# Middle Eastern Petrochemicals

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SECTOR REVIEW

## Focus on high-quality, low-risk plays

- **Further potential downside risks:** Despite the fall in MENA petrochemical stock prices by an average of 13% post April, we believe valuations are still subject to downside risks and prefer to focus on high-quality, low-risk stocks with attractive valuations. We continue to recommend Outperform-rated National Industrialization Company (NIC), Industries Qatar (IQ) and Advanced Petrochemicals Company (APC), in that order.
- **View: A) Chemical sector's fundamentals appear stable:** 1) We expect the supply side to grow by a CAGR of only 2.6% from 2011E to 2014E versus 5% from 2008 to 2011E in ethylene (the most prevalent commodity chemical). 2) The resilience and subsequent rebound in commodity chemical margins since 2008 have enabled corporates to build healthy balance sheets and some have even emerged from Chapter 11 as a result. **B) Credit and commodity markets are sending discordant signals:** 1) The Credit Suisse High Yield Chemical Index has been outperforming the broader market High Yield Index (0.47% YTD, by 0.75% in July and 0.17% in August 2011). This is in contrast with 2008, when the High Yield Chemical Index underperformed the broader market by 23.87%. 2) Compounding uncertainty, major commodity chemical margins (Figure 8 and Figure 9) have been volatile and dipped below long-run averages repeatedly post Q2 2011. While there is seasonality in the data, it does not inspire confidence, in our view. **C) We see further downside risk in MENA petrochemical equity valuations from fat tail risks:** The risk from any sharp slowdown in Asian GDP growth (which accounted for 88.7% of 2008-10 global ethylene demand growth) would have a leveraged effect on chemical sector margins. If we look at Asia, where the most operationally leveraged players operate, the MSCI NJA Chemicals Index is trading at a 12% discount to the market on forward P/E, while the discount was 26% at lows in 2008.
- **Valuation, forecast changes:** In this report, we are adopting a forward EV/EBITDA-based valuation methodology (versus DCF previously) to reflect what we believe has become the most prevalent valuation method for commodity plays. We also revise our long-term product price forecasts to reflect our base-case scenario ($80/bbl, second quartile margins), raising long-run EBITDA by 9% on average from our previous, very conservative forecasts. As a result of these changes, we have revised our target prices/estimates for the 10 stocks in this report. We also downgrade Yansab (TP SAR 47) and Petrorabigh (TP SAR 24) to Neutral from Outperform.
- **Our top picks: NIC (TP SAR 55), IQ (TP QAR 161) and APC (TP SAR 36):** On our stress-test scenario (third quartile margins, $60/bbl Brent crude), we see 11% upside potential to NIC, 3% upside to APC and only 3% downside to IQ on current valuations (against 26% downside on average for the remaining stocks). We thus view their valuations as highly attractive.

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# Executive summary

## Chemical sector's fundamentals appear stable

**1. Demand-supply dynamics are better than in 2008:** We expect the supply side to grow by a CAGR of only 2.6% from 2011E to 2014E for ethylenes (the most widely used commodity chemical category), as against the 5% CAGR from 2008 to 2011E.

**2. Impact of the North American and European demand slowdown has become less relevant since 2000:** the North American and European demand share in global ethylene demand (largest precursor) has decreased to 37.1% (2011E) from 50.5% in 2000. The decline has been accentuated to some degree by the manufacturing exports from Asia.

**3. Corporate balance sheets are in a better state than 2008:** The resilience and subsequent rebound in commodity chemical margins has enabled corporates to build healthy balance sheets. As an example consider LyondellBasell. The predecessor entity (pre emergence from Chapter 11) made on average an operating profit of $26.4m per month in 2009. Between Jan 1 to April 30, 2010 the same entity made an operating profit of $172.5m per month (on average) and post emergence from Chapter 11, the company made an operating profit of $281.7m per month from May to December 2010.

## Global markets are sending discordant signals

**1. Credit markets are not too concerned:** The Credit Suisse Chemicals High Yield Index is dominated (>50%) by commodity chemicals and fertiliser producers. The chemical sector index does not look to be pricing in demand destruction, as is evident by the outperformance of the chemicals index to the broader market Credit Suisse High Yield Index (0.47% YTD, and by 0.75% in July, and 0.17% in August 2011). This is in contrast with 2008, when the chemicals index underperformed the broader market by 23.87%. The sector index also seems to be ignoring weakening margins. While the margins for marginal producers declined post Q2, the sector index continues to discount this with expectations of better margins in Q3 from lower supply expectations. Beyond Q3, an expectation of strong Asian demand (seasonally strong period) provides scope for optimism, in our view.

**2. Commodity markets, though backward looking don't indicate buyer confidence:** Major commodity chemical margins (Figure 8 and Figure 9) have been increasingly shaky and dipped below long run averages repeatedly post Q2 2011. While there is an element of seasonality to the data, it does not inspire confidence.

**3. We see a fat tail risk…:** And an increasingly fat one at that, in our view, inherent in an aggressive slowdown in Asian demand growth. The downside risk from any sharp slowdown in Asia (which accounted for 88.7% of 2008-10 global ethylene demand growth) would have a leveraged effect on chemical sector margins and performance.

A faster than expected slowdown in Asia and expectation of lower prices could result in a bout of destocking which could easily impact margins by as much as 20% on average from current levels for MENA petrochemical producers and rather worse for marginal producers, in our view. While the seasonal destocking in Asia is coming to an end and an intensive maintenance schedule in 2H 2011 in the US could help to mitigate the adverse impact, we expect better entry opportunities for many stocks in our sector post Q3 2011.

Just as the robust demand surprised the markets (and us) in 2009/10, potential demand shocks from Asia could surprise again. Margin risks are to the downside, in our view.

**4. …which the equity markets are just beginning to price in:** The MSCI World Chemicals index is 29.1% lower (1 Jan – 23 Aug 2011) in contrast with a 23.6% fall in the broader MSCI World Index. The index is trading at a 7% premium to the market on forward P/E. At its lows in 2008 the discount was as wide as 12%. If we look at Asia where the most operationally leveraged players operate, the sector index is trading at a 12% discount to the market on forward P/E, while the discount was 26% at lows in 2008.

# Prepare for the worst and shift to high-quality value stocks…

If we consider a scenario where demand remains moderately robust and where the market expects second-quartile margins, the current market valuations for these stocks would then imply an average crude price (Brent) expectation of US$56/bbl in the long run, on our estimates. This contrasts with prevailing prices in excess of $100/bbl and our house expectation of prices in excess of $100/bbl until 2014 and $90/bbl in the long run. The MENA markets are thus pricing in a very weak demand scenario already but we think an actual demand shock is likely to push multiples even lower (20% from our base case, through the cycle assumed EV/EBITDA multiple) and provide better entry opportunities for many stocks. Our key investment criterion in the current environment are:

**1. Cash cost competitiveness –** As detailed on page 17 the ability to operate at high operating rates even in a weak demand environment is critical for the petrochemical plants to be profitable. IQ's petrochemical cost base is among the most competitive globally and next in line is NIC's petrochemical cost base (60% EBITDA exposure). In polypropylene, APC is among the most competitive producer on cash cost (globally), on our estimates. Sipchem and Safco score well in their product groups viz. methanol and urea respectively.

**2. The 'right' product with low leverage to naphtha –** There are bright spots in some sectors/subsectors wherein underlying demand supply dynamics are very healthy, underpinned by strong category growth and positive substitution of other materials (MEG), or where underlying secondary product (corn) demand-supply dynamics lead to better upstream margins (fertilisers). Some other products (methanol) are benefiting from structural fuel substitution effects. We would recommend IQ for the right product exposure, since 50% of IQ's 2012E EBITDA is derived from Urea, Ammonia, MTBE and Methanol. Other preferred plays are NIC for a EBITDA exposure in excess of 40% to TiO2 (for details please refer to*, 2060.SE: Playing the TiO2 industry transformation,* published 17 May 2011) and APC (a globally unique polypropylene pure play, benefiting from substitution effects underpinning demand growth).

**3. Cash flow discipline:** Industries Qatar and NIC, with manageable debt burdens (2011E Net debt/EBITDA of 1.6 each, respectively) and stable dividend payment records (average payout ratios in excess of 50%) and strong dividend commitments are hence our preferred plays from this viewpoint. Another stock which screens exceptionally well on the above criterion is Safco, with a dividend commitment driven by upstreaming of cash for Sabic (parent shareholder of Safco) and payout ratios close to 100% over the last 2 years.

# … with an eye on downside risk

We also stress test our earnings to look at a drop in long-term margins to the third quartile and crude prices at a distress level of $60/bbl. (We have estimated the long-term median margin in four quartiles of the petrochemical cycle (with the first quartile representing the top of the cycle) for each product's marginal producers. On our stress-test scenario (third quartile margins, $60/bbl Brent crude), we see 11% upside potential to NIC, 3% upside to APC and only 3% downside to IQ on current valuations (against 26% downside on average for the remaining stocks). We thus view current valuations for these three stocks as highly attractive on a risk reward basis.

# Valuations

## Summary valuations

Our target price computation and summary of key changes is shown in Figure 1 and Figure 2, respectively.

**Figure 1: Target Price computation**
*(in local currency millions, unless otherwise stated or per share data)*

| | APC | Petrorabigh | Sahara | Yansab | Kayan | Sabic | NIC | Sipchem | IQ | Safco |
|---|---|---|---|---|---|---|---|---|---|---|
| Long run EBITDA | 689.8 | 4,635.8 | 587.3 | 3,988.7 | 4,319.9 | 63,538.8 | 6,866.0 | 1,271.9 | 10,222.6 | 3,852.7 |
| Target EV/EBITDA | 8.8 | 6.8 | 8.0 | 8.0 | 10.0 | 8.0 | 8.0 | 10.3 | 8.8 | 10.7 |
| Benchmark EV/EBITDA | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Premium/Discount | 10% | -15% | 0% | 0% | 25% | 0% | 0% | 30% | 10% | 35% |
| EV | 6,039.9 | 31,365.8 | 4,674.9 | 31,750.1 | 42,982.7 | 505,768.8 | 54,653.4 | 13,161.6 | 89,509.2 | 41,401.1 |
| Investments | 0.0 | 2,905.9 | 4,458.5 | 0.0 | 0.0 | 8,829.2 | 581.9 | 40.8 | 0.0 | 1,269.2 |
| Less: Normalized Net Debt | -1,496.1 | -24,303.5 | -1,832.6 | -8,300.9 | -18,841.8 | -60,007.2 | -10,882.6 | -2,936.9 | -4,991.5 | 1,903.0 |
| Others | 0.0 | 9,000.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1,216.0 | 0.0 | 0.0 | 0.0 |
| Less: Minorities | 0.0 | 0.0 | -1,825.2 | 0.0 | 0.0 | -181,836.3 | -16,404.7 | -3,387.6 | -4,733.0 | 0.0 |
| Equity Value | 4,543.8 | 18,968.2 | 5,475.6 | 23,449.1 | 24,140.9 | 272,754.5 | 29,163.9 | 6,877.9 | 79,784.7 | 44,573.3 |
| No. of Shares | 141.4 | 876.0 | 292.5 | 562.5 | 1,500.0 | 3,000.0 | 557.4 | 366.7 | 550.0 | 250.0 |
| Equity Value/share | 32.1 | 21.7 | 18.7 | 41.7 | 16.1 | 90.9 | 52.3 | 18.8 | 145.1 | 178.3 |
| Target Price | 36.0 | 24.0 | 21.0 | 47.0 | 18.0 | 93.0 | 55.0 | 21.0 | 161.0 | 186.0 |

*Source: Company data, Credit Suisse estimates*

**Figure 2: Summary of key changes**

| | Old Rating | New Rating | Ccy | Old TP | New TP | Old LT EBITDA (M) | New LT EBITDA (M) | Change (%) | Old LT Net Income (M) | New LT Net Income (M) | Change (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NIC | OP | OP | SAR | 55.1 | 55 | 6100 | 6866 | 12.6% | 2173 | 2509.6 | 15.5% |
| IQ | OP | OP | QAR | 160 | 161 | 8804 | 10222.6 | 16.1% | 7470 | 8763.3 | 17.3% |
| APC | OP | OP | SAR | 40 | 36 | 676.1 | 689.8 | 2.0% | 465.7 | 481.3 | 3.3% |
| Safco | N | N | SAR | 161 | 186 | 2961 | 3852.7 | 30.1% | 3093 | 3962.8 | 28.1% |
| Sabic | N | N | SAR | 116 | 93 | 63287 | 63538.8 | 0.4% | 28121 | 28370.3 | 0.9% |
| Yansab | OP | N | SAR | 56 | 47 | 3827 | 3988.7 | 4.2% | 2627 | 2782.4 | 5.9% |
| Sahara | N | N | SAR | 22.1 | 21 | 555.1 | 587.3 | 5.5% | 922.5 | 1024.5 | 11.1% |
| Petrorabigh | OP | N | SAR | 33.7 | 24 | 4854 | 4635.8 | -4.5% | 2796 | 2562.1 | -8.4% |
| Sipchem | N | N | SAR | 24 | 21 | 1274 | 1271.9 | -0.2% | 580.2 | 578.7 | -0.3% |
| Kayan | N | N | SAR | 15.4 | 18 | 3638 | 4319.9 | 18.7% | 2099 | 2781.5 | 32.5% |

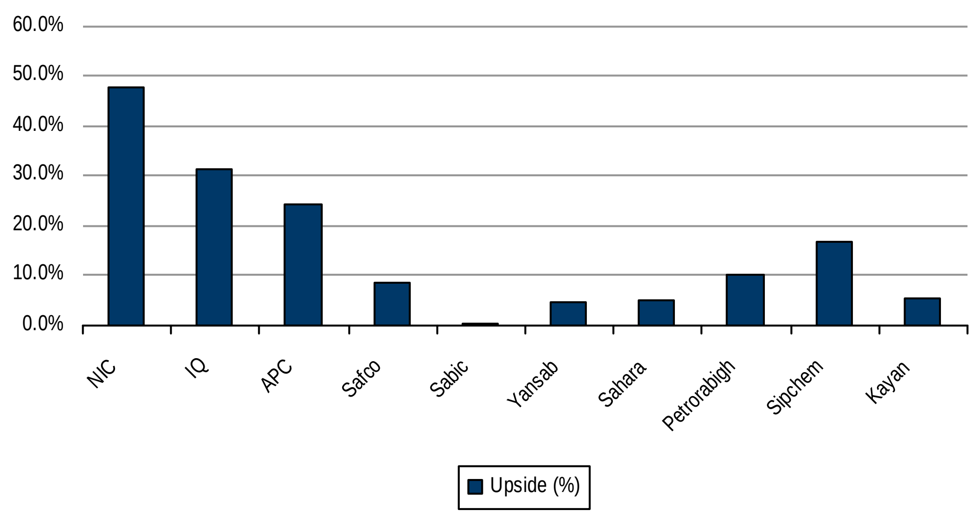
*Source: the BLOOMBERG PROFESSIONAL™ service, Company data, Credit Suisse estimates, OP= Outperform; N=Neutral; UP=Underperform; for volatility ratings, please see the companies mentioned section at the end of the report*

Figure 3: **Upside potential from current share price**

| | Old Rating | New Rating | Ccy | Current Price (LC) | Old TP | New TP | Upside potential |
|---|---|---|---|---|---|---|---|
| NIC | OP | OP | SAR | 37.2 | 55.1 | 55 | 47.8% |
| IQ | OP | OP | QAR | 122.5 | 160 | 161 | 31.4% |
| APC | OP | OP | SAR | 29 | 40 | 36 | 24.1% |
| Safco | N | N | SAR | 171.5 | 161 | 186 | 8.5% |
| Sabic | N | N | SAR | 92.75 | 116 | 93 | 0.3% |
| Yansab | OP | N | SAR | 44.9 | 56 | 47 | 4.7% |
| Sahara | N | N | SAR | 19.95 | 22.1 | 21 | 5.3% |
| Petrorabigh | OP | N | SAR | 21.8 | 33.7 | 24 | 10.1% |
| Sipchem | N | N | SAR | 18 | 24 | 21 | 16.7% |
| Kayan | N | N | SAR | 17.05 | 15.4 | 18 | 5.57% |

*Source: Credit Suisse estimates*

Figure 4: **Upside potential from current price to TP (%)**




*Source: Credit Suisse estimates*

# Methodology

We are adopting a forward EV/EBITDA-based valuation methodology (from our previous DCF-based method) to reflect what we believe has become the most prevalent valuation method for commodity plays. Our benchmark target EV/EBITDA of 8x is close to the average historical forward EV/EBITDA for Sabic and Dow Chemicals, adjusted for tax. Taxation rates are close to zero in the Middle East and hence elevated EV/EBITDA multiples are reasonable. On a like to like basis, we estimate that an EV/EBITDA of 8x in the Middle East represents a normalised 6.4x multiple outside the Middle East when accounting for a 25% corporate tax rate, all else being equal.

To compute the forward EBITDA, we have developed a normalised EBITDA forecast for each stock using the following approach:

**For key commodities, the normalised EBITDA/cash margin is calculated from a combination of:**

(1) Margin derived from the petrochemical cycle – The margin for a marginal producer (which has no feedstock pricing advantage) would depend on the stage in the petrochemical cycle and purely demand supply dynamics. We have estimated the long-term median margin in four quartiles of the petrochemical cycle (with the first quartile representing the top of the cycle) for each product's marginal producers.

(2) Margin derived from feedstock pricing discount – The margin accretion attributable to the discounted feedstock available to Middle Eastern producers. This portion of the EBITDA is dependent on crude and naphtha prices. For example, in the event of crude prices being $100/bbl and naphtha prices at $900/tonne, the Saudi Arabian-based polypropylene producers (which benefit from a 31.25% naphtha netback discount) would have $281.25/tonne margin being attributed to a feedstock pricing led discount.

# Product price forecasts

Our new product price forecasts are in  with our long-term forecasts for ethylene (LDPE, LLDPE and HDPE) being 7% lower on average than actual 1H prices. On polypropylene (PP) our long-term price forecast is 12.4% lower than 1H actual to keep underlying assumptions as conservative as possible for structurally favoured product groups (into which PP falls). We expect prices to remain resilient for product categories less exposed to crude prices than petrochemicals, viz. methanol (long-term decline of 9.6% from 1H levels) and urea (long-term appreciation of 5.8% from 1H levels; current prices are north of $490/tonne).

Figure 5: **New product price forecasts**

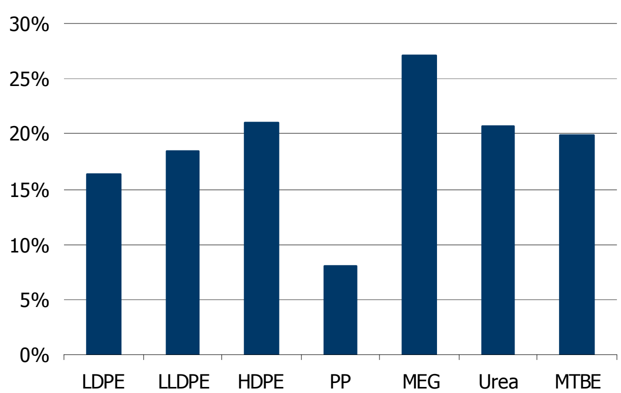
| (USD/tonne) | 2011 H1 A | 2011 H2 E | 2011E | Change (%) | 2012E | Change (%) | 2013E | Change (%) |
|---|---|---|---|---|---|---|---|---|
| LDPE | 1675 | 1517 | 1596 | 10.1% | 1332 | -8.1% | 1461 | 0.8% |
| LLDPE | 1384 | 1272 | 1328 | 10.7% | 1202 | 0.2% | 1311 | 9.3% |
| HDPE | 1356 | 1371 | 1364 | 24.0% | 1186 | 7.8% | 1308 | 18.9% |
| PP | 1608 | 1545 | 1577 | -1.4% | 1408 | -12.0% | 1408 | -12.0% |
| MEG | 1181 | 1200 | 1191 | 12.4% | 969 | -8.6% | 969 | -8.6% |
| Urea | 378 | 450 | 414 | 21.8% | 450 | 32.4% | 400 | 17.6% |
| MTBE | 1139 | 1100 | 1120 | 12.0% | 942 | -5.8% | 709 | -29.1% |
| Methanol | 353 | 334 | 344 | 27.4% | 376 | 39.3% | 319 | 18.1% |
| Ammonia | 540 | 542 | 541 | 11.4% | 643 | 32.4% | 571 | 17.6% |
| Brent Crude (USD/bbl) | 112 | 100 | 106 | 80 | 80 | 12% | 80 | 12% |

*Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates*

# What is our base-case scenario – is it conservative?

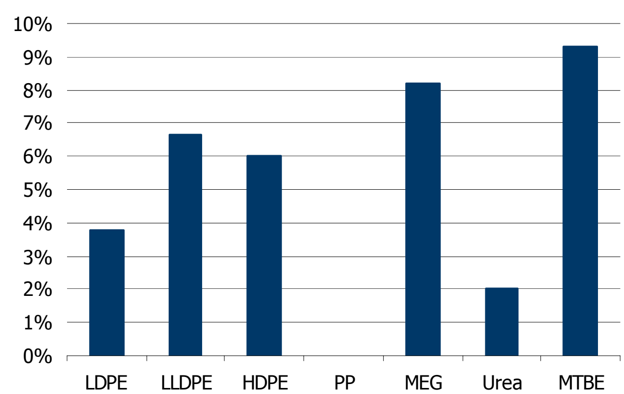
- We have assumed crude prices to remain at US$100/bbl in the short term, and at US$80/bbl in the medium-to-long term. We note that the Credit Suisse house estimates for Brent crude prices are $107.8/bbl for 2011E, going up to $110/bbl by 2014E and $90/bbl longer term. Our base case assumption is conservative.
- Our benchmark forward EV/EBITDA is 8x, and a premium/discount is assigned to stocks based on a number of factors (detailed in the individual company valuation sections).
- The margins are assumed to be in the third quartile in the short-to-medium term, and in the second quartile in the long term (all stocks excluding Safco). Figure 6 and Figure 7 illustrate that the total incidence of medium term (since 2003) third and fourth quartile margin (even for historically depressed margin categories is less than 27%. Thus our second quartile margin assumption appears conservative. The incidence of third- and fourth-quartile margins has been very low for polypropylene since 2003, accounting for only c8% of the overall period. Urea and LDPE have a very low incidence of fourth-quartile margins since 2003, at 2% and c4%, respectively.

**Figure 6: Incidence of sub second-quartile margins (since 2003)**




*Source: Credit Suisse research*

**Figure 7: Incidence of sub third-quartile margins (since 2003)**




*Source: Credit Suisse research*

# What about sector dynamics?

- **Long-term sector fundamentals look better now than in the past:** In 2008, we expected a 5% CAGR in supply in 2008-11 in a weak demand environment. As it turned out Chinese domestic investment growth forestalled any demand decline (accounting for 70.9% of global demand growth over 2008-10) and the industry absorbed the increased supply with robust margins for producers. While the demand outlook is perhaps better longer term than in 2008, we think the supply side looks bright with operating supply growth at a c2.6% CAGR over 2011-14E. Hence, there is scope for optimism for sector margins and performance.

- **Corporate balance sheets are in a better state than 2008:** The resilience and subsequent rebound in commodity chemical margins has enabled corporates to build healthy balance sheets. Consider LyondellBasell. The predecessor entity (pre emergence from Chapter 11) made on average, an operating profit of $26.4m per month in 2009. Between January 1 to April 30, 2010 the same entity made an operating profit of $172.5m per month (on average) and post emergence from Chapter 11, the company made an operating profit of $281.7m per month from May to December 2010. Broader chemical groups with exposure to commodity chemicals also did well. BASF’s 2010 adjusted EBITDA (Credit Suisse adjusted) was 4.7% higher than 2007, 24.3% higher than 2008 and 27.8% higher than 2009. In some extreme case like Honam Petrochemicals adjusted EBITDA (Credit Suisse adjusted) for 2010 was 157%, 667% and 21% higher than 2007, 2008 and 2009, respectively.

- **Demand from North America and Europe has been in decline for a long time and incremental bad news is hence less relevant for chemicals than for other sectors:** Between 2000 and 2010, North American ethylene demand decreased by 9.4% and European demand declined by 5.3%, while Chinese demand increased by 44.7%, Indian demand rose by 15% and Middle Eastern demand rose by 94.2%, on a cumulative basis on 2000 as the base year. From a 50.55% share of global demand, the North American and European share of global ethylene demand decreased to 37.1%. What these figures do mask is petrochemical raw material imports in Asia which were ultimately exported to North America and Europe in the form of finished products. It is very difficult to make an assumption of the reexport share of increase in Asian demand, yet the large increase in demand since 2008 is likely to be a function of domestic Asian demand as overall demand in North America and Europe was weak.

- **Focus on Asia, but it is a risk as much as a buffer:** Between 2008 and 2010, we estimate that Chinese ethylene demand (most widely used commodity chemical precursor) grew by a cumulative 39% on 2008 as the base year. To put things in perspective, Chinese demand growth was 70.9% of global demand growth in 2008-10, with India accounting for another 11.8% and the Middle East accounting for 6%. Together, the three accounted for 88.7% of total global ethylene demand growth. In effect, petrochemical demand growth has long been about Asia. However, the downside risk is that any sharp slowdown in Asia would have a leveraged effect on chemical sector margins and performance and impact **both earnings and multiples**.

# Commodity markets: Near-term demand uncertainty…

The major product categories and feedstock used in the Middle East are as detailed below:

**1) Ethylene Derivatives –** Ethylene is produced via either pure ethane feedstock or via an ethane-propane mixed-feed input.

**2) Propylene Derivatives –** Propylene is primarily produced through propane dehydrogenation (PDH) which uses propane feedstock. Propylene is also produced as a minor by-product of ethylene synthesis.

**3) Hydroxyl Derivatives (Primarily Methanol) –** Methanol production uses natural gas as feedstock.

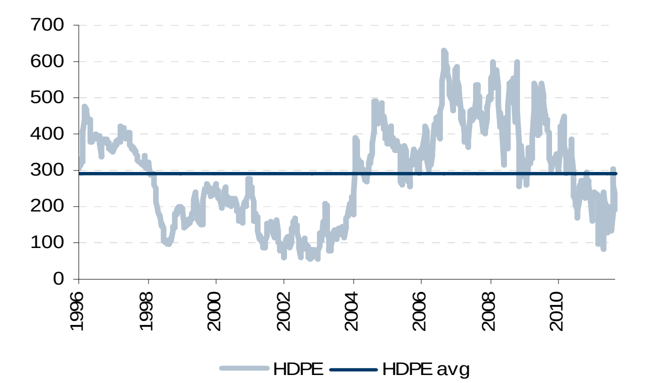
**4) Fertilisers (Primarily Ammonia and Urea) –** Ammonia production uses natural gas as feedstock. Urea production uses ammonia as raw material.

There are two major feedstock classes in the Middle Eastern petrochemicals industry accounting for 85% of volumes, viz. ethane and propane. In Saudi Arabia, ethane is priced at $0.75/mmbtu, while propane is priced at a c 31% discount to naphtha prices in Japan on a netback basis. In Qatar both ethane and methane are priced in a range of $1.5-2.2/mmbtu, on a project by project basis.

## Cycle-driven margins

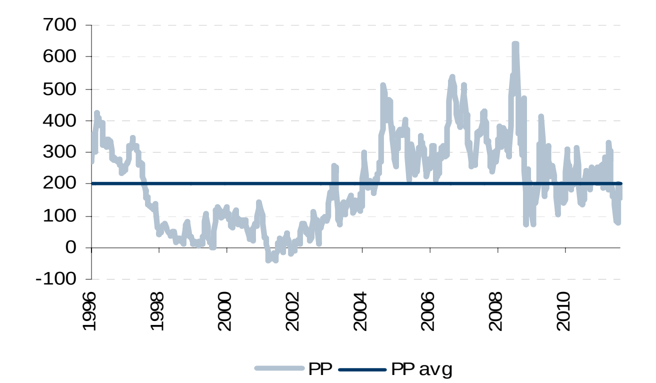
Sustainable margins for key products historically are illustrated in the following figures. As seen in Figure 8 and Figure 9, the margins are now close to long term averages, having experienced a sharp decline in the recent past and a high degree of volatility implying demand uncertainty.

Figure 8: **HDPE margin (US$/tonne)**




*Source: the BLOOMBERG PROFESSIONAL™ service*

Figure 9: **PP margin (US$/tonne)**

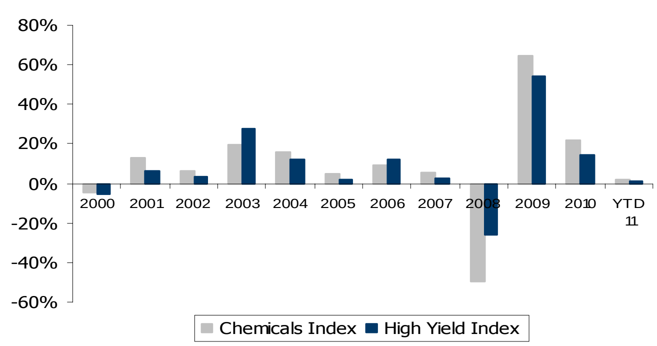



*Source: the BLOOMBERG PROFESSIONAL™ service*

# …but the credit market seems optimistic

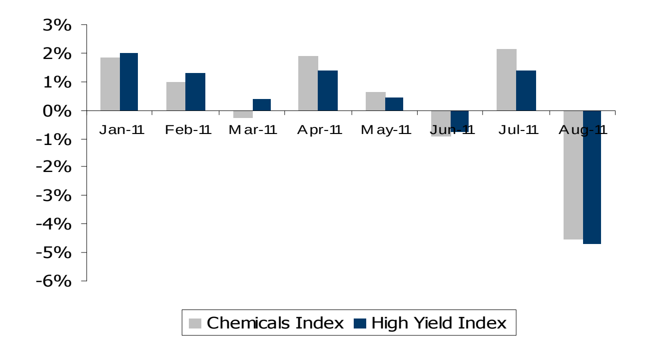
- **High Yield issues in the sector index are dominated by commodity chemicals:** The chemicals high yield index is dominated (>50%) by commodity chemicals and fertiliser producers (LyondellBasel, CF Industries, Huntsman, Nova Chemicals and Celanese).
- **The chemical sector index does not look to be pricing in demand destruction:** The sector high yield underperformed the broader market by 23.87% during 2008. Chemicals was the worst-performing industry credit (-46.2%) amongst all sectors between July and December 2008 (Figure 15). However, YTD the index has outperformed the broader market by 0.47% (Figure 10) and in the recent months of macroeconomic turbulence the market has continued to outperform by 0.75% in July and 0.17% in August 2011 (Figure 11).
- **The sector index also seems to be ignoring a weakening margin environment:** Margins for the marginal producers in major commodity chemicals saw a decline post 2Q (Figure 8 and Figure 9). However, the sector index continues to discount the volatile margin environment with expectations of better margins in Q3 from lower supply (planned plant shutdown schedule). This, however, would only provide a temporary respite if the demand environment were to weaken structurally in Asia.

Figure 10: **Historical total return**



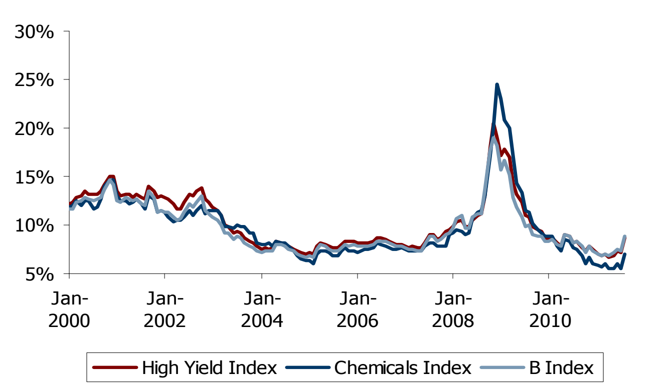

*Source: Credit Suisse High Yield Index, North America*

Figure 11: **2011-to-date – Total return**



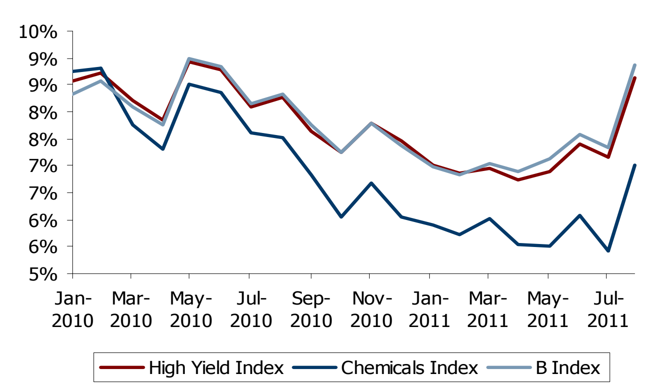

*Source: Credit Suisse High Yield Index, North America*

Figure 12: **Historical yield to worst**



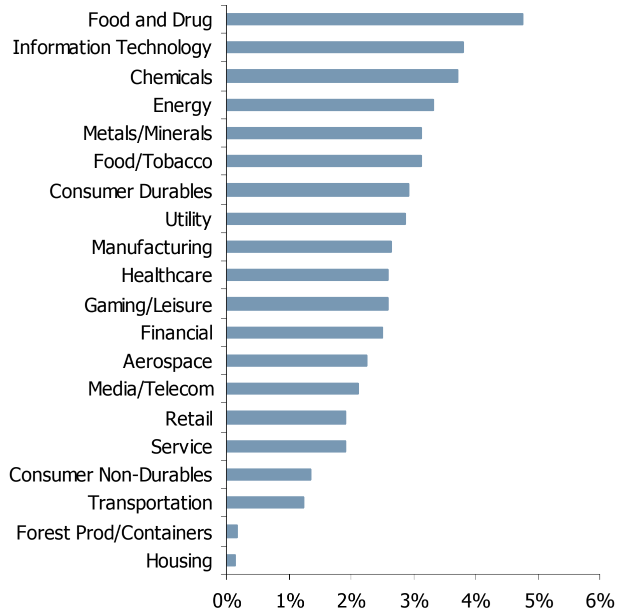

*Source: Credit Suisse High Yield Index, North America*

Figure 13: **Yield to worst**



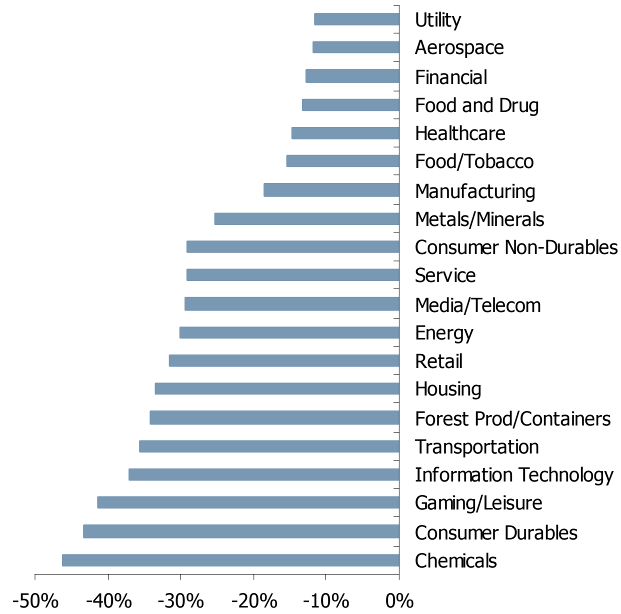

*Source: Credit Suisse High Yield Index, North America*

**Figure 14: April to July 2011 - Total Return by industry**




*Source: Credit Suisse High Yield Index, North America*

**Figure 15: July to Dec. 2008 - Total Return by industry**




*Source: Credit Suisse High Yield Index, North America*

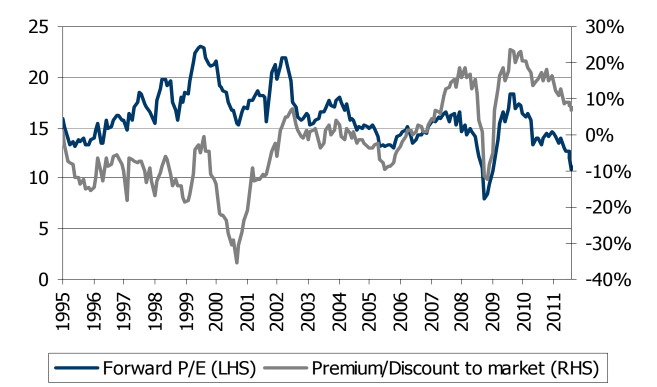
# Equity markets reflecting macro uncertainty but not the fallout risks

- **Sector relative performance is a better indicator of demand-supply dynamics:** While absolute valuation changes are largely a function of macroeconomic uncertainty/optimism in current environment, we believe relative sector performance is a better measure of what the market is pricing for chemicals' margin dynamics.

- **Sector relative underperformance in equity markets is c13-20% away from the bottom, although equity markets appear less optimistic than credit…** The MSCI World Chemicals index is 29.1% lower (1 Jan – 23 Aug 2011) in contrast with a 23.6% fall in the broader MSCI World Index. The index is trading at a c 7% premium to the market on forward P/E. At its lows in 2008 the discount was as wide as 12%. If we look at Asia where the most operationally leveraged players operate, the sector index is trading at a 12% discount to the market on forward P/E, while the discount was 26% at its lows in 2008.

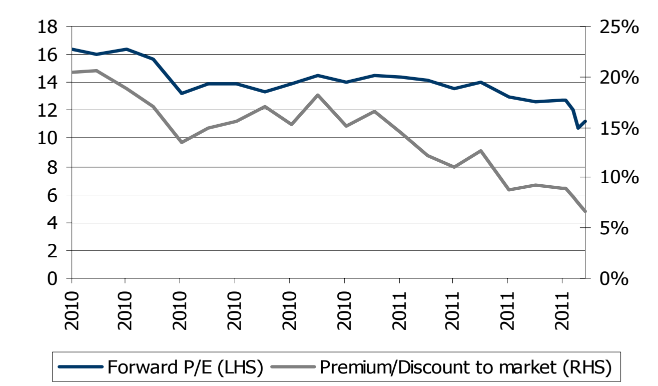
- **…yet equity markets are not completely discounting the risks of a slowdown in Asian demand or a demand shock:** Forward multiples are not high in a historical context for the MSCI Chemicals Index (both World and NJA as in Figure 16 and Figure 18), but if we factor in an estimated 30% downward earnings revision, the multiples would be above mid-cycle levels. While it is a significantly more downbeat view than on the credit market, it is not at a panic level yet, in our opinion, and there is a potential scope for further underperformance both in absolute and in relative terms.

Figure 16: **MSCI World Chemicals: 12-month forward P/E (x)**



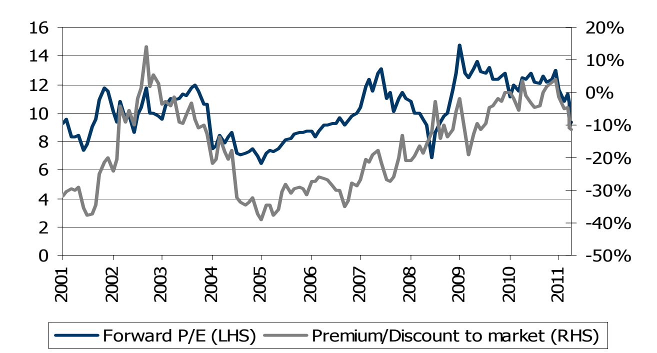

*Source: Thomson Reuters, Credit Suisse Global Strategy team*

Figure 17: **MSCI World Chemicals: 12-month forward P/E (x)**



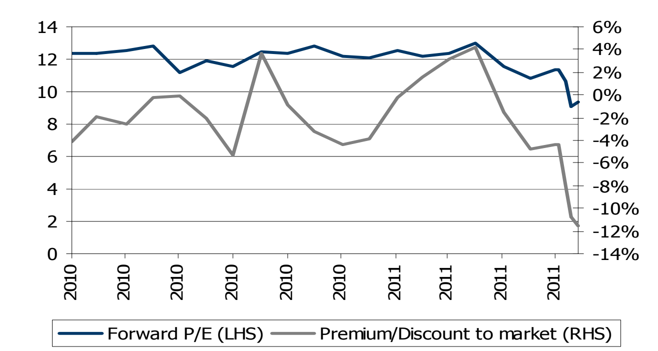

*Source: Thomson Reuters, Credit Suisse Global Strategy team*

Figure 18: **MSCI NJA Chemicals – 12-month forward P/E (x)**




*Source: Thomson Reuters, Credit Suisse Global Strategy team*

Figure 19: **MSCI NJA Chemicals – 12-month forward P/E (x)**




*Source: Thomson Reuters, Credit Suisse Global Strategy team*

# Reflecting on the risks – top down

We believe that there are three key risks at play in the commodity chemicals space which are correlated to some degree but must be considered independently.

## a) Valuation risk: In the price

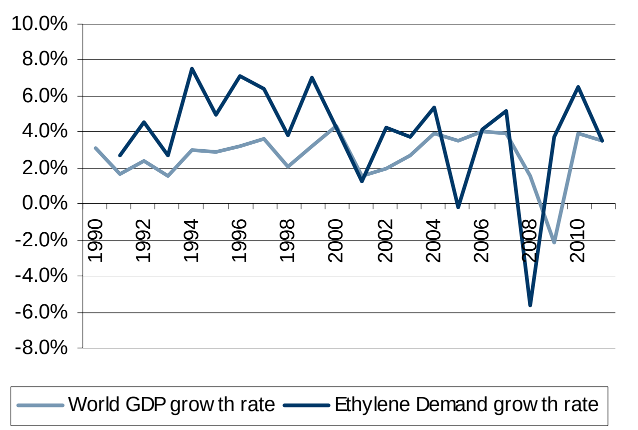
Uncertainty can adversely affect valuation multiples even in a period of short-term earnings stability. We believe that with the fall in equity prices, the multiples compression risk is in the price.

## b) Risk from global GDP growth: Significant Asian GDP growth slowdown is not in the price

One of the most important factors affecting petrochemicals demand growth is global GDP growth. This makes intuitive sense owing to the use of petrochemicals in consumer-facing applications such as packaging, plastics, fuel additives, etc.

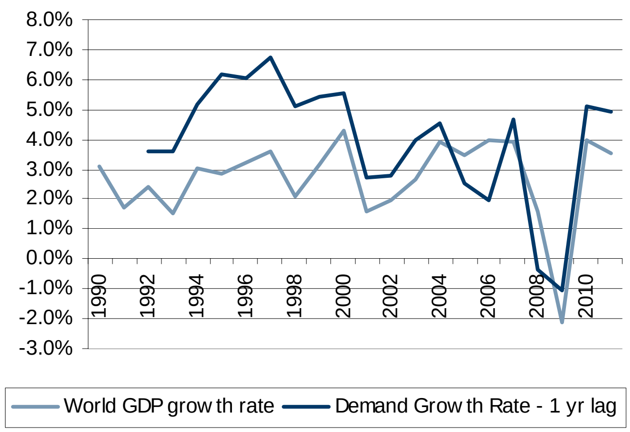
For our analysis, we have looked at ethylene as a proxy for the petrochemicals industry. In the past, ethylene demand growth has been highly correlated with the GDP growth rate (Figure 20). The correlation between GDP growth and ethylene demand growth with a 1-year lag is even more significant (Figure 21). While the percentage growth in ethylene demand may be higher or lower than the GDP growth in any particular year, the general direction of ethylene demand growth is usually in line with GDP growth.

Figure 20: **GDP growth vs ethylene demand growth**




*Source: CMAI, IMF World Economic Outlook Database, Credit Suisse estimates*

Figure 21: **GDP growth vs ethylene demand growth (1-year lag)**




*Source: CMAI, IMF World Economic Outlook Database, Credit Suisse estimates*

## c) Crude prices: Only somewhat relevant for marginal producers… but very relevant for MENA players

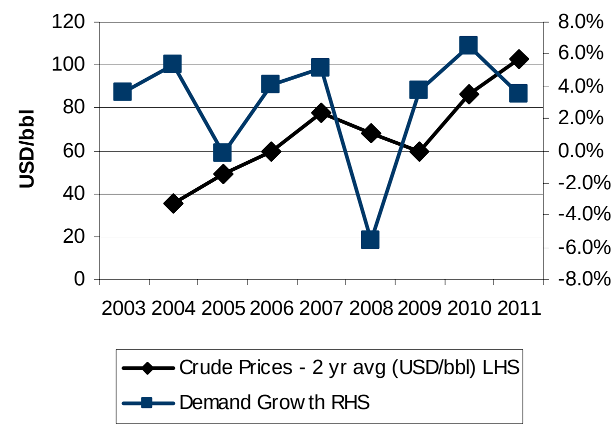
**1. The prices of petrochemical products are directly impacted by crude price levels:** The crude price is another important factor impacting demand growth for major petrochemical products. We have considered the trend in the demand growth for ethylene versus the price movements in Brent crude prices.

The higher the price of crude, the higher will be the price of petrochemical products all else being equal. This is because the marginal producer (whose cost plus margin determines prices) operates on naphtha as feedstock. Naphtha, due to its source (refining byproduct) trades at a slight premium to crude and hence changes in naphtha prices are highly correlated (>99%) to changes in crude prices.

**2. Higher prices can impact demand, in theory:** As we can see in Figure 22, an increase in crude prices could potentially cause a decline in petrochemicals demand, owing to the higher pricing of the petrochemical products.

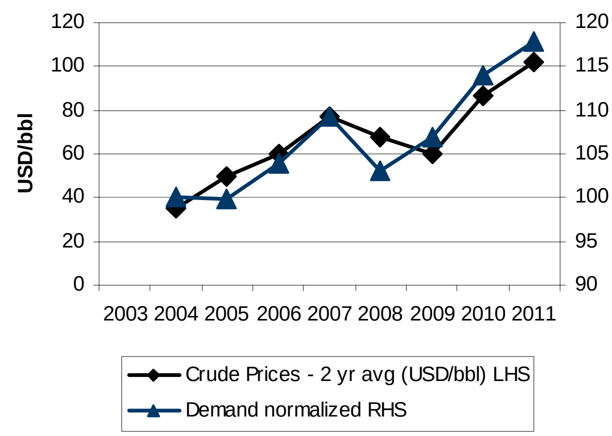
**3. However, after 2008, the sustained high crude prices have not caused a significant drop in demand:** Figure 23 suggests that the markets have accepted an elevated crude price scenario, defining possibly new higher normal input prices for petrochemicals in the face of robust demand.

Figure 22: **Ethylene: Demand growth**




*Source: CMAI, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates*

Figure 23: **Ethylene: Demand normalised**




*Source: CMAI, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates*

**4. Marginal producers' margins are not directly related to crude prices:** The marginal producers' margins are a function of demand supply dynamics and bear little direct correlation to crude prices. With marginal producers passing on input prices and costs to end consumers, changes in crude prices (outside of demand related effects) do not tend to impact margins of marginal producers.

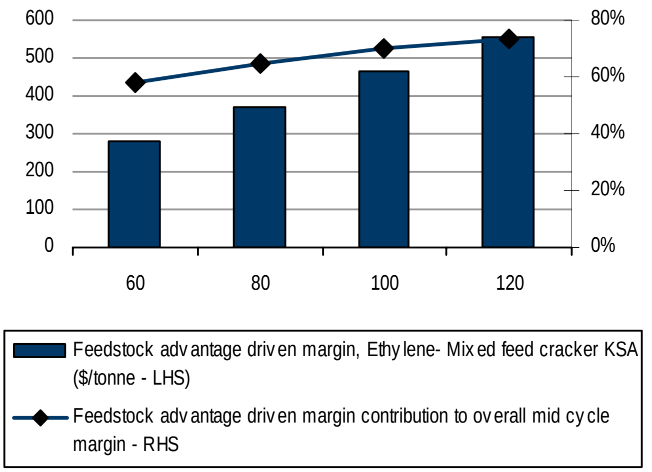
**5. MENA producers' margins however are significantly impacted by changes in crude prices:** The two major commodity chemical product classes in MENA are ethylene and propylene which together account for 85% of the volumes. We illustrate generic cases of margin source decomposition and dependence on crude prices in Figure 24 and Figure 25 below:

a) For our illustration of a generic example in Figure 24, we have considered a mixed-feed cracker's costs for LDPE production. A typical mixed-feed cracker uses ethane and propane in a 32:68 volume ratio. As illustrated the feedstock advantage driven margin rises with rising crude prices and its overall contribution to margin also increases, all else being equal.

b) Figure 25 illustrates the feedstock advantage driven margin and its contribution to total propylene margin under different crude price scenarios. The feedstock advantage driven margin rises with rising crude prices and its overall contribution to margin also increases, all else being equal.

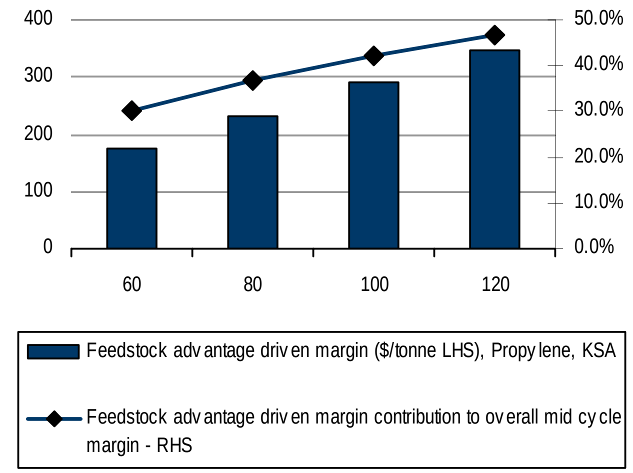
## Ethylene

**Figure 24: Ethylene: Feedstock advantage driven margin**




*Source: Credit Suisse estimates*

**Figure 25: Propylene: Feedstock advantage driven margin**




*Source: Credit Suisse estimates*

# Reflecting on the risks – bottom up

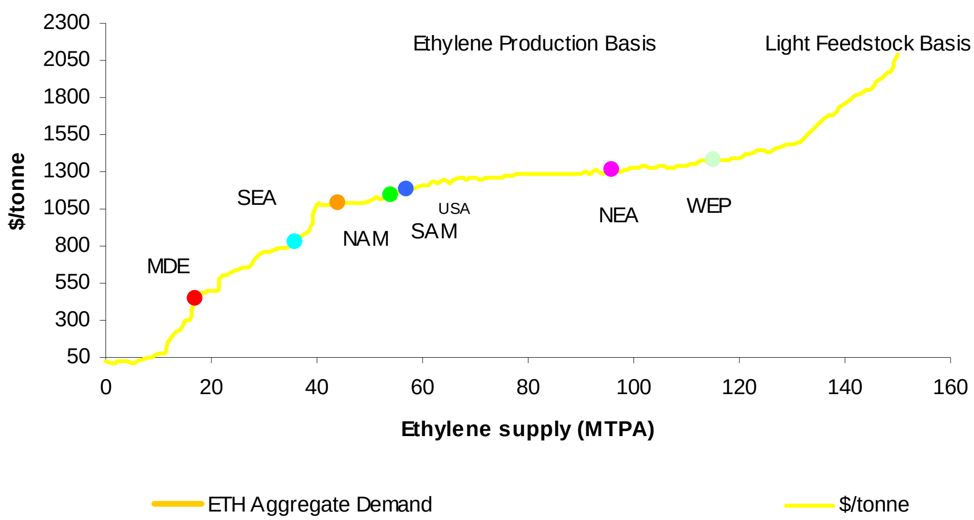
## Operating rate sustainability

A typical ethylene cracker using a naphtha-based feed is not profitable even at an operating rate of 72% (not including byproduct credits). Thus, in a weak demand/excess supply environment marginal producers of commodity petrochemicals suffer from both a higher operating leverage in the cost structure and a reduced operating rate, which, together, can lead to earnings volatility in excess of 50% from a peak-to-trough margin environment.

Middle Eastern producers, with cost-advantaged feedstock and a consequently high cash cost competiveness, potentially appear to be best placed to weather a sharp demand decline in the commodity petrochemicals markets globally. The underlying assumption in this hypothesis is that crude prices stay relatively robust compared to petrochemical commodities at large.

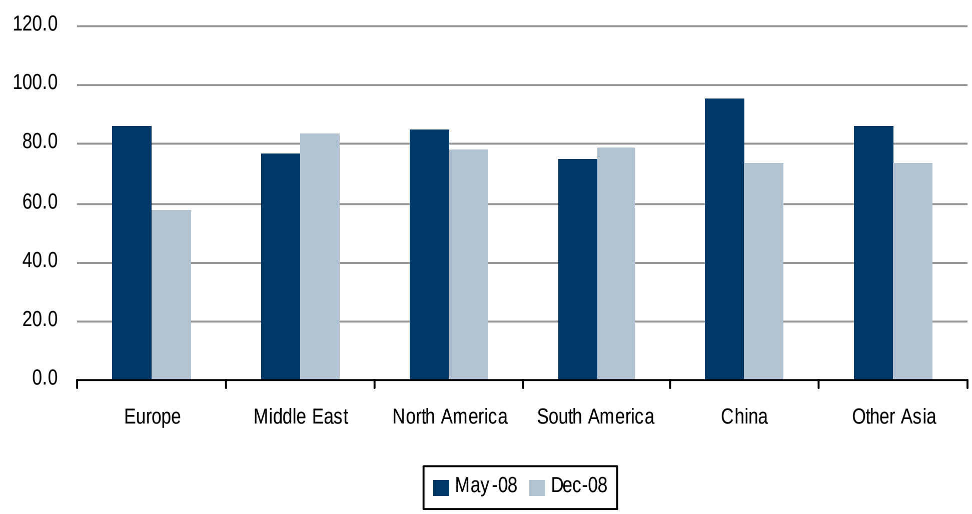
Figure 26 depicts the global cash cost curve for ethylene. Figure 27 shows our estimated global ethylene operating rates in May and December 2008, comparing the pre-crisis situation with what was arguably the trough of the crisis. We have used ethylene to demonstrate the effect the most acute demand/supply gap has on operating rates. The Middle Eastern operating rates were among the highest globally (Figure 27), reflecting their feedcost advantage.

**Figure 26: Ethylene margins across regions ($120/bbl crude), operating rates of 92%**




*Source: CMAI*

Figure 27: **Ethylene: Cracker operating rates (%)**




*Source: Credit Suisse estimates*

# Availability of credit

Figure 28: **MENA Petrochemicals: Debt position (as of 6 September 2011)**

| | Rating | Government Ownership (%) | Net Debt to Market Cap (2011E) | Net Debt to EBITDA (2011E) |
|---|---|---|---|---|
| APC | Outperform | 5.3% | 0.27 | 1.64 |
| Petrorabigh | Neutral | 37.5% | 1.43 | 8.89 |
| Sahara | Neutral | 0.0% | 0.31 | 4.40 |
| Yansab | Neutral | 35.7% | 0.39 | 2.28 |
| Kayan | Neutral | 24.5% | 0.92 | 14.14 |
| Sabic | Neutral | 70.0% | 0.13 | 0.56 |
| NIC | Outperform | 8.2% | 0.51 | 1.59 |
| Sipchem | Neutral | 0.0% | 0.32 | 1.60 |
| IQ | Outperform | 70.0% | 0.22 | 1.57 |
| Safco | Neutral | 30.0% | -0.08 | -0.82 |

*Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service*

The availability of working capital and investment credit during a crisis is crucial, since allowing customers' credit extensions is vital to achieve high operating rates and utilization.

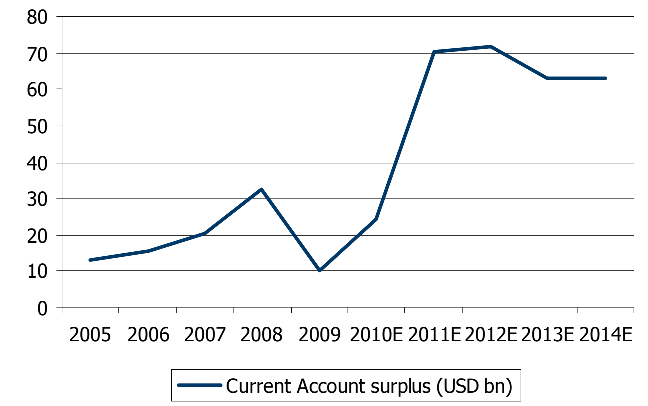
The balance sheets of most Middle Eastern producers show a healthy debt position. The (2011E) net debt to market cap ratios for the three biggest producers, Sabic (13%), Safco (-8%), and Industries Qatar (22%), are quite low. Similarly, the net debt to EBITDA ratios for most producers are very manageable.

In addition and most importantly, the governments of Saudi Arabia and Qatar hold significant direct and indirect stakes in the petrochemical industry. With their strong reserves and current account surpluses (Figure 29 and Figure 30), besides the companies' own balance sheet strength, credit availability and working capital for Middle Eastern companies is not a concern, in our view.

Figure 29: **Saudi Arabia: Current Account Surplus**


*Source: IMF estimates*

Figure 30: **Qatar: Current Account Surplus**

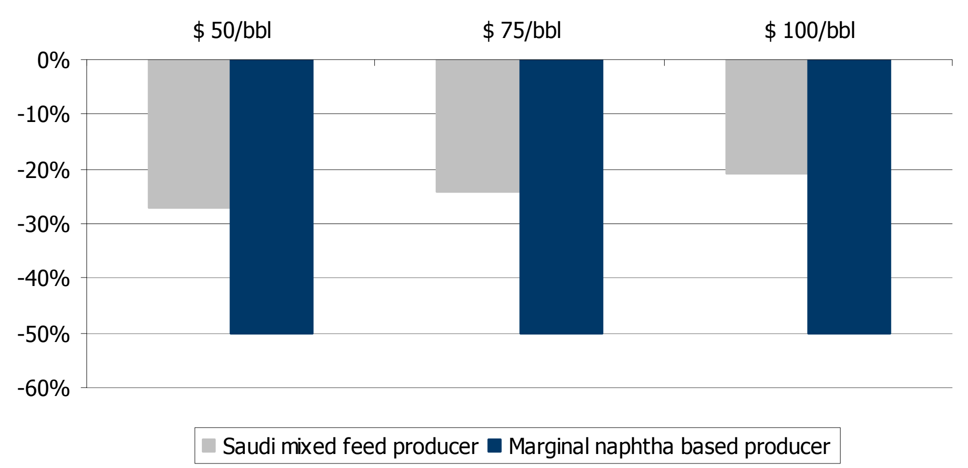



*Source: IMF estimates*

## Margins' defensiveness to demand cyclicality

The low operating leverage of Middle Eastern producers provides them with margin protection when the demand/supply situation goes from tight supply to excess supply. As illustrated in Figure 31 for ethylene (the most prevalent precursor for MENA petrochemical volumes) the extent of margin decline for MENA producers tends to be lower than for marginal producers on naphtha based crackers from peak to trough of the demand cycle. Furthermore the extent of decline typically reduces as crude prices rise. This is because the feedstock advantage driven portion of the margin increases with a rise in crude prices (Figure 24).

Figure 31: **Ethylene: Estimated margin decline from peak to trough demand supply cycle* (%)**



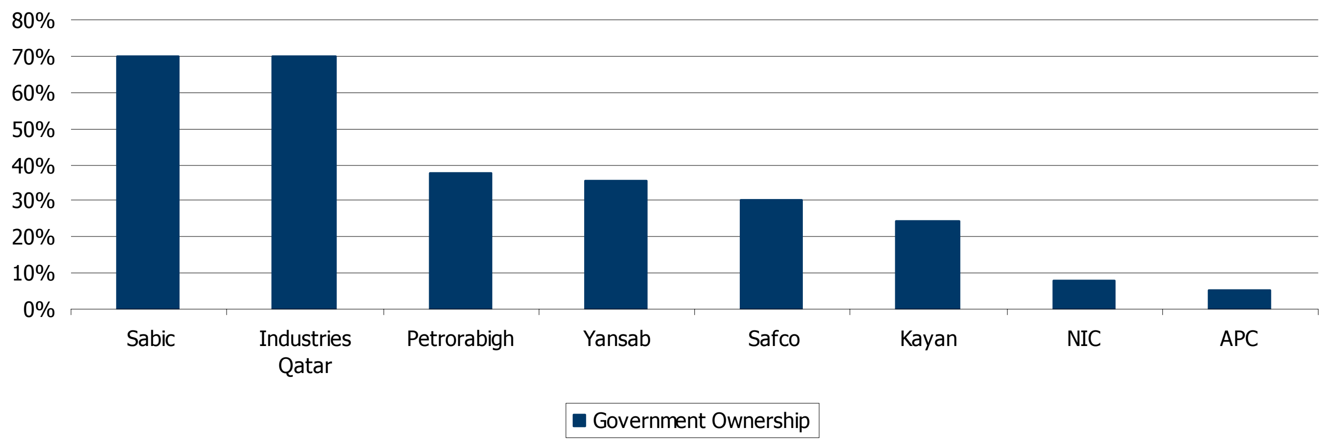

*Source: Credit Suisse estimates *While the margin illustrations are simplistic and generalise the variability somewhat, the broad implications are accurate, in our view.*

# Is the Middle East advantage sustainable?

We believe the feedstock cost advantage the Middle Eastern petrochemicals manufacturers have over their international peers is sustainable because:

- **The feedstock advantage is not a giveaway as the governments control large stakes in these companies –** The product pricing is determined by marginal producers running on naphtha and hence the feedcost advantage is not a giveaway but ends up as higher profitability for Middle Eastern petrochemical players. Governments own majority stakes in the major petrochemicals companies in Saudi Arabia and Qatar as illustrated in Figure 32 hence the enhanced margins are in effect owned by the government. The cost-competitive position is vital because high operating rates are crucial to offsetting fixed costs. A more operationally leveraged structure on account of higher costs would potentially lead to lower operating rates during downcycles and thus reduce long-term asset returns. Thus it is generally in a government's own interest to maintain the advantageous feedstock pricing regime.

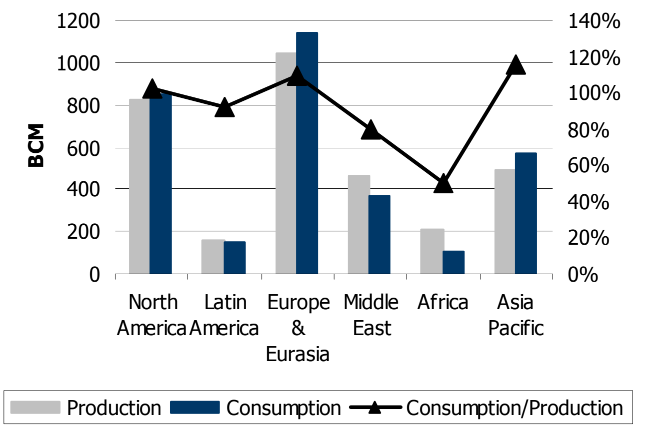
**Figure 32: Petrochemicals – government ownership**




*Source: Tadawul, Qatar Exchange*

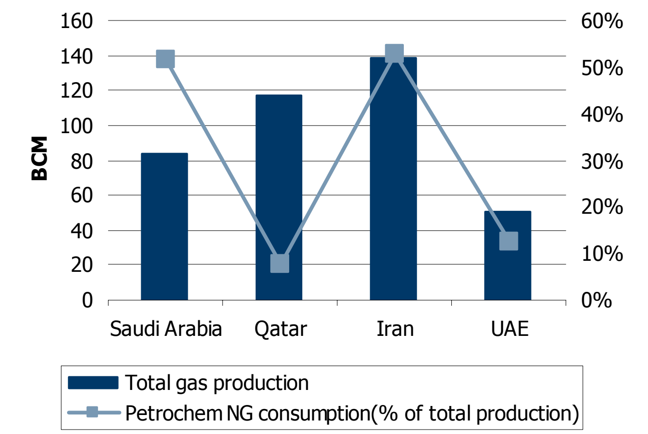
- **Gas consumption by the petrochemical industry ranges from significant in Saudi Arabia to minor in Qatar, yet this is the most economical, highest ROIC (c 17%) use of gas –** Consumption of natural gas by the petrochemicals industry in Saudi Arabia and Iran is c 50% of production, while in Qatar and the UAE it is c8% and 12%, respectively. We think the current levels of consumption by the petrochemicals industry in the Middle East are quite conservative in Qatar and do not warrant intervention. In Saudi Arabia the petrochemical industry is the best conduit for the government to obtain crude price equivalent pricing for its associated gas, which if sold in natural form would fetch large discounts. As an illustration, Saudi associated gas when sold in petrochemical format in the US can sell for $900/tonne (net of processing costs) against $185/tonne for associated gas. This discounts shipping costs of c $40/tonne or less for petrochemical product against large captive and capital intensive LNG infrastructure investments (amounting to billions of dollars) for gas transportation.

**Figure 33: Natural Gas – Production and consumption (bcm)**




*Source: BP Statistical Review of World Energy*

**Figure 34: NG consumption for petrochemicals**



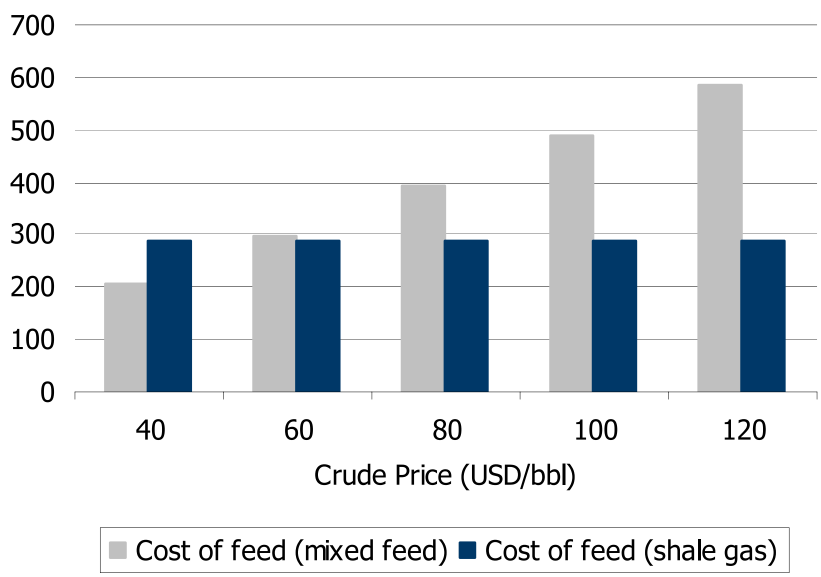

*Source: BP Statistical Review of World Energy, Credit Suisse estimates*

- **Saudi Arabia's negotiated accession to the WTO allowed for the feedstock pricing arrangements, making their abolishment highly unpalatable politically in the near term, in our view –** Saudi accession to the WTO involved protracted negotiations on feedstock pricing owing to European countries' concerns. The WTO negotiations have been greatly beneficial to the Saudi petrochemicals industry, giving the companies access to the EU, US and Japanese markets while allowing them to continue with low-priced feedstock. Further, the Saudi government has offered a similar level of ethane pricing subject to volume quotas to Saudi-based foreign installations. We think it is highly unlikely that a favourable negotiated settlement gained after difficult negotiations would be neutralised by raising feedstock pricing, without any apparent incremental benefits.
- **Ethane price inflation is relatively insignificant versus overall costs, while the propane discount is sustainable in the long run, in our view –** The contribution of ethane to total production cash cost for ethane crackers is less than 3% in Saudi Arabia and Qatar. Even if the costs were magnified fourfold, the increased costs would inflate the cash cost by 8%, on our calculations. Propane pricing is currently at a c 31% discount to Japanese naphtha on a netback basis in Saudi Arabia, which in 2005 reflected the discount needed for the alternative cost of setting up an NGL transportation infrastructure. Those arguments are largely still valid today and the export competitiveness of Middle Eastern propylene is dependent on the cost advantage. For higher asset utilisation and better returns on invested capital through the cycle, we think maintaining the propane pricing regime is even more critical for the Saudi government than maintaining the ethane pricing regime.
- **Also for the reasons above, volume consumption cannot be constrained by raising prices, in our view:** With the current accounts of Saudi Arabia and Qatar in a very healthy state (notwithstanding the foreign reserves) as depicted in Figure 24 and Figure 25, the rationale for raising ethane gas prices is primarily to balance gas supply with gas demand. The problem is acute in Saudi Arabia as the energy-intensive industries are highly inefficient as a legacy of low costs (e.g. 50-year-old cement plants). Petrochemical plant profitability would likely not be impacted significantly (> EBITDA impact of 6%) by even a fourfold increase in gas prices, while it could be very damaging for other industries. Even a selective cost escalation on petrochemical the industry does not solve the systemic volume constraint problem, in our view, as the profitability of petrochemical companies is only marginally impacted by ethane cost escalation. Hence, we expect the impact of ethane price increases to be immaterial.

# Shale gas is not a near-term threat

**1) A large part of the gas demand mix:** The discovery of large deposits of shale gas in North America has provided a source of cheap energy to producers outside the Middle East. According to BP estimates, as of 2010 North America had achieved self reliance for its gas requirements. Total North America gas production grew by 3% in 2010 to reach record levels of 826.1bcm. Improvements in horizontal drilling technologies have led to shale gas accounting for nearly 23% of US production, up from 4% in 2005 (BP estimates). The improvements in shale gas extraction have reduced the competitive advantage that Middle Eastern producers held owing to feedstock pricing.

Figure 35: **Ethylene: Cost of feed (US$/tonne)**




*Source: Credit Suisse research*

**2) A competitive threat to Saudi mixed feed crackers:** We have compared the cost of feed for a typical Middle Eastern mixed-feed cracker against the cost of feed for a producer using shale gas. Assuming shale gas at US$6/mmbtu, we calculate that a mixed-feed cracker is only competitive at a crude price lower than US$60/bbl.

**3) The question remains as to whether there is enough new gas for more than 1 large scale cracker:** The more important question remains as to whether there is enough gas to supply all the announced developments. (For more details, please refer to “Commodity Chemicals: Ethane availability in the face of ethylene expansions” published on 26 May 2011.) Our assessment suggests that there is only enough ethane feedstock gas by 2014E to supply one new large scale (c 1mtpa cracker) which would represent less than 3% of MENA ethylene volumes.

# Credit Suisse: Chemicals coverage

Figure 36: **Credit Suisse Global Coverage: Stocks with commodity chemicals exposure**

| | Rating | Market Cap (M USD) | Local currency | Target Price (LC) | Current price (LC) | P/E | | EV/EBITDA | |
|---|---|---|---|---|---|---|---|---|---|
| **Middle East** | | | | | | **2011E** | **2012E** | **2011E** | **2012E** |
| Saudi Basic Industries Corp | N | 74,200 | SAR | 93 | 92.75 | 9.6 | 9.9 | 8.6 | 8.3 |
| Industries Qatar | OP | 18,510 | QAR | 161 | 122.5 | 7.6 | 7.8 | 8.8 | 8.6 |
| Saudi International Petrochemical Company | N | 1,760 | SAR | 21 | 18 | 11.1 | 10.9 | 6.5 | 5.6 |
| Yanbu National Petrochemical Company | N | 6,735 | SAR | 47 | 44.9 | 8.1 | 10.3 | 8.1 | 8.7 |
| Advanced Petrochemical Company | OP | 1,093 | SAR | 36 | 29 | 9.5 | 8.9 | 7.7 | 6.6 |
| Saudi Kayan Petrochemical Company | N | 6,820 | SAR | 18 | 17.05 | 344.0 | 11.8 | 29.5 | 13.0 |
| Rabigh Refining and Petrochemical Company | N | 5,092 | SAR | 24 | 21.8 | 21.5 | 8.6 | 15.1 | 9.8 |
| Saudi Arabian Fertilizer Company | N | 11,433 | SAR | 186 | 171.5 | 10.4 | 9.6 | 9.9 | 8.6 |
| National Industrialization Company | OP | 5,530 | SAR | 55 | 37.2 | 7.4 | 8.4 | 4.7 | 4.7 |
| Sahara Petrochemical Company | N | 1,556 | SAR | 21 | 19.95 | 9.1 | 9.6 | 18.4 | 12.4 |
| ***Adjusted Average*** | | | | | | **10.5** | **9.6** | **9.3** | **8.3** |
| | | | | | | | | | |
| **Emerging Markets/Asia** | | | | | | | | | |
| Sumitomo Chemical | N | 6,532 | JPY | 420 | 306 | 21.0 | 16.6 | 5.8 | 6.5 |
| Mitsubishi Gas Chemical | OP | 3,099 | JPY | 750 | 497 | 12.1 | 7.4 | 6.2 | 5.9 |
| Mitsui Chemicals | N | 3,347 | JPY | 320 | 254 | 10.6 | 9.0 | 6.1 | 5.5 |
| Mitsubishi Chemical Holdings | OP | 10,003 | JPY | 900 | 515 | 9.3 | 8.3 | 4.7 | 4.7 |
| Petronas Chemicals Group BHD | N | 16,896 | MYR | 6.8 | 6.3 | 14.3 | 13.8 | 7.8 | 7.5 |
| China Petroleum & Chemical Corporation - H | OP | 93,558 | CNY | 7.4 | 7.56 | 7.2 | 7.1 | 4.7 | 4.5 |
| PTT Chemical PLC | N | 6,766 | THB | 158 | 133.5 | 8.9 | 8.8 | 6.6 | 6.5 |
| Braskem | OP | 8,333 | BRL | 28 | 18.5 | 10.7 | 8.2 | 5.1 | 4.6 |
| Nan Ya Plastics | OP | 18,094 | TWD | 84.8 | 67.1 | 12.2 | 10.2 | 15.4 | 16.0 |
| Formosa Petrochemical | UP | 26,138 | TWD | 76.85 | 79.9 | 21.2 | 20.3 | 13.2 | 12.0 |
| Formosa Plastics | N | 17,867 | TWD | 100.2 | 85 | 11.0 | 11.8 | 14.4 | 16.2 |
| Mexichem | OP | 6,707 | MXN | 58 | 46.64 | 18.9 | 15.9 | 9.7 | 8.3 |
| Honam Petrochemical | OP | 10,444 | KRW | 520000 | 353500 | 9.5 | 8.8 | 5.9 | 6.0 |
| Hanwha Chemical | UP | 4,273 | KRW | 33000 | 32850 | 8.7 | 8.1 | 6.5 | 6.3 |
| ***Average*** | | | | | | **12.5** | **11.0** | **8.0** | **7.9** |
| | | | | | | | | | |
| **Developed Markets** | | | | | | | | | |
| Dow Chemical Company | OP | 30,877 | USD | 49 | 26.14 | 9.1 | 7.1 | 5.4 | 4.8 |
| Celanese Corporation | OP | 6,515 | USD | 67 | 41.67 | 9.4 | 8.3 | 6.5 | 6.1 |
| BASF | OP | 57,558 | EUR | 76 | 44.4 | 7.3 | 6.5 | 4.8 | 4.4 |
| ***Average*** | | | | | | **8.6** | **7.3** | **5.6** | **5.1** |

*Source: Company data, Credit Suisse estimates, OP= Outperform; N=Neutral; UP=Underperform; for volatility ratings, please see the companies mentioned at the end of the report*

# Stress tests: What are the distress valuation levels?

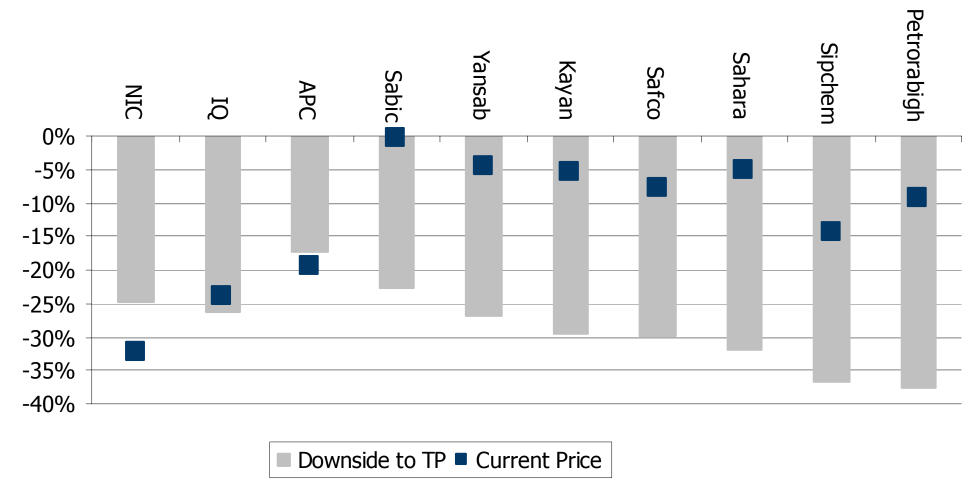
We have performed a stress test on our model to assess the impact on margins and valuations under a bear case, where we assume that the margins will be in the third quartile in the long run. We have looked at the impact on our TP and margins under our base case scenario of crude prices at a severely downbeat US$60/bbl, which we use as our stress-test or 'distress scenario'.

**Why is $60/bbl Brent crude and third quartile margins a distress scenario?**

1) Since 2003 the highest incidence of sub third quartile margins has been 8%. Hence we believe that third quartile margin scenario is unsustainable in the medium term.

2.) The exploration and extraction costs of the marginal barrel of crude are at $60/bbl (Brent), and crude prices below this level would imply a severe long-term supply shock and thus also represent the floor price of crude for our house forecasts.

Figure 37: **Downside to base case – third quartile margins, crude at US$60/bbl**




*We have assumed that urea would move to the second quartile, as we assume it to be in the first quartile in our base case*

*Source: Credit Suisse estimates*

On our analysis, Petrorabigh, Sipchem and Sahara emerge as the most sensitive to a drop in the margin quartile. With a one-quartile drop in margins and a $60/bbl crude price, the three stocks' TPs would decline by more than 20% (each) from our base case.

In addition the market already appears to be pricing in distress scenario already for NIC, IQ and APC as current prices are close to lower than the stress case, on our estimates.

# Sector investment strategy and stock picks

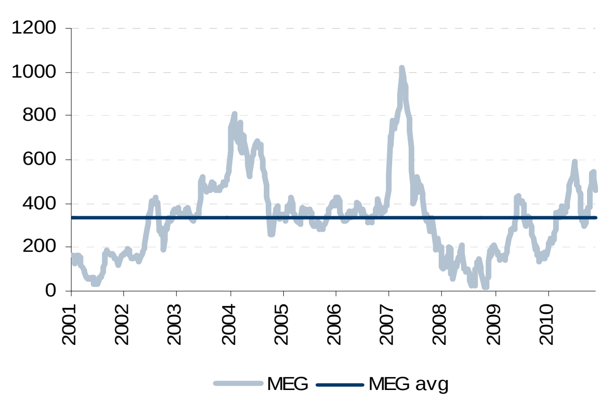
We believe that investors should consider the fat tail risk of a significant slowdown in Asian GDP growth and invest in stocks with:

**1. Cash flow discipline:** With lower sector valuations a distinct possibility, M&A and/or value-destructive capital decisions need to be discounted for, in our view. This could be achieved either in the form of an onerous (but not debilitating) debt burden and/or corporate commitment to dividends and cash flow return to shareholders. Industries Qatar and NIC, with manageable debt burdens (2011E Net debt/EBITDA of 1.6 each, respectively) and stable dividend payment records (average payout ratios in excess of 50%) and strong dividend commitments are hence our preferred plays from this viewpoint. We would exclude Petrorabigh and Kayan due to their high debt burdens (2011E net debt to market cap at 135% for Petrorabigh and 95% for Kayan). Another stock which screens exceptionally well on the above criterion is Safco, with a dividend commitment driven by upstreaming of cash for Sabic (parent shareholder of Safco) and payout ratios close to 100% over the last 2 years.

**2. Strong state support:** We prefer companies with a high degree of sovereign or quasi sovereign backing (Figure 32) as it allows for significantly lower financing costs. We view IQ as a preferred play on this count (with 70% government ownership), and Safco, Sabic, Yansab as relatively low-risk stocks in a scenario where credit availability is constrained.

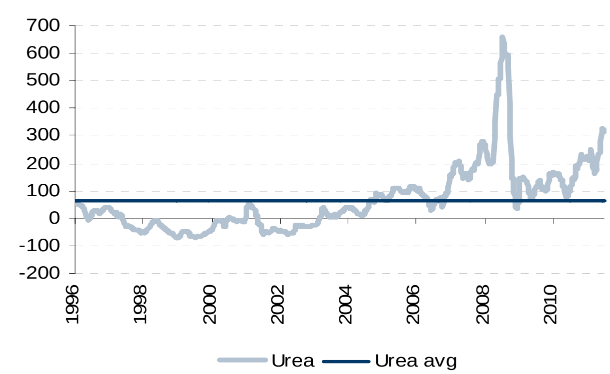
**3. The 'right' product exposure:** There are bright spots in some subsectors wherein underlying demand supply dynamics are very healthy, underpinned by strong category growth and positive substitution of other materials (MEG), or where underlying secondary product (corn) demand-supply dynamics lead to better upstream margins (fertilisers). Some other products (methanol) are benefiting from a structural shift towards relatively lower-cost raw materials for downstream petrochemical product manufacturing and fuel substitution effects. We would recommend IQ for the right product exposure, since 50% of IQ's 2012E EBITDA is derived from Urea, Ammonia, MTBE and Methanol. We also recommend NIC for an EBITDA exposure in excess of 40% to TiO2 (for details please refer to *2060.SE: Playing the TiO2 industry transformation,* published 17 May 2011) and APC (a globally unique polypropylene pure play, benefiting from substitution effects). Safco with a urea pure play exposure and Sipchem with methanol pure play exposure score well from product exposure standpoint, but the plant operating track record for both Safco and Sipchem has not been stellar, in our view.

**Figure 38: MEG margin (US$/tonne)**



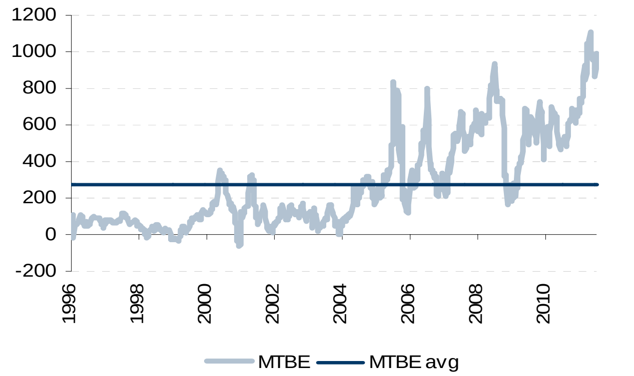

*Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates*

**Figure 39: Urea margin (US$/tonne)**



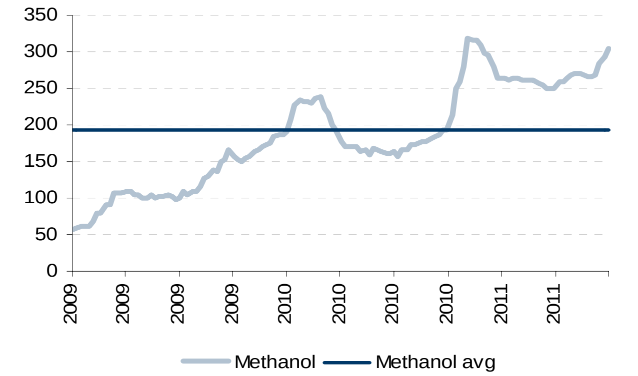

*Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates*

Figure 40: **MTBE margin (USD/tonne)**




*Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates*

Figure 41: **Methanol margin (USD/tonne)**




*Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates*

**4. Cash cost competitiveness:** As detailed on page 17 the ability to run plants at high operating rates even in a weak demand environment is critical for the petrochemical plants to be profitable. In addition, an ability to fund increased working capital requirements, cover cash costs and fund the maintenance expenditure cycle is highly critical. Industries Qatar's petrochemical cost base is among the most competitive globally and next in line is NIC's petrochemical cost base, in our view. In its product group, polypropylene, APC is among the most competitive producer on cash costs (globally), on our calculations. Sipchem and Safco score well in their product groups viz. methanol and urea, respectively.

## Preferred plays

Based on the above criteria and current valuations, our preferred picks are National Industrialization Company (NIC, Outperform, TP SAR 55), Industries Qatar (IQ, Outperform, TP QAR 161) and Advanced Petrochemical Company (APC, Outperform, TP SAR 36).

# National Industrialization Company (2060.SE)

| | |
|---|---|
| Rating | **OUTPERFORM*** |
| Price (06 Sep 11, SRls) | 37.20 |
| Target price (SRls) | (from 55.10) 55.00[1] |
| Market cap. (SRls m) | 20,736.36 |
| Enterprise value (SRls m) | 31,335.6 |

*Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

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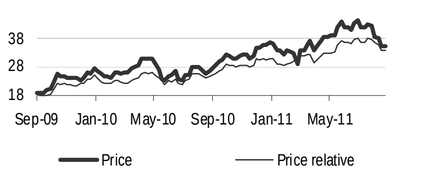
COMPANY UPDATE

## Our top pick in MENA industrials

- **Event:** We maintain our Outperform rating and change our 12-month TP for NIC to SAR55 (from SAR 55.1). We increase our 2011E, 2012E and 2013E net income forecasts by 4.9%, 6.2% and 15.5% respectively, based on updated TiO2 prices.
- **Investment Case: (i) A globally differentiated exposure to upstream TiO2 (titanium dioxide); an industry undergoing value chain transformation:** The upstream (miners) and midstream (processors) segments look set to capture a larger proportion of margins in the value chain than previously. In our view, NIC looks well placed as the second-largest processor of TiO2 pigments (globally) through its subsidiary Cristal Global and mining asset Bemax. We have previously highlighted reasons that we believe the price increase in the TiO2 segment will remain resilient in the short to medium term (*2060.SE: Playing the TiO2 industry transformation,* published 17 May 2011*)* and we view the exposure very favourably. **(ii) Significant exposure to polypropylene, which is our preferred product group:** We estimate c.47% of 2012E petrochemicals (ex TiO2) EBITDA to be derived from polypropylene. Due to differences in the raw material pricing mechanism, polypropylene is more defensive to a fall in crude prices than ethylene derivatives. Also, the demand supply dynamics in propylene derivatives longer term appear more favourable than ethylene derivatives (1.5% net relative supply deficit by 2013E). **(iii) Upcoming acrylic acid project should provide margin accretion from 2015E:** We estimate that the contribution to EBITDA from the acrylic acid project will be c.22% of 2015E EBITDA. Furthermore, the product slate is unique in the Saudi context, improving NIC's competitive profile further, in our view.
- **Valuation:** We value NIC using a target EV/EBITDA multiple of 8x and a normalised EBITDA of SAR6.8bn to arrive at our TP. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 11% upside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 3903.1 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRls5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -5.8 | -10.8 | 47.7 |
| Relative (%) | -1.7 | 1.0 | 44.5 |

### Financial and valuation metrics

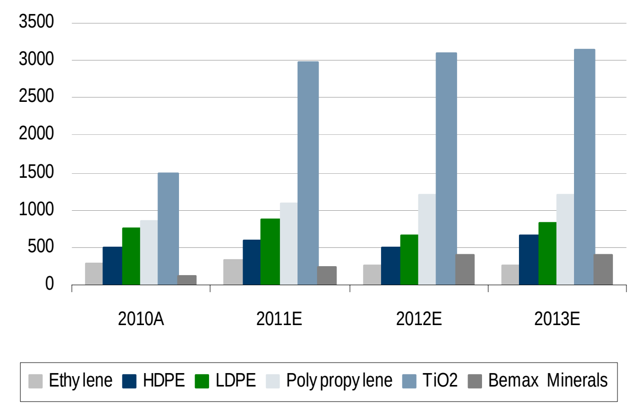
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRls m) | 15,989.4 | 22,480.4 | 24,513.0 | 25,075.7 |
| EBITDA (SRls m) | 4,339.99 | 6,658.13 | 6,388.11 | 6,865.99 |
| Net Income (SRls m) | 1,472.6 | 2,544.8 | 2,258.0 | 2,508.7 |
| CS adj. EPS (SRls) | 2.91 | 5.02 | 4.46 | 4.95 |
| Prev. EPS (SRls) | — | 4.35 | 3.81 | 3.90 |
| ROIC (%) | 12.08 | 18.36 | 15.26 | 15.49 |
| P/E (adj., x) | 12.80 | 7.41 | 8.35 | 7.51 |
| P/E rel. (%) | — | 55.8 | 71.3 | 73.6 |
| EV/EBITDA | 7.3 | 4.7 | 4.7 | 4.1 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRls) | — | IC (12/11E, SRls m) | 28,812.5 |
| Dividend yield (%) | — | EV/IC | 1.1 |
| Net debt (12/11E, SRls m) | 10,599.2 | Current WACC | 9.6 |
| Net debt/equity (12/11E, %) | 58.2 | Free float (%) | 53.1 |
| BV/share (12/11E, SRls) | 22.1 | Number of shares (m) | 557.43 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

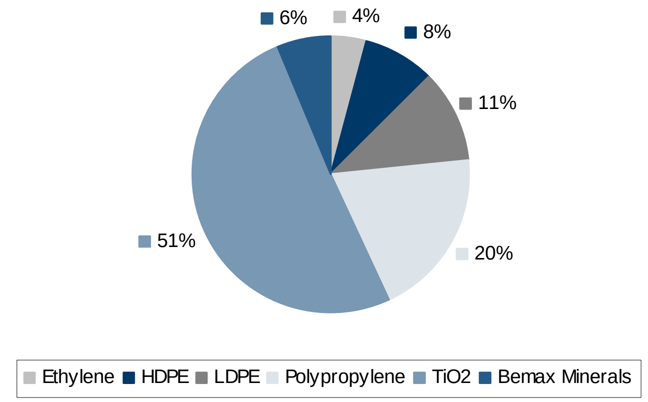
# EBITDA estimate

Figure 42: **NIC: EBITDA by product (SAR in millions)**




*Source: Company data, Credit Suisse estimates*

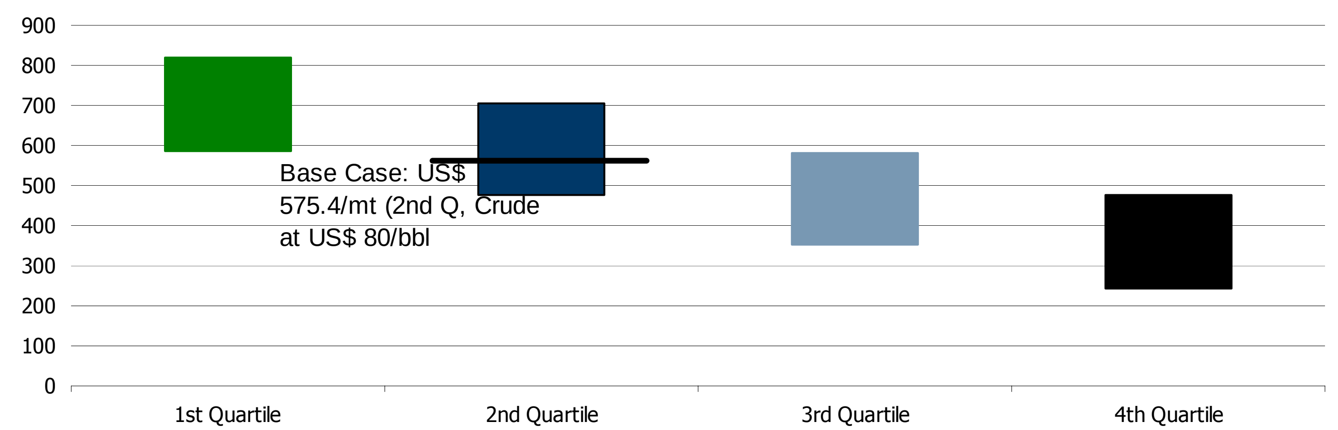
Figure 43: **NIC: EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

We expect the contribution from TiO2 to NIC's revenues to remain elevated in the near term. We expect the TiO2 business to contribute to 51% of NIC's overall EBITDA in 2012E, versus 37% in 2010. We forecast EBITDA to grow c.53% in 2011E, and we forecast normalised EBITDA at SAR6.8bn.

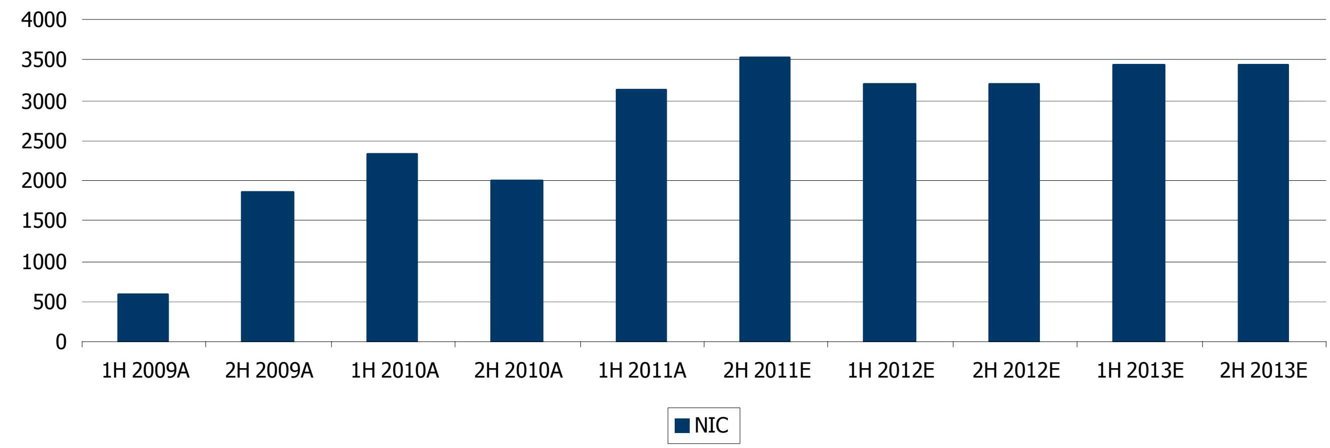
Figure 44: **NIC: EBITDA/tonne range scenarios (USD/tonne)**




*Source: Credit Suisse estimates*

Figure 44 depicts the average EBITDA/tonne ranges for NIC's petrochemicals business, across various scenarios. Our base case assumes an average EBITDA of US$575/tonne for NIC's petrochemical business. The base case assumption is at second quartile margins, with crude at US$80/bbl. For a crude price range of US$50-120/bbl, the second quartile margins for NIC vary from US$475-705/tonne. In the best case scenario, EBITDA is close to US$800/tonne (first quartile, crude at US$120/bbl), while the worst case scenario will result in EBITDA of US$245/tonne (fourth quartile, crude at US$50/bbl).

**Figure 45: NIC: Half-yearly EBITDA (SAR in millions)**




*Source: Company data, Credit Suisse estimates*

We forecast 2H 2011E EBITDA at SAR3.5bn, 13% higher than 1H 2011, and 76% higher than 2H 2010.

### Key changes in estimates

We revise our estimates for NIC due to higher realised TiO2 prices in 1H 2011 and a revision in the price forecasts for petrochemical products.

**Figure 46: NIC: Key changes in estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 20436.0 | 21137.0 | 21366.0 |
| New | 22480.4 | 24513.0 | 25075.7 |
| Change (%) | 10.0% | 16.0% | 17.4% |
| | | | |
| EBITDA | | | |
| Old | 6431.0 | 6062.0 | 6100.0 |
| New | 6658.1 | 6388.1 | 6866.0 |
| Change (%) | 3.5% | 5.4% | 12.6% |
| | | | |
| Net Income | | | |
| Old | 2426.0 | 2126.0 | 2173.0 |
| New | 2544.8 | 2258.0 | 2508.7 |
| Change (%) | 4.9% | 6.2% | 15.5% |

*Source: Credit Suisse estimates*

### Valuation

We have valued NIC using an EV/EBITDA multiple valuation approach. We have used a target EV/EBITDA for NIC of 8x, in line with the historical forward EV/EBITDA for the benchmark portfolio.

**Figure 47: NIC: Target price computation**
*in SAR millions, unless otherwise stated*

| | |
|---|---|
| Normalised EBITDA | 6,866.0 |
| Target EV/EBITDA | 8.0 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/discount | 0% |
| EV | 54,653.4 |
| Investments | 581.9 |
| Less: Normalized Net debt | -10,882.6 |
| Others | 1,216.0 |
| Less: Minorities | -16,404.7 |
| Equity value | 29,163.9 |
| No. of shares | 557.4 |
| Equity value/share | 52.3 |
| Target price | 55.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 48: NIC: Income Statement**
*in SAR millions, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 15,989.4 | 22,480.4 | 24,513.0 | 25,075.7 |
| EBITDA | 4,340.0 | 6,658.1 | 6,388.1 | 6,866.0 |
| D&A | 1,275.1 | 1,376.5 | 1,488.4 | 1,582.3 |
| EBIT | 3,064.9 | 5,281.7 | 4,899.8 | 5,283.7 |
| Finance cost | 669.9 | 586.6 | 689.0 | 605.5 |
| Other income (expense) | 241.2 | - | - | - |
| PBT | 2,636.2 | 4,695.1 | 4,210.8 | 4,678.3 |
| Taxes | 82.2 | 281.7 | 294.8 | 327.5 |
| Net income before minorities | 2,553.9 | 4,413.4 | 3,916.0 | 4,350.8 |
| Share of minorities | 1,081.3 | 1,868.6 | 1,658.0 | 1,842.1 |
| Gains/(losses)/(deconsolidation) | - | - | - | - |
| Net income | 1,472.6 | 2,544.8 | 2,258.0 | 2,508.7 |

*Source: Company data, Credit Suisse estimates*

**Figure 49: NIC: Balance Sheet**

*in SAR millions, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 19,185.3 | 21,284.7 | 22,838.7 | 24,363.3 |
| Intangibles | 3,592.3 | 3,488.5 | 3,387.7 | 3,289.9 |
| Investments | 581.9 | 611.0 | 641.5 | 673.6 |
| Other | 766.1 | 766.1 | 766.1 | 766.1 |
| Total non-current assets | 24,125.6 | 26,150.2 | 27,634.0 | 29,092.9 |
| Cash | 3,886.1 | 4,169.5 | 5,453.9 | 7,586.1 |
| Accounts receivable | 3,262.9 | 4,587.4 | 5,002.2 | 5,117.0 |
| Inventories | 2,889.2 | 4,496.1 | 4,902.6 | 5,015.1 |
| Other | 582.2 | 582.2 | 582.2 | 582.2 |
| Total current assets | 10,620.4 | 13,835.2 | 15,940.9 | 18,300.5 |
| TOTAL ASSETS | 34,745.9 | 39,985.4 | 43,574.9 | 47,393.4 |
| Debt | 3,415.4 | 3,415.4 | 3,415.4 | 3,415.4 |
| Accounts payable | 824.9 | 2,248.0 | 2,451.3 | 2,507.6 |
| Other | 1,867.8 | 1,867.8 | 1,867.8 | 1,867.8 |
| Total current liabilities | 6,108.1 | 7,531.2 | 7,734.5 | 7,790.8 |
| Debt | 11,353.3 | 11,353.3 | 11,353.3 | 11,353.3 |
| Other | 2,887.6 | 2,887.6 | 2,887.6 | 2,887.6 |
| Total non-current liabilities | 14,240.9 | 14,240.9 | 14,240.9 | 14,240.9 |
| Minorities | 5,135.3 | 7,003.9 | 8,662.0 | 10,504.1 |
| Shareholders' Equity | 9,261.6 | 11,209.3 | 12,937.6 | 14,857.6 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 34,745.9 | 39,985.4 | 43,574.9 | 47,393.4 |

*Source: Company data, Credit Suisse estimates*

**Figure 50: NIC: Cash flow statement**

*in SAR millions, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 4,340.0 | 6,658.1 | 6,388.1 | 6,866.0 |
| Working capital change | (421.1) | (1,508.3) | (618.1) | (171.1) |
| Other | (892.7) | - | - | - |
| Operating cash flow | 3,026.1 | 5,149.8 | 5,770.1 | 6,694.9 |
| Tax paid | (82.2) | (281.7) | (294.8) | (327.5) |
| Net interest paid | (669.9) | (586.6) | (689.0) | (605.5) |
| Cash earnings | 2,274.0 | 4,281.6 | 4,786.4 | 5,762.0 |
| | | | | |
| CAPEX | (1,977.4) | (3,372.1) | (2,941.6) | (3,009.1) |
| Intangibles | (63.2) | - | - | - |
| Acquisitions (net of disposals) | 76.9 | - | - | - |
| Other | 14.9 | (29.1) | (30.5) | (32.1) |
| Cash flow before financing | 325.2 | 880.4 | 1,814.2 | 2,720.8 |
| | | | | |
| Financing cash flows | (24.5) | (597.1) | (529.8) | (588.6) |
| Net borrowing | (373.2) | - | - | - |
| New equity | - | - | - | - |
| Dividends | (345.5) | (597.1) | (529.8) | (588.6) |
| Other | 694.2 | - | - | - |
| | | | | |
| Net Cash Flow | 300.6 | 283.3 | 1,284.5 | 2,132.2 |

*Source: Company data, Credit Suisse estimates*

Europe / Qatar
Fertilizers

# Industries Qatar (IQCD.QA)

| | |
|---|---|
| Rating | **OUTPERFORM*** |
| Price (06 Sep 11, QR) | 122.50 |
| Target price (QR) | (from 160.00) 161.00[1] |
| Market cap. (QR m) | 67,375.00 |
| Enterprise value (QR m) | 82,025.4 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

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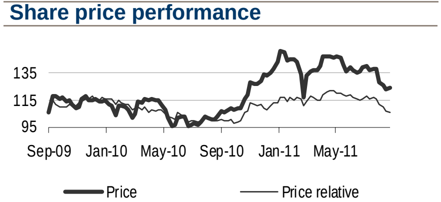
**COMPANY UPDATE**

## An underappreciated urea play

- **Event:** We maintain our Outperform rating but revise our 12-month TP for Industries Qatar to QAR161 (from QAR 160) , owing to a change in our valuation methodology. We increase our 2011E, 2012E and 2013E net income by 31.2%, 22.2% and 17.3%, respectively, reflecting higher urea volumes and prices.
- **Investment Case: (i) Industries Qatar is a play on Qatar's gas reserves:** The petrochemical industry and LNG are the two key consumers of natural gas in Qatar. We estimate 57% of IQ's 2011E revenues and 87% of its gross profit rely on gas based products. **(ii) Industries Qatar's exposure to urea through Qafco V and VI implies heightened EBITDA margins in the medium term:** Urea prices and margins are demonstrating high resilience and we see a strong outlook for the next 12 months. With urea prices increasing c.30% ytd, we estimate marginal producers' margins to have increased c.50% since January 2011. We expect the price strength to continue through 2011E and 1H 2012E. We further estimate fertilisers will contribute to 44% of Industries Qatar's 2012E EBITDA once Qafco VI undergoes commissioning. **(iii) Fertiliser capacity expansion schedule is on track for October 2011 startup and we think the capacity expansion has not yet been priced in:** Management reaffirmed QAFCO V 2H 2011 commissioning guidance, expected to provide a boost to 2H 2011E earnings. Furthermore, LDPE-3 (Q1, 2012) and QAFCO VI (Q3, 2012) are expected to be on schedule. At current market valuations, we think these potential accretions to earnings have not been priced in.
- **Valuation:** We value IQ using a target EV/EBITDA multiple of 8.8x, a conservative 10% premium to our benchmark for the sector to account for high urea exposure and a normalised EBITDA of QAR10.2bn. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 3% downside potential from the current share price.

**Share price performance**




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 4011.9 on 06/09/11*
*On 06/09/11 the spot exchange rate was QR5.1/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -10.5 | -8.6 | 14.5 |
| Relative (%) | -6.3 | 3.2 | 11.3 |

**Financial and valuation metrics**

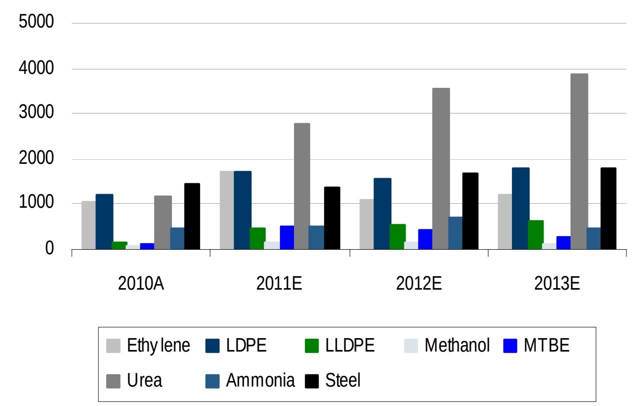
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (QR m) | 11,883.8 | 17,393.6 | 18,440.0 | 19,560.7 |
| EBITDA (QR m) | 5,714.33 | 9,316.90 | 9,771.71 | 10,222.62 |
| Net Income (QR m) | 5,777.3 | 8,839.6 | 8,661.3 | 8,763.3 |
| CS adj. EPS (QR) | 10.50 | 16.07 | 15.75 | 15.93 |
| Prev. EPS (QR) | — | 12.25 | 12.89 | 13.58 |
| ROIC (%) | 23.37 | 25.70 | 20.17 | 18.53 |
| P/E (adj., x) | 11.66 | 7.62 | 7.78 | 7.69 |
| P/E rel. (%) | — | 57.4 | 66.4 | 75.3 |
| EV/EBITDA | 12.7 | 8.8 | 8.6 | 8.2 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, QR) | 8.04 | IC (12/11E, QR m) | 41,022.8 |
| Dividend yield (%) | 6.6 | EV/IC | 2.0 |
| Net debt (12/11E, QR m) | 14,650.4 | Current WACC | 10.0 |
| Net debt/equity (12/11E, %) | 55.6 | Free float (%) | 30.0 |
| BV/share (12/11E, QR) | 47.9 | Number of shares (m) | 550.00 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

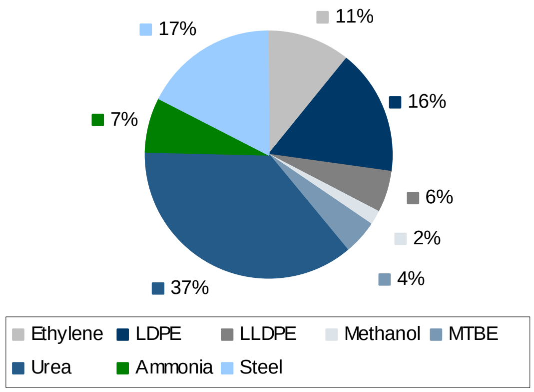
# EBITDA estimate

Figure 51: **EBITDA by product (QAR, in millions)**




*Source: Company data, Credit Suisse estimates*

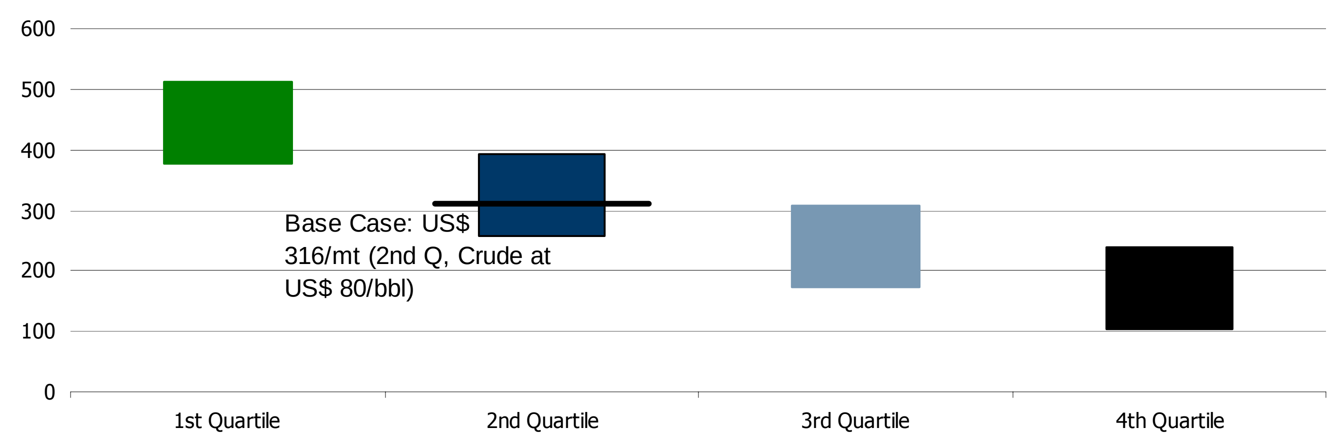
Figure 52: **EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

We forecast 2011E EBITDA at QAR9.3bn, a 63% increase over 2010 EBITDA. We expect the largest contribution to this increase to come from urea, ethylene and LDPE. Urea EBITDA contribution for 2011E is forecast at QAR2.8bn, 40% higher than its contribution to EBITDA in 2010. We expect urea outperformance to continue into 2012E and 2013E, and we forecast normalised EBITDA contribution from urea at QAR3.85bn.

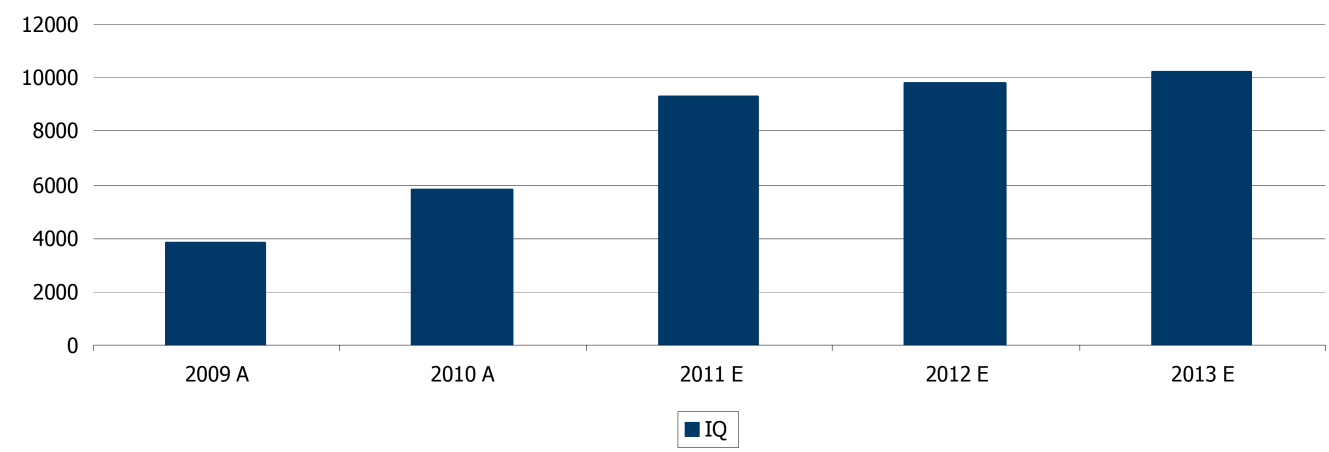
Figure 53: **Industries Qatar: EBITDA/tonne range scenarios (US$/tonne)**




*Source: Credit Suisse estimates*

We expect the average EBITDA/tonne for Industries Qatar to be US$316/tonne under our base case assumptions of a crude price at US$80/bbl and second quartile margins. When the petrochemicals are in the second quartile margins range, a variation in the crude price from US$50 to US$120/bbl would cause the EBITDA/tonne to vary from US$260-390/tonne for Industries Qatar. Our best case scenario yields an EBITDA/tonne of US$510/tonne (first quartile, crude at US$120/bbl), while our worst case scenario yields an EBITDA/tonne of US$105/tonne (fourth quartile, crude at US$50/bbl). (This analysis excludes the steel business contribution while computing the average EBITDA/tonne.)

Figure 54: **Industries Qatar: EBITDA (QAR, in millions)**




*Source: Company data, Credit Suisse estimates*

We forecast normalised EBITDA for Industries Qatar at QAR10.2bn, c. 10% higher than 2011E EBITDA, and c.79% higher than 2010 EBITDA.

### Key changes in our estimates

We revise our estimates for Industries Qatar owing to a change in our price forecasts for petrochemical products.

Figure 55: **Industries Qatar: Key changes in our estimates**
*in QAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 14673.0 | 16556.0 | 18012.0 |
| New | 17393.6 | 18440.0 | 19560.7 |
| Change (%) | 18.5% | 11.4% | 8.6% |
| | | | |
| EBITDA | | | |
| Old | 7285.0 | 8129.0 | 8804.0 |
| New | 9316.9 | 9771.7 | 10222.6 |
| Change (%) | 27.9% | 20.2% | 16.1% |
| | | | |
| Net Income | | | |
| Old | 6740.0 | 7089.0 | 7470.0 |
| New | 8839.6 | 8661.3 | 8763.3 |
| Change (%) | 31.2% | 22.2% | 17.3% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Industries Qatar using a target EV/EBITDA multiple approach. The target multiple is 8.8x, a 10% premium to the benchmark EV/EBITDA of 8x. The premium reflects the exposure to fertilisers in Industries Qatar's EBITDA. We forecast normalised EBITDA at QAR10.2bn.

**Figure 56: Industries Qatar: Target price computation**
*in QAR millions, unless otherwise stated*

| | |
|---|---|
| Long run EBITDA | 10,222.6 |
| Target EV/EBITDA | 8.8 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 10% |
| EV | 89,509.2 |
| Investments | 0.0 |
| Less: Normalized Net Debt | -4,991.5 |
| Others | 0.0 |
| Less: Minorities | -4,733.0 |
| Equity Value | 79,784.6 |
| No. of Shares | 550.0 |
| Equity Value/share | 145.1 |
| Target Price | 161.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 57: Industries Qatar: Income Statement**
*in QAR thousands, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 11,883,845.4 | 17,393,612.4 | 18,440,001.8 | 19,560,682.9 |
| EBITDA | 5,714,329.3 | 9,316,902.8 | 9,771,705.5 | 10,222,616.9 |
| D&A | 319,408.8 | 583,291.5 | 845,369.5 | 1,092,381.9 |
| EBIT | 5,394,920.5 | 8,733,611.2 | 8,926,336.0 | 9,130,235.0 |
| Finance Costs | (116,091.1) | (291,663.2) | (562,810.0) | (673,607.7) |
| Other income (expense) | 500,000.0 | 400,000.0 | 300,000.0 | 309,000.0 |
| PBT | 5,778,829.4 | 8,841,948.0 | 8,663,526.1 | 8,765,627.2 |
| Taxes | - | - | - | - |
| Net income before minorities | 5,778,829.4 | 8,841,948.0 | 8,663,526.1 | 8,765,627.2 |
| Share of minorities | 1,515.3 | 2,318.4 | 2,271.7 | 2,298.4 |
| Gains/(losses)/(deconsolidation) | - | - | - | - |
| Steel Price cap effect | - | | | |
| Net income | 5,777,314.1 | 8,839,629.6 | 8,661,254.4 | 8,763,328.8 |

*Source: Company data, Credit Suisse estimates*

**Figure 58: Industries Qatar: Balance Sheet**

*in QAR thousands, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 14,898,839.2 | 27,447,753.4 | 33,191,061.4 | 36,058,977.8 |
| Intangibles | 96,608.5 | 97,424.8 | 98,248.1 | 99,078.3 |
| Investments | 1,992,650.1 | 2,092,282.6 | 2,196,896.7 | 2,306,741.6 |
| Other | 8,035,326.6 | 8,437,092.9 | 8,858,947.6 | 9,301,895.0 |
| Total non-current assets | 25,023,424.4 | 38,074,553.8 | 44,345,153.8 | 47,766,692.6 |
| Cash | 3,016,147.7 | 675,025.9 | 66,101.0 | 844,370.2 |
| Accounts receivable | 1,901,415.3 | 2,782,978.0 | 2,950,400.3 | 3,129,709.3 |
| Inventories | 1,782,576.8 | 2,609,041.9 | 2,766,000.3 | 2,934,102.4 |
| Other | 653,650.2 | 686,332.7 | 720,649.3 | 756,681.8 |
| Total current assets | 7,353,790.0 | 6,753,378.4 | 6,503,150.9 | 7,664,863.7 |
| TOTAL ASSETS | 32,377,214.4 | 44,827,932.2 | 50,848,304.7 | 55,431,556.3 |
| Debt | 315,925.7 | 325,403.5 | 335,165.6 | 345,220.6 |
| Accounts payable | 1,426,061.4 | 2,087,233.5 | 2,212,800.2 | 2,347,281.9 |
| Other | 531,770.4 | 558,358.9 | 586,276.9 | 615,590.7 |
| Total current liabilities | 2,273,757.6 | 2,970,995.9 | 3,134,242.7 | 3,308,093.2 |
| Debt | 7,691,727.0 | 15,000,000.0 | 16,500,000.0 | 16,500,000.0 |
| Other | 461,464.5 | 484,537.7 | 508,764.6 | 534,202.8 |
| Total non-current liabilities | 8,153,191.5 | 15,484,537.7 | 17,008,764.6 | 17,034,202.8 |
| Minorities | 14,350.3 | 16,668.7 | 18,940.4 | 21,238.8 |
| Shareholders' Equity | 21,935,915.0 | 26,355,729.8 | 30,686,357.1 | 35,068,021.5 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 32,377,214.4 | 44,827,932.2 | 50,848,304.7 | 55,431,556.3 |

*Source: Company data, Credit Suisse estimates*

**Figure 59: Industries Qatar: Cash flow statement**
*in QAR thousands, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 5,714,329.3 | 9,316,902.8 | 9,771,705.5 | 10,222,616.9 |
| Working capital change | (476,553.4) | (1,052,949.7) | (205,212.7) | (219,648.0) |
| Other | 500,000.0 | 400,000.0 | 300,000.0 | 309,000.0 |
| Operating cash flow | 5,737,775.9 | 8,663,953.1 | 9,866,492.9 | 10,311,968.9 |
| Tax paid | - | - | - | - |
| Net interest paid | (116,091.1) | (291,663.2) | (562,810.0) | (673,607.7) |
| Cash earnings | 5,621,684.7 | 8,372,289.9 | 9,303,682.9 | 9,638,361.1 |
| | | | | |
| CAPEX | (7,103,510.0) | (13,132,205.7) | (6,588,677.5) | (3,960,298.3) |
| Intangibles | (809.5) | (816.3) | (823.2) | (830.2) |
| Acquisitions (net of disposals) | - | - | - | - |
| Other | (477,522.7) | (501,398.8) | (526,468.8) | (552,792.2) |
| Cash flow before financing | (1,960,157.5) | (5,262,131.0) | 2,187,713.3 | 5,124,440.4 |
| | | | | |
| Financing cash flows | (857,480.8) | 2,921,009.2 | (2,796,638.2) | (4,346,171.2) |
| Net borrowing | 2,009,201.7 | 7,317,750.8 | 1,509,762.1 | 10,055.0 |
| New equity | - | - | - | - |
| Dividends | (2,888,657.0) | (4,419,814.8) | (4,330,627.2) | (4,381,664.4) |
| Other | 21,974.5 | 23,073.2 | 24,226.9 | 25,438.2 |
| | | | | |
| Net Cash Flow | (2,817,638.3) | (2,341,121.8) | (608,924.9) | 778,269.2 |

*Source: Company data, Credit Suisse estimates*

Europe / Saudi Arabia
Specialty Chemicals

# Advanced Petrochemical Company (2330.SE)

| | |
|---|---|
| Rating | **OUTPERFORM*** |
| Price (06 Sep 11, SRls) | 29.00 |
| Target price (SRls) | (from 40.00) 36.00[1] |
| Market cap. (SRls m) | 4,099.88 |
| Enterprise value (SRls m) | 5,200.5 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

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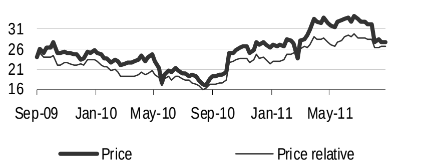
COMPANY UPDATE

## Attractive valuations

- **Event:** We maintain our Outperform rating but reduce our 12-month TP for APC to SAR36 from SAR40 owing to a change in our valuation methodology. We reduce our 2011E net income by 0.6% and increase our 2012E and 2013E net income by 3.2% and 3.3%, respectively.
- **Investment Case: Unique pure-play exposure to polypropylene, our preferred product group. We prefer polypropylene because (i) margins are more defensive to a fall in crude prices due to raw material pricing mechanism differential:** Assuming a mid-cycle scenario, we estimate that for a 25% drop in crude prices, propane-input-based products such as polypropylene are most defensive, with margins declining only 10%. The decline in margins for a mixed feed cracker is 13%, while that for a pure ethane cracker is 20%. **(ii) Demand supply tighter in propylene segment:** We prefer the propylene-derivative product segment to the ethylene-derivative product segment on account of more conservative demand supply dynamics (1.5% net relative supply deficit by 2013E). **(iii) Lower incidence of sub third quartile margins in recent years:** Chinese propylene demand, as measured in net imports, has remained relatively robust compared with the ethylene segment in the medium term and this should underpin margins for propylene producers in spite of recent weakness. Since 2003 PP margins have been sub second quartile (in a long term range) for only 8% of the time, the best performance of all major commodity chemicals in olefin space.
- **Valuation:** We have valued APC using an EV/EBITDA approach, wherein we used a target EV/EBITDA multiple of 8.8x and a normalised EBITDA of SAR689.8m. The marginal multiple premium of 10% is for the stock's globally unique pure-play polypropylene exposure. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 3% upside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 3903.1 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRls5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -0.7 | -13.4 | 50.3 |
| Relative (%) | 3.4 | -1.6 | 47.1 |

### Financial and valuation metrics

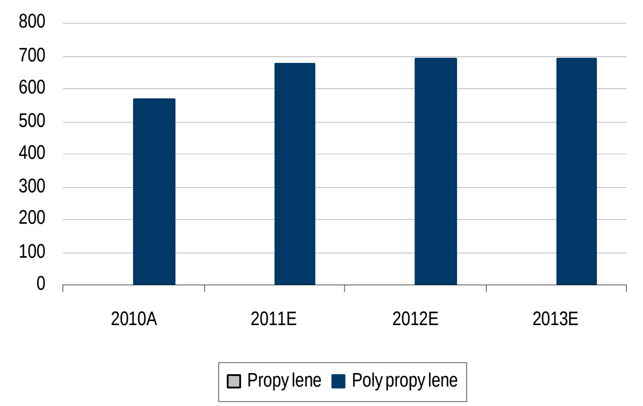
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRls m) | 2,031.0 | 2,923.4 | 2,609.2 | 2,609.2 |
| EBITDA (SRls m) | 569.60 | 673.09 | 689.75 | 689.75 |
| Net Income (SRls m) | 328.3 | 431.6 | 463.1 | 481.4 |
| CS adj. EPS (SRls) | 2.32 | 3.05 | 3.28 | 3.40 |
| Prev. EPS (SRls) | — | 3.07 | 3.17 | 3.29 |
| ROIC (%) | 13.13 | 15.64 | 15.24 | 16.36 |
| P/E (adj., x) | 12.49 | 9.50 | 8.85 | 8.52 |
| P/E rel. (%) | — | 71.5 | 75.6 | 83.4 |
| EV/EBITDA | 8.6 | 7.7 | 6.6 | 5.7 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRls) | — | IC (12/11E, SRls m) | 3,343.6 |
| Dividend yield (%) | — | EV/IC | 1.6 |
| Net debt (12/11E, SRls m) | 1,100.7 | Current WACC | 9.5 |
| Net debt/equity (12/11E, %) | 49.1 | Free float (%) | 42.7 |
| BV/share (12/11E, SRls) | 15.9 | Number of shares (m) | 141.38 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

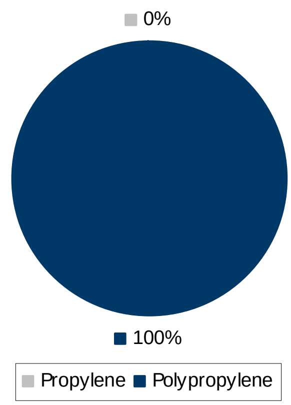
# EBITDA estimate

Figure 60: **EBITDA by product (SAR in millions)**



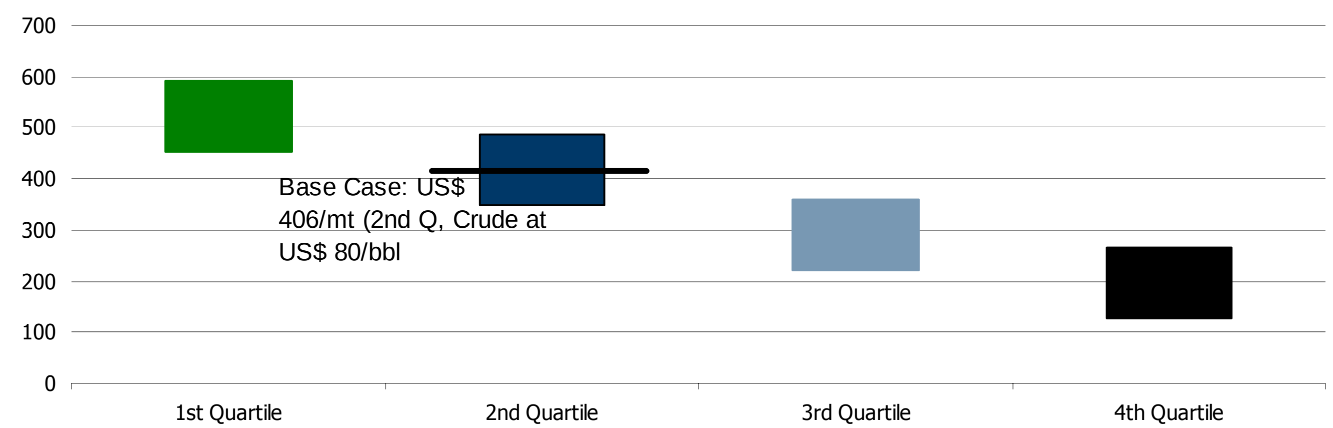

*Source: Company data, Credit Suisse estimates*

Figure 61: **EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

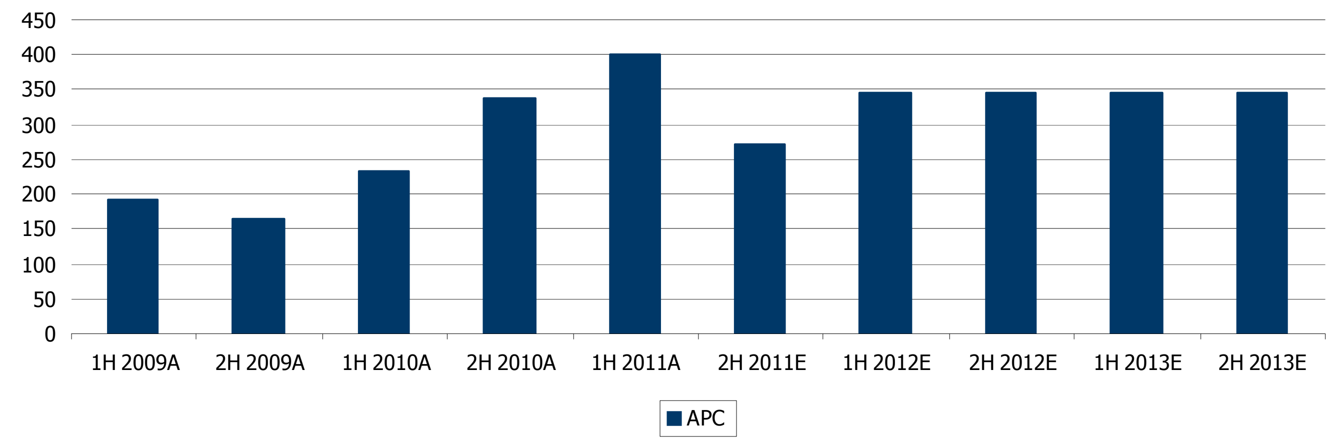
Figure 62: **APC: EBITDA/tonne range scenarios (USD/tonne)**




*Source: Credit Suisse estimates*

We estimate an average EBITDA of US$406/tonne for APC in our base case scenario. Our base case assumes second quartile margins and a crude price of US$80/bbl. Under this scenario, variations in the crude price from US$50 to $120/bbl would cause APC's average EBITDA/tonne to vary from US$350-485/tonne. We estimate the best case EBITDA/tonne at US$590/tonne (first quartile, crude at US$120/bbl) and the worst case at US$125/tonne (fourth quartile, crude at US$50/bbl).

Figure 63: **APC: Half-yearly EBITDA (SAR in millions)**




*Source: Company data, Credit Suisse estimates*

We forecast 2H 2011E EBITDA at SAR272m, c.32% lower than 1H 2011 and c.19% lower than 2H 2010. This is due to a decline in polypropylene prices in 2H 2011E.

### Key changes to estimates

We revise our estimates for APC due to changes in our price forecasts.

Figure 64: **APC: Key changes to estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 3072.0 | 3072.0 | 3072.0 |
| New | 2923.4 | 2609.2 | 2609.2 |
| Change (%) | -4.8% | -15.1% | -15.1% |
| | | | |
| EBITDA | | | |
| Old | 676.1 | 676.1 | 676.1 |
| New | 673.1 | 689.8 | 689.8 |
| Change (%) | -0.4% | 2.0% | 2.0% |
| | | | |
| Net Income | | | |
| Old | 434.4 | 448.5 | 465.7 |
| New | 431.6 | 463.1 | 481.3 |
| Change (%) | -0.6% | 3.2% | 3.3% |

*Source: Credit Suisse estimates*

### Valuation

We have valued APC using a target EV/EBITDA multiple approach. The target EV/EBITDA is 8.8x for APC, a 10% premium over the benchmark. The premium is assigned to account for the pure-play nature of APC's business. We estimate the normalised EBITDA for APC to be SAR689.8m.

**Figure 65: APC: Target price computation**
*in SAR millions, unless otherwise stated*

| | |
|---|---|
| Long run EBITDA | 689.8 |
| Target EV/EBITDA | 8.8 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 10% |
| EV | 6,039.9 |
| Investments | 0.0 |
| Less: Normalised Net Debt | -1,496.1 |
| Others | 0.0 |
| Less: Minorities | 0.0 |
| Equity Value | 4,543.8 |
| No. of Shares | 141.4 |
| Equity Value/share | 32.1 |
| Target Price | 36.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 66: APC: Income Statement**
*in SAR thousands, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 2,030,960.0 | 2,923,403.2 | 2,609,188.3 | 2,609,188.3 |
| EBITDA | 569,600.0 | 673,088.7 | 689,754.8 | 689,754.8 |
| D&A | 211,430.0 | 206,764.2 | 196,371.5 | 186,455.6 |
| EBIT | 358,170.0 | 466,324.5 | 493,383.3 | 503,299.2 |
| Finance Income (Expense) | (32,230.0) | (37,186.2) | (32,788.7) | (24,559.3) |
| Other income (expense) | 2,390.0 | 2,461.7 | 2,535.6 | 2,611.6 |
| | | | | |
| PBT | 328,330.0 | 431,600.0 | 463,130.2 | 481,351.5 |
| Net income before minorities | 328,330.0 | 431,600.0 | 463,130.2 | 481,351.5 |
| Share of minorities | - | - | - | - |
| Gains/(losses)/(deconsolidation) | - | - | - | - |
| | | | | |
| Income before Zakat | 328,330.0 | 431,600.0 | 463,130.2 | 481,351.5 |
| Zakat | - | - | - | - |
| Net income | 328,330.0 | 431,600.0 | 463,130.2 | 481,351.5 |

*Source: Company data, Credit Suisse estimates*

**Figure 67: APC: Balance Sheet**
*in SAR thousands, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 2,418,670.0 | 2,299,607.9 | 2,181,512.1 | 2,073,332.1 |
| Intangibles | 110,870.0 | 110,870.0 | 110,870.0 | 110,870.0 |
| Investments | - | - | - | - |
| Other | 15,010.0 | 15,460.3 | 15,924.1 | 16,401.8 |
| Total non-current assets | 2,544,550.0 | 2,425,938.2 | 2,308,306.2 | 2,200,604.0 |
| | | | | |
| Cash | 456,610.0 | 112,849.3 | 547,599.7 | 830,393.4 |
| Accounts receivable | 174,190.0 | 555,446.6 | 495,745.8 | 495,745.8 |
| Inventories | 165,910.0 | 730,850.8 | 652,297.1 | 652,297.1 |
| Other | 23,250.0 | 23,947.5 | 24,665.9 | 25,405.9 |
| Total current assets | 819,960.0 | 1,423,094.2 | 1,720,308.5 | 2,003,842.2 |
| | | | | |
| TOTAL ASSETS | 3,364,510.0 | 3,849,032.4 | 4,028,614.7 | 4,204,446.2 |
| | | | | |
| Debt | 258,750.0 | 258,750.0 | 207,000.0 | 207,000.0 |
| Accounts payable | 276,870.0 | 380,042.4 | 339,194.5 | 339,194.5 |
| Other | 1,570.0 | 1,570.0 | 1,570.0 | 1,570.0 |
| Total current liabilities | 537,190.0 | 640,362.4 | 547,764.5 | 547,764.5 |
| | | | | |
| Debt | 1,005,000.0 | 954,750.0 | 763,800.0 | 458,280.0 |
| Other | 11,010.0 | 11,010.0 | 11,010.0 | 11,010.0 |
| Total non-current liabilities | 1,016,010.0 | 965,760.0 | 774,810.0 | 469,290.0 |
| | | | | |
| Minorities | - | - | - | - |
| Shareholders' Equity | 1,811,310.0 | 2,242,910.0 | 2,706,040.2 | 3,187,391.7 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 3,364,510.0 | 3,849,032.4 | 4,028,614.7 | 4,204,446.2 |

*Source: Company data, Credit Suisse estimates*

**Figure 68: APC: Cash flow statement**
*in SAR thousands, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 569,600.0 | 673,088.7 | 689,754.8 | 689,754.8 |
| Working capital change | 121,890.0 | (843,722.5) | 96,688.2 | (740.0) |
| Other | (26,190.0) | 2,461.7 | 2,535.6 | 2,611.6 |
| Operating cash flow | 665,300.0 | (168,172.1) | 788,978.5 | 691,626.4 |
| Zakat | (10,710.0) | - | - | - |
| Net interest paid | (33,400.0) | (37,186.2) | (32,788.7) | (24,559.3) |
| Cash earnings | 621,190.0 | (205,358.3) | 756,189.8 | 667,067.1 |
| | | | | |
| CAPEX | (40,380.0) | (87,702.1) | (78,275.6) | (78,275.6) |
| Intangibles | (78,960.0) | - | - | - |
| Acquisitions (net of disposals) | - | - | - | - |
| Other | (15,010.0) | (450.3) | (463.8) | (477.7) |
| Cash flow before financing | 486,840.0 | (293,510.7) | 677,450.4 | 588,313.7 |
| | | | | |
| Financing cash flows | (210,000.0) | (50,250.0) | (242,700.0) | (305,520.0) |
| Net borrowing | (210,000.0) | (50,250.0) | (242,700.0) | (305,520.0) |
| New equity | - | - | - | - |
| Dividends | - | - | - | - |
| Other | | - | - | - |
| | | | | |
| Net Cash Flow | 276,840.0 | (343,760.7) | 434,750.4 | 282,793.7 |

*Source: Company data, Credit Suisse estimates*

Europe / Saudi Arabia
Agricultural Chemicals/Biotech

# Rabigh Refining and Petrochemical Company (2380.SE)

| | |
|---|---|
| Rating | (from Outperform) **NEUTRAL*** |
| Price (06 Sep 11, SRls) | 21.80 |
| Target price (SRls) | (from 33.70) 24.00[1] |
| Market cap. (SRls m) | 19,096.80 |
| Enterprise value (SRls m) | 46,334.4 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

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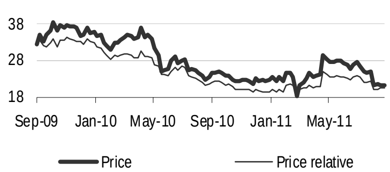
COMPANY UPDATE

## Operational stability a cause for concern

- **Event:** We downgrade Petrorabigh to Neutral from Outperform and decrease our 12-month TP to SAR24 owing to a change in our valuation methodology. Following a reassessment of recent planned and unplanned shutdowns and a review of operational stability, we reduce our 2011E, 2012E and 2013E net income by 40.1%, 18.3% and 8.4%, respectively, on account of lower margin assumptions.
- **Investment Case: (i) Headwinds in ethylene business likely to lower near-term earnings:** We estimate c.36% of Petrorabigh's 2012E EBITDA will be derived from ethylene derivatives. The average margins in the ethylene business have dropped to the third quartile for LDPE and HDPE. **(ii) Exposure to preferred products in polypropylene and MEG; however, questions remain on operating rate of the plants:** Polypropylene and MEG contribute to c.53% of Petrorabigh's 2012E EBITDA. However, there have been plant shutdowns (albeit planned) that have negatively affected Petrorabigh, and we think questions remain as to whether production at peak utilisation levels can be sustained in the near to medium term.
- **Valuation:** We have valued Petrorabigh using a target EV/EBITDA of 6.8x, with a normalised EBITDA estimate of SAR4.6bn. The 15% discount to the benchmark is to account for suboptimal operating rate performance. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 31% downside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 4011.9 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRls5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -2.0 | -19.6 | -11.2 |
| Relative (%) | 2.1 | -7.7 | -14.4 |

### Financial and valuation metrics

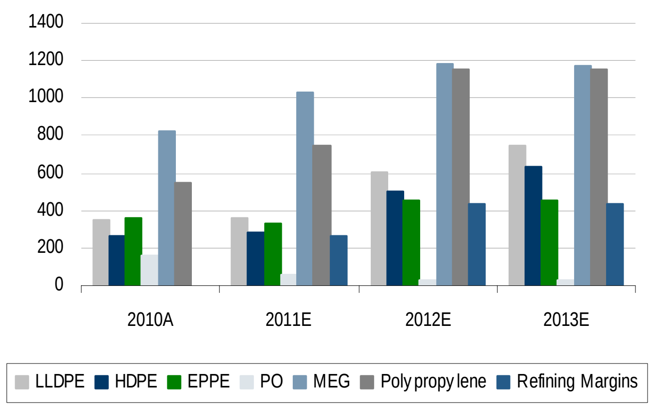
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRls m) | 46,837.9 | 28,952.6 | 45,656.9 | 45,922.9 |
| EBITDA (SRls m) | 1,987.48 | 3,062.17 | 4,372.93 | 4,635.82 |
| Net Income (SRls m) | 208.7 | 887.2 | 2,212.4 | 2,562.1 |
| CS adj. EPS (SRls) | 0.24 | 1.01 | 2.53 | 2.92 |
| Prev. EPS (SRls) | — | 1.69 | 3.09 | 3.19 |
| ROIC (%) | -0.34 | 4.16 | 7.70 | 8.69 |
| P/E (adj., x) | 91.51 | 21.53 | 8.63 | 7.45 |
| P/E rel. (%) | — | 162.1 | 73.7 | 73.0 |
| EV/EBITDA | 21.7 | 15.1 | 9.8 | 8.8 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRls) | — | IC (12/11E, SRls m) | 36,134.5 |
| Dividend yield (%) | — | EV/IC | 1.3 |
| Net debt (12/11E, SRls m) | 27,237.6 | Current WACC | 9.6 |
| Net debt/equity (12/11E, %) | 306.1 | Free float (%) | 42.7 |
| BV/share (12/11E, SRls) | 10.2 | Number of shares (m) | 876.00 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

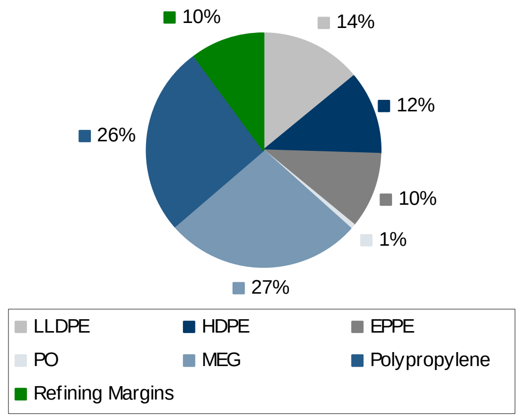
# EBITDA estimate

Figure 69: **EBITDA by product (SAR in millions)**




*Source: Company data, Credit Suisse estimates*

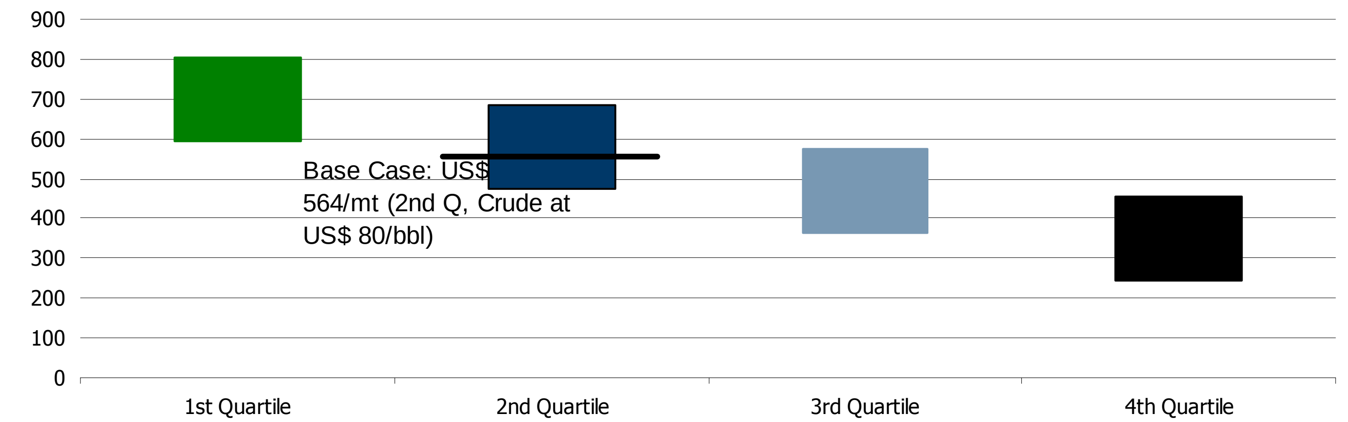
Figure 70: **EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

We estimate that MEG and polypropylene will account for c.53% of Petrorabigh's 2012E EBITDA. We forecast EBITDA derived from MEG to increase to SAR1,032m in 2011E (c.25% higher than 2010) and SAR1,179m in 2012E (c.43% higher than 2010). We forecast EBITDA derived from polypropylene will increase to SAR743m in 2011E (c.36% higher than 2010) and SAR1,158m in 2012E (c.119% higher than 2010).

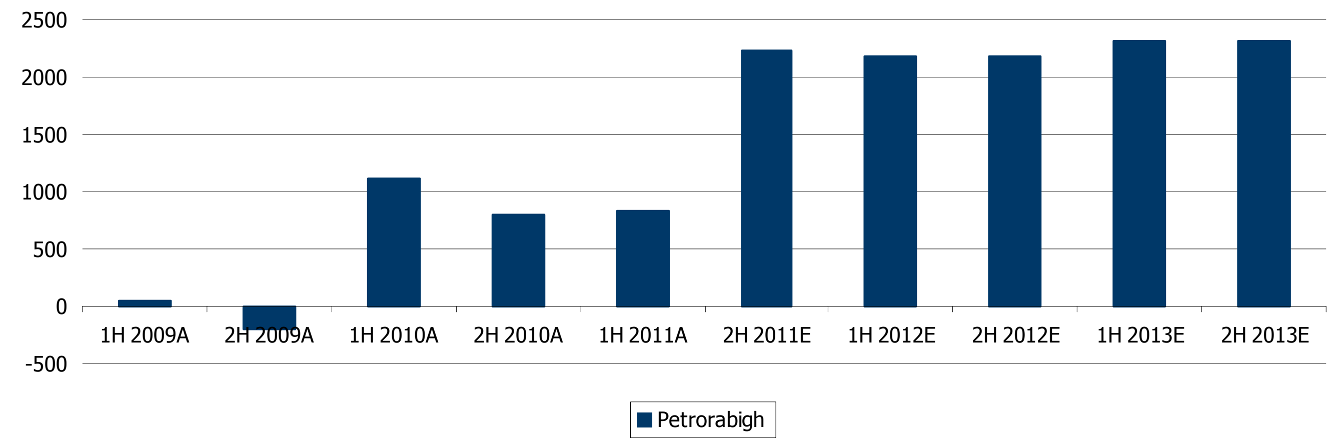
Figure 71: **Petrorabigh: EBITDA/tonne range scenarios (US$/tonne)**




*Source: Credit Suisse estimates*

We estimate an average EBITDA of US$564/tonne for Petrorabigh in our base case scenario. Our base case assumes second quartile margins and a crude price of US$80/bbl. Under this scenario, variations in the crude price from US$50 to US$120/bbl would cause Petrorabigh's average EBITDA/tonne to vary from US$475-685/tonne. Our best case EBITDA/tonne is estimated at US$805/tonne (first quartile, crude at US$120/bbl) and our worst case EBITDA/tonne is estimated at US$245/tonne (fourth quartile, crude at US$50/bbl).

Figure 72: **Petrorabigh: Half-yearly EBITDA (SAR in millions)**




*Source: Company data, Credit Suisse estimates*

### Key changes to our estimates

We revise our estimates for Petrorabigh due to a change in our forecasts for petrochemical product prices.

Figure 73: **Petrorabigh: Key changes to our estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 29875.0 | 45923.0 | 45923.0 |
| New | 28952.6 | 45656.9 | 45922.9 |
| Change (%) | -3.1% | -0.6% | 0.0% |
| | | | |
| EBITDA | | | |
| Old | 3659.0 | 4857.0 | 4854.0 |
| New | 3062.2 | 4372.9 | 4635.8 |
| Change (%) | -16.3% | -10.0% | -4.5% |
| | | | |
| Net Income | | | |
| Old | 1482.0 | 2708.0 | 2796.0 |
| New | 887.2 | 2212.4 | 2562.1 |
| Change (%) | -40.1% | -18.3% | -8.4% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Petrorabigh using an EV/EBITDA-based approach. Our target EV/EBITDA for Petrorabigh is 6.8x, which is 15% lower than the benchmark multiple. This discount accounts for the operating rate sustainability for Petrorabigh, which in our view is lower than its peers. We estimate the normalised EBITDA at SAR4, 635.8m.

**Figure 74: Petrorabigh: Target price computation**
*in SAR millions, unless otherwise stated*

| | Petrorabigh |
|---|---|
| Long run EBITDA | 4,635.8 |
| Target EV/EBITDA | 6.8 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | -15% |
| EV | 31,365.8 |
| Investments | 2,905.9 |
| Less: Normalized Net Debt | -24,303.5 |
| Others | 9,000.0 |
| Less: Minorities | 0.0 |
| Equity Value | 18,968.2 |
| No. of Shares | 876.0 |
| Equity Value/share | 21.7 |
| Target Price | 24.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 75: Petrorabigh: Income Statement**
*in SAR millions, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 46,837.9 | 28,952.6 | 45,656.9 | 45,922.9 |
| EBITDA | 1,987.5 | 3,062.2 | 4,372.9 | 4,635.8 |
| D&A | 2,100.3 | 1,608.2 | 1,572.8 | 1,522.2 |
| EBIT | (112.8) | 1,454.0 | 2,800.1 | 3,113.7 |
| Finance Income (Expense) | 321.5 | (544.1) | (531.0) | (485.9) |
| Other income (expense) | - | - | - | - |
| PBT | 208.7 | 909.9 | 2,269.1 | 2,627.8 |
| Taxes | - | 22.7 | 56.7 | 65.7 |
| Net income | 208.7 | 887.2 | 2,212.4 | 2,562.1 |

*Source: Company data, Credit Suisse estimates*

**Figure 76: Petrorabigh: Balance Sheet**

*in SAR millions, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 31,480.4 | 31,239.3 | 30,100.8 | 29,263.5 |
| Intangibles | 291.9 | - | - | - |
| Investments | 352.5 | 352.5 | 352.5 | 352.5 |
| Other | 2,905.9 | 2,993.0 | 3,082.8 | 3,175.3 |
| Total non-current assets | 35,030.7 | 34,584.9 | 33,536.1 | 32,791.3 |
| Cash | 2,548.5 | 685.9 | 1,552.6 | 1,915.7 |
| Accounts receivable | 6,452.4 | 2,392.5 | 2,026.7 | 3,196.0 |
| Inventories | 2,826.4 | 2,392.5 | 2,026.7 | 3,196.0 |
| Other | 385.0 | 396.6 | 408.5 | 420.7 |
| Total current assets | 12,212.3 | 5,867.4 | 6,014.4 | 8,728.4 |
| TOTAL ASSETS | 47,243.0 | 40,452.3 | 39,550.6 | 41,519.7 |
| Debt | 1,287.2 | 1,467.1 | 1,364.4 | 1,268.9 |
| Accounts payable | 11,510.0 | 2,392.5 | 2,026.7 | 3,196.0 |
| Other | 842.0 | 842.0 | 842.0 | 842.0 |
| Total current liabilities | 13,639.2 | 4,701.6 | 4,233.1 | 5,306.9 |
| Debt | 25,196.5 | 26,456.3 | 23,810.7 | 22,143.9 |
| Other | 397.4 | 397.4 | 397.4 | 397.4 |
| Total non-current liabilities | 25,593.9 | 26,853.8 | 24,208.1 | 22,541.4 |
| Minorities | - | - | - | - |
| Shareholders' Equity | 8,009.8 | 8,897.0 | 11,109.3 | 13,671.4 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 47,243.0 | 40,452.3 | 39,550.6 | 41,519.7 |

*Source: Company data, Credit Suisse estimates*

**Figure 77: Petrorabigh: Cash flow statement**
*in SAR millions, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 1,987.5 | 3,062.2 | 4,372.9 | 4,635.8 |
| Working capital change | 26.8 | (4,635.3) | 353.9 | (1,181.6) |
| Other | - | - | - | - |
| Operating cash flow | 2,014.3 | (1,573.1) | 4,726.8 | 3,454.3 |
| Zakat | - | (22.7) | (56.7) | (65.7) |
| Net interest paid | 321.5 | (544.1) | (531.0) | (485.9) |
| Cash earnings | 2,335.8 | (2,139.9) | 4,139.1 | 2,902.7 |
| | | | | |
| CAPEX | (192.4) | (1,367.1) | (434.3) | (684.9) |
| Acquisitions (net of disposals) | 5.7 | 291.9 | - | - |
| Other | 6,254.5 | (87.2) | (89.8) | (92.5) |
| Cash flow before financing | 8,403.6 | (3,302.3) | 3,615.1 | 2,125.3 |
| | | | | |
| Financing cash flows | (7,131.6) | 1,439.7 | (2,748.3) | (1,762.3) |
| Net borrowing | (1,026.1) | 1,439.7 | (2,748.3) | (1,762.3) |
| New equity | | - | - | - |
| Dividends | - | - | - | - |
| Other | (6,105.5) | - | - | - |
| | | | | |
| Net Cash Flow | 1,272.0 | (1,862.6) | 866.7 | 363.1 |

*Source: Company data, Credit Suisse estimates*

Europe / Saudi Arabia
Specialty Chemicals

# Saudi Arabian Fertilizer Company (2020.SE)

| | |
|---|---|
| Rating | NEUTRAL* |
| Price (06 Sep 11, SRIs) | 171.50 |
| Target price (SRIs) | (from 161.00) 186.00[1] |
| Market cap. (SRIs m) | 42,875.00 |
| Enterprise value (SRIs m) | 39,596.9 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

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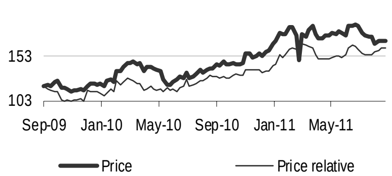
COMPANY UPDATE

## Attractive urea exposure and dividend play

- **Event:** We maintain our Neutral rating for Safco but increase our 12-month TP for Safco to SAR186 owing to a change in our valuation methodology. We increase our 2011E, 2012E and 2013E net income by 2.2%, 55% and 28.1%, respectively, to account for strong short-term urea prices.
- **Investment Case: (i) A pure-play exposure to nitrogenous fertilisers (primarily urea), a preferred and product category at peak margin levels:** Safco provides a pure-play exposure to urea, which has demonstrated strength in both pricing and margins since 2010. We expect the strong margin scenario to be sustainable in the medium term. **(ii) However, the urea prices have been all but priced in at current market valuations, in our view:** We think the current market valuation (at 9.6x 2012E EV/EBITDA) leaves little upside potential. Moreover, a correction in urea margins would lead to a c.31% downside risk to our TP, which skews the risk reward characteristics. **(iii) Strong cash flow generation and dividend commitments make relatively low risk:** With free cash flow yields in excess of 10% and payout ratios close to 100% in the last two years, we think a commitment to dividends driven by upstreaming of cash to parent Sabic is highly attractive. (**iv) Global cash competitiveness is best in class, in our view:** With feedstock prices at c $0.75/mmbtu, Safco is among the most competitive producers of urea on a global basis.
- **Valuation:** We have valued Safco using a target EV/EBITDA of 10.7x, and our normalised EBITDA estimate is SAR3.85bn. The multiple premium reflects the company's relatively low risk, its cash payout commitment and its pure-play urea exposure. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 24% downside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 3903.1 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRIs5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | 2.4 | -3.7 | 19.1 |
| Relative (%) | 6.5 | 8.2 | 15.9 |

### Financial and valuation metrics

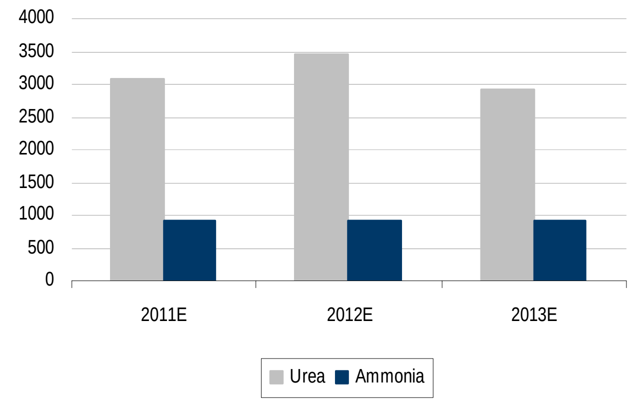
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRIs m) | 3,789.5 | 5,481.5 | 5,864.2 | 5,332.6 |
| EBITDA (SRIs m) | 2,869.08 | 4,001.54 | 4,384.26 | 3,852.70 |
| Net Income (SRIs m) | 2,932.1 | 4,117.5 | 4,488.1 | 3,962.8 |
| CS adj. EPS (SRIs) | 11.73 | 16.47 | 17.95 | 15.85 |
| Prev. EPS (SRIs) | — | 16.11 | 11.59 | 12.37 |
| ROIC (%) | 52.04 | 67.39 | 68.42 | 58.77 |
| P/E (adj., x) | 14.62 | 10.41 | 9.55 | 10.82 |
| P/E rel. (%) | — | 78.4 | 81.5 | 106.0 |
| EV/EBITDA | 14.3 | 9.9 | 8.6 | 9.2 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRIs) | 8.23 | IC (12/11E, SRIs m) | 5,914.7 |
| Dividend yield (%) | 4.8 | EV/IC | 6.7 |
| Net debt (12/11E, SRIs m) | -3,278.1 | Current WACC | 9.6 |
| Net debt/equity (12/11E, %) | -35.7 | Free float (%) | 49.0 |
| BV/share (12/11E, SRIs) | 36.8 | Number of shares (m) | 250.00 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

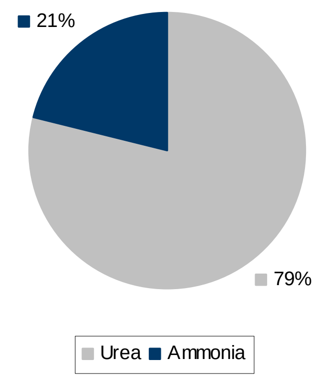
# EBITDA estimate

Figure 78: **EBITDA by product (SAR millions)**



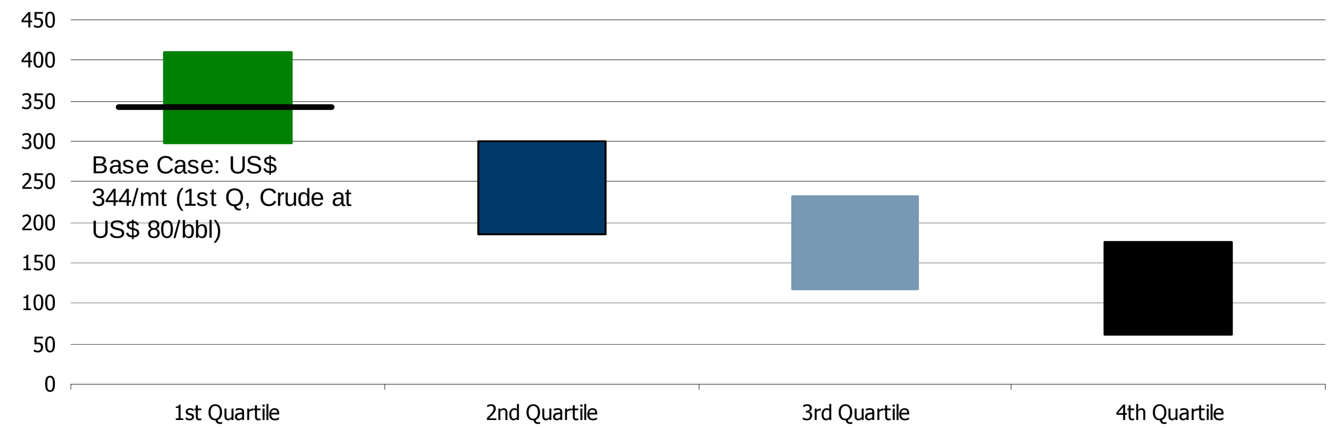

*Source: Credit Suisse estimates*

Figure 79: **EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

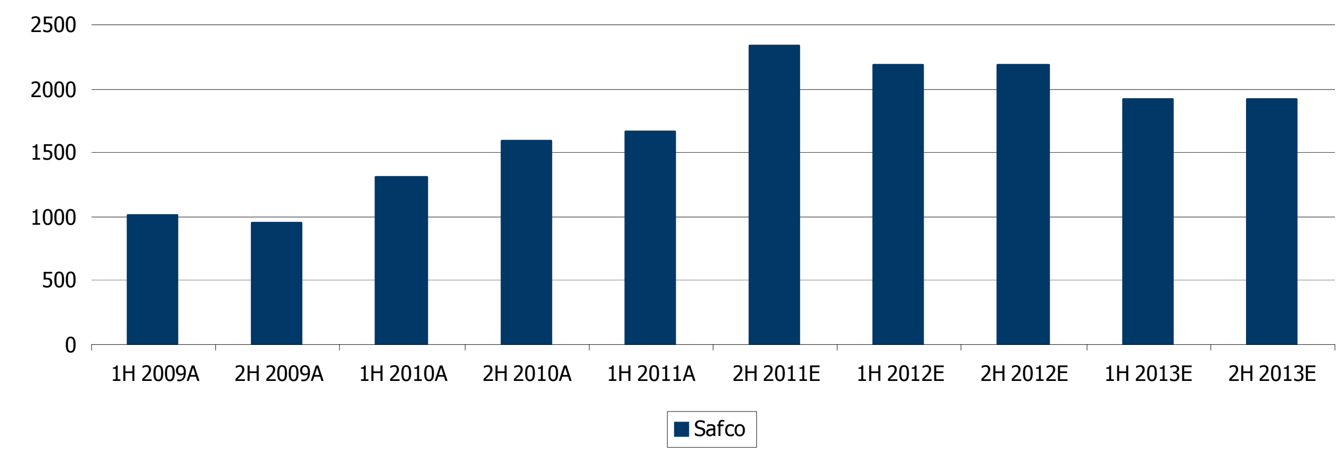
Figure 80: **Safco: EBITDA/tonne range scenarios (USD/tonne)**




*Source: Credit Suisse estimates*

We estimate the average EBITDA/tonne for Safco under our base case assumptions to be US$344/tonne. The base case for Safco is assumed to be first quartile margins (in line with urea expectations) and the crude price at US$80/bbl. Under first quartile margins, we estimate variations in the crude price from US$50 to US$120/bbl would cause the EBITDA/tonne to vary from US$300-410/tonne.

**Figure 81: Safco: Half-yearly EBITDA (SAR millions)**




*Source: Company data, Credit Suisse estimates*

We forecast 2H 2011E EBITDA at SAR2,330m, c.39% higher than 1H 2011 EBITDA and c.46% higher than 2H 2010 EBITDA.

### Key changes to our estimates

We revise our estimates owing to a change in our product price forecasts. The key changes to our estimates are shown in Figure 82.

**Figure 82: Safco: Key changes to estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 5398.8 | 4246.0 | 4499.0 |
| New | 5481.5 | 5864.2 | 5332.6 |
| Change (%) | 1.5% | 38.1% | 18.5% |
| | | | |
| EBITDA | | | |
| Old | 3910.0 | 2758.0 | 2961.0 |
| New | 4001.5 | 4384.3 | 3852.7 |
| Change (%) | 2.3% | 59.0% | 30.1% |
| | | | |
| Net Income | | | |
| Old | 4028.0 | 2896.0 | 3093.0 |
| New | 4117.5 | 4488.1 | 3962.8 |
| Change (%) | 2.2% | 55.0% | 28.1% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Safco using a target EV/EBITDA of 10.7x, a 35% premium to the benchmark. The premium assigned to Safco factors in the fertiliser pure-play nature of Safco. We estimate normalised EBITDA at SAR3,852.7m.

**Figure 83: Safco: Target price computation**
*in SAR millions, unless otherwise stated*

| | |
|---|---|
| Long run EBITDA | 3,852.7 |
| Target EV/EBITDA | 10.7 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 35% |
| EV | 41,401.1 |
| Investments | 1,269.2 |
| Less: Normalized Net Debt | 1,903.0 |
| Others | 0.0 |
| Less: Minorities | 0.0 |
| Equity Value | 44,573.3 |
| No. of Shares | 250.0 |
| Equity Value/share | 178.3 |
| Target Price | 186.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 84: Safco: Income Statement**
*in SAR millions, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 3,789.5 | 5,481.5 | 5,864.2 | 5,332.6 |
| EBITDA | 2,869.1 | 4,001.5 | 4,384.3 | 3,852.7 |
| D&A | 247.2 | 167.6 | 170.6 | 173.3 |
| EBIT | 2,621.9 | 3,833.9 | 4,213.7 | 3,679.4 |
| Finance Costs | - | 1.9 | 3.3 | 5.3 |
| Other income (expense) | 371.3 | 371.3 | 371.3 | 371.3 |
| PBT | 2,993.3 | 4,203.3 | 4,581.7 | 4,045.5 |
| Taxes | 61.2 | 85.9 | 93.6 | 82.7 |
| Net income before minorities | 2,932.1 | 4,117.5 | 4,488.1 | 3,962.8 |
| Share of minorities | - | - | - | - |
| Gains/(losses)/(deconsolidation)/Discontinued income | 302.5 | - | - | - |
| Net income | 3,234.6 | 4,117.5 | 4,488.1 | 3,962.8 |

*Source: Company data, Credit Suisse estimates*

**Figure 85: Safco: Balance Sheet**
*in SAR millions, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 3,243.0 | 3,294.7 | 3,358.6 | 3,398.7 |
| Intangibles | 147.5 | 147.5 | 147.5 | 147.5 |
| Investments | 1,269.2 | 1,332.6 | 1,399.3 | 1,469.2 |
| Other | 81.8 | 81.8 | 81.8 | 81.8 |
| Total non-current assets | 4,741.4 | 4,856.5 | 4,987.1 | 5,097.1 |
| Cash | 2,255.9 | 3,631.0 | 5,639.9 | 7,656.5 |
| Accounts receivable | 1,017.6 | 1,471.9 | 1,574.7 | 1,431.9 |
| Inventories | 345.4 | 657.8 | 703.7 | 639.9 |
| Other | 18.4 | 18.4 | 18.4 | 18.4 |
| Total current assets | 3,637.2 | 5,779.0 | 7,936.6 | 9,746.7 |
| TOTAL ASSETS | 8,378.7 | 10,635.6 | 12,923.8 | 14,843.9 |
| Debt | 192.9 | 192.9 | 192.9 | 192.9 |
| Accounts payable | 437.1 | 632.2 | 676.4 | 615.1 |
| Other | - | 3.0 | 3.0 | 3.0 |
| Total current liabilities | 629.9 | 828.1 | 872.2 | 810.9 |
| Debt | 160.0 | 160.0 | 160.0 | 160.0 |
| Other | 454.6 | 454.6 | 454.6 | 454.6 |
| Total non-current liabilities | 614.6 | 614.6 | 614.6 | 614.6 |
| Minorities | - | - | - | - |
| Shareholders' Equity | 7,134.2 | 9,192.9 | 11,436.9 | 13,418.3 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 8,378.7 | 10,635.6 | 12,923.8 | 14,843.9 |

*Source: Company data, Credit Suisse estimates*

**Figure 86: Safco: Cash flow statement**

*in SAR millions, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 2,869.1 | 4,001.5 | 4,384.3 | 3,852.7 |
| Working capital change | (610.1) | (568.6) | (104.6) | 145.2 |
| Other | 106.5 | 371.3 | 371.3 | 371.3 |
| Operating cash flow | 2,365.4 | 3,804.3 | 4,651.0 | 4,369.3 |
| Tax paid | (61.2) | (85.9) | (93.6) | (82.7) |
| Net interest paid | - | (1.9) | (3.3) | (5.3) |
| Cash earnings | 2,304.3 | 3,716.5 | 4,554.1 | 4,281.3 |
| | | | | |
| CAPEX | 264.3 | (219.3) | (234.6) | (213.3) |
| Intangibles | - | - | - | - |
| Acquisitions (net of disposals) | - | - | - | - |
| Other | 209.6 | (63.5) | (66.6) | (70.0) |
| Cash flow before financing | 2,778.2 | 3,433.8 | 4,252.9 | 3,998.0 |
| | | | | |
| Financing cash flows | (3,486.8) | (2,058.7) | (2,244.1) | (1,981.4) |
| Net borrowing | (236.8) | - | - | - |
| New equity | - | - | - | - |
| Dividends | (3,250.0) | (2,058.7) | (2,244.1) | (1,981.4) |
| Other | - | - | - | - |
| | | | | |
| Net Cash Flow | (708.6) | 1,375.1 | 2,008.9 | 2,016.6 |

*Source: Company data, Credit Suisse estimates*

# Yanbu National Petrochemical Company (2290.SE)

| | |
|---|---|
| Rating | (from Outperform) **NEUTRAL*** |
| Price (06 Sep 11, SRIs) | 44.90 |
| Target price (SRIs) | (from 56.00) 47.00[1] |
| Market cap. (SRIs m) | 25,256.25 |
| Enterprise value (SRIs m) | 35,132.4 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

**Research Analysts**
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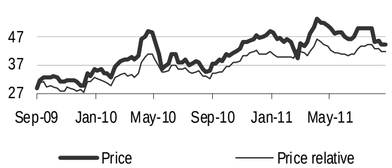
COMPANY UPDATE

## Not the right time for financial leverage

- **Event:** We downgrade our rating on Yanbu National Petrochem (Yansab) to Neutral from Outperform and decrease our 12-month TP to SAR47 due to a change in our valuation methodology. We revise our 2011E, 2012E and 2013E net income forecasts by 16.8%, -5.9% and 5.9%, respectively, due to changes in commodity prices.
- **Investment Case: (i) Headwinds in the ethylene derivative segment a cause for concern in the short term:** We estimate that polyethylenes will contribute 40% of Yansab's 2012E EBITDA. With the average margins in the third quartile for major polyethylene products, we view this as a negative for Yansab in the short run. **(ii) Exposure to preferred products – polypropylene and MEG:** We estimate that polypropylene and MEG will contribute 56% of Yansab's 2012E EBITDA, and we view this as a positive. **(iii) Q3 2011 might provide temporary respite, but the medium term view is not very encouraging, in our view:** We believe Q3 2011 margins may be better than expected due to MEG resilience, but there is a significant margin deterioration risk thereafter. **(iv) Benefits from low financing rate and stable debt load, but we would rather avoid financial leverage:** With strong state support and financing costs below 3%, Yansab's Net debt to EBITDA of 2.3 appears stable. However, we would choose to avoid financial leverage in a risk averse environment. **(v) Downside risks on SG&A:** We view Yansab's current SG&A costs including market expenses at sub 4% as too low and see potential earnings downside risk from current levels.
- **Valuation:** We value Yansab using a target EV/EBITDA of 8x. Our normalised EBITDA estimate is SAR4bn. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 24% downside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 3903.1 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRIs5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -3.4 | -4.1 | 19.7 |
| Relative (%) | 0.7 | 7.8 | 16.6 |

### Financial and valuation metrics

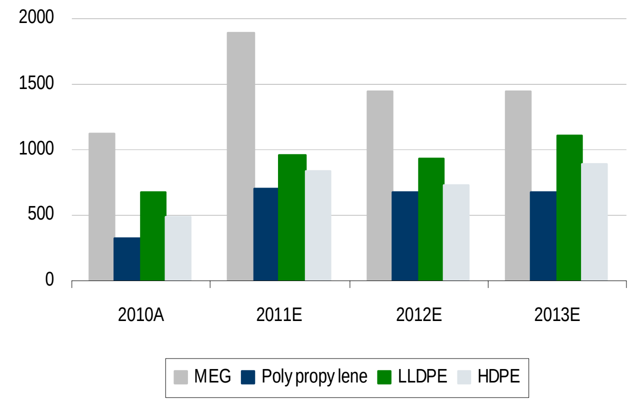
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRIs m) | 5,821.5 | 10,512.3 | 9,061.4 | 9,397.2 |
| EBITDA (SRIs m) | 2,881.37 | 4,329.53 | 3,691.99 | 3,988.72 |
| Net Income (SRIs m) | 1,713.1 | 3,116.7 | 2,465.0 | 2,781.5 |
| CS adj. EPS (SRIs) | 3.05 | 5.54 | 4.38 | 4.94 |
| Prev. EPS (SRIs) | — | 4.74 | 4.66 | 4.67 |
| ROIC (%) | 10.75 | 17.54 | 13.93 | 15.88 |
| P/E (adj., x) | 14.74 | 8.10 | 10.25 | 9.08 |
| P/E rel. (%) | — | 61.0 | 87.5 | 88.9 |
| EV/EBITDA | 12.6 | 8.1 | 8.7 | 7.2 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRIs) | — | IC (12/11E, SRIs m) | 20,333.3 |
| Dividend yield (%) | — | EV/IC | 1.7 |
| Net debt (12/11E, SRIs m) | 9,876.1 | Current WACC | 10.2 |
| Net debt/equity (12/11E, %) | 94.4 | Free float (%) | 42.7 |
| BV/share (12/11E, SRIs) | 18.6 | Number of shares (m) | 562.50 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

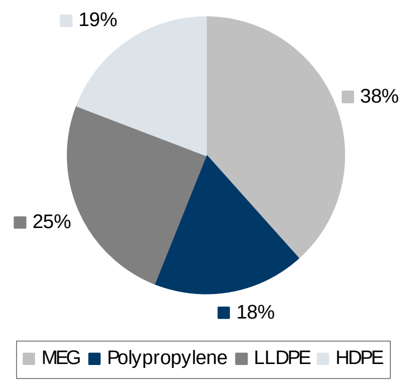
# EBITDA estimate

**Figure 87: EBITDA by product (SAR millions)**




*Source: Company data, Credit Suisse estimates*

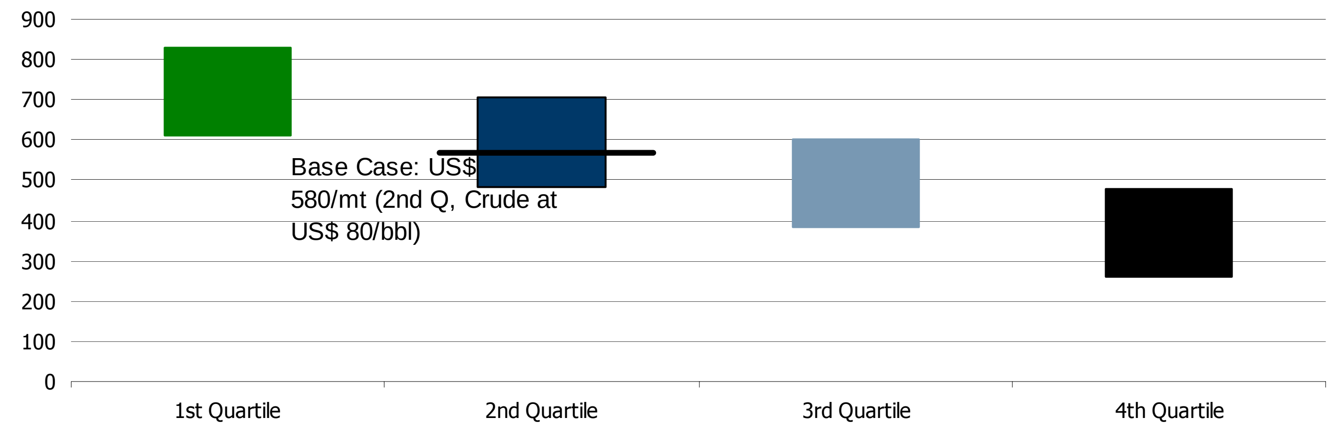
**Figure 88: EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

We estimate that MEG and polypropylene will contribute to 56% of Yansab's 2012E EBITDA. We forecast EBITDA derived from MEG will increase to SAR1,888m in 2011E (c.69% higher than in 2010) and SAR1,452m in 2012E (c.30% higher than in 2010). We estimate that EBITDA derived from polypropylene will increase to SAR704mn in 2011E (c.116% higher than in 2010) and SAR675m in 2012E (c.107% higher than in 2010).

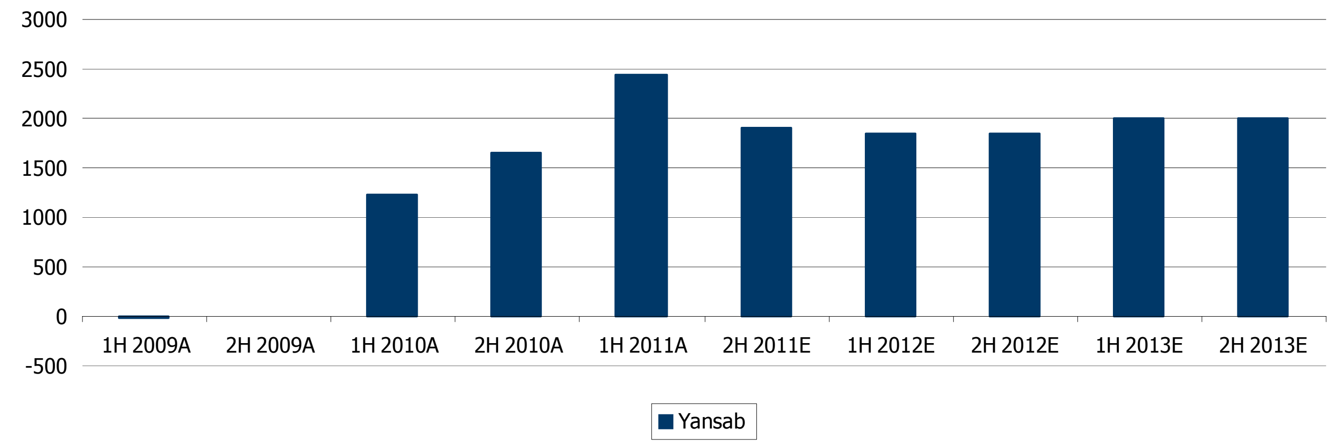
**Figure 89: Yansab: EBITDA/tonne range scenarios (USD/tonne)**




*Source: Credit Suisse estimates*

We estimate an average EBITDA of US$580/tonne for Yansab in our base case scenario. Our base case assumes second quartile margins and a crude price of US$80/bbl. Under this scenario, variations in the crude price from US$50 to $120/bbl would cause Yansab's average EBITDA/tonne to vary from US$485-705/tonne. We estimate best case EBITDA/tonne at US$830/tonne (first quartile, crude at US$120/bbl) and the worst case EBITDA/tonne at US$260/tonne (fourth quartile, crude at US$50/bbl).

**Figure 90: Yansab: Half-yearly EBITDA (SAR millions)**




*Source: Company data, Credit Suisse estimates*

We forecast 2H 2011E EBITDA at SAR1,895m, c.22% lower than 1H 2011 and c.15% higher than 2H 2010. The decrease in EBITDA (as against 1H 2011) is expected owing to a decline in polypropylene prices in 2H 2011E.

### Key changes to estimates

We revise our estimates for Yansab, owing to a change in our petrochemical product price forecasts.

**Figure 91: Yansab: Key changes to estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 9170.0 | 9186.0 | 9186.0 |
| New | 10512.3 | 9061.4 | 9397.2 |
| Change (%) | 14.6% | -1.4% | 2.3% |
| | | | |
| EBITDA | | | |
| Old | 3867.0 | 3849.0 | 3827.0 |
| New | 4329.5 | 3692.0 | 3988.7 |
| Change (%) | 12.0% | -4.1% | 4.2% |
| | | | |
| Net Income | | | |
| Old | 2668.0 | 2621.0 | 2627.0 |
| New | 3116.7 | 2465.0 | 2781.5 |
| Change (%) | 16.8% | -5.9% | 5.9% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Yansab using a target EV/EBITDA of 8x, in line with the benchmark multiple. We estimate normalised EBITDA at SAR3,988.7m.

**Figure 92: Yansab: Target price computation**
*in SAR millions, unless otherwise stated*

| | Yansab |
|---|---|
| Long run EBITDA | 3,988.7 |
| Target EV/EBITDA | 8.0 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 0% |
| EV | 31,750.1 |
| Investments | 0.0 |
| Less: Normalized Net Debt | -8,300.9 |
| Others | 0.0 |
| Less: Minorities | 0.0 |
| Equity Value | 23,449.1 |
| No. of Shares | 562.5 |
| Equity Value/share | 41.7 |
| Target Price | 47.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 93: Yansab: Income Statement**
*in SAR millions, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010A | FY 2011E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 5,821.5 | 10,512.3 | 9,061.4 | 9,397.2 |
| EBITDA | 2,881.4 | 4,329.5 | 3,692.0 | 3,988.7 |
| D&A | 834.9 | 845.7 | 830.0 | 807.0 |
| EBIT | 2,046.5 | 3,483.8 | 2,862.0 | 3,181.7 |
| Finance Income (Expense) | (376.1) | (331.2) | (379.1) | (375.5) |
| Other income (expense) | 42.7 | 44.0 | 45.3 | 46.6 |
| PBT | 1,713.1 | 3,196.6 | 2,528.2 | 2,852.8 |
| Taxes | - | 79.9 | 63.2 | 71.3 |
| Gains/(losses)/(deconsolidation) | | - | - | - |
| Net income | 1,713.1 | 3,116.7 | 2,465.0 | 2,781.5 |

*Source: Company data, Credit Suisse estimates*

**Figure 94: Yansab: Balance Sheet**
*in SAR millions, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010A | FY 2011E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 18,425.7 | 18,210.7 | 17,743.2 | 17,218.1 |
| Intangibles | 274.3 | 274.3 | 274.3 | 274.3 |
| Investments | - | - | - | - |
| Other | 36.7 | 37.8 | 38.9 | 40.1 |
| Total non-current assets | 18,736.6 | 18,522.8 | 18,056.4 | 17,532.4 |
| Cash | 789.7 | 344.9 | 1,934.6 | 2,642.5 |
| Accounts receivable | - | 1,682.0 | 1,631.1 | 1,691.5 |
| Inventories | 901.1 | 2,102.5 | 1,812.3 | 1,879.4 |
| Other | 2,736.0 | 2,818.1 | 2,902.7 | 2,989.7 |
| Total current assets | 4,426.8 | 6,947.4 | 8,280.6 | 9,203.2 |
| TOTAL ASSETS | 23,163.5 | 25,470.2 | 26,337.0 | 26,735.6 |
| Debt | 946.9 | 946.9 | 852.2 | 767.0 |
| Accounts payable | 256.3 | 1,051.2 | 906.1 | 939.7 |
| Other | 1,058.1 | 1,089.8 | 1,122.5 | 1,156.2 |
| Total current liabilities | 2,261.3 | 3,088.0 | 2,880.9 | 2,862.9 |
| Debt | 10,910.7 | 9,274.1 | 7,883.0 | 5,518.1 |
| Other | 2,651.0 | 2,651.0 | 2,651.0 | 2,651.0 |
| Total non-current liabilities | 13,561.6 | 11,925.0 | 10,533.9 | 8,169.0 |
| Shareholders' Equity | 7,340.5 | 10,457.2 | 12,922.2 | 15,703.7 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 23,163.5 | 25,470.2 | 26,337.0 | 26,735.6 |

*Source: Company data, Credit Suisse estimates*

**Figure 95: Yansab: Cash flow statement**

*in SAR millions, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010A | FY 2011E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 2,881.4 | 4,329.5 | 3,692.0 | 3,988.7 |
| Working capital change | (867.7) | (2,138.8) | 144.2 | (147.4) |
| Other | 59.4 | 44.0 | 45.3 | 46.6 |
| Operating cash flow | 2,073.1 | 2,234.7 | 3,881.4 | 3,887.9 |
| Zakat | - | (79.9) | (63.2) | (71.3) |
| Net interest paid | (376.1) | (331.2) | (379.1) | (375.5) |
| Cash earnings | 1,697.0 | 1,823.6 | 3,439.1 | 3,441.1 |
| | | | | |
| CAPEX | 150.1 | (630.7) | (362.5) | (281.9) |
| Acquisitions (net of disposals) | - | - | - | - |
| Other | (6.5) | (1.1) | (1.1) | (1.2) |
| Cash flow before financing | 1,840.6 | 1,191.7 | 3,075.5 | 3,158.0 |
| | | | | |
| Financing cash flows | (200.7) | (1,636.6) | (1,485.8) | (2,450.1) |
| Net borrowing | (915.7) | (1,636.6) | (1,485.8) | (2,450.1) |
| New equity | | - | - | |
| Dividends | - | - | - | - |
| Other | 715.0 | - | - | - |
| | | | | |
| Net Cash Flow | 1,639.9 | (444.9) | 1,589.7 | 707.9 |

*Source: Company data, Credit Suisse estimates*

Europe / Saudi Arabia
Specialty Chemicals

# Sahara Petrochemical Company (2260.SE)

| | |
|---|---|
| Rating | NEUTRAL* |
| Price (06 Sep 11, SRIs) | 19.95 |
| Target price (SRIs) | (from 22.10) 21.00[1] |
| Market cap. (SRIs m) | 5,835.97 |
| Enterprise value (SRIs m) | 7,668.6 |

*Stock ratings are relative to the relevant country benchmark.
[1]Target price is for 12 months.

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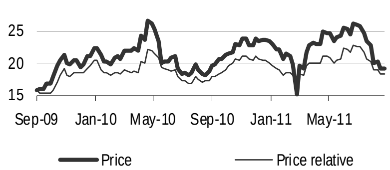
COMPANY UPDATE

## Risk/reward profile not attractive enough

- **Event:** We maintain our Neutral rating on Sahara and slightly revise our 12-month TP for Sahara to SAR21 due to a change in our valuation methodology. We revise our 2011E, 2012E and 2013E net income by 26.5%, -3.4% and 6.5%, respectively, to account for the quicker ramp-up at the new Al Waha complex and our higher operating rate assumptions.
- **Investment Case: (i) Al Waha's commercialisation in Q2 2011 is a significant positive for Sahara, since Al Waha is a pure-play exposure to polypropylene:** Sahara's Al Waha subsidiary (450 ktpa annual polypropylene capacity) should account for 40.5% of Sahara's 2011E EPS. We like this asset since it is a pure-play exposure to polypropylene, which is a defensive product to declines in the crude price (on account of feedstock pricing structure). **(ii) Weakened demand outlook is expected to lower Sahara's bottom line in the short to medium term:** Sahara's bottom line has significant exposure (59.5%) to polyethylenes (through its affiliate SEPC). With a decline in global demand, we expect the impact on polyethylenes to be more severe than on polypropylene (due to tighter demand supply dynamics in polypropylene). **(iii) Project execution risks likely to remain a concern in the medium term:** Sahara has two projects under the commissioning phase currently, which would form a significant source of income from associates post 2014E (38% of 2015E income from associates). This presents a significant risk to consensus valuations, in our view.
- **Valuation:** We have valued Sahara using a target EV/EBITDA of 8x, with a normalised EBITDA estimate is SAR587.3m. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 28% downside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 3903.1 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRIs5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -3.6 | -22.1 | 1.0 |
| Relative (%) | 0.5 | -10.2 | -2.2 |

### Financial and valuation metrics

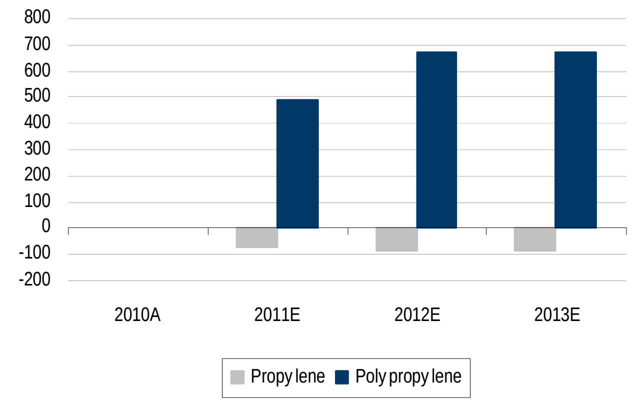
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRIs m) | — | 1,855.9 | 2,448.0 | 2,448.0 |
| EBITDA (SRIs m) | -6.61 | 416.97 | 587.30 | 587.30 |
| Net Income (SRIs m) | 329.2 | 644.6 | 606.8 | 749.4 |
| CS adj. EPS (SRIs) | 1.13 | 2.20 | 2.07 | 2.56 |
| Prev. EPS (SRIs) | — | 1.74 | 2.14 | 2.40 |
| ROIC (%) | -0.21 | 4.75 | 5.42 | 5.19 |
| P/E (adj., x) | 17.73 | 9.05 | 9.62 | 7.79 |
| P/E rel. (%) | — | 68.2 | 82.1 | 76.3 |
| EV/EBITDA | -1,215.3 | 18.4 | 12.4 | 11.7 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRIs) | — | IC (12/11E, SRIs m) | 6,320.8 |
| Dividend yield (%) | — | EV/IC | 1.2 |
| Net debt (12/11E, SRIs m) | 1,832.6 | Current WACC | 8.7 |
| Net debt/equity (12/11E, %) | 40.8 | Free float (%) | 32.5 |
| BV/share (12/11E, SRIs) | 13.5 | Number of shares (m) | 292.53 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

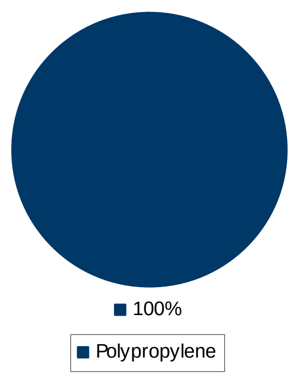
# EBITDA estimate

Figure 96: **EBITDA by product (SAR millions)**



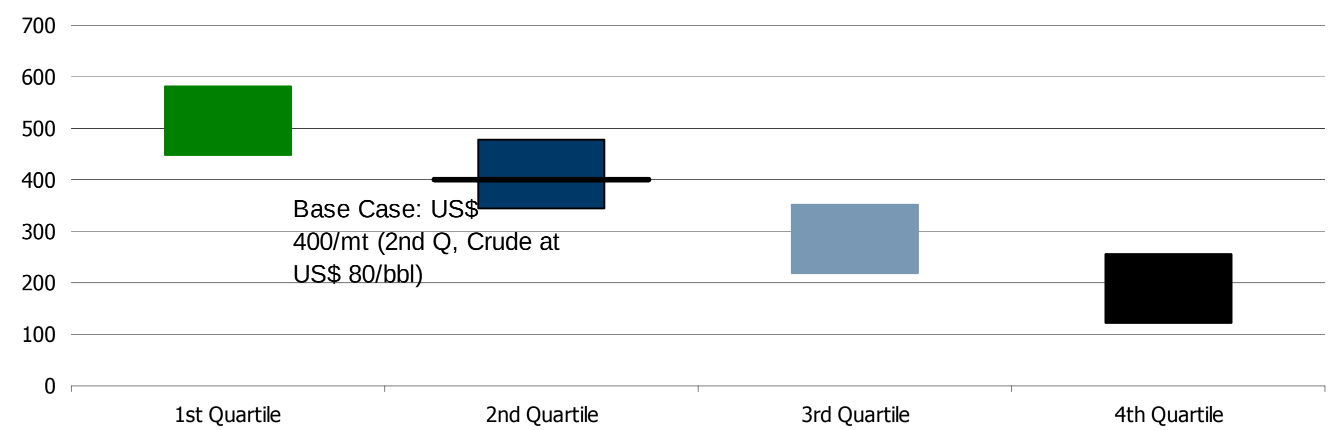

*Source: Company data, Credit Suisse estimates*

Figure 97: **EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

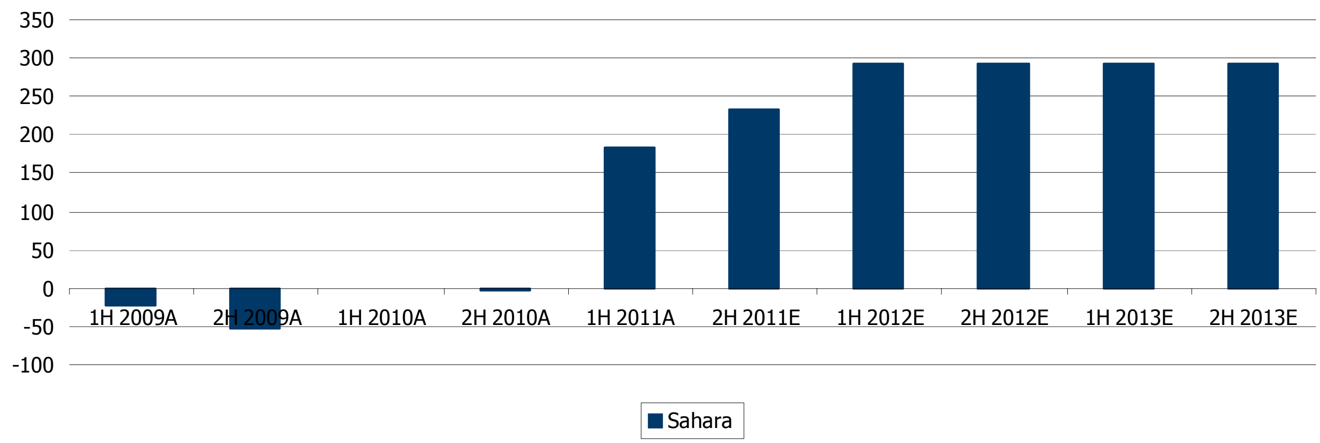
Figure 98: **Sahara: EBITDA/tonne range scenarios (USD/tonne)**




*Source: Credit Suisse estimates*

We estimate an average EBITDA of US$400/tonne for Sahara in our base case scenario. Our base case assumes second quartile margins and a crude price of US$80/bbl. Under this scenario, variations in the crude price from US$50 to US$120/bbl would cause Sahara's average EBITDA/tonne to vary from US$345-475/tonne. We estimate the best case EBITDA/tonne at US$580/tonne (first quartile, crude at US$120/bbl) and the worst case EBITDA/tonne at US$125/tonne (fourth quartile, crude at US$50/bbl).

Figure 99: **Sahara: Half-yearly EBITDA (SAR millions)**




*Source: Company data, Credit Suisse estimates*

We forecast 2H 2011 EBITDA at SAR234m, c.28% higher than in 1H 2011. The increase is on account of operationalisation of the Al Waha plant in Q2 2011.

### Key changes to our estimates

We revise our estimates for Sahara owing to a change in our petrochemical product price forecasts. Furthermore, Al Waha becoming operational in Q2 2011 has led us to revise our 2011 estimates upward.

Figure 100: **Sahara: Key changes to estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 1168.7 | 2337.5 | 2337.5 |
| New | 1855.9 | 2448.0 | 2448.0 |
| Change (%) | 58.8% | 4.7% | 4.7% |
| | | | |
| EBITDA | | | |
| Old | 277.5 | 555.1 | 555.1 |
| New | 417.0 | 587.3 | 587.3 |
| Change (%) | 50.3% | 5.5% | 5.5% |
| | | | |
| Net Income | | | |
| Old | 509.7 | 627.1 | 702.4 |
| New | 644.6 | 606.8 | 749.4 |
| Change (%) | 26.5% | -3.4% | 6.5% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Sahara using a target EV/EBITDA of 8x, in line with the benchmark multiple. We estimate normalised EBITDA at SAR587.3m.

**Figure 101: Sahara: Target price computation**

*in SAR millions, unless otherwise stated*

| | Sahara |
|---|---|
| Long run EBITDA | 587.3 |
| Target EV/EBITDA | 8.0 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 0% |
| EV | 4,674.9 |
| Investments | 4,458.5 |
| Less: Normalized Net Debt | -1,832.6 |
| Others | 0.0 |
| Less: Minorities | -1,825.2 |
| Equity Value | 5,475.6 |
| No. of Shares | 292.5 |
| Equity Value/share | 18.7 |
| Target Price | 21.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 102: Sahara: Income Statement**

*in SAR millions, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | - | 1,855.9 | 2,448.0 | 2,448.0 |
| EBITDA | (6.6) | 417.0 | 587.3 | 587.3 |
| D&A | 4.9 | 110.1 | 216.8 | 212.1 |
| EBIT | (11.5) | 306.8 | 370.5 | 375.2 |
| Finance Costs | - | - | - | - |
| Income from associates | 339.5 | 450.1 | 363.4 | 510.0 |
| Other income (expense) | 2.4 | 2.4 | 2.4 | 2.4 |
| PBT | 330.4 | 759.3 | 736.3 | 887.6 |
| Taxes | 1.2 | 38.0 | 36.8 | 44.4 |
| Net income before minorities | 329.2 | 721.3 | 699.5 | 843.2 |
| Share of minorities | - | 76.7 | 92.6 | 93.8 |
| Gains/(losses)/(deconsolidation) | - | - | - | - |
| Net income | 329.2 | 644.6 | 606.8 | 749.4 |

*Source: Company data, Credit Suisse estimates*

**Figure 103: Sahara: Balance Sheet**

*in SAR millions, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 20.4 | 4,275.0 | 4,180.6 | 4,090.9 |
| Intangibles | - | - | - | - |
| Investments | 1,538.3 | 1,988.4 | 2,351.9 | 2,861.9 |
| Other | 4,271.9 | - | - | - |
| Total non-current assets | 5,830.6 | 6,263.4 | 6,532.4 | 6,952.7 |
| | | | | |
| Cash | 164.1 | 527.5 | 886.9 | 1,309.7 |
| Accounts receivable | 495.3 | 92.8 | 122.4 | 122.4 |
| Inventories | 114.6 | 222.7 | 293.8 | 293.8 |
| Other | - | - | - | - |
| Total current assets | 774.0 | 843.0 | 1,303.0 | 1,725.9 |
| | | | | |
| TOTAL ASSETS | 6,604.6 | 7,106.4 | 7,835.4 | 8,678.6 |
| | | | | |
| Debt | 140.0 | 140.0 | 140.0 | 140.0 |
| Accounts payable | 312.4 | 92.8 | 122.4 | 122.4 |
| Other | 55.4 | 55.4 | 55.4 | 55.4 |
| Total current liabilities | 507.7 | 288.2 | 317.8 | 317.8 |
| | | | | |
| Debt | 2,220.1 | 2,220.1 | 2,220.1 | 2,220.1 |
| Other | 109.9 | 109.9 | 109.9 | 109.9 |
| Total non-current liabilities | 2,329.9 | 2,329.9 | 2,329.9 | 2,329.9 |
| | | | | |
| Minorities | 462.1 | 538.8 | 631.4 | 725.2 |
| Shareholders' Equity | 3,304.8 | 3,949.4 | 4,556.3 | 5,305.7 |
| | | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 6,604.6 | 7,106.4 | 7,835.4 | 8,678.6 |

*Source: Company data, Credit Suisse estimates*

**Figure 104: Sahara: Cash flow statement**

*in SAR millions, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | (6.6) | 417.0 | 587.3 | 587.3 |
| Working capital change | (233.7) | 74.8 | (71.1) | - |
| Other | 7.6 | 2.4 | 2.4 | 2.4 |
| Operating cash flow | (232.6) | 494.2 | 518.6 | 589.7 |
| Tax paid | (1.2) | (38.0) | (36.8) | (44.4) |
| Net interest paid | - | - | - | - |
| Cash earnings | (233.8) | 456.2 | 481.8 | 545.3 |
| | | | | |
| CAPEX | (163.1) | (92.8) | (122.4) | (122.4) |
| Intangibles | - | - | - | - |
| Acquisitions (net of disposals) | - | (4,271.9) | - | - |
| Other | (149.2) | 4,271.9 | - | - |
| Cash flow before financing | (546.2) | 363.4 | 359.4 | 422.9 |
| | | | | |
| Financing cash flows | 154.4 | - | - | - |
| Net borrowing | 84.1 | - | - | - |
| New equity | - | - | - | - |
| Dividends | - | - | - | - |
| Other | 70.3 | - | - | - |
| | | | | |
| Net Cash Flow | (391.8) | 363.4 | 359.4 | 422.9 |

*Source: Company data, Credit Suisse estimates*

Europe / Saudi Arabia
Agricultural Chemicals/Biotech

# Saudi Basic Industries Corp

(2010.SE)

| | |
|---|---|
| Rating | **NEUTRAL*** |
| Price (06 Sep 11, SRls) | 92.75 |
| Target price (SRls) | (from 116.00) 93.00[1] |
| Market cap. (SRls m) | 278,250.00 |
| Enterprise value (SRls m) | 554,326.9 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

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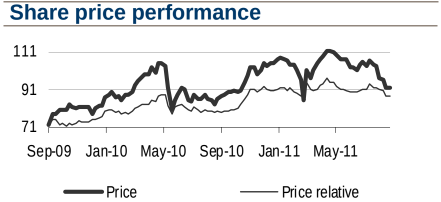
**COMPANY UPDATE**

## Weak fundamentals but attractive liquidity

- **Event:** We maintain our Neutral rating on Sabic and decrease our 12-month TP to SAR93 from SAR116 due to a change in our valuation methodology. We revise our 2011E, 2012E and 2013E net income by 9.7%, 0.4% and 0.5% respectively, on account of changes in forecast chemical prices.
- **Investment Case: (i) We view Sabic's exposure to polyethylenes as a cause for concern in a weakened economy:** We estimate polyethylenes to form c.24% of Sabic's 2012E EBITDA. We expect the polyethylenes business to be more acutely impacted in a global demand shock scenario due to higher latent supply than other product categories. **(ii) Ethane feedstock driven capacities increase the risk/reward profile to a decline in crude prices:** The leverage to crude prices is higher for ethane feedstock than for propane due to a difference in the feedstock pricing mechanism. Sabic's exposure to pure ethane capacities makes it more susceptible to a decline in crude prices, which would hurt earnings. **(iii) Overseas capacities may face lower operating rates, reducing volume throughput:** Sabic's overseas capacities in both ethylene (>15% of segment volume) and propylene segments (>30% of segment volume) do not enjoy the cost advantage of other MENA petrochemical producers and operating rates could potentially be more adversely impacted for Sabic in a demand downturn scenario.
- **Valuation:** We value Sabic using a target EV/EBITDA of 8x, and our normalised EBITDA estimate is SAR63.5bn. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 22% downside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 4011.9 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRls5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -4.9 | -9.7 | 6.0 |
| Relative (%) | -0.7 | 2.1 | 2.8 |

### Financial and valuation metrics

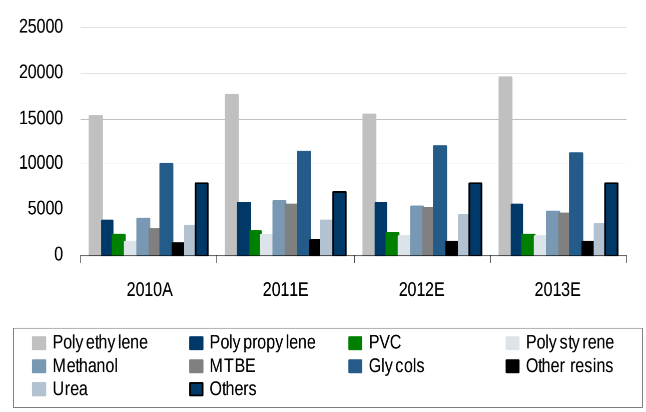
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRls m) | 151,710.8 | 167,237.8 | 157,655.3 | 154,839.6 |
| EBITDA (SRls m) | 48,225.63 | 64,146.25 | 62,654.94 | 63,538.77 |
| Net Income (SRls m) | 21,585.4 | 28,986.4 | 27,982.4 | 28,370.3 |
| CS adj. EPS (SRls) | 7.20 | 9.66 | 9.33 | 9.46 |
| Prev. EPS (SRls) | — | 8.83 | 9.29 | 9.37 |
| ROIC (%) | 16.39 | 21.57 | 20.12 | 20.03 |
| P/E (adj., x) | 12.89 | 9.60 | 9.94 | 9.81 |
| P/E rel. (%) | — | 72.3 | 84.9 | 96.1 |
| EV/EBITDA | 12.0 | 8.6 | 8.3 | 7.7 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRls) | 4.01 | IC (12/11E, SRls m) | 238,533.7 |
| Dividend yield (%) | 4.3 | EV/IC | 2.3 |
| Net debt (12/11E, SRls m) | 36,076.9 | Current WACC | 9.5 |
| Net debt/equity (12/11E, %) | 17.8 | Free float (%) | 30.0 |
| BV/share (12/11E, SRls) | 45.9 | Number of shares (m) | 3,000.00 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

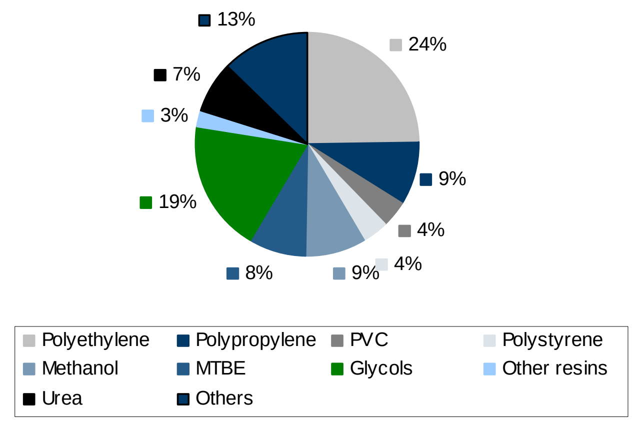
# EBITDA estimation

Figure 105: **EBITDA by product (SAR millions)**



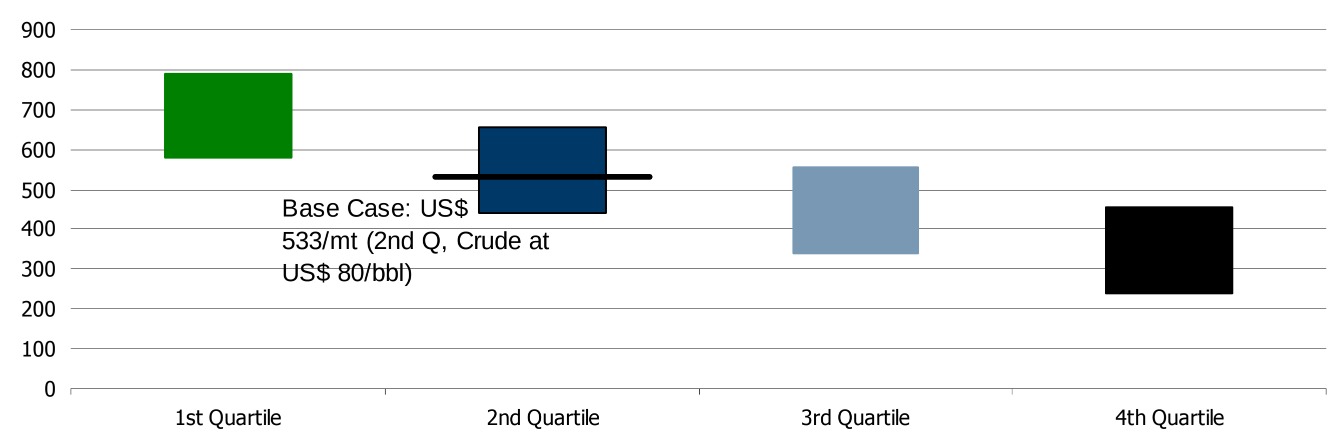

*Source: Company data, Credit Suisse estimates*

Figure 106: **EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

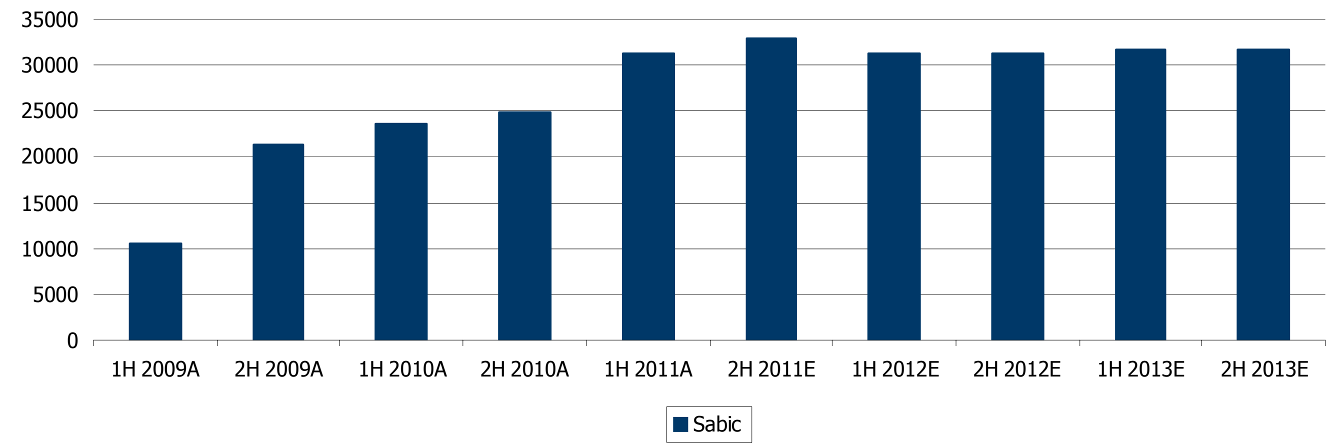
Figure 107: **Sabic: EBITDA/tonne range scenarios (USD/tonne)**




*Source: Credit Suisse estimates*

We estimate an average EBITDA of US$533/tonne for Sabic in our base case scenario. Our base case assumes second quartile margins and a crude price of US$80/bbl. Under this scenario, variations in the crude price from US$50 to US$120/bbl would cause Sabic's average EBITDA/tonne to vary from US$440-655/tonne. We estimate the best case EBITDA/tonne at US$790/tonne (first quartile, crude at US$120/bbl) and the worst case EBITDA/tonne at US$240/tonne (fourth quartile, crude at US$50/bbl).

Figure 108: **Sabic: Half-yearly EBITDA (SAR millions)**




*Source: Company data, Credit Suisse estimates*

We estimate 2H 2011E EBITDA at SAR3,2830m, c.5% higher than in 1H 2011 and c.32% higher than in 2H 2010.

### Key changes to our estimates

We revise our estimates for Sabic owing to a change in our petrochemical product price forecasts.

Figure 109: **Sabic: Key changes to our estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 170922.0 | 180282.0 | 181631.0 |
| New | 167237.8 | 157655.3 | 154839.6 |
| Change (%) | -2.2% | -12.6% | -14.8% |
| | | | |
| EBITDA | | | |
| Old | 59742.0 | 62543.0 | 63287.0 |
| New | 64146.2 | 62654.9 | 63538.8 |
| Change (%) | 7.4% | 0.2% | 0.4% |
| | | | |
| Net Income | | | |
| Old | 26497.0 | 27877.0 | 28121.0 |
| New | 28986.4 | 27982.4 | 28370.3 |
| Change (%) | 9.4% | 0.4% | 0.9% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Sabic using a target EV/EBITDA of 8x, in line with the benchmark multiple. We estimate normalised EBITDA at SAR63,538.3m.

Figure 110: **Sabic: Target price computation**
*in SAR millions, unless otherwise stated*

| | |
|---|---|
| Long run EBITDA | 63,538.8 |
| Target EV/EBITDA | 8.0 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 0% |
| EV | 505,768.8 |
| Investments | 8,829.2 |
| Less: Normalized Net Debt | -60,007.2 |
| Others | 0.0 |
| Less: Minorities | -181,836.4 |
| Equity Value | 272,754.5 |
| No. of Shares | 3,000.0 |
| Equity Value/share | 90.9 |
| Target Price | 93.0 |

*Source: Credit Suisse estimates*

# Financial statements

Figure 111: **Sabic: Income Statement**
*in SAR millions, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 151,710.8 | 167,237.8 | 157,655.3 | 154,839.6 |
| EBITDA | 48,225.6 | 64,146.2 | 62,654.9 | 63,538.8 |
| D&A | 10,393.7 | 10,830.3 | 11,219.1 | 11,515.2 |
| EBIT | 37,831.9 | 53,316.0 | 51,435.8 | 52,023.6 |
| Finance Costs | 3,381.7 | 3,281.7 | 3,181.7 | 3,081.7 |
| Other income (expense) | 1,360.0 | 1,360.0 | 1,360.0 | 1,360.0 |
| PBT | 35,810.3 | 51,394.3 | 49,614.2 | 50,301.9 |
| Taxes | 2,500.0 | 3,083.7 | 2,976.9 | 3,018.1 |
| Net income before minorities | 33,310.3 | 48,310.7 | 46,637.3 | 47,283.8 |
| Share of minorities | 11,724.9 | 19,324.3 | 18,654.9 | 18,913.5 |
| Gains/(losses)/(deconsolidation) | - | - | - | - |
| Net income | 21,585.4 | 28,986.4 | 27,982.4 | 28,370.3 |

*Source: Company data, Credit Suisse estimates*

**Figure 112: Sabic: Balance Sheet**
*in SAR millions, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 165,050.2 | 172,958.4 | 178,752.2 | 183,231.3 |
| Intangibles | 22,263.2 | 22,595.5 | 22,900.8 | 23,181.1 |
| Investments | 8,829.2 | 8,829.2 | 8,829.2 | 8,829.2 |
| Other | 4,635.5 | 4,635.5 | 4,635.5 | 4,635.5 |
| Total non-current assets | 200,778.1 | 209,018.7 | 215,117.7 | 219,877.2 |
| Cash | 50,645.0 | 74,575.3 | 106,029.1 | 137,518.8 |
| Accounts receivable | 29,216.3 | 32,206.4 | 30,361.0 | 29,818.8 |
| Inventories | 26,240.1 | 28,925.7 | 27,268.3 | 26,781.3 |
| Other | 10,334.7 | 10,334.7 | 10,334.7 | 10,334.7 |
| Total current assets | 116,436.1 | 146,042.1 | 173,993.1 | 204,453.6 |
| TOTAL ASSETS | 317,214.2 | 355,060.8 | 389,110.8 | 424,330.8 |
| Debt | 16,621.3 | 16,621.3 | 16,621.3 | 16,621.3 |
| Accounts payable | 15,347.2 | 16,917.9 | 15,948.6 | 15,663.7 |
| Other | 13,428.9 | 13,428.9 | 13,428.9 | 13,428.9 |
| Total current liabilities | 45,397.4 | 46,968.1 | 45,998.7 | 45,713.9 |
| Debt | 94,030.9 | 94,030.9 | 94,030.9 | 94,030.9 |
| Other | 11,605.0 | 11,605.0 | 11,605.0 | 11,605.0 |
| Total non-current liabilities | 105,635.9 | 105,635.9 | 105,635.9 | 105,635.9 |
| Minorities | 45,342.2 | 64,666.4 | 83,321.4 | 102,234.9 |
| Shareholders' Equity | 120,838.8 | 137,790.4 | 154,154.8 | 170,746.1 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 317,214.2 | 355,060.8 | 389,110.8 | 424,330.8 |

*Source: Company data, Credit Suisse estimates*

**Figure 113: Sabic: Cash flow statement**

*in SAR millions, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 48,225.6 | 64,146.2 | 62,654.9 | 63,538.8 |
| Working capital change | (14,597.4) | (4,105.0) | 2,533.4 | 744.4 |
| Other | 2,742.5 | 1,360.0 | 1,360.0 | 1,360.0 |
| Operating cash flow | 36,370.7 | 61,401.2 | 66,548.4 | 65,643.2 |
| Tax paid | (2,500.0) | (3,083.7) | (2,976.9) | (3,018.1) |
| Net interest paid | (3,381.7) | (3,281.7) | (3,181.7) | (3,081.7) |
| Cash earnings | 30,489.0 | 55,035.9 | 60,389.9 | 59,543.4 |
| | | | | |
| CAPEX | (16,027.3) | (16,831.4) | (15,078.7) | (14,035.2) |
| Intangibles | (1,603.0) | (2,239.4) | (2,239.4) | (2,239.4) |
| Acquisitions (net of disposals) | - | - | - | - |
| Other | (2,508.5) | - | - | - |
| Cash flow before financing | 10,350.3 | 35,965.1 | 43,071.7 | 43,268.8 |
| | | | | |
| Financing cash flows | (16,082.7) | (12,034.8) | (11,617.9) | (11,779.0) |
| Net borrowing | 3,637.4 | - | - | - |
| New equity | - | - | - | - |
| Dividends | (8,962.0) | (12,034.8) | (11,617.9) | (11,779.0) |
| Other | (10,758.2) | - | - | - |
| | | | | |
| Net Cash Flow | (5,732.5) | 23,930.3 | 31,453.8 | 31,489.8 |

*Source: Company data, Credit Suisse estimates*

Europe / Saudi Arabia
Agricultural Chemicals/Biotech

# Saudi Kayan Petrochemical Company (2350.SE)

| | |
|---|---|
| Rating | **NEUTRAL*** |
| Price (06 Sep 11, SRls) | 17.05 |
| Target price (SRls) | (from 15.40) 18.00[1] |
| Market cap. (SRls m) | 25,575.00 |
| Enterprise value (SRls m) | 49,081.2 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

**Research Analysts**
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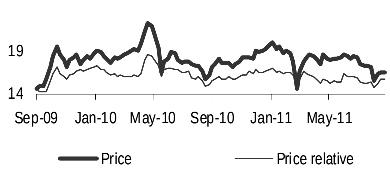
COMPANY UPDATE

## Startup and commissioning risks weigh heavily

- **Event:** We maintain our Neutral rating on Saudi Kayan and increase our 12-month TP to SAR18. The revision is due to a change in our valuation methodology. We revise 2011E, 2012E and 2013E net income by -95%, 19.3% and 32.5%, respectively, to account for commissioning schedule delays and higher margin expectations.
- **Investment Case: (i) Exposure to polypropylene and MEG is favourable for Kayan:** We are positive on Kayan's exposure to propylene segment (15% 2012E EBITDA) and MEG (33% 2012E EBITDA). We prefer polypropylene exposure on account of better demand-supply dynamics and low leverage to a decline in crude, while we prefer MEG due to strong underlying demand supply dynamics in the near to medium term. **(ii) Saudi Kayan's debt position is unfavourable, in our view:** Saudi Kayan's 2012E net debt position at c.95% of market cap is much higher than for peers such as Sabic and Yansab. We view this as unfavourable until the plant commissioning has been completed and operations are demonstrated to be stable.
- **Valuation:** We have valued Kayan using a target EV/EBITDA of 10x, and our normalised EBITDA estimate is SAR4.3bn. The multiples premium is to account for Kayan's higher-margin product slate, with a regionally unique exposure to a polycarbonates product slate. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 26% downside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 3903.1 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRls5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | 8.3 | -8.3 | -0.6 |
| Relative (%) | 12.4 | 3.5 | -3.8 |

### Financial and valuation metrics

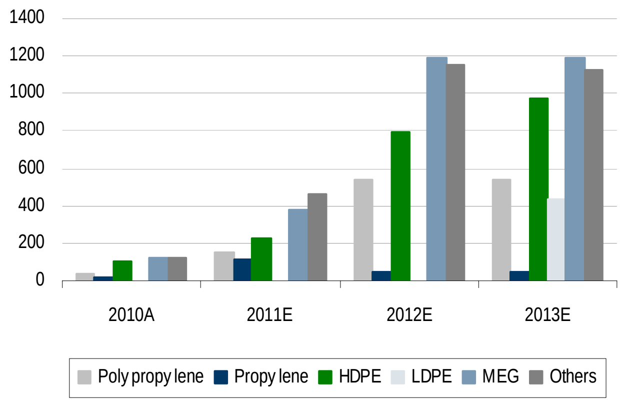
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRls m) | — | 3,394.5 | 10,049.7 | 11,053.2 |
| EBITDA (SRls m) | -14.25 | 1,662.57 | 3,726.89 | 4,319.87 |
| Net Income (SRls m) | -14.6 | 74.3 | 2,164.6 | 2,781.5 |
| CS adj. EPS (SRls) | -0.01 | 0.05 | 1.44 | 1.85 |
| Prev. EPS (SRls) | — | 1.11 | 1.21 | 1.40 |
| ROIC (%) | -0.04 | 2.14 | 7.40 | 8.84 |
| P/E (adj., x) | -1,750.27 | 344.02 | 11.82 | 9.19 |
| P/E rel. (%) | — | 2,590.5 | 100.8 | 90.0 |
| EV/EBITDA | -3,558.7 | 29.5 | 13.0 | 10.7 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRls) | 0.005 | IC (12/11E, SRls m) | 39,035.7 |
| Dividend yield (%) | 0.0 | EV/IC | 1.3 |
| Net debt (12/11E, SRls m) | 23,506.2 | Current WACC | 9.4 |
| Net debt/equity (12/11E, %) | 151.4 | Free float (%) | 45.0 |
| BV/share (12/11E, SRls) | 10.4 | Number of shares (m) | 1,500.00 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

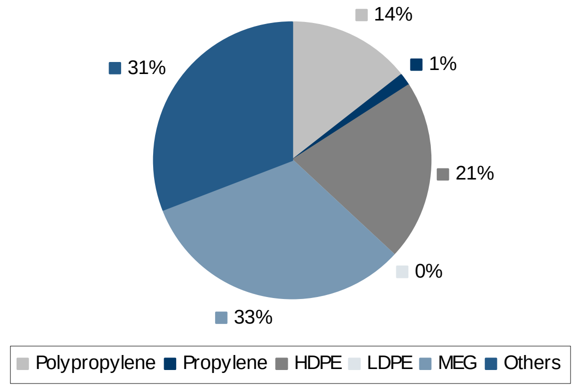
# EBITDA estimate

**Figure 114: EBITDA by product (SAR millions)**



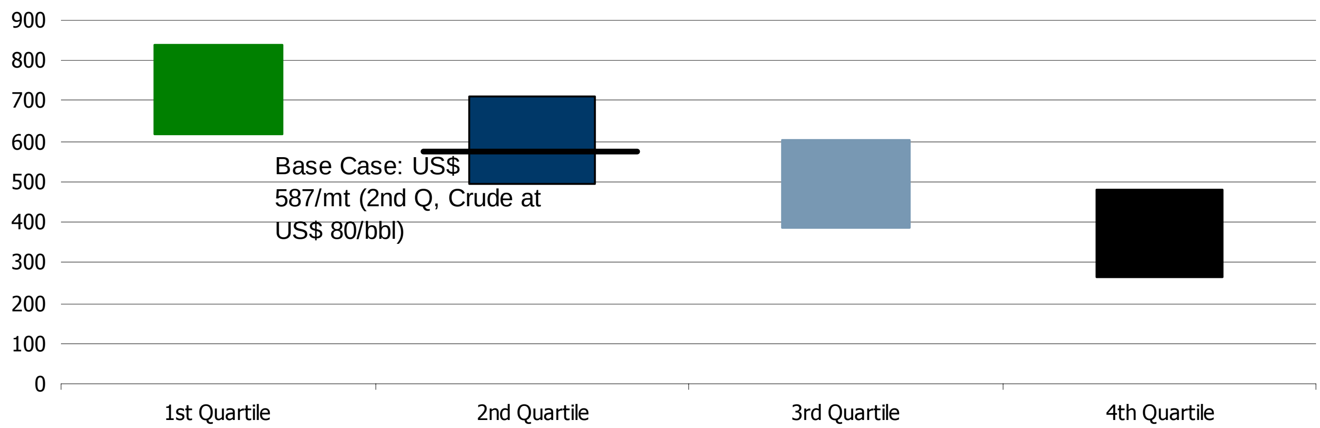

*Source: Company data, Credit Suisse estimates*

**Figure 115: EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

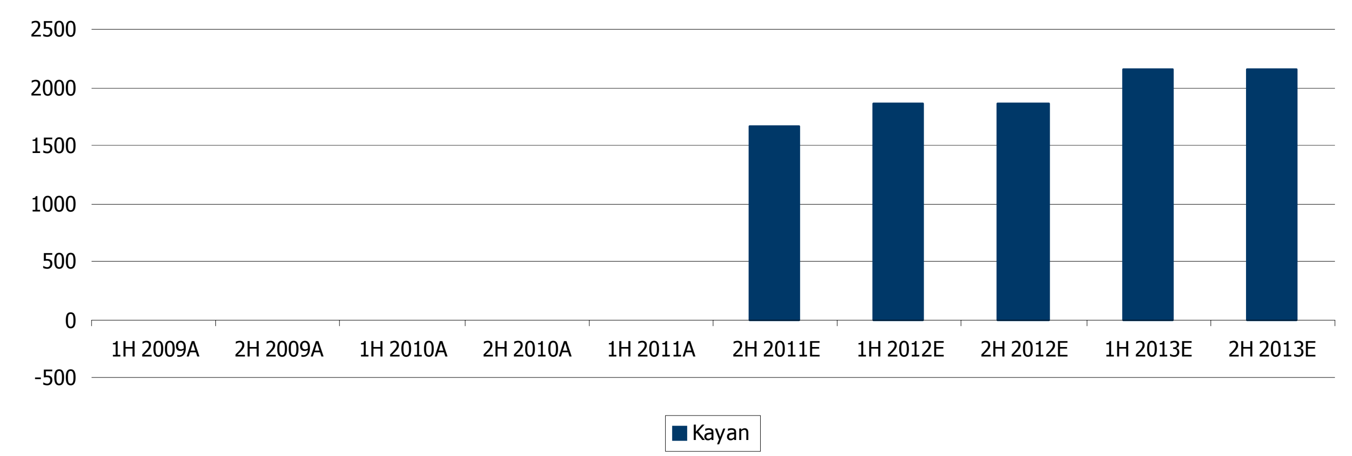
**Figure 116: Kayan: EBITDA/tonne range scenarios (USD/tonne)**




*Source: Credit Suisse estimates*

We estimate an average EBITDA of US$587/tonne for Kayan in our base case scenario. Our base case assumes second quartile margins and a crude price of US$80/bbl. Under this scenario, variations in the crude price from US$50 to US$120/bbl would cause Kayan's average EBITDA/tonne to vary from US$495-710/tonne. We estimate the best case EBITDA/tonne at US$840/tonne (first quartile, crude at US$D120/bbl) and the worst case EBITDA/tonne at US$260/tonne (fourth quartile, crude at US$50/bbl).

Figure 117: **Kayan: Half-yearly EBITDA (SAR millions)**




*Source: Company data, Credit Suisse estimates*

We forecast a 2H 2011E EBITDA of SAR1,669.4m, on the expected commissioning of its plants.

### Key changes to our estimates

We revise our estimates for Kayan owing to a change in our petrochemical product price forecasts.

Figure 118: **Kayan: Key changes to our estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 9050.0 | 9500.0 | 10149.0 |
| New | 3394.5 | 10049.7 | 11053.2 |
| Change (%) | -62.5% | 5.8% | 8.9% |
| | | | |
| EBITDA | | | |
| Old | 3258.0 | 3379.0 | 3638.0 |
| New | 1662.6 | 3726.9 | 4319.9 |
| Change (%) | -49.0% | 10.3% | 18.7% |
| | | | |
| Net Income | | | |
| Old | 1669.0 | 1815.0 | 2099.0 |
| New | 74.3 | 2164.6 | 2781.5 |
| Change (%) | -95.5% | 19.3% | 32.5% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Kayan using a target EV/EBITDA of 10x, a 25% premium to the benchmark multiple. We estimate normalised EBITDA at SAR4,319.9m.

**Figure 119: Kayan: Target price computation**
*in SAR millions, unless otherwise stated*

| | Kayan |
|---|---|
| Long run EBITDA | 4,319.9 |
| Target EV/EBITDA | 10.0 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 25% |
| EV | 42,982.7 |
| Investments | 0.0 |
| Less: Normalized Net Debt | -18,841.8 |
| Others | 0.0 |
| Less: Minorities | 0.0 |
| Equity Value | 24,140.9 |
| No. of Shares | 1,500.0 |
| Equity Value/share | 16.1 |
| Target Price | 18.0 |

*Source: Credit Suisse estimates*

# Financial statements

**Figure 120: Kayan: Income Statement**
*in SAR thousands, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | - | 3,394,470.6 | 10,049,704.3 | 11,053,177.0 |
| EBITDA | (14,246.0) | 1,662,573.5 | 3,726,886.0 | 4,319,866.4 |
| EBIT | (14,246.0) | 850,919.6 | 2,928,946.0 | 3,533,664.7 |
| Finance Income (Expense) | - | (776,577.2) | (764,366.1) | (752,155.0) |
| Other income (expense) | - | - | - | - |
| PBT | (14,246.0) | 74,342.3 | 2,164,579.9 | 2,781,509.7 |
| Taxes | (366.0) | - | - | - |
| Net income | (14,612.0) | 74,342.3 | 2,164,579.9 | 2,781,509.7 |

*Source: Company data, Credit Suisse estimates*

**Figure 121: Kayan: Balance Sheet**

*in SAR thousands, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 40,557,238.0 | 39,796,501.1 | 39,199,555.3 | 38,634,417.1 |
| Intangibles | - | - | - | - |
| Investments | - | - | - | - |
| Other | 34,189.0 | 34,189.0 | 34,189.0 | 34,189.0 |
| Total non-current assets | 40,591,427.0 | 39,830,690.1 | 39,233,744.3 | 38,668,606.1 |
| | | | | |
| Cash | 967,032.0 | 2,176,161.3 | 2,400,648.8 | 4,249,920.6 |
| Accounts receivable | 1,417,240.0 | 678,894.1 | 2,009,940.9 | 2,210,635.4 |
| Inventories | 498,371.0 | 577,060.0 | 1,708,449.7 | 1,879,040.1 |
| Other | - | - | - | - |
| Total current assets | 2,882,643.0 | 3,432,115.4 | 6,119,039.4 | 8,339,596.0 |
| | | | | |
| TOTAL ASSETS | 43,474,070.0 | 43,262,805.5 | 45,352,783.6 | 47,008,202.1 |
| | | | | |
| Debt | 580,312.0 | 580,312.0 | 580,312.0 | 580,312.0 |
| Accounts payable | 261,499.0 | 390,364.1 | 1,155,716.0 | 1,271,115.4 |
| Other | 1,572,039.0 | 1,572,039.0 | 1,572,039.0 | 1,572,039.0 |
| Total current liabilities | 2,413,850.0 | 2,542,715.1 | 3,308,067.0 | 3,423,466.4 |
| | | | | |
| Debt | 25,509,115.0 | 25,102,077.3 | 24,695,039.6 | 24,288,002.0 |
| Other | 88,552.0 | 88,552.0 | 88,552.0 | 88,552.0 |
| Total non-current liabilities | 25,597,667.0 | 25,190,629.3 | 24,783,591.6 | 24,376,554.0 |
| | | | | |
| Minorities | - | - | - | - |
| Shareholders' Equity | 15,462,553.0 | 15,529,461.1 | 17,261,125.0 | 19,208,181.8 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 43,474,070.0 | 43,262,805.5 | 45,352,783.6 | 47,008,202.1 |

*Source: Company data, Credit Suisse estimates*

**Figure 122: Kayan: Cash flow statement**

*in SAR thousands, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | (14,246.0) | 1,662,573.5 | 3,726,886.0 | 4,319,866.4 |
| Working capital change | (1,747,997.0) | 788,522.0 | (1,697,084.6) | (255,885.6) |
| Other | (995,764.0) | - | - | - |
| Operating cash flow | (2,758,007.0) | 2,451,095.5 | 2,029,801.4 | 4,063,980.9 |
| Zakat | - | - | - | - |
| Net interest paid | - | (776,577.2) | (764,366.1) | (752,155.0) |
| Cash earnings | (2,758,007.0) | 1,674,518.2 | 1,265,435.3 | 3,311,825.9 |
| CAPEX | (5,722,706.0) | (50,917.1) | (200,994.1) | (221,063.5) |
| Intangibles | - | - | - | - |
| Acquisitions (net of disposals) | - | - | - | - |
| Other | - | - | - | - |
| Cash flow before financing | (8,480,713.0) | 1,623,601.2 | 1,064,441.2 | 3,090,762.3 |
| Financing cash flows | 6,975,957.0 | (414,471.9) | (839,953.7) | (1,241,490.6) |
| Net borrowing | 6,975,957.0 | (407,037.7) | (407,037.7) | (407,037.7) |
| New equity | - | - | - | - |
| Dividends | - | (7,434.2) | (432,916.0) | (834,452.9) |
| Other | - | - | - | - |
| Net Cash Flow | (1,504,756.0) | 1,209,129.3 | 224,487.5 | 1,849,271.8 |

*Source: Company data, Credit Suisse estimates*

Europe / Saudi Arabia
Specialty Chemicals

# Saudi International Petrochemical Company (2310.SE)

| | |
|---|---|
| Rating | **NEUTRAL*** |
| Price (06 Sep 11, SRls) | 18.00 |
| Target price (SRls) | (from 24.00) 21.00[1] |
| Market cap. (SRls m) | 6,600.00 |
| Enterprise value (SRls m) | 8,744.8 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]Target price is for 12 months.*

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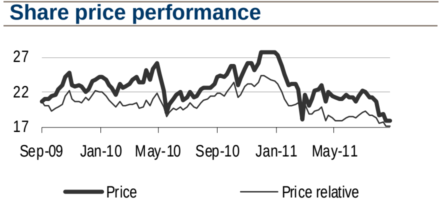
COMPANY UPDATE

## Attractive product exposure but risks to downside

- **Event:** We maintain our Neutral rating on Sipchem and decrease our 12-month TP for Sipchem to SAR21. The revision is owing to a change in our valuation methodology. We revise our 2011E, 2012E and 2013E net income by 12.3%, 17.1% and -0.3%, respectively, on our expectation of higher short-term methanol and VAM prices.
- **Investment Case: (i) Exposure to methanol, a product currently at peak-cycle margin levels:** We estimate that methanol directly contributes to c.46% of Sipchem's 2012E EBITDA. Methanol margins are currently in the historical peak-cycle range, and we expect the margins to be resilient with seasonality-driven strength over the next 6 months. **(ii) Sipchem offers a unique petrochemicals product slate:** Sipchem produces and markets methanol, butanediol, acetic acid, acetic anhydride and VAM. This product portfolio is unique in the Saudi context and makes Sipchem an interesting pure play (hydroxyl group derivatives), in our view. **(iii) Sipchem could face sharp declines in earnings on account of weaker global demand and declining crude prices:** We estimate the EBITDA for Sipchem would be lower by c.23% in the event of global demand declining and margins dropping one quartile. Also, for every US$10/bbl decline in crude prices, we estimate Sipchem's EBITDA could potentially decline by c.15%.
- **Valuation:** We have valued Sipchem using a target EV/EBITDA of 10.3x, with a normalised EBITDA estimate is SAR1,272m. The multiple premium is on account of the historically higher average through-the-cycle multiple for the methanol product group and Sipchem compared to other petrochemical stocks. Under our stress-test scenario (third quartile margins, crude at US$60/bbl long run), we estimate 26% downside potential from the current share price.

### Share price performance




*The price relative chart measures performance against the MSCI DAILY TOTAL RTN GR WORLD IDX which closed at 3903.1 on 06/09/11*
*On 06/09/11 the spot exchange rate was SRls5.25/Eu 1. - Eu .71/US$1*

| Performance Over | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | -5.5 | -15.3 | -18.2 |
| Relative (%) | -1.4 | -3.5 | -21.4 |

### Financial and valuation metrics

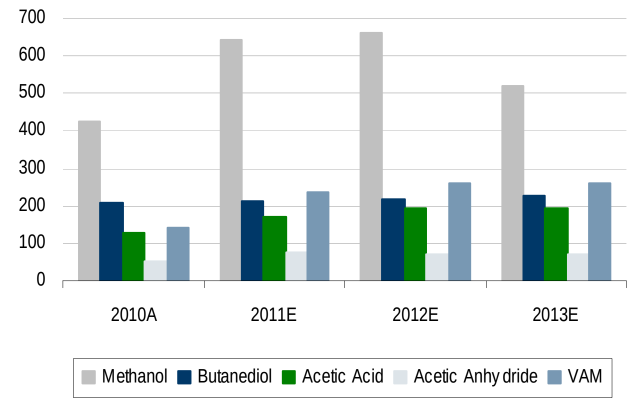
| Year | 12/10A | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|
| Revenue (SRls m) | 1,992.5 | 2,999.6 | 2,999.2 | 2,878.1 |
| EBITDA (SRls m) | 1,069.34 | 1,339.24 | 1,408.85 | 1,271.88 |
| Net Income (SRls m) | 378.1 | 542.2 | 552.6 | 578.9 |
| CS adj. EPS (SRls) | 1.13 | 1.63 | 1.66 | 1.74 |
| Prev. EPS (SRls) | — | 1.45 | 1.42 | — |
| ROIC (%) | 8.76 | 11.54 | 12.19 | 10.67 |
| P/E (adj., x) | 15.87 | 11.07 | 10.86 | 10.37 |
| P/E rel. (%) | — | 83.3 | 92.7 | 101.5 |
| EV/EBITDA | 8.9 | 6.5 | 5.6 | 5.5 |

| | | | |
|---|---|---|---|
| Dividend (12/11E, SRls) | — | IC (12/11E, SRls m) | 8,997.6 |
| Dividend yield (%) | — | EV/IC | 0.97 |
| Net debt (12/11E, SRls m) | 2,144.8 | Current WACC | 9.4 |
| Net debt/equity (12/11E, %) | 31.3 | Free float (%) | 68.0 |
| BV/share (12/11E, SRls) | 16.4 | Number of shares (m) | 366.67 |

*Source: Company data, Thomson Reuters, Credit Suisse estimates.*

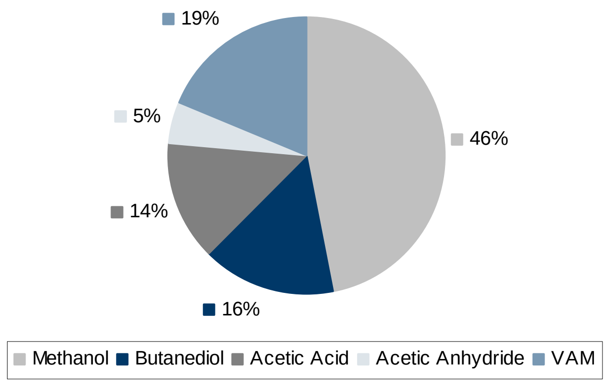
# EBITDA estimation

**Figure 123: EBITDA by product (SAR millions)**



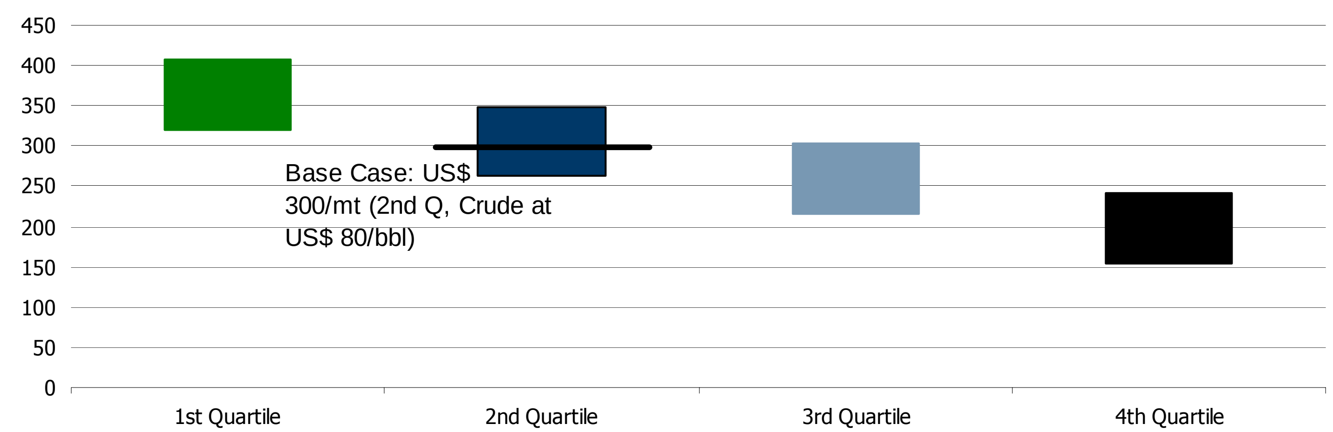

*Source: Company data, Credit Suisse estimates*

**Figure 124: EBITDA by product (2012E)**




*Source: Credit Suisse estimates*

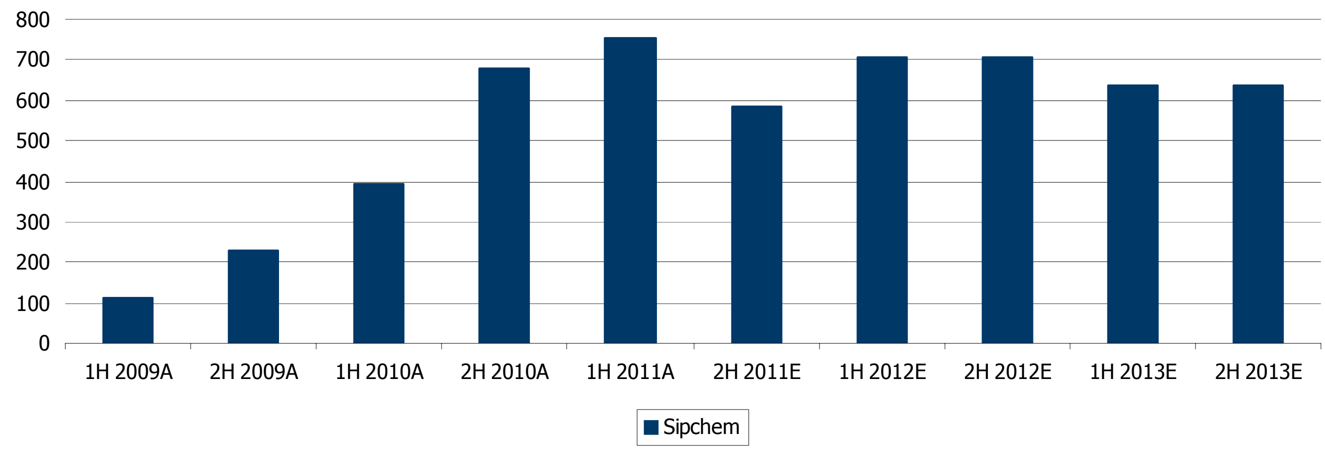
**Figure 125: Sipchem: EBITDA/tonne range scenarios (US$/tonne)**




*Source: Credit Suisse estimates*

We estimate an average EBITDA of US$300/tonne for Sipchem in our base case scenario. Our base case assumes second quartile margins and a crude price of US$80/bbl. Under this scenario, variations in the crude price from US$50 to US$120/bbl would cause Sipchem's average EBITDA/tonne to vary from US$260-350/tonne. We estimate the best case EBITDA/tonne at US$405/tonne (first quartile, crude at US$120/bbl) and the worst case EBITDA/tonne at US$155/tonne (fourth quartile, crude at US$50/bbl).

Figure 126: **Sipchem: Half-yearly EBITDA (SAR millions)**




*Source: Company data, Credit Suisse estimates*

We forecast 2H 2011E EBITDA at SAR585m, c.22% lower than in 1H 2011 and c.14% lower than in 2H 2010 on conservative margin and operating rate assumptions.

### Key changes to estimates

We revise our estimates for Sipchem owing to a change in our petrochemical product price forecasts.

Figure 127: **Sipchem: Key changes to estimates**
*in SAR millions, unless otherwise stated*

| | 2011E | 2012E | 2013E |
|---|---|---|---|
| Revenues | | | |
| Old | 2862.0 | 2774.0 | 2788.0 |
| New | 2999.6 | 2999.2 | 2878.1 |
| Change (%) | 4.8% | 8.1% | 3.2% |
| | | | |
| EBITDA | | | |
| Old | 1069.0 | 1241.0 | 1274.0 |
| New | 1339.2 | 1408.8 | 1271.9 |
| Change (%) | 25.3% | 13.5% | -0.2% |
| | | | |
| Net Income | | | |
| Old | 482.8 | 471.7 | 580.2 |
| New | 542.2 | 552.5 | 578.7 |
| Change (%) | 12.3% | 17.1% | -0.3% |

*Source: Credit Suisse estimates*

### Valuation

We have valued Sipchem using a target EV/EBITDA multiples-based approach. Our target multiple for Sipchem is 10.3x, a 30% premium to our benchmark multiple. We estimate normalised EBITDA at SAR1,271.9m.

Figure 128: **Sipchem: Target price computation**
*in SAR millions, unless otherwise stated*

| | Sipchem |
|---|---|
| Long run EBITDA | 1,271.9 |
| Target EV/EBITDA | 10.3 |
| Benchmark EV/EBITDA | 8.0 |
| Premium/Discount | 30% |
| EV | 13,161.6 |
| Investments | 40.8 |
| Less: Normalized Net Debt | -2,936.9 |
| Others | 0.0 |
| Less: Minorities | -3,387.6 |
| Equity Value | 6,877.9 |
| No. of Shares | 366.7 |
| Equity Value/share | 18.8 |
| Target Price | 21.0 |

*Source: Credit Suisse estimates*

# Financial statements

Figure 129: **Sipchem: Income Statement**
*in SAR thousands, unless otherwise stated*

| Income Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| Revenues | 1,992,536.0 | 2,999,626.1 | 2,999,195.7 | 2,878,109.0 |
| EBITDA | 1,069,340.0 | 1,339,241.1 | 1,408,845.5 | 1,271,881.2 |
| D&A | 305,189.0 | 303,330.5 | 310,043.5 | 311,911.2 |
| EBIT | 764,151.0 | 1,035,910.5 | 1,098,802.0 | 959,970.0 |
| Finance Costs | (107,245.8) | (136,726.8) | (182,302.4) | - |
| Other income (expense) | 3,145.3 | - | - | - |
| PBT | 660,050.5 | 899,183.7 | 916,499.6 | 959,970.0 |
| Taxes | - | - | - | - |
| Net income before minorities | 660,050.5 | 899,183.7 | 916,499.6 | 959,970.0 |
| Share of minorities | 238,029.3 | 296,730.6 | 302,444.9 | 316,790.1 |
| Gains/(losses)/(deconsolidation) | - | - | - | - |
| Income before Zakat | 422,021.2 | 602,453.1 | 614,054.8 | 643,179.9 |
| Zakat | (43,941.9) | (60,245.3) | (61,405.5) | (64,318.0) |
| Net income | 378,079.3 | 542,207.8 | 552,649.3 | 578,861.9 |

*Source: Company data, Credit Suisse estimates*

**Figure 130: Sipchem: Balance Sheet**

*in SAR thousands, unless otherwise stated*

| Balance Sheet (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| PP&E | 9,505,558.8 | 9,652,172.2 | 9,674,526.5 | 9,625,436.1 |
| Intangibles | 32,793.2 | 38,232.4 | 44,573.7 | 51,966.9 |
| Investments | 62,624.5 | 62,624.5 | 62,624.5 | 62,624.5 |
| Other | - | - | - | - |
| Total non-current assets | 9,600,976.5 | 9,753,029.0 | 9,781,724.7 | 9,740,027.5 |
| Cash | 1,620,643.8 | 2,412,776.3 | 3,230,869.9 | 3,753,228.6 |
| Accounts receivable | 596,395.1 | 638,983.1 | 643,741.0 | 600,187.5 |
| Inventories | 208,530.4 | 160,667.5 | 161,226.4 | 152,609.6 |
| Other | - | - | - | - |
| Total current assets | 2,425,569.4 | 3,212,426.9 | 4,035,837.2 | 4,506,025.7 |
| TOTAL ASSETS | 12,026,545.8 | 12,965,455.9 | 13,817,561.9 | 14,246,053.2 |
| Debt | - | - | - | - |
| Accounts payable | 446,522.6 | 546,494.2 | 543,506.1 | 532,101.3 |
| Other | 409,987.6 | 409,987.6 | 409,987.6 | 409,987.6 |
| Total current liabilities | 856,510.2 | 956,481.9 | 953,493.7 | 942,088.9 |
| Debt | 4,557,559.7 | 4,557,559.7 | 4,557,559.7 | 4,101,803.7 |
| Other | 598,580.7 | 598,580.7 | 598,580.7 | 598,580.7 |
| Total non-current liabilities | 5,156,140.4 | 5,156,140.4 | 5,156,140.4 | 4,700,384.4 |
| Minorities | 1,092,408.9 | 1,389,139.5 | 1,691,584.4 | 2,008,374.5 |
| Shareholders' Equity | 4,921,486.4 | 5,463,694.2 | 6,016,343.4 | 6,595,205.4 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 12,026,545.8 | 12,965,455.9 | 13,817,561.9 | 14,246,053.2 |

*Source: Company data, Credit Suisse estimates*

**Figure 131: Sipchem: Cash flow statement**
*in SAR thousands, unless otherwise stated*

| Cash Flow Statement (YE Dec) | FY 2010 A | FY 2011 E | FY 2012 E | FY 2013 E |
|---|---|---|---|---|
| EBITDA | 1,069,340.0 | 1,339,241.1 | 1,408,845.5 | 1,271,881.2 |
| Working capital change | (534,924.7) | 105,246.6 | (8,304.9) | 40,765.5 |
| Other | (8,390.3) | - | - | - |
| Operating cash flow | 526,025.0 | 1,444,487.6 | 1,400,540.6 | 1,312,646.6 |
| Zakat | (43,941.9) | (60,245.3) | (61,405.5) | (64,318.0) |
| Net interest paid | (107,245.8) | (136,726.8) | (182,302.4) | - |
| Cash earnings | 374,837.2 | 1,247,515.5 | 1,156,832.7 | 1,248,328.6 |
| | | | | |
| CAPEX | (359,910.7) | (449,943.9) | (332,397.8) | (262,820.8) |
| Intangibles | (5,157.0) | (5,439.2) | (6,341.4) | (7,393.2) |
| Acquisitions (net of disposals) | (10,592.1) | - | - | - |
| Other | 69,804.3 | - | - | - |
| Cash flow before financing | 68,981.8 | 792,132.4 | 818,093.6 | 978,114.7 |
| | | | | |
| Financing cash flows | (279,540.3) | - | - | (455,756.0) |
| Net borrowing | 104,475.4 | - | - | (455,756.0) |
| New equity | 82,207.3 | - | - | - |
| Dividends | (335,533.3) | - | - | - |
| Other | (130,689.6) | - | - | - |
| | | | | |
| Net Cash Flow | (210,558.5) | 792,132.4 | 818,093.6 | 522,358.7 |

*Source: Company data, Credit Suisse estimates*

*The authors of this report wish to acknowledge the contribution made by Balaji Krishnamurthy, an employee of CRISIL Global Research and Analytics, a business division of CRISIL Limited, a third-party provider of research services to Credit Suisse.*

**Companies Mentioned** *(Price as of 06 Sep 11)*
Advanced Petrochemical Company (2330.SE, SRls29.00, OUTPERFORM, TP SRls36.00)
BASF (BASF.DE, Eu44.40, OUTPERFORM, TP Eu76.00)
Braskem (BRKM5, R$18.50, OUTPERFORM, TP R$28.00)
Celanese Corporation (CE, $41.67, OUTPERFORM, TP $67.00)
CF Industries (CF, $185.69, OUTPERFORM, TP $191.00)
China Petroleum & Chemical Corporation - H (0386.HK, HK$7.56, OUTPERFORM, TP HK$8.80)
Dow Chemical Company (DOW, $26.15, OUTPERFORM, TP $49.00)
Formosa Petrochemical (6505.TW, NT$79.90, UNDERPERFORM, TP NT$76.85)
Formosa Plastics (1301.TW, NT$85.00, NEUTRAL, TP NT$100.20)
Hanwha Chemical (009830.KS, W32,850, UNDERPERFORM [V], TP W33,000)
Honam Petrochemical (011170.KS, W353,500, OUTPERFORM [V], TP W520,000)
Industries Qatar (IQCD.QA, QR122.50, OUTPERFORM, TP QR161.00)
LyondellBasell Industries (LYB, $32.91)
Mexichem (MEXCHEM, peso46.64, OUTPERFORM, TP peso58.00)
Mitsubishi Chemical Holdings (4188, ¥515, OUTPERFORM, TP ¥900, MARKET WEIGHT)
Mitsubishi Gas Chemical (4182, ¥497, OUTPERFORM, TP ¥750, MARKET WEIGHT)
Mitsui Chemicals (4183, ¥254, NEUTRAL, TP ¥320, MARKET WEIGHT)
Nan Ya Plastics (1303.TW, NT$67.10, OUTPERFORM, TP NT$84.80)
National Industrialization Company (2060.SE, SRls37.20, OUTPERFORM, TP SRls55.00)
Petronas Chemicals Group BHD (PCGB.KL, RM6.30, NEUTRAL [V], TP RM6.80)
PTT Chemical PLC (PTTC.BK, Bt133.50, NEUTRAL, TP Bt158.00)
Rabigh Refining and Petrochemical Company (2380.SE, SRls21.80, NEUTRAL, TP SRls24.00)
Sahara Petrochemical Company (2260.SE, SRls19.95, NEUTRAL, TP SRls21.00)
Saudi Arabian Fertilizer Company (2020.SE, SRls171.50, NEUTRAL, TP SRls186.00)
Saudi Basic Industries Corp (2010.SE, SRls92.75, NEUTRAL, TP SRls93.00)
Saudi International Petrochemical Company (2310.SE, SRls18.00, NEUTRAL, TP SRls21.00)
Saudi Kayan Petrochemical Company (2350.SE, SRls17.05, NEUTRAL, TP SRls18.00)
Sumitomo Chemical (4005, ¥306, NEUTRAL, TP ¥420, MARKET WEIGHT)
Yanbu National Petrochemical Company (2290.SE, SRls44.90, NEUTRAL, TP SRls47.00)

# Disclosure Appendix

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**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

**Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.*

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**Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.
**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.
**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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|---|---|---|
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| **Underperform/Sell*** | 9% | (51% banking clients) |
| **Restricted** | 2% | |

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