.8	33.0	79.7	52.6	1.6	2.0%
Clariant	CHF	18.87	3.1	11.3	11.2	13.8	19.0	15.2	0.5	2.4%
North America										
Eastman	USD	79.96	1.4	7.7	6.6	13.7	82.1	62.7	1.9	2.4%
Dow	USD	63.06	2.8	11.4	10.6	28.1	65.4	47.5	1.8	2.9%
Westlake	USD	65.54	4.1	17.3	16.4	43.6	68.1	39.5	0.8	1.1%
Celanese Corp	USD	89.74	0.8	13.8	13.7	39.7	93.1	60.6	1.4	1.6%
Methanex	USD	46.60	(7.5)	5.9	5.2	49.5	53.4	26.8	1.1	2.4%
LyondellBasell Industries	USD	90.26	0.9	7.0	5.9	9.8	97.6	69.8	3.4	3.8%
Huntsman Corp	USD	24.32	9.2	28.8	27.7	88.1	25.2	12.4	0.5	2.1%
Asia										
Inorama Ventures	THB	35.50	(0.7)	6.8	7.6	58.4	37.8	22.1	0.5	1.5%
Mitsui Chemicals	JPY	549.00	(2.6)	5.3	5.1	49.5	599.0	320.0	11.0	2.0%
Sumitomo	JPY	618.00	0.5	13.8	13.0	24.7	682.0	396.0	14.0	2.3%
Formosa Chemicals & Fibre Corp	TWD	94.40	(2.9)	(0.3)	(0.3)	22.9	100.0	77.5	3.5	3.7%
Lotte Chemical Corp	KRW	368,500.00	1.6	0.4	(0.1)	9.1	410,000.0	249,000.0	4,000.0	1.1%
Formosa Plastics Corp	TWD	90.50	(2.3)	3.5	3.5	18.7	98.1	75.0	3.6	4.0%
LG Chem	KRW	293,000.00	3.9	12.6	12.3	(8.8)	341,000.0	215,500.0	5,000.0	1.7%
Indices										
S&P500 Chemical Index	USD	544.66	1.0	7.2	6.7	15.1	552.2	456.6	12.1	2.2%
MSCI World Chemical Index	USD	302.54	2.0	7.5	7.4	17.1	305.1	245.8	6.8	2.3%
TASI	SAR	6,967.98	0.4	(2.9)	(3.4)	12.0	7,290.3	5,327.5	238.8	3.4%

Source: Bloomberg, Al Rajhi Capital. * Last closing as of April 4, 2017. ** 1 Month represents the last month change. *** represents Q1 2017

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