

Rating
12- Month Target Price
Neutral
SAR 98.00
SAUDI BASIC INDUSTRIES CORP (SABIC)

1Q2017 First Look

Expected Total Return

Price as on May-1, 2017	SAR 99.59
Upside to Target Price	-1.6%
Expected Dividend Yield	5.0%
Expected Total Return	3.4%

Market Data

52 Week H/L	SAR 102.5/76.0
Market Capitalization	SAR 298,770 mln
Shares Outstanding	3,000 mln
Free Float	21.0%
12-Month ADTV	4,704,663
Bloomberg Code	SABIC AB

1-Year Price Performance


Source: Bloomberg



Fig in SAR bln	RC Est.	Actuals
Revenues	35.1	36.9
Gross Profit	10.8	13.7
Net Income	5.0	5.2
EPS (SAR)	1.68	1.75

Rising Margins, Healthier Prices

Sabic posted 1Q results broadly in-line with our estimates. Net income came in at SAR 5.24 billion (EPS SAR 1.75), +3.8% better than our SAR 5.04 billion forecast. Bottom line has posted a massive +80% growth Y/Y and +51% Q/Q, exceeding market expectations in the process. Recent 1Q results of subsidiaries had pointed towards this; Sabic stock has rallied accordingly. The Company has noted reclassification of some accounting heads in line with IFRS standards. Although +10% Y/Y higher sales (almost SAR 37 billion) have contributed, the main driver of profitability has been higher margins. While margins have expanded at most listed subsidiaries, Saudi Kayan and Safco are, in our view, the main engines of growth with profitability rising +156% Q/Q and +52% Y/Y respectively. We raise our forecasts for 2017 and beyond, prompting a rise in target price to SAR 98.00 from SAR 90.00 currently. Trading at a 2017E P/E of 14.3x, close to the market, we recommend a Neutral rating.

Product prices drive revenue growth

+10% increase in revenues Y/Y to almost SAR 37 billion is striking and is a consequence of rising product prices in petrochemicals, urea as well as steel segments coupled with higher operating rates, particularly at Kayan. Polypropylene, polyethylene and MEG prices have all amplified handsomely Y/Y by +21%, +6% and +48% respectively. Urea is up +22% Y/Y while steel rebar prices also improved +9%. In addition, Sabic continues to benefit from efficiency improvements, a noted emphasis in the recent past. Gross margins over 37% in 1Q compared to 30% last year is one of the highlights of the result for us. Consequently, gross profit has grown by +36% Y/Y and +9% Q/Q to SAR 13.74 billion.

Saudi Kayan at its best

Performance at key Sabic subsidiaries has been above par this quarter. Saudi Kayan posted surprisingly good numbers with highest net income to date as net margins doubled, partly helped by cost optimization. Yansab's numbers were more stable, while Safco also topped market consensus reporting +52% Y/Y higher EPS, once again on the back of margin expansion.

Revising forecasts upwards

Robust 1Q financials on business improvements has prompted us to revise our forecasts for 2017 and beyond. We now expect full year 2017 revenues at SAR 149 billion and net income of SAR 21 billion versus our earlier estimates of SAR 143 billion and SAR 20 billion respectively.

Target price grows to SAR 98.00

Net margins have accrued over 14%, near our forecast. EPS is up +80% Y/Y and +51% Q/Q to SAR 1.75, +4% better than our SAR 1.68 estimate. The deviation comes from higher profits from key subsidiaries. We raise our target price from SAR 90.00 to SAR 98.00 but continue a Neutral rating. Stock has rallied strongly already and may not have much steam left with 2017E P/E of 14.3x at par with the market. In addition, SAR 100 has been is a psychological resistance for traders and investors.

Key Financial Figures

FY Dec31 (SAR bln)	2016A	2017E	2018E
Revenue	132.9	148.9	153.4
EBITDA	40.1	45.1	47.2
Net Profit	17.9	20.9	22.5
EPS (SAR)	5.97	7.00	7.49
DPS (SAR)	4.00	5.00	5.50

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	70.10	73.56	75.84
ROAE	11.6%	11.0%	11.9%
ROAA	5.7%	5.6%	6.3%
EV/EBITDA	12.3x	10.0x	9.4x
P/E	16.7x	14.3x	13.3x

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.