



Full integration of SIIG and Petrochem

Creation of a leading petrochemical player in Saudi Arabia with an integrated platform, diversified portfolio and efficient structure

April 2022

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Executive summary

SIIG's acquisition of the minority stake in Petrochem

Overview of the transaction

Background

- SIIG and Petrochem began assessment of the economic feasibility of a business combination on 20 September 2020, announced start of due diligence and negotiation on 15 April 2021, agreed a non-binding MoU setting out transaction structure and exchange ratio on 28 September 2021 and signed the Implementation Agreement and announced firm intention on 27 October 2021.
- SIIG's acquisition of all the shares issued in Petrochem that are not owned by SIIG (i.e. 50% of Petrochem's shares) will help in the *full* combination of business and operation, which will fence against latest development in the petrochemicals sector, and will position SIIG post-completion to create value for the combined set of shareholders.

Structure

- The transaction will be implemented by way of a share exchange offer where SIIG will issue shares to other Petrochem shareholders in exchange for their 50% stake in Petrochem in accordance with the exchange ratio.
- Based on the exchange ratio, Petrochem shareholders will own 40.38% in SIIG post completion of the transaction and SIIG shareholders will own 59.62% in SIIG post completion.

Key terms

- The board size post completion will be comprised of 8 directors from SIIG and 2 directors nominated by Petrochem.
- Exchange ratio will be 1.27 share in SIIG per each share in Petrochem.
- No changes were agreed as to the corporate identity of both SIIG and Petrochem and their respective registered head offices.

Closing

- 10 April 2022, if approval is obtained in the first or second meeting of the SIIG EGM and the Petrochem EGM



Transaction rationale

Combined entity will be better positioned to combat threats and challenges in the petrochemicals sector

Global factors

- Shale expansion in the US reduced natural gas prices and increased supply, converting US from net importer to net exporter, and thereby increased the competitiveness among polymer producers. **Price of US natural gas imports declined from \$4.4 to \$1.9 between 2010-2020¹**
- Polymer production capacity expansion in North East Asia improved its self-sufficiency position and reduced the size of its import market. **Capacity in North East Asia has increased by a CAGR of 4.9% between 2015-2020 compared to 1.9% in the Middle East²**

Regional factors

- Tighter supply of gas in the Middle East may reduce allocation of ethane and result into higher investments in naphtha crackers. **Natural gas total proved reserves in the Middle East declined from 77.8 trillion cubic meters in 2010 to 75.8 trillion cubic meters in 2019⁴**
- Dependence on exports in Saudi Arabia with limited local demand, to date, on polymers from industrial producers and manufacturer. **Sales in Saudi Arabia by petrochemical players were at 16.9% of total sales as of 2020⁵**

Notes: (1) British Petroleum's Statistical Review of World Energy 2021, dollar per million Btu (2) IHS Markit study (3) United States Energy Information Agency, dollar per barrel (4) British Petroleum's Statistical Review of World Energy 2021 (5) Based on the weighted average split of sales in Saudi Arabia by SIIG, Petrochem, Tasnee, Advanced, Sipchem, SABIC AN, YANSAB, Saudi Kayan; sales of the last three includes Middle East, Middle East and Africa, and Middle East, respectively, as these companies do not disclosed sales in Saudi Arabia separately

Rationale of the deal is underpinned by a strong equity story for the shareholders of SIIG and Petrochem

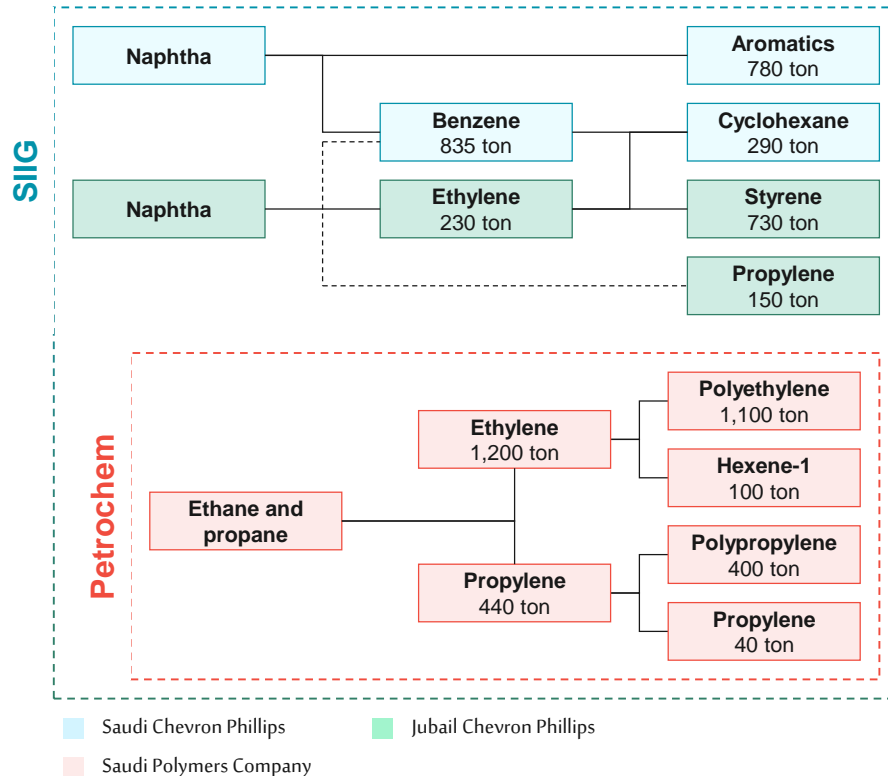
Rationale of the transaction

- 1 Sizable **production capacity of 6.3 million tonnes in aggregate** and enlarged **combined market capitalization of SAR 30.4 billion¹**
- 2 Unlock growth potential on the back of **enlarged market capitalization, improved corporate profile** and **unified decision making** process to take the company to the next level
- 3 **Diversification of portfolio** will reduce exposure to petrochemical cycles volatility and improve the **resilience of earning profiles**
- 4 Larger and more **diverse investor base** will **improve trading patterns** and will likely result into further capital inflow from international investors
- 5 **Simplified ownership and corporate structure** to streamline governance and **improve decision making process** creating room for efficiency
- 6 Synergy potential in the magnitude of **SAR 13-17 million in annually recurring cost synergies**

Sizable operation and enlarged capitalization

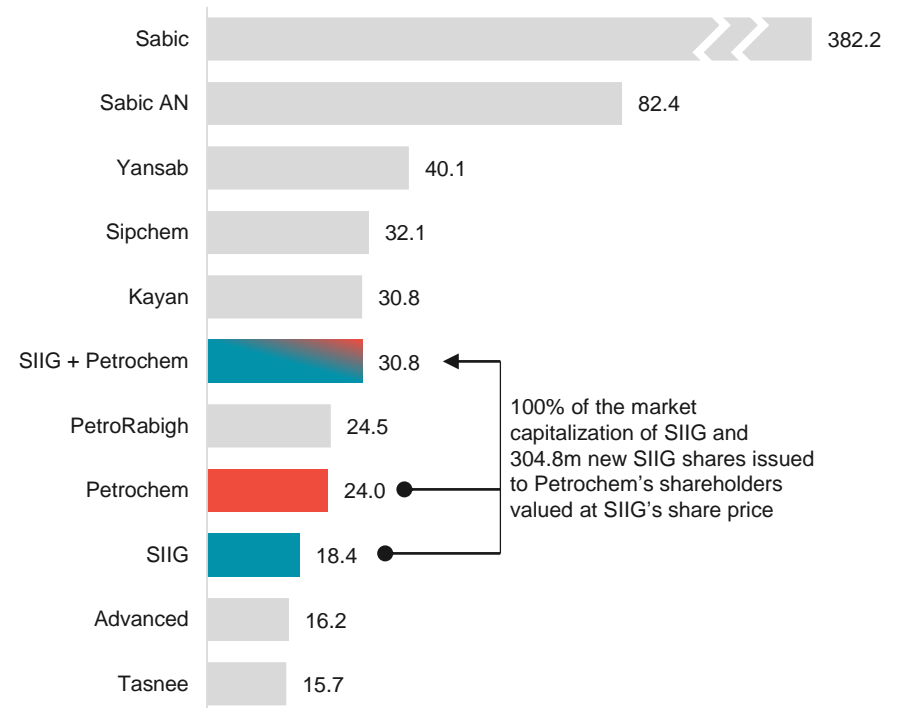
Sizable operational scale and footprint¹

- Sizable operational scale with further integration potential, eg. optimize related-party arrangements to increase operating rates



Enlarged market capitalization²

- Enlarge market capitalization will allow SIIG post transaction to become a frontrunner among Saudi Arabian petrochemical companies



Source: SIIG's shareholders circular; SIIG and Petrochem 2020 Annual Reports and Financial Statements; Tadawul

Notes: (1) Applicable to the shareholders of Petrochem as they will gain exposure over SIIG's assets (2) as of 30 September 2020

Enables an array of potential growth opportunities

Optimized integration and enlarged market cap



Illustrative potential growth opportunities

Debottlenecking

- Focus on optimization of current asset portfolio through improving utilization and efficiency
- Invest in capacity expansion of current product lines and infrastructure

Improved related-party arrangements to optimize and increase operating efficiency

Partnerships

- Further build upon existing partnerships to create new strategic initiatives to anchor growth
- Identify new local and global partnership opportunities with stakeholders

Improve corporate position to benefit from the landmark Shareek Program in Saudi Arabia

Expansion

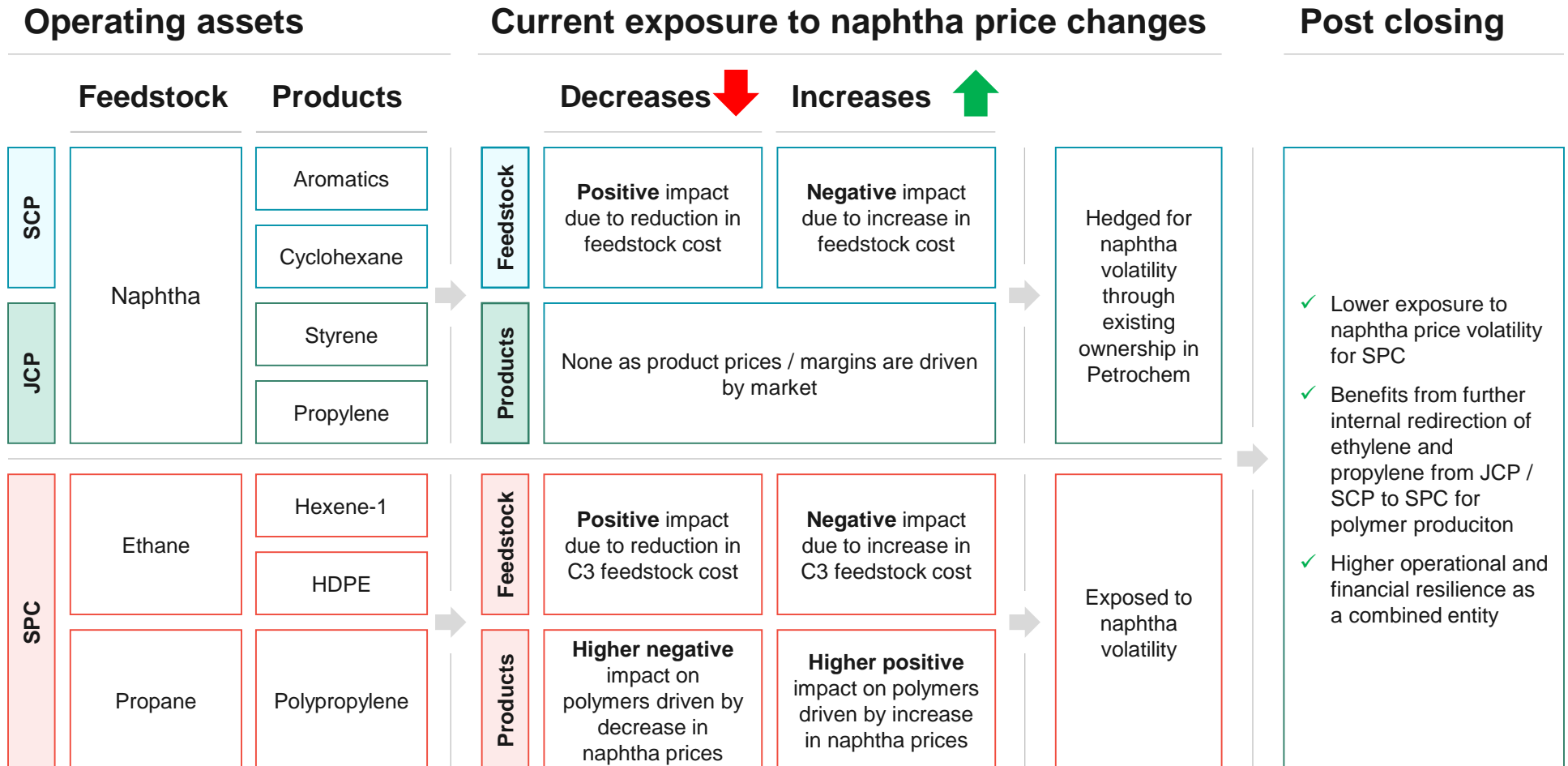
- Scout for future M&A opportunities, in Saudi Arabia or internationally, with value creation potential
- Invest in new industries and sectors with higher value-add and profitability

Utilize larger market capitalization and improve trading as currency for M&A



Value creation potential for both sets of shareholders

Diversify portfolio and hedges Petrochem vs. naphtha



Better position the equity to become a premier stock

Improved trading patterns

- Enlarged market capitalization and free-float adjusted market capitalization
- Increase in the average daily trading volume and value in absolute terms
- Increase in the trading frequency of the ticker, ie number of daily trade/transaction

Potential inclusion to global indices

- Improved trading patterns will merits review by global indices providers for potential inclusion
- Key requirements for consideration includes market capitalization, free float, liquidity, foreign investors, corporate events, etc.
- The transaction better position SIIG for inclusion upon closing

Enhanced research coverage

- Higher capital inflow, in addition to global indices inclusion, and proactive IR, will improve coverage by equity analysts
- Improved coverage will further invite sophisticated investors towards SIIG post transaction

International capital inflow

- Inclusion to global indices will attract foreign capital
- International investors are more likely to invest in companies included in global indices, especially asset managers and ETFs that follow indices

Introduce efficiencies from structure simplification

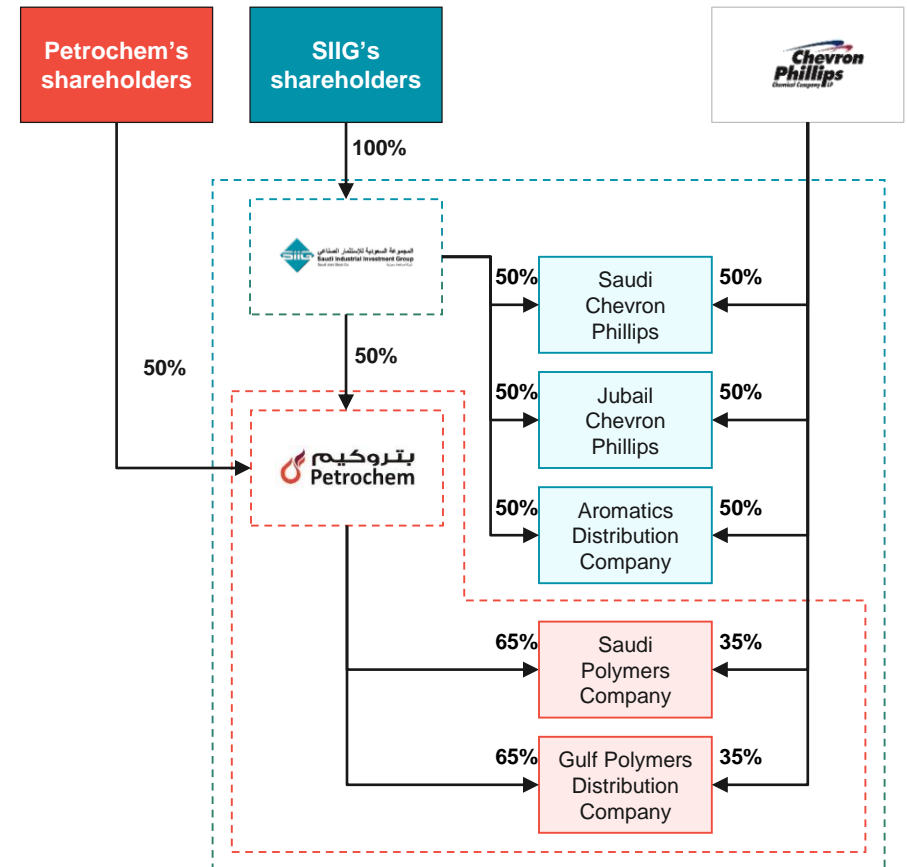
Benefits of structure simplification

- Increases agility in decision making process within the organization, at corporate level (SIIG and Petrochem) as well as joint ventures and subsidiaries (SCP, JCP, ADCO, SPC and GDPC)
- Supports in the elimination of overlaps in overheads, such as selling, general and administrative expenses
- Reduces redundant expenses related to service fees, regulatory fees, financial reporting fees, among others



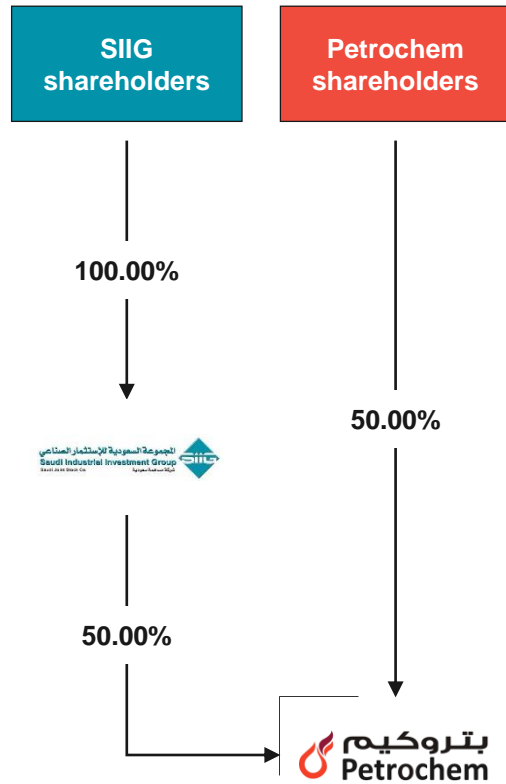
Streamline governance, creates synergies and unlock additional value for the shareholders of SIIG and Petrochem

Current ownership structure¹

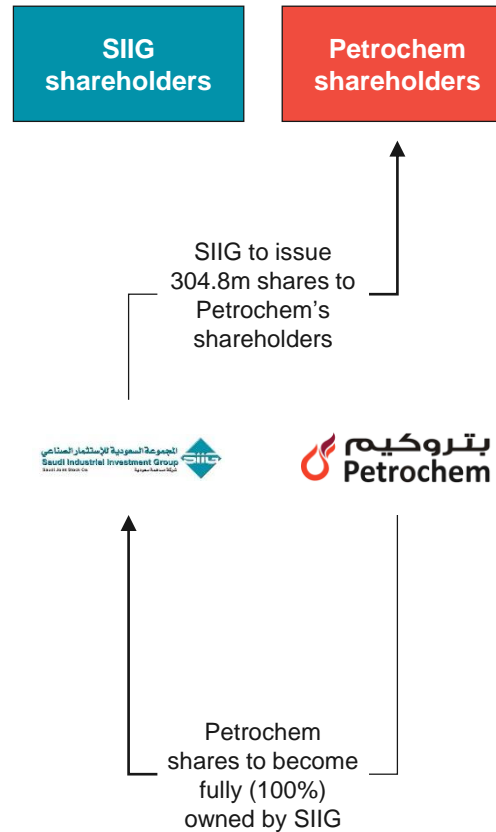


All share transaction

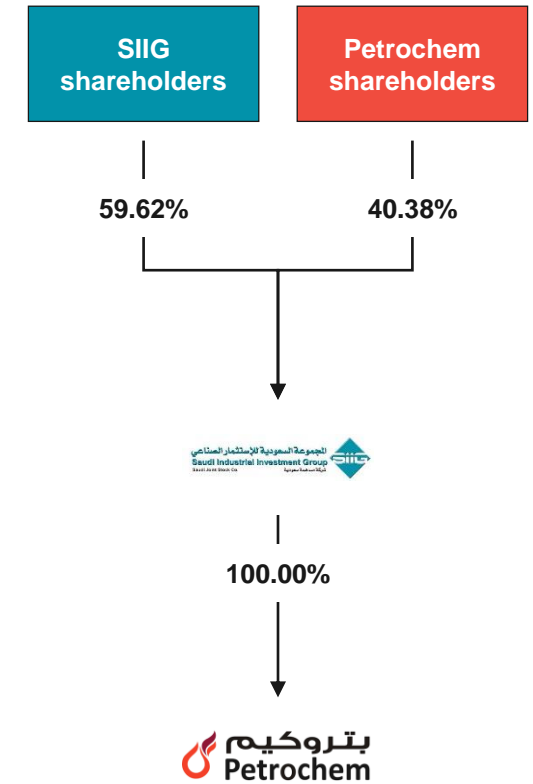
Structure pre-transaction



Transaction structure




























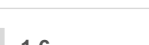





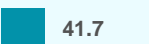
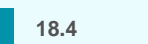
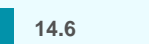
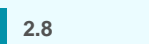






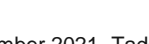





Structure post-transaction



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Appendix

Benchmarking to Saudi listed companies

| <i>SAR bn</i> | Enterprise value | Market capitalization | Total assets | Shareholders equity | Jun 21 LTM EBITDA ² | Jun 21 LTM Net income |
|------------------------------|--|--|---|--|---|---|
| SABIC |  391 |  382 |  302 |  198 |  34 |  3.0 |
| SABIC AN |  80.9 |  82.4 |  16.0 |  12.8 |  2.8 |  1.9 |
| Yansab |  38.4 |  40.1 |  17.9 |  14.5 |  3.0 |  1.5 |
| Merged entity ³ |  42.1 |  30.8 |  19.7 |  14.6 |  2.8 |  1.8 |
| Kayan |  45.2 |  30.8 |  33.9 |  15.3 |  4.2 |  1.4 |
| Petrochem¹ |  37.8 |  24.0 |  16.8 |  12.0 |  2.8 |  1.3 |
| Advanced |  15.8 |  16.2 |  4.9 |  3.7 |  1.0 |  0.8 |
| Sipchem |  33.5 |  32.1 |  24.6 |  14.3 |  3.1 |  1.6 |
| Petro Rabigh |  78.6 |  24.5 |  73.7 |  7.6 |  5.2 |  0.8 |
| SIIG¹ |  41.7 |  18.4 |  19.7 |  14.6 |  2.8 |  1.1 |
| Tasnee |  11.9 |  15.7 |  23.6 |  10.6 |  0.2 |  0.5 |

Source: Factset as of 30th September 2021, Tadawul

Notes: (1) Minorities at market value (2) Reconciliation provided in the following page (3) Market capitalization of combined entity based on 1.27 exchange ratio announced

EBITDA reconciliation

| <i>SAR million</i> | SABIC | SABIC AN | Yansab | Kayan | Petrochem | Advanced | Sipchem | Petro Rabigh | SIIG | Tasnee |
|---------------------------------------|---------------------|--------------|--------------|--------------|--------------|------------|--------------|--------------|--------------|--------------|
| Net income to shareholders | 15,842 | 1,890 | 1,545 | 1,404 | 1,282 | 772 | 1,569 | 817 | 1,131 | 468 |
| Add: Profit to NCI | 4,235 | 153 | -- | -- | 578 | -- | 152 | -- | 1,221 | 289 |
| Add: Zakat and tax | 3,203 | 158 | 191 | 141 | 64 | 69 | 253 | 129 | 56 | 277 |
| Add: Other expenses (income), net | (108) | (6) | (109) | 28 | (17) | (4) | 128 | -- | (17) | 2 |
| Add: Finance cost (income), net | 1,136 | 23 | (2) | 299 | 41 | (41) | 283 | 1,056 | 36 | 211 |
| Less: Share of results from JV / Asso | (1,433) | (96) | -- | (17) | -- | (34) | (196) | -- | -- | -- |
| Operating income | 22,876 | 2,123 | 1,626 | 1,855 | 1,949 | 762 | 2,190 | 2,002 | 2,427 | 1,248 |
| Less: Share of results from JV / Asso | (2,451) | -- | -- | -- | -- | -- | -- | -- | (509) | (1,673) |
| Add: Impairments | -- | -- | 64 | -- | -- | -- | -- | -- | -- | (3) |
| Add: Loss on disposal of assets | -- | -- | -- | -- | -- | -- | -- | -- | -- | 322 |
| Add: Other expenses (income), net | -- | -- | -- | -- | -- | -- | -- | (88) | -- | -- |
| EBIT¹ | 20,425 | 2,123 | 1,689 | 1,855 | 1,949 | 762 | 2,190 | 1,914 | 1,919 | (106) |
| Add: Depreciation and amortization | 13,504 ³ | 705 | 1,261 | 2,377 | 871 | 216 | 942 | 3,328 | 871 | 264 |
| EBITDA² | 33,928 | 2,828 | 2,950 | 4,233 | 2,820 | 979 | 3,132 | 5,242 | 2,790 | 157 |

Source: Companies information

Notes: Earnings before interest and taxes Earnings before interest, taxes, depreciation and amortization Includes impairments, as breakdown between depreciation, amortization and impairments not disclosed

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