SIPCHEM

NCB CAPITAL

EVENT FLASH

Disappointing results on lower operating rates

Sipchem reported a weak set of results with net income of SR72mn, significantly lower than our estimates of SR130mn. We believe lower than expected operating rates ahead of the anticipated planned four week shutdown at methanol plant in 4Q15 was the key reason behind the earnings variance. Net income declined 55.4% YoY and 35.0% QoQ on lower operating rates and weak selling price. We believe gross margins stood at 26.3% in 3Q15, the lowest since 1Q14.

- **NCBC view on the result:** Sipchem reported a disappointing set of results with a net income of SR71.6mn, declining 55.4% YoY and 35.0% QoQ. The results came-in weaker than the NCBC estimates of SR130mn and the consensus estimates of SR123mn. We believe lower than expected operating rates was the key reason behind the earnings disappointment.
- Based on our estimates, Sipchem facilities operated at 75%, lower than our estimates of 96%. This is also lower than 93.5% in 2Q15 and 96.5% in 3Q14. The company said that sales quantities declined on QoQ basis. This is despite the 25 days shutdown at its IAC and IGC plants in 2Q15. We believe the facilities had operational issues which will lead to proposed shutdown at methanol facilities in December, as per ICIS. The shutdown is expected to last for 28 days.
- We believe average selling prices of Sipchem's key products were about 6-7% lower than our estimates.
- We believe gross margin stood at 26.3%, lower than our estimate of 29.8% and the lowest level in the last six quarters. This is also lower than the 30.0% in 3Q14 and 28.5% in 2Q15. Higher than expected non-operating expenses further increased the variation at the net income level.
- Weak 3Q15 earnings performance was primarily driven by low operating rates. We expect Sipchem's margins and earnings to improve once operating rates normalizes. Moreover, a diversified product mix, earnings contribution from the Phase 3 and an attractive dividend yield of 5.6% remain key positives of the stock.
- We remain Overweight on Sipchem with a PT of SR24.2. The stock is trading at a 2016E P/E of 10.6x, lower than the sector average of 13.3x. Any weakness in the stock will be a good entry point given its long term earnings growth potential.

3Q15 Results Summary

SR mn	3Q15A	2Q15A	% Q o Q	3Q14A	% Y o Y	3Q15E	% Var^
Gross income	209	287	(27.1)	318	(34.1)	298	(29.7)
Operating income	157	227	(31.0)	270	(41.9)	238	(34.0)
Net income	72	110	(35.0)	161	(55.4)	130	(45.0)
EPS (SR)	0.20	0.30	(35.0)	0.44	(55.4)	0.35	(45.0)

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

OVERWEIGHT

Target price	24.2
Current price (SR)	22.3

STOCK DETAILS

52-week range H/L (SR)	38/18
Market cap ($ mn)	2,177
Shares outstanding (mn)	367
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	17.2	(31.3)	(38.2)
Rel. to market	11.8	(14.1)	(17.6)

Avg daily turnover (mn)	SR	US$
3M	18.6	4.9
12M	18.8	5.0

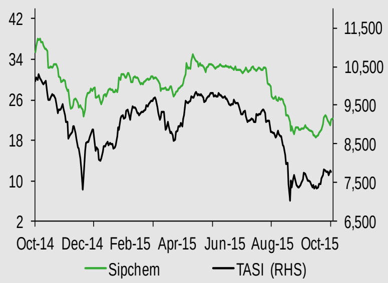
Reuters code	2310.SE
Bloomberg code	SIPCHEM AB
	www.sipchem.com

VALUATION MULTIPLES

	14A	15E	16E
P/E (x)	13.5	18.8	10.6
P/B (x)	1.4	1.4	1.3
EV/EBITDA (x)	9.3	10.4	8.3
Div Yield (%)	5.6	5.6	6.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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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

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

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