



**US\$1.433bn** Market cap  
**90%** Free float  
**US\$3.062mn** Avg. daily volume

**Target price** **UR\***  
**Consensus price** **15.97** 8.9% over current  
**Current price** **14.66** as at 18/4/2016

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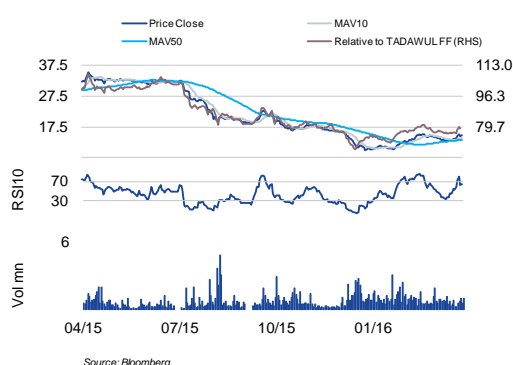
Existing rating

**Underweight** **Under Review** **Overweight**

## Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

## Performance



## Earnings

Period End (SAR)	12/12A	12/13A	12/14A	12/15A
Revenue (mn)	3,922	4,072	4,124	3,515
Revenue Growth	18.0%	3.8%	1.3%	-14.8%
EBITDA (mn)	1,651	1,720	1,747	1,278
EBITDA Growth	-6.6%	4.2%	1.6%	-26.8%
EPS	1.60	1.69	1.65	0.83
EPS Growth	-58.4%	5.6%	-2.3%	-49.6%

Source: Company data, Al Rajhi Capital

# Sipchem

## Q1: Positive surprise

Sipchem's Q1 2016 results beat our as well as consensus estimates. The company's adjusted net profit slipped by a moderate 10.4% y-o-y, despite the fall in product prices and hike in feedstock prices. We believe the company benefited from higher than expected utilization rates and improved operating efficiencies post the maintenance shutdown in Q4 2015. Sipchem recorded an impairment charge of SAR21.5mn, which resulted in net profit falling 37.1% y-o-y to SAR50.7mn. We place Sipchem Under Review as the stock has witnessed a strong run up over the last 4-6 weeks. We will revise our forecast on the company after a discussion with the management and release of detailed financial statements.

Earnings vs our forecast	Above	In Line	Below
<b>Likely impact:</b>			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues:** Sipchem has not reported its Q1 2016 revenues as yet. We had estimated a top line of SAR835mn (+1.1% y-o-y) compared to consensus estimate of SAR802mn. Sales volume is likely to have been boosted owing to the start of commercial operations at the International Polymers Co. and Gulf Advanced Cable Insulation Co. (from Q2 2015 onwards). Looking at the company's gross and operating profit performance, we believe the company is likely to have operated at higher than expected utilization levels.
- Gross and operating profit:** Gross profit slipped by a marginal 2.1% y-o-y to SAR229.3mn (our estimate: SAR165mn). The nominal drop in gross profit despite the decline in product prices and increase in Methane price indicates that the company benefitted from the fall in NGL prices as well as lower operating expenses on the back of improved operating efficiencies. Operating profit dropped 9.8% y-o-y to SAR159mn, beating our SAR105mn estimate.

**Figure 1 Sipchem: summary of Q1 2016 results**

(SAR mn)	Q1 2015	Q4 2015	Q1 2016	% chg y-o-y	% chg q-o-q	ARC est
Revenue	826	872	NA	-	-	835
Gross profit	234	102	229	-2.1%	124.8%	165
Gross profit margin	28.3%	11.7%	-	-	-	19.8%
Operating profit	177	30	159	-9.8%	432.8%	105
Net profit	81	26	51	-37.1%	95.0%	36

Source: Company data, Al Rajhi Capital



**Net profit:** Sipchem's net profit fell 37.1% y-o-y to SAR50.7mn. However, adjusting for a one-off impairment charge of SAR21.5mn on expected losses from disposals and write off of equipment for International Methanol Company, the adjusted net profit stood at SAR72.2mn (-10.4% y-o-y). The bottom line beat our (SAR36mn) as well as consensus (SAR37.1mn) estimates. Sipchem stated that financial charges and zakat provisions were higher compared to the same period last year.

**Conclusion:** Sipchem reported a strong set of numbers for Q1 2016, beating our as well as consensus estimates by a wide margin. In addition to the benefit from the fall in NGL feedstock prices, we believe the company was also able to reduce other costs by improving its operating efficiencies. As the stock has gained sharply over the last 4-6 weeks, we place the stock Under Review for now. We will revise our estimates on Sipchem after inputs from the management and release of detailed financials.



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"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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