

## SAHARA PETROCHEMICALS

الأهلي كابيتال  
NCB Capital

## EVENT FLASH

## Highest net income since 2Q14

Sahara reported a strong set of results, with a net income of SR165mn. This is an increase of +51.9% YoY and +86.3% QoQ. This is higher than the NCBC estimate of SR118mn. We believe the higher than expected income from Alwaha and SEPC offset the losses of the acrylic facility.

- Sahara reported strong 3Q17 results, with increasing +51.9% YoY and +86.3% QoQ to SR165mn. This is significantly higher than the NCBC and consensus estimates of SR118mn and SR114mn, respectively. This is the highest net income since 2Q14. We believe the strong results are mainly attributed to a 1) record high operating rates of Alwaha and 2) higher income from SEPC. This has mitigated the increasing losses of acrylic project.
- We estimate that income from investments stood at SR167mn, higher than our estimates of SR130mn and compared to SR100mn in 2Q17. Based on our calculations, we believe Alwaha operated at 125%. This is significantly higher than 3Q16 rate of 100% and our estimate of 105%. We believe using inventory and the improvement in operating rates following to 33 days shutdown in 1H17 were the key factors behind the record production. We believe Alwaha gross margin came in at 30.9%, vs our estimate of 29.0% and 32.4% in 3Q16. We estimate the contribution of Alwaha to Sahara's net income was SR71mn vs SR36mn in 2Q17 and our estimate of SR48mn.
- We believe the higher than expected income from SEPC was another key driver behind the variance. We believe SEPC contributed SR121mn to Sahara, higher than SR101mn in 2Q17 and our estimate of SR79mn. We believe the improvement is due to 1) higher operating rates of 110% vs our estimate of 103% and 2) margin expansion on improved efficiency. We estimate that margins stood at 37% compared to our estimate of 27%.
- We estimate that SG&A came in at SR10.6mn, in-line with SR10.0mn in 2Q17 and our estimates of SR9.9mn. This represents around 6.3% of investment income.
- In 3Q17, average PP prices stood at US\$1,068/mt, increasing +6.5% YoY and +6.6% QoQ. Average propane prices declined -11.2% QoQ but increased +26.4% YoY to US\$383/mt. The PP-propane spread grew 20.1% QoQ but declined 2.1% YoY.
- We are Neutral on Sahara with a PT of SR13.5. Improvement in Alwaha operating rates and higher income from SEPC are key positives. However, on-going losses at SAMAPCO and acrylic facility are key risks. Moreover, the lack of operational visibility is a key concern on the valuation. The stock is trading at 2018E P/E of 15.7x vs. the sector average of 13.9x.

## 3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Net income	165	109	51.9%	118	40.2%	86.3%
EPS (SR)	0.38	0.25	51.9%	0.27	40.2%	86.3%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

## NEUTRAL

Target price	13.5
Current price (SR)	14.0
Upside/Downside (%)	(3.4)

## STOCK DETAILS

52-week range H/L (SR)	16/10
Market cap (\$ mn)	1,636
Shares outstanding (mn)	439
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.9	7.0	35.9
Rel. to market	5.7	11.0	12.4

Avg daily turnover (mn)	SR	US\$
3M	11.7	3.1
12M	24.9	6.6

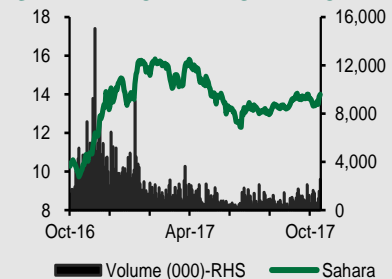
Reuters code	2260.SE
Bloomberg code	SPCO AB
	www.saharapcc.com

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	13.7	15.7	15.7
P/B (x)	1.2	1.2	1.1
EV/EBITDA (x)	7.9	13.6	13.4
Div Yield (%)	5.4	5.4	5.4

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



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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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