



## EVENT FLASH

### Higher gross margin & other income support earnings

SABIC reported a strong set of 2Q16 results with a net income of SR4.7bn, significantly higher than the NCBC and consensus estimates of SR3.7bn and SR3.9bn, respectively. We believe the deviation is mainly driven by 1) higher petrochemical margins and lower losses at the steel segment 2) higher investment and other income. Gross margin stood at 31.9% in 2Q16, higher than our estimate of 29.0%.

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- Sales stood at SR34.5bn in 2Q16, in-line with our estimates. We believe the petrochemical facilities operated at 94% in 2Q16, higher than our estimate of 92%. Gross margin came in at 31.9% in 2Q16, higher than our estimate of 29.0% and 30.0% in 2Q15. We believe the higher than expected gross margins at the petrochemical segment mitigated the weak performance of fertilizers. Moreover, higher operational efficiency and lower gross loss at the metals segment supported gross margin improvement.
- Opex stood at SR4.1bn in 2Q16, higher than our estimate of SR3.7bn. This is due to the SR366mn Ibn Rushd impairment. The company recorded a similar impairment of SR780.6mn in 4Q15. Moreover, the deviation increased at the net level, which is due to higher than expected other income. We believe investment income came in at SR779mn in 2Q16, higher than our estimate of SR586mn.
- Prices of petrochemicals products increased 8.6% QoQ but declined 22.6% YoY. Urea prices remained flat QoQ but declined 27.2% YoY to US\$214/mt.
- SABIC announced a DPS of SR2.0 for 1H16 which is lower than 1H15 of SR2.5 and indicated a potential dividend cut. If the company distributes SR3.0 in 2H16, in-line with 2H15, the dividend yield will be 5.9%.
- We remain Neutral on SABIC with a PT of SR87.9. The stock is currently trading at 2016E P/E of 16.9x, in line with the sector average of 17.0x.

#### 2Q16 Results Summary

SR mn	2Q16A	1Q16A	% QoQ	2Q15A	% YoY	2Q16E	% Var^
Revenue	34,500	31,153	10.7	42,095	(18.0)	33,708	2.3
Gross income	11,020	8,390	31.4	12,720	(13.4)	9,785	12.6
Gross margin (%)	31.9	26.9	5.0	30.0	1.9	29.0	2.9
Operating income	6,950	4,996	39.0	9,380	(25.9)	6,077	14.4
Net income	4,740	3,406	39.0	6,171	(23.2)	3,666	29.3
EPS (SR)	1.58	1.14	39.0	2.06	(23.2)	1.22	29.3

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

## NEUTRAL

Target price	87.9
Current price (SR)	85.1

#### STOCK DETAILS

52-week range H/L (SR)	97/60
Market cap (\$ mn)	68,088
Shares outstanding (mn)	3,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.4	0.4	(10.2)
Rel. to market	4.9	6.1	18.9

Avg daily turnover (mn)	SR	US\$
3M	556.6	148.4
12M	604.0	161.1

Reuters code	2010.SE
Bloomberg code	SABIC AB
	<a href="http://www.sabic.com">www.sabic.com</a>

#### VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	13.6	16.9	14.5
P/B (x)	1.6	1.6	1.6
EV/EBITDA (x)	5.8	6.6	6.1
Div Yield (%)	6.5	5.9	5.9

Source: NCBC Research estimates

#### SHARE PRICE PERFORMANCE



Source: Tadawul

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- OVERWEIGHT:** Target price represents an increase in the share price in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents a change in the share price between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

- NR:** Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

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