ALJAZIRA CAPITAL الجزيرة للأسواق المالية

September I 2023

KSA PETROCHEMICAL SECTOR

Almost at the Bottom of the Cycle, Recovery Expected by FY2024 with a Limited Downside Potential

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 225 6248

j.aljabran@aljaziracapital.com.sa

Table of Contents

Demand pressure persists but downside risk limited; recovery may start soon

Petrochemical demand and product prices were severely hit in H1-23 due to global economic concerns, inflationary pressures, and high interest rates. However, the prices are now close to the COVID-level and substantially below historical averages. Thus, we believe there is limited further downside risk and recovery may kick off during FY24. The recovery in product prices is likely to receive support from higher oil prices, expected acceleration in China's recovery underpinned by government support, lower feedstock costs, reduced shipping costs and normalized supply chain issues. Moreover, easing inflation and consequently, anticipated rate cuts will foster consumer spending and improved demand. KSA petrochemical sector profitability is likely to improve in FY24E after a weak performance in FY23E. However, any pricing reforms on energy feedstock subsidies could be a source of downside risk on the sector's valuations. Overall, we remain cautiously optimistic on the sector. We reckon it is right time to have exposure to selected names in the sector with rich products mix, feedstock advantage, sound financials and ability to pay dividends as they are likely to generate healthy returns due to current attractive valuations and anticipated recovery. We maintain our "Overweight" rating on SABIC and Sipchem, while upgrade Advanced and Saudi Kayan to "Overweight". We initiate coverage on Alujain with an "Overweight" rating. We are "Neutral" on SABIC AN, Yansab and Tasnee.

A more positive economic outlook driven by easing inflation and expected rate cuts stems new hopes for petrochemicals: The inflation levels in major advanced economies have signaled easing recently. The IMF has upgraded its outlook for FY23 due to easing inflation. The moderating inflation points toward interest rate cuts in FY24, that would be crucial for global economic recovery. Thus, petrochemical demand is expected to improve, as the economic activity gains momentum. Moreover, petrochemical product prices have almost hit bottom. Thus, we expect recovery to begin towards FY24. We forecast high-single to low double-digit growth in prices of all major products, except for Urea, in FY24.

KSA petrochemical sector profitability to weaken in 2023 but improve in 2024: We expect combined revenue of the petrochemical companies under our coverage to decline 23.7% in FY23E to SAR 194.2bn due to lower product prices and then increase 11.3% in FY24E. The sector's GP margin is expected to contract to 16.6% in FY23E from 22.5% in the previous year, impacted by lower product spreads despite a correction in feedstock cost. GP margins are expected to expand to 21.5% in FY24E. Net income for the sector is estimated to stand at SAR 10.0bn in FY23E, implying a decline of 67.0% Y/Y but an increase of 130.0% is expected in FY24E to reach SAR 23.0bn as the economic recovery seeps in.

Sector dividend yield expected to surge in FY24 on better earnings: We expect the average dividend yield for the sector (avg. for dividend paying stocks) to be at 4.6% in FY24E vs. to 3.9% in FY23E, as profitability and free cash flows improve. In FY24, investors can look at companies like Sipchem (5.5%), Yansab (4.5%), SABIC (4.4%) and SABIC AN (3.7%), to pay attractive dividends.

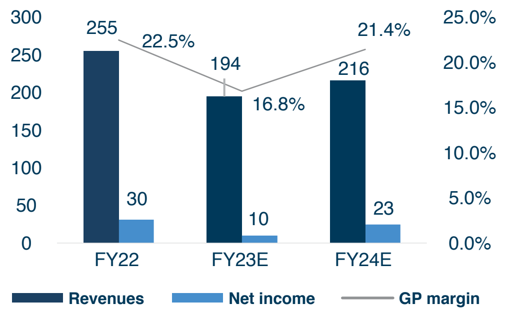
Cautiously optimistic on the sector with positive outlook for selected companies: Overall we are cautiously optimistic on KSA's petrochemical sector. Yet we favor certain companies which we believe have great prospects due to positive outlook on their key products, feedstock cost advantage, balance sheet strength and dividend paying ability. Thus, we maintain our "**Overweight**" rating on **SABIC** and **Sipchem** and upgrade **Advanced** and **Kayan** to "**Overweight**". We initiate our coverage on Alujain with "**Overweight**" recommendation. We have a "**Neutral**" rating on SABIC AN, Yansab and Tasnee.

Product average price forecast (USD per ton)

	FY22	FY23E	FY24E
HDPE	1,078	988	1,131
	-2.2%	-8.4%	14.5%
LDPE	1,303	1,011	1,134
	-8.4%	-22.5%	12.2%
PP	1,049	915	1,038
	-9.6%	-12.7%	13.4%
Urea	677	356	338
	31.7%	-47.4%	-4.9%
Methanol	336	280	302
	5.0%	-16.6%	7.6%
MEG	575	506	577
	-14.8%	-12.0%	14.2%
PC	2,389	1,850	2,075
	-30.0%	-22.5%	12.2%
VAM	1,851	1,018	1,091
	1.5%	-45.0%	7.2%
MTBE	1,034	957	1,039
	41.8%	-7.4%	8.6%
EVA	2,432	1,685	1,920
	-4.4%	-30.7%	13.9%

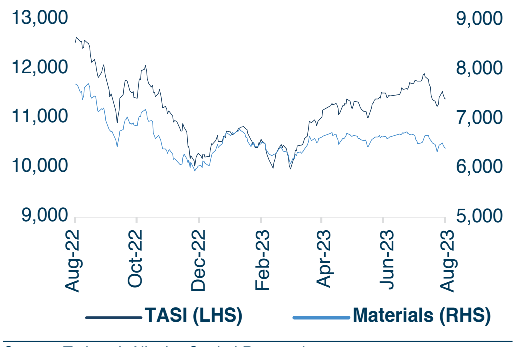
Source: Argaam, Aljazira Capital Research

Sector financial performance (SAR bn)



Source: Company reports, Aljazira Capital Research

Materials sector vs TASI (%)down



Source: Tadawul, Aljazira Capital Research

Table 1. Price target and recommendation

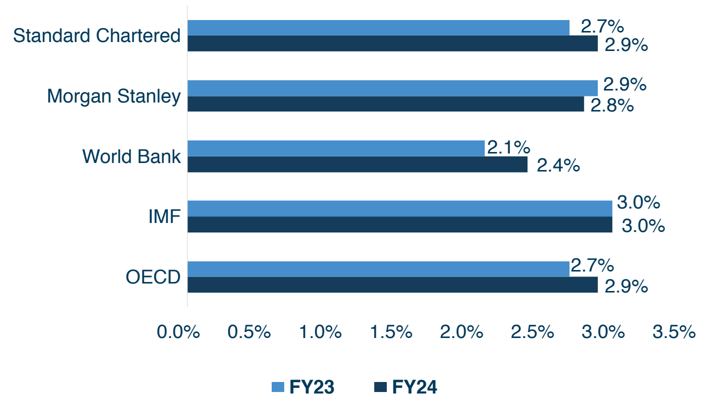
Company Name	Recommendation	TP	Change (%)	Net Income FY23 (mn)	Net Income FY23 (mn)	DY FY23E (%)	DY FY24E (%)	P/E FY24E
SABIC	Overweight	**102.1**	19.4%	5,619	15,268	3.5%	4.4%	17.0x
Sipchem	Overweight	**42.6**	17.7%	1,565	1,971	4.8%	5.5%	13.7x
Advanced	Overweight	**52.1**	28.0%	295	527	0.0%	0.0%	21.6
Kayan	Overweight	**16.7**	32.5%	-1,314	318	0.0%	0.0%	High
Yansab	Neutral	**48.5**	15.1%	-124	910	3.4%	4.5%	27.0x
SABIC AN	Neutral	**133.0**	-4.2%	3,501	3,157	4.0%	3.7%	21.1x
Tasnee	Neutral	**15.4**	19.8%	440	747	0.0%	3.4%	11.9x
Alujain	Overweight	**57.1**	25.6%	46	137	0.0%	0.0%	17.9x

Source: Company financials, Aljazira Capital Research *prices as of 17th of September 2023

Cautiously optimistic due to expected improvement in macroeconomic sentiments, despite mixed economic data across the U.S., Europe and China

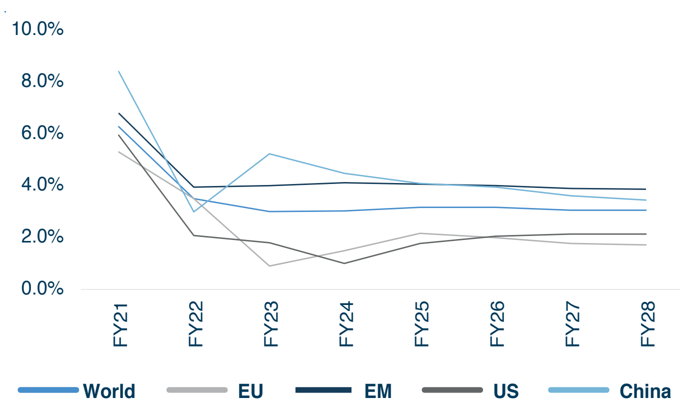
Macroeconomic sentiments are expected to improve as a result of easing inflation, resilient consumer spending, and decreased immediate risk in the financial sector. The outlook for the world economy appears to be slightly more optimistic now as the fears of recession are receding. Global GDP is expected to expand to 3.0% in FY23E and FY24E, each, according to IMF. The IMF has slightly improved its global GDP forecast for this year from the 2.8% growth projected earlier due to easing inflation. OECD expects the global GDP growth at 2.7% in FY23E and the World Bank expects the GDP growth to climb to 2.1% in FY23E from its earlier forecast of 1.7%. However, the global economy still experienced a mix of economic data. China continued to recover, albeit at a slower-than-expected pace, with weakness observed in PMI manufacturing and imports & exports data. Furthermore, industrial activity in the U.S. remained weak, but consumers continued to spend. On the other hand, the EU faced persistent recessionary conditions despite some moderation in inflation. The petrochemical sector, which saw a downward pressure on product prices during H1-23 due to weak demand, is likely to see a rebound led by an anticipated recovery on macro front.

Figure 1. Global GDP growth expectations



Source: Aljazira Capital Research

Figure 2. Global GDP growth (%)

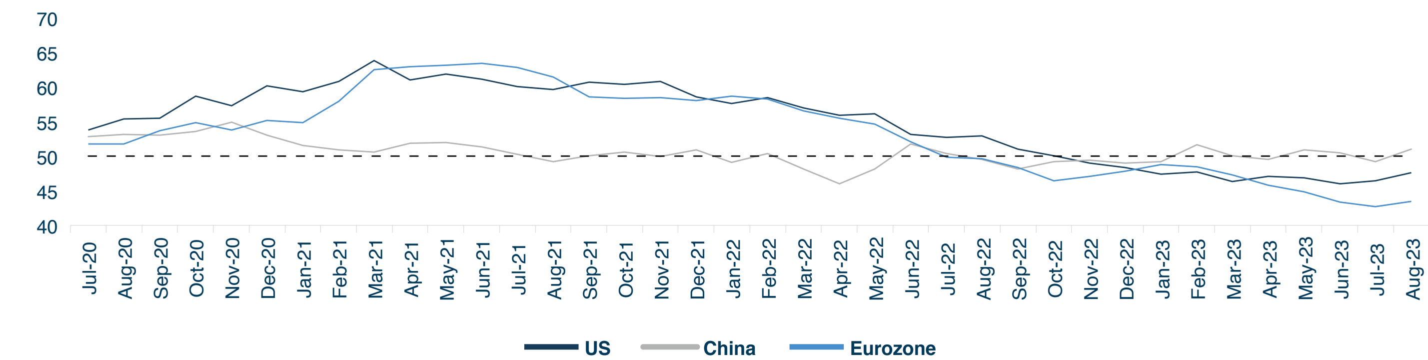


Source: IMF WEO July & April 2023, Aljazira Capital Research

No respite for manufacturing sector yet as the activity continues to contract in the US and Eurozone, but China's manufacturing activity recorded the strongest expansion since February.

The manufacturing activity slowdown is ongoing and PMI numbers have been weak for key economies. In the US (PMI of 47.6 in August from 46.4 in July), although the number increased, the activity contracted for the 10th consecutive month; Eurozone (43.5 in August from 42.7 in July) continues to be hampered by weak demand. However, China's manufacturing activity stood at 51.0 in August from 49.2 in July, this was the strongest pace of expansion in factory activity since February, also marking the fifth increase since the start of the year amid multiple efforts from Beijing to revive a weakening post-pandemic recovery. Thus, there has been a serious global manufacturing slowdown which has been dampening market sentiments. However, with eased supply chain issues, and an expected improvement in demand driven by recovery in the economy, inflation slowdown and coming interest cuts, manufacturing industry may see reduced pressure with activity picking up.

Figure 3. Manufacturing PMI

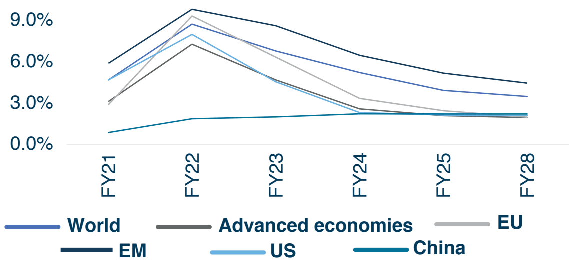


Source: Bloomberg, Aljazira Capital Research

Early signs of easing inflation brightens the hopes for reversal of the monetary tightening

The global inflation levels are expected to decline slightly faster: As per the latest projections by the IMF, global inflation is expected to fall from 8.7% in FY22 to 6.8% in FY23 (compared to 7.0% projected earlier). Though easing inflation comes as a sign of relief at a time when the economy is struggling to a path of recovery, the core inflation is still high and remains well above the central banks' targets. Nevertheless, the downtrend in the inflation is expected to continue. In advanced economies, the core inflation is expected to remain at 5.1% in FY23, while inflation is expected to moderate to 3.1% in FY24.

Figure 4. Global Inflation levels (%)



Source: IMF WEO July 2023, Aljazira Capital Research

Improved global economic prospects and easing inflation points towards a likely end to an aggressive monetary tightening:

The Federal Reserve hiked interest rates by 0.25% in July meeting, marking the benchmark borrowing rate to their highest level in over 22 years to a target range of 5.25-5.5%. Market expectations for the November meeting remain mixed on whether the Fed will have one more rate hike of 0.25% or the bank may hold interest rates steady. However, the Fed Dot Plot indicates median rates to rise to 5.6% in FY23E, suggesting one more increase of 0.25%. With inflation levels moderating and coming close to target levels, interest rate cuts are anticipated in FY24E bringing the rate down to 4.6%. The rate cuts and gradually easing inflation pressure will support economic revival, generating high demand.

Figure 5. Economic projections of Federal Reserve (June 2023)

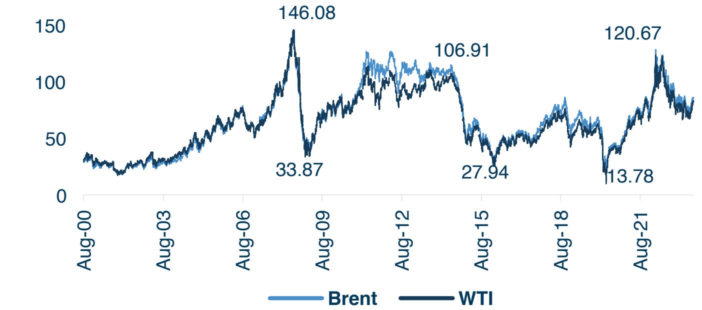
Variable	Median				Central Tendency				Range			
	2023	2024	2025	Longer Run	2023	2024	2025	Longer Run	2023	2024	2025	Longer Run
Change in real GDP	1.00	1.10	1.80	1.80	0.7-1.2	0.9-1.5	1.6-2.0	1.7-2.0	0.5-2.0	0.5-2.2	1.5-2.2	1.6-2.5
Unemployment rate	4.10	4.50	4.50	4.00	4.0-4.3	4.3-4.6	4.3-4.6	3.8-4.3	3.9-4.5	4.0-5.0	3.8-4.9	3.5-4.4
PCE inflation	3.20	2.50	2.10	2.00	3.0-3.5	2.3-2.8	2.0-2.4	2.00	2.9-4.1	2.1-3.5	2.0-3.0	2.00
Core PCE inflation	3.90	2.60	2.20		3.7-4.2	2.5-3.1	2.0-2.4		3.6-4.5	2.2-3.6	2.0-3.0	
Fed Fund rate	**5.60**	**4.60**	**3.40**	**2.50**	**5.4-5.6**	**4.4-5.1**	**2.9-4.1**	**2.5-2.8**	**5.1-6.1**	**3.6-5.9**	**2.4-5.6**	**2.4-3.6**

Source: US Federal Reserve, Aljazira Capital Research

OPEC+ driven supply cuts and expected increase in demand to support demand-supply equilibrium and could hold crude oil prices higher around USD 85/bbl.

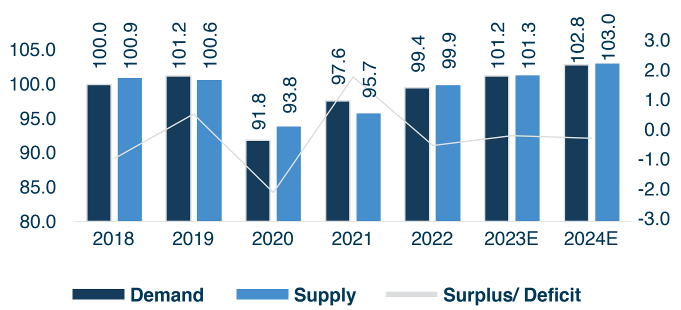
OPEC+ has been cutting output since November 2022 and have further deepened output cuts; wherein KSA would extend its 1mbpd voluntary output cut into December indicating a possibility of extending beyond that and Russia will also lower its output for the month. This is in addition to 1.66 mbpd of oil cuts agreed by OPEC+ in April and extend until the end of FY24E. With the stated output cuts by OPEC+ and recent signs of slowing production in the US, oil supply is expected to be tighter. On the demand side, dimming recession fears, easing inflation and expectations of interest rate cuts are likely to strengthen demand. EIA expects demand to expand by 1.8mbpd in FY23E, matching the demand on FY19, boosted by summertime air travel, an increase in the usage of oil for power generation and soaring petrochemical activity in China. In FY24E, global demand is forecasted to increase further by 1.6mbpd. OPEC expects demand to remain strong and rise by 2.4mbpd in FY23E and 2.3mbpd in FY24E. Thus, tightening supply and improving demand are expected to balance supply-demand in the global oil market. The surplus oil supply globally is expected to fall from 0.4 mbpd in FY22 to 0.1 mbpd in FY23 and 0.2 mbpd in FY24, as per EIA's estimates. We believe the successful output cuts by OPEC+ alongside a high oil demand due to economic recovery setting in shall keep oil prices stable.

Figure 6. Daily Brent and WTI crude oil prices (USD/b)



Source: Bloomberg, Aljazira Capital Research

Figure 7. Global crude oil demand-supply (MBPD)



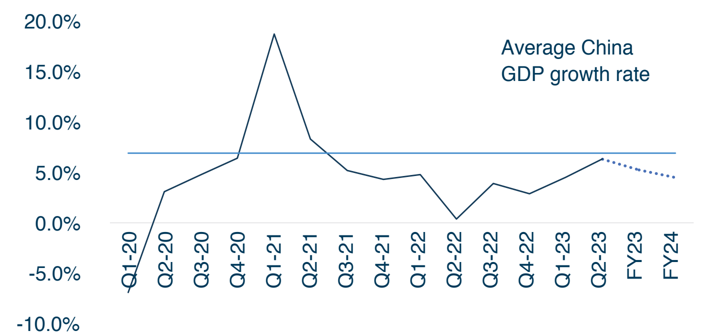
Source: EIA STEO Report, Aljazira Capital Research

All eyes on Chinese recovery amid government stimulus; China a key market for Saudi petrochemical companies

Further stimulus required to uplift the slower-than-expected recovery in China and a depressed property market

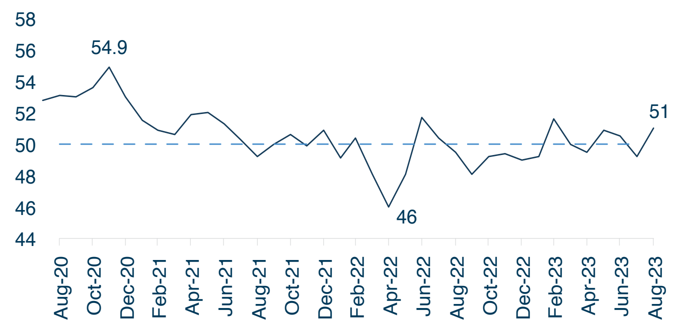
China reopened the economy towards the end of FY22 easing its stringent COVID-related restrictions. The recovery after the reopening was slower than expected. A wide range of Chinese data released recently showed that the economy was under pressure. Chinese GDP expanded 6.3% Y/Y in Q2-23 as compared to consensus projections of 7.3%. Additionally, retail sales, industrial output, and investments were also below consensus expectations in July. Besides, financial risk for the developers is likely to weigh on the housing market in the near-term. The continuing drag in the real estate market, increasing local government debt pressure, and the high young unemployment rate continue to be significant roadblocks to promoting a long-term economic recovery. Amid this, China is likely to miss its FY23 growth target at 5% and even Q3 and Q4 targets of 4.9%, each. As a result, People's Bank of China (PBOC) slashed key policy rates in June and August to stimulate activity. Further, the government has indicated willingness to lend support to the struggling real estate sector. We believe there would be additional economic stimulus by the Chinese government to revive the economy. This may help speed up the process of recovery in China. The country being the largest importer of petrochemicals in the world is the key market for Saudi petrochemical producers. Most of the petrochemical companies in KSA have high exposure to Chinese market. Hence, any recovery in demand from China would bode well for them.

Figure 8. China GDP growth (%)



Source: IMF WEO April 2023, Aljazira Capital Research

Figure 9. Manufacturing PMI in China

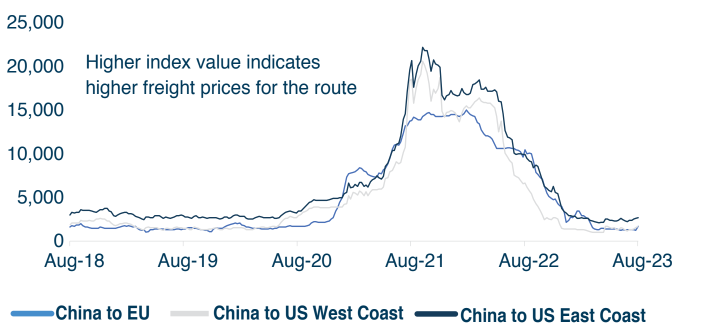


Source: Bloomberg, Aljazira Capital Research

Margins to loosen as supply chain constraints ease, along with shipping costs back to below-COVID levels

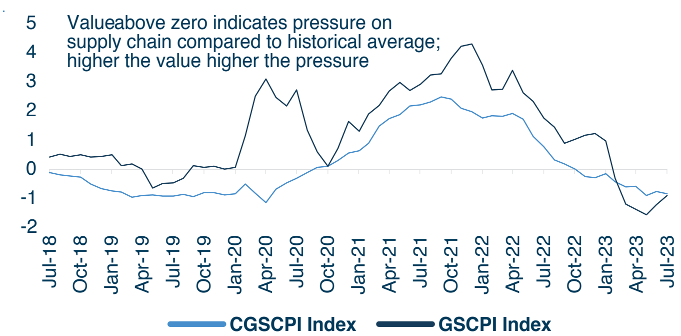
With the headwinds from the pandemic relieved now, supply chain pressures have eased, and shipping costs are normalized. Although shortages and delivery delays continue to be problematic, financial losses caused by supply chain disruptions have decreased by more than 50% on average in FY22 compared to FY21. The margins of petrochemical companies were negatively impacted due to shipping cost over the past few quarters. However, with the re-opening of Chinese economy and end of zero-COVID policy, supply chain has normalized. Freight prices have dropped by over 70% Y/Y and are significantly below peaks seen in 2021, reaching pre-pandemic levels. The global supply chain pressure indices value reported below zero in 2023 indicating less pressure on supply chain following the heightened pressure seen in 2021. With a decline in freight prices and eased supply chain pressures, petrochemical companies stand to benefit.

Figure 10. Freight Indices



Source: Bloomberg, Freightos

Figure 11. Global Supply Chain Pressure Indices

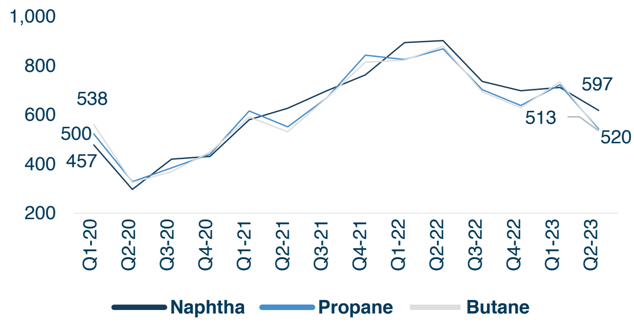


Source: Bloomberg, Federal Reserve Bank of New York

A steeper decline in feedstock prices supported the spreads in H1-23, despite product prices being beaten by muted demand; product prices enetered the recovery phase

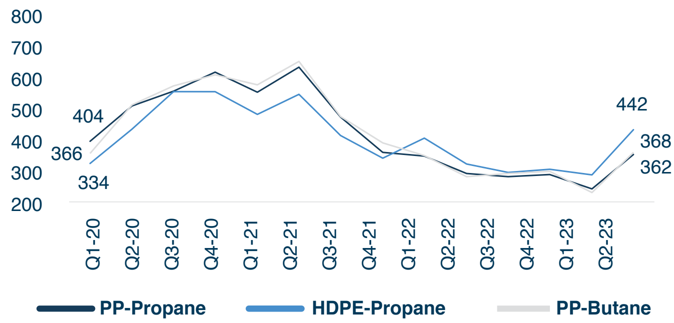
Feedstock prices have seen significant correction in prices stabilizing at pre-pandemic levels from multi-year highs seen in FY22. In FY22, feedstock Naphtha prices reached the highest of USD 1,025/ ton, Propane touched USD 940/ton and Butane at USD 960/ton. These are the highest prices recorded since 2014. However, after the highs seen in FY22, feedstock prices are currently on a downward trajectory, as the impact of natural gas crisis in Europe and Russia-Ukraine war have cooled down. Additionally, lower oil prices also helped moderating feedstock prices. In Q2-23, Naphtha average prices have reduced -32.2% Y/Y and -13.4% Q/Q to USD 597/ton, Saudi average propane prices declined -38.6% Y/Y and -25.7% Q/Q to USD 520/ton, while average Saudi Butane prices declined -40.1%Y/Y and -27.9% Q/Q to USD 513/ton. On the other hand, product prices also moved downwards in H1-23 primarily due to global economic woes that hampered demand. However, the decline in feedstock prices was steeper in most cases than that in product prices. Consequently, spreads for most of the products improved. PP-Propane increased 18.8% Q/Q and declined slightly (-1.1%) Y/Y to USD 465.5/ ton in Q2-23. HDPE-Propane spread increased 8.8% Y/Y and 25.0% Q/Q to USD 546.0/ ton and PP-Butane spread increased modestly by 1.7% Y/Y and by 23.0% Q/Q to USD 470.8/ton. Petrochemical producers are set to benefit due to lower feedstock cost and better product spreads. Moreover, product prices are beginning to rise in the last few weeks after hitting near Covid level, and we anticipate even more recovery by the end of FY23 on better macro outlook in FY24, which is supposed to drive higher demand.

Figure 12. Key feedstock average prices (USD/ ton)



Source: Argaam, Aljazira Capital Research

Figure 13. Key product spread trends (USD /ton)



Source: Argaam, Aljazira Capital Research

Product outlook

Figure 14. Average Product price outlook

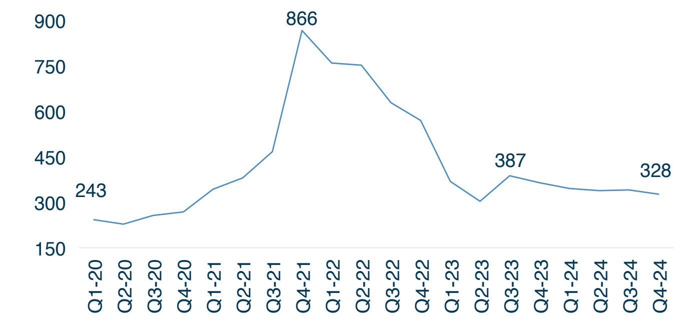
USD/ mt	FY21	FY22	Y/Y (%)	FY23E	Y/Y (%)	FY24E	Y/Y (%)
Ethylene	1,010	1,005	-0.5%	857	-14.8%	980	14.4%
Propylene	1,013	994	-1.9%	859	-13.6%	970	12.9%
MTBE	729	1,034	41.8%	957	-7.4%	1,039	8.6%
Benzene	910	1,029	13.1%	901	-12.5%	1,014	12.6%
Styrene	1,153	1,201	4.1%	1,041	-13.3%	1,180	13.3%
Methanol	320	336	5.0%	280	-16.6%	302	7.6%
HDPE	1,103	1,078	-2.2%	988	-8.4%	1,131	14.5%
LDPE	1,422	1,303	-8.4%	1,011	-22.5%	1,134	12.2%
LLDPE	1,111	1,080	-2.8%	972	-10.0%	1,109	14.1%
PP (Asia)	1,161	1,049	-9.6%	915	-12.7%	1,038	13.4%
MEG (Asia)	675	575	-14.8%	506	-12.0%	577	14.2%
Urea	514	677	31.7%	356	-47.4%	338	-4.9%
Acetic Acid	954	633	-33.6%	505	-20.3%	572	13.3%
VAM	1,823	1,851	1.5%	1,018	-45.0%	1,091	7.2%
EVA	2,543	2,432	-4.4%	1,685	-30.7%	1,920	13.9%
Polycarbonate	3,412	2,389	-30.0%	1,850	-22.5%	2,075	12.2%

Source: Argaam, Aljazira Capital Research.

Fertilizers

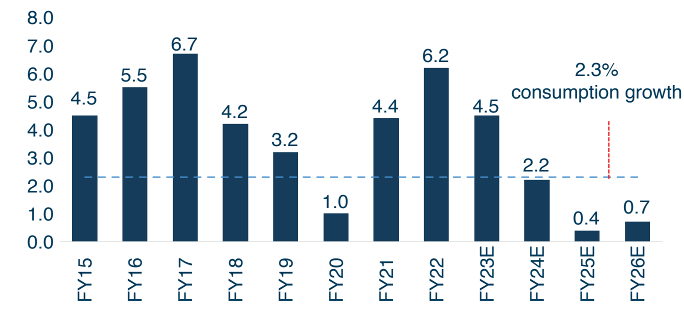
Urea prices far away from reaching their long-term average due to abundant supplies: **Urea** prices reached USD 965 per ton in December 2021 and averaged at USD 866/ ton in Q4-21 due to supply disruptions form Russia and as elevated natural gas prices caused shutdowns in Europe. However, with the easing of supply, prices dropped drastically. The sentiments for urea prices still look weak with prices declining in most markets including Brazil. Prices have turned softer following the Indian tender where the offers were below expectations mainly due to more Chinese exports available. The demand from Australia and production issues in southeast Asia may lend some support to prices in the short term. However, there is lack of demand in all major markets as buyers delaying the purchases in expectations that pricing pressure to persist amid expected capacity additions. Total new capacity of 4.5mn ton (excluding China) is expected to be added in FY23E, whereas till FY26E capacity of 7.8mn ton is expected to be added, as per Yara company. We believe that average urea prices are not expected to rise to the extent witnessed in the last two years as the market is oversupplied with ample capacities. Due to an uncertain urea outlook, we expect average urea prices to decline 47.4% to USD 356/ ton in FY23E, while a drop of 4.9% to USD 338 per ton is estimated in FY24E.

Figure 15. Key urea prices (USD/ ton)



Source: Argaam, Aljazira Capital Research

Figure 16. New Urea Capacity (ex-China; mn tons)

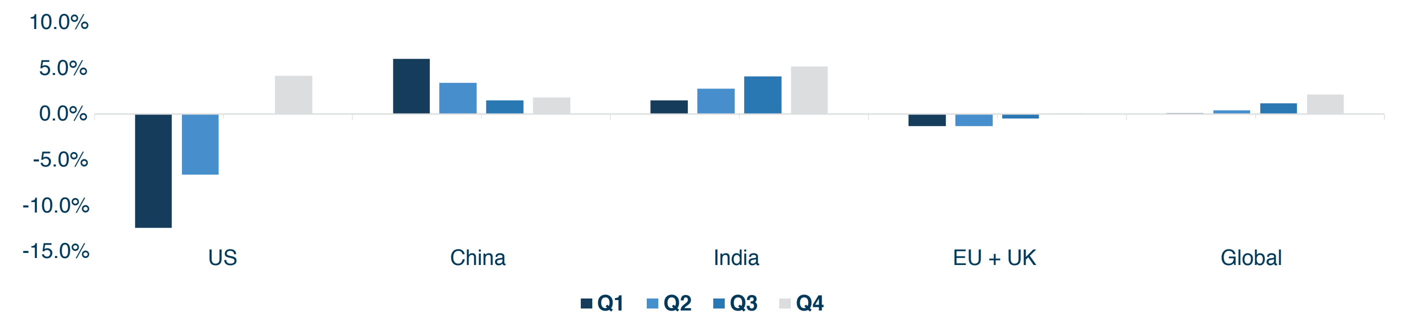


Source: Yara, Aljazira Capital Research

Basic products

Recovery in construction sector to support VAM demand and thus have a positive impact on Acetic Acid: **Acetic Acid** is primarily used in the production of VAM which in turn is used in the construction industry. VAM is witnessing thin-to-negative margins though demand sentiment is gradually improving in certain parts of Asia. As a result, we expect average AA prices to decline 20.3% to USD 505/ ton in FY23E. Moreover, VAM prices have remained pressure due to weak demand from the key construction sector in most markets globally including the US, India, European Union-UK. The global construction sector growth has remained sluggish in Q1 and Q2-23 Y/Y, however, according to the latest assumed data, H2-23 (excluding China) has a chance of recovery. Given some improvement in macroeconomic situation, a stronger performance may be seen in AA markets in Asia. We expect average prices to increase 13.3% to USD 572/ ton in FY24E from an average price of SAR 505/ ton in FY23E.

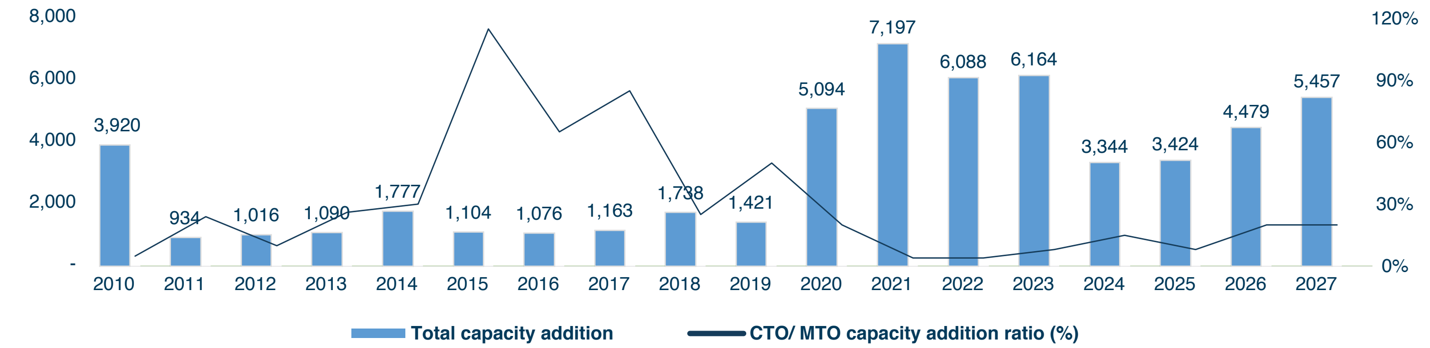
Figure 17. Construction sector growth by region (2023 vs 2022 growth %)



Source: ICIS, Aljazira Capital Research

MTO technology in China to support Methanol demand: **Methanol** is partially used to manufacture olefins (including ethylene and propylene) which in turn are used in a wide variety of end-industries including paints & coatings, automotive, packaging pharmaceutical, electronics, and insulation industry. China is expected to dominate the global ethylene capacity growth from its planned and unplanned projects, supported by its growing coal to olefins (CTO)/ methanol to olefins (MTO) technology which is increasingly becoming viable as a route for producing petrochemicals in China (as seen in the chart below). Further, as new capacities are expected to come on stream in China, Middle East and North America, firm demand is anticipated from some downstream products (MTBE, DME, AA and formaldehyde) that will support Methanol demand. We expect average methanol prices to decline 16.6% to USD 280/ ton in FY23E and only to increase by 7.6% to USD 302/ ton in FY24E driven by an improvement in CTO/ MTO technology.

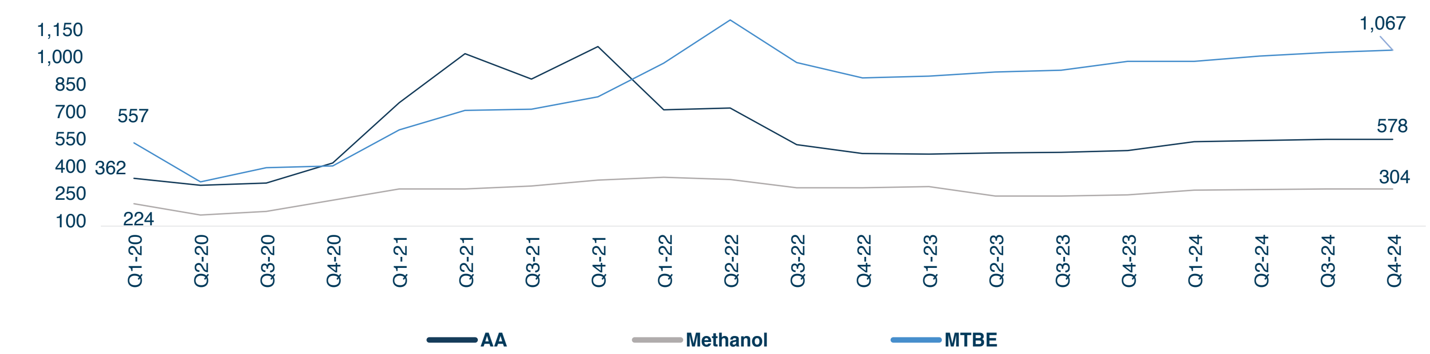
Figure 18. China ethylene incremental capacity trend (000' tonnes)



Source: ICIS, Aljazira Capital Research, Note-*Capacity addition ratio is estimated numbers based on ICIS data

Asia remains the key market for MTBE in H2-23 as gasoline blending is expected to shift from the West to East: Asia **MTBE** witnessed a volatile H1-23 amid supply tightness in Q1-23 and low naphtha cracker operating rates, yielding less feedstock to produce MTBE. According to ICIS, gasoline blending is expected to shift from the West to East in H2-23 amid high inflation and interest rates in major western economies. Asia is expected to become a major inflow region if the MTBE market is oversupplied in the West. However, China's economic performance remains a key amid series of economic stimulus packages announced by the government. Thus, we expect average MTBE prices to decline 7.4% to USD 957 per ton in FY23E due to slower-than-expected recovery in China market. In FY24E, average prices are expected to increase to USD 1,039 per ton, reflecting an increase of 8.6% led by improved market fundamentals and additional stimulus by Chinese government to revive the Chinese economy.

Figure 19. Average product prices (USD/ton)



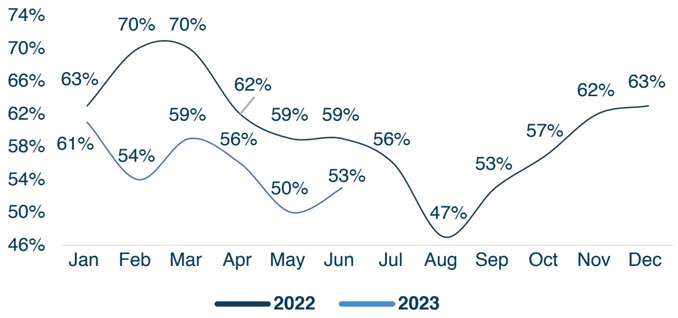
Source: Argaam, Aljazira Capital Research

Intermediate Chemicals

An oversupplied market with high inventory levels in China weighs on the overall MEG market sentiments: There is a high **MEG** inventory in China along with sluggish end-user demand which weighed on the overall market sentiments in H1-23. The MEG inventory levels in China increased 21.7% YTD to reach 1.1mn tonnes as of 25 August 2023, marking the highest level recorded in 2023. Hence, we expect average MEG prices to decrease 12.0% to USD 506 per ton in FY23E.

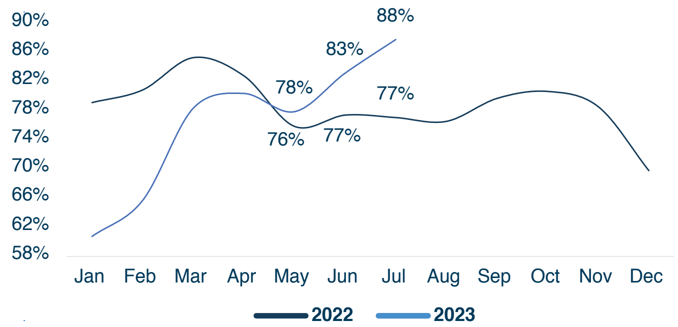
The average run rate of MEG plants in China has been volatile at 50%-60% since February, lower when compared Y/Y, according to ICIS data. Despite the reduction of supply due to lower run rates, the overall supply of MEG in the market remains abundant. However, the sustained high operating rate of downstream polyester plants has boosted market confidence. This, along with lower MEG imports expected in China in FY23 (H2-23 unlikely to see a significant increase) compared to a year ago, is expected to ease supply-demand pressure with a significant improvement in growth rate of polyester capacity in FY23. The increase in polyester capacity is a welcoming news and has a positive impact on MEG demand. Going forward, in FY24E, we expect average Asia prices to increase 14.2% to USD 577 per ton.

Figure 20. Average run rates of China MEG units



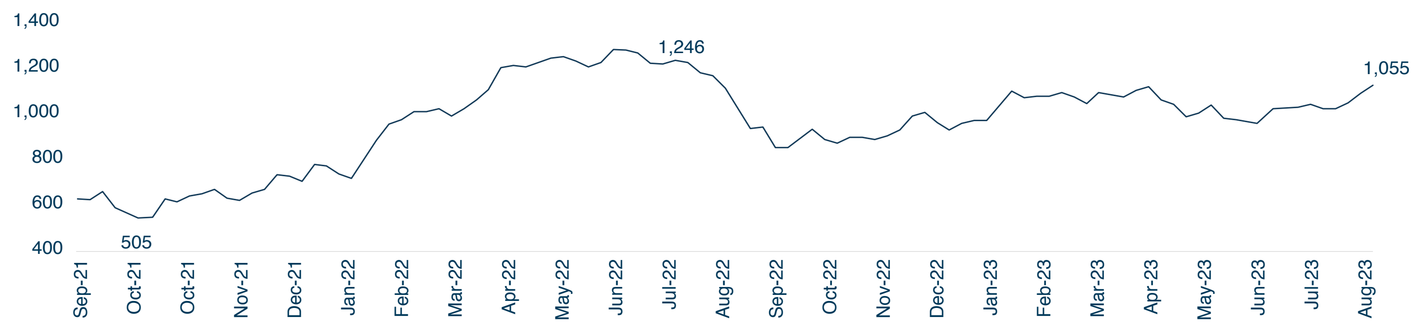
Source: ICIS, Aljazira Capital Research

Figure 21. Average run rates of polyester plants



Source: ICIS, Aljazira Capital Research

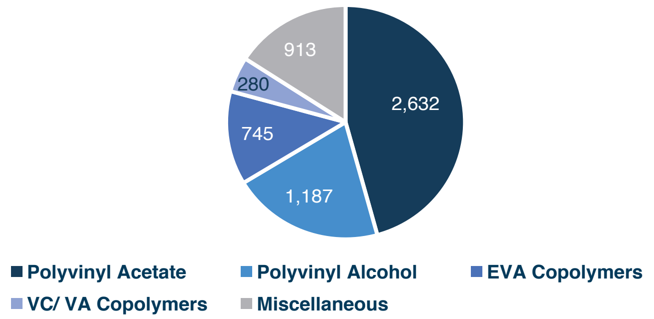
Figure 22. China MEG main port inventory ('000 tonnes)



Source: ICIS, Aljazira Capital Research

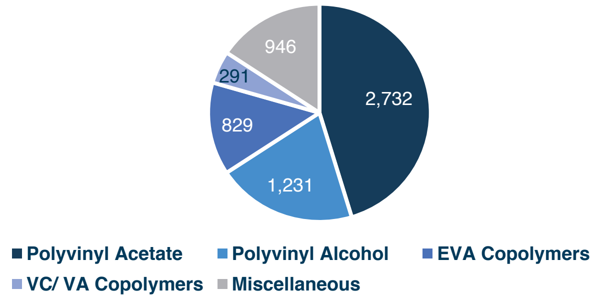
Hopes of recovery in VAM market after a period of continuous weakness since Q3-22: ***VAM*** markets have seen weakness for some time now, however, there is slight optimism on hopes of recovery in FY23E. The overall sentiments remain bearish despite operating rate reductions and shutdowns in China, Taiwan, Japan and Singapore as the supply situation still weighs on the prices. Thus, we expect VAM average prices to decline 45.0% in FY23E. Moreover, VAM prices are under pressure due to weakness in demand across key sectors. At topmost, the polyvinyl alcohol (PVOH) and polyvinyl acetate (PVA) downstream commodities account for most VAM consumption, which ICIS data estimates at 62%. Since the PVA/PVOH are more exposed to the construction sector because of their applications in adhesives and coating emulsions, an expected growth in construction sector would drive VAM prices. Thus, driven by an expected economic recovery and improved demand across key sectors, we expect average prices to rise only by 7.2% in FY24E.

Figure 23. Estimated global VAM consumption (2023 – Kilotonnes)



Source: ICIS, Aljazira Capital Research

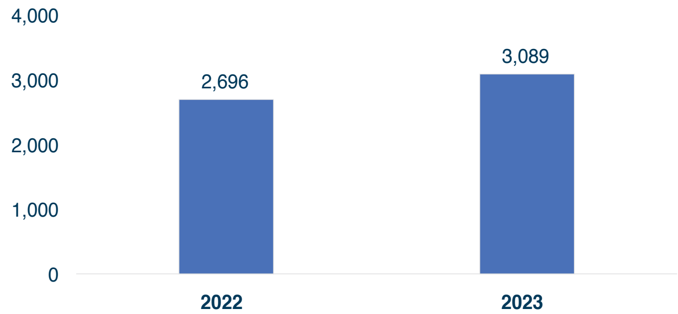
Figure 24. Estimated global VAM consumption (2024 – Kilotonnes)



Source: ICIS, Aljazira Capital Research

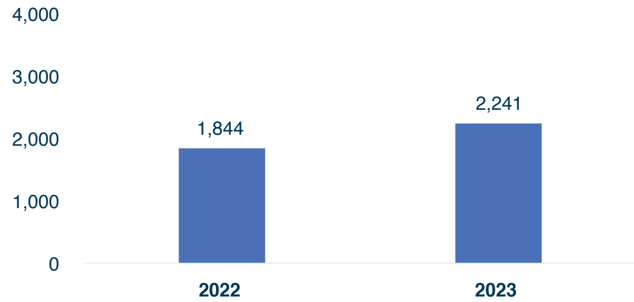
Rapidly growing photovoltaic industry in China to support EVA demand and prices: The demand for ***EVA*** in China is predicted to exceed 3mn tonnes in 2023, with a 15% Y/Y increase driven by policy and demand from the solar photovoltaic (PV) sector. China accounted for 53% of worldwide EVA demand in 2022, making it the world's largest consumer market. The photovoltaic industry is the primary driver of demand growth for EVA. We anticipate that the proportion of PV in EVA demand will rise further, with PV accounting for 47% or more of overall demand in 2023. PV has driven the continuing growth of EVA demand in China over the last three years as a new energy outlet. China's photovoltaic industry is rapidly increasing, with capacity recording 1.8mn tonnes in 2022, thanks to the rising demand. The country is entering a new capacity cycle, and China is predicted to provide more than 90% of the world's new production capacity from 2023 to 2027. As demand from PV industry has begun to show recovery signs in H2-23, the supply and demand balance in China is expected to balance in the short-term. Thus, we expect overall average prices to increase 13.9% in FY24E following a decline of 30.7% in FY23E.

Figure 25. China EVA demand trend (in '000 tonnes)



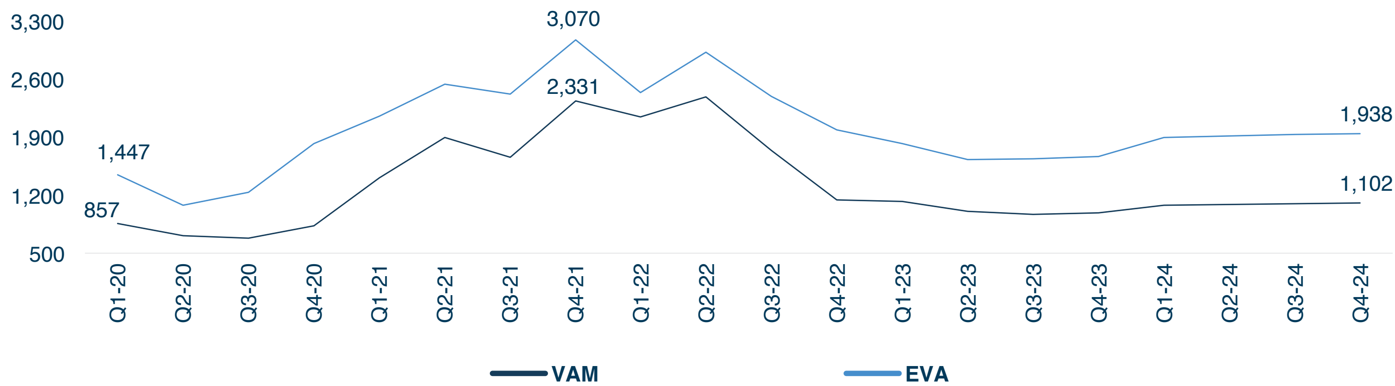
Source: ICIS, Aljazira Capital Research

Figure 26. China EVA capacity trend (in '000 tonnes)



Source: ICIS, Aljazira Capital Research

Figure 27. Average product prices (USD/ton)



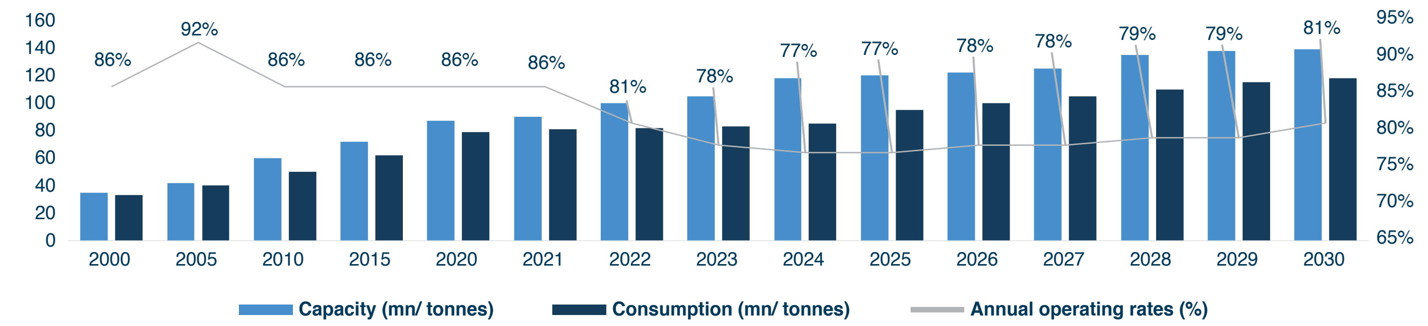
Source: Argaam, Aljazira Capital Research

End product chemicals

China's slower-than-expected recovery to weigh on polymer demand including Polyethylene: Asia's **PE market** is expected to see a struggling road to recovery in H2-23 with suppressed demand and significant supplies; the slower than expected demand recovery in Asia's largest PE import markets – China and Vietnam, and increased supply in Asia from new plants and capacity expansions. Thus, PE demand looks sluggish due to growing economic uncertainty and pressurized margins, and abundant supplies expected to come on-stream in H2-23. Hence, we expect average HDPE prices to decline 8.4% to USD 988 per ton in FY23. LDPE and LLDPE prices are estimated to decline 22.5% and 10.0% in FY23E. The struggling economy and the depressed property sector in China continue to weigh on the petrochemical outlook. Though not expected to be a major demand driver, China's latest stimulus measures could support growth and boost market confidence. Thus, prices are expected to gain in FY24E as the outlook starts to shift from weakness in demand to a recovery in demand.

PP demand to improve in H2-23 while pressure weighs on the long-term market dynamics: In the long term, **PP** market is expected to remain under pressure due to i) new capacity expected in H2-23 thus putting pressure on the supply side, and ii) seasonal rebound in demand with long-term support remaining weak. Recent government policies aimed at boosting demand may bring some relief to the demand side. However, abundant supplies, ailing real estate sector, and uncertainties due to power rationing policies in the summer continue to pressurize the market in the long term, as per ICIS. Despite global PP capacity surpassing demand, the PP demand growth in developed economies is expected to grow at 1.3% over 2020-2030 compared to 1.0% growth registered in 2000-2019. The developing World ex-China and Developed World growth is expected to slow down over the period as the economies' long-term structural economic slowdown continues. We expect average PP prices to slightly increase to USD 1,038 per ton in FY24E with an expectation of latest stimulus measures by China to boost market confidence followed by an estimated decline of 12.7% to an average price of USD 915 per ton in FY23E.

Figure 28. Global PP: Actual until 2022 and base forecast for 2023-2030



Source: ICIS, Aljazira Capital Research, Note-*Capacity and consumption numbers are estimated based on the ICIS data

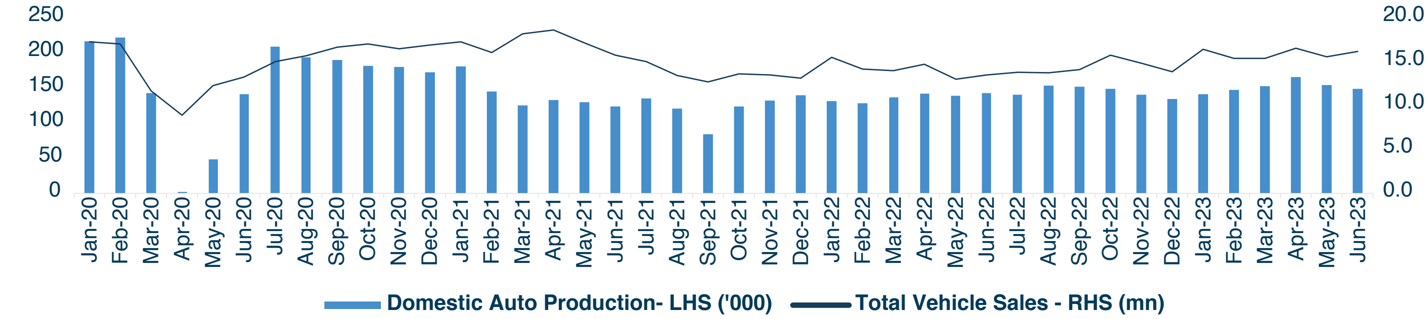
Figure 29. Annual average PP demand growth rates

	2000-2019	2020-2030
Developed World	1.0%	1.3%
Developing World ex-China	7.0%	4.5%
China	10.6%	5.0%

Source: ICIS, Aljazira Capital Research

Weak demand from end user industries weighs on PC prices: Prices of **PC** in China has sunk to their lowest levels in over two years amid weak demand from end user industries. The reopening of China has not boded very well for the market and consumers continue to remain cautious in their spending. This has impacted automotive, electronics and housing sectors and thus the prices for PC which is dependent on all these sectors. Car sales in China came-in at 1.79mn units in July, down 2.6% Y/Y, marking the second consecutive contraction following a decline of 2.9% in June. Hence, we expect average PC prices to decline 22.5% in FY23E to USD 1,850 per ton. However, with a slowdown in production but improvement in demand for personal transport, the automotive sales in the US have shown signs of recovery. Domestic auto production levels in the US increased on Y/Y basis in June (+4.1%) and May (+10.7%) this year. Moreover, total vehicle sales in the US continue to increase, recording an increase of 18.2% Y/Y in July and +19.8% in June. Thus, with the recovery in market fundamentals and consequent demand, we expect average prices to increase 12.2% to USD 2,075 per ton in FY24E.

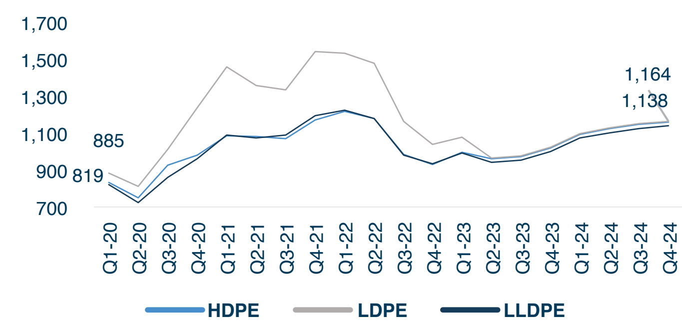
Figure 30. US monthly vehicle sales and domestic production check to add one sentence on China



Source: Fred, Aljazira Capital Research

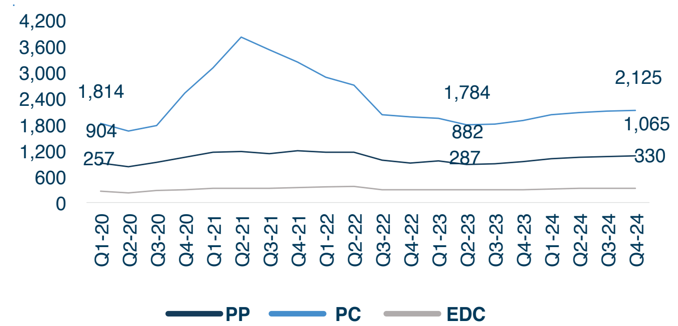
Asia EDC supply could increase amid weak demand in the near-term: Asia EDC market is expected to see supply lengthening in the near-term while demand is uncertain and is dependent on polyvinyl chloride (PVC) performance, a major derivative. Although PVC market conditions in Asia may have bottomed out, it is uncertain when they will recover. Due to the gloomy outlook, EDC consumers in Asia might continue to be price sensitive. As a result, we expect average prices to decline 11.2% Y/Y in FY23E and improve 10.5% Y/Y in FY24E as market sentiments improve.

Figure 31. Average products prices (USD/ton)



Source: Argaam, Aljazira Capital Research

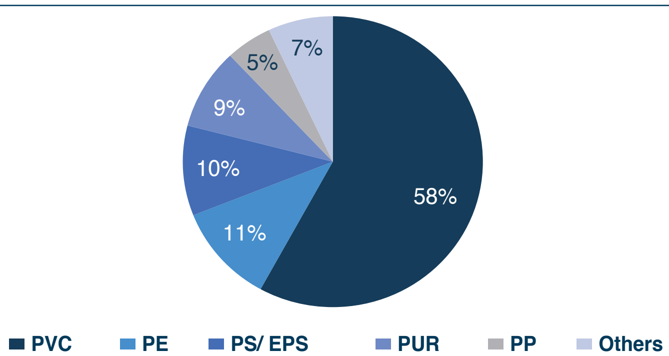
Figure 32. Average products prices (USD/ton)



Source: Argaam, Aljazira Capital Research

Market sentiments for PVC biased on uncertain demand conditions in China: Market players eye conditions in China, and India being a major import market for **PVC**. Recent prices in China have seen an uptrend amid a gain in oil prices and extension of financial support to China's ailing property sector. However, there is uncertainty on the sustainability of prices over the long-term as the country's consumption expectations have been below expectations so far. Moreover, PVC is a major polymer used in the construction sector accounting for 58% of the total polymers used in construction. Thus, any trends (slowdown/ recovery) in the construction sector is expected to impact the PVC market. We expect average PVC prices to decline 23.6% Y/Y in FY23E and increase 12.1% Y/Y in FY24E on recovery in key sectors including construction.

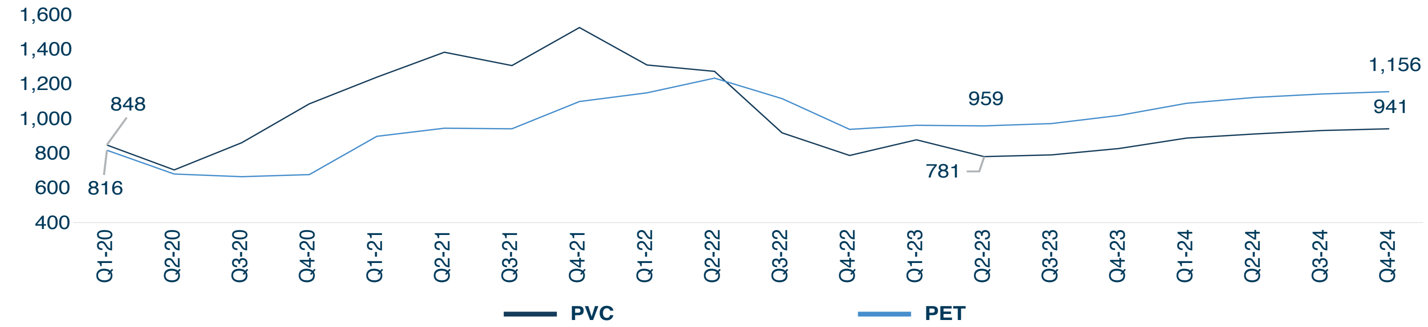
Figure 33: Key polymers used for construction market



Source: ICIS, Aljazira Capital Research

Asia recycled PET (R-PET) market pressurized by a supply glut and low demand: Asia **R-PET** market is continued with additional capacities across Asian markets. However, on the demand side, major brands have been unable to increase trade of R-PET due to coping up with macroeconomic problems. Many beverage companies have reduced their use of recycled plastics to boost profits and keep their companies afloat. Amid extreme demand pressures seen by R-PET traders, textile manufacturers have also capped their purchases due to inflationary pressures hurting end-users. As a result, we expect average PET prices to decline 11.9% Y/Y in FY23E and improve by 15.4% Y/Y in FY24E as demand pressure softens amid better macro-economic sentiments.

Figure 34. Average End products prices (USD/ton)



Source: Argaam, Aljazira Capital Research

SABIC, Advanced and Alujain to lead capacity expansion in KSA petrochmemical sector; more announcements likely under Shareek program

Advanced's PDH -PP- IPA plant expansion - an important development in doubling the company's existing capacity and penetrate further into value-added PP industry: In Jubail, Saudi Arabia, Advanced is currently building its PDH (843,000 tons capacity), PP (800,000 million tons), and isopropanol plants (70,000 million tons) (PDH-PP-IPA), which are expected to be operational by H2-24. After the project is finished, this will enable Advanced's capacity to expand from 0.45mn tons of PP to roughly 1.25mn tons of PP. Advanced will gain from the project by being able to generate a variety of polymers from a single product producer (PP) position and so enter the value-added PP segments. We expect the impact of this project on Advanced's financials from Q1-25. As a result, the company's top line is expected to increase to SAR 5,048mn in FY25E as compared to SAR 2,433mn expected in FY23E.

SABIC's multiple expansion plans to enrich company's diverse portfolio and protect against any economic adversity: SABIC began commercial operations at United's third EG plant, one of the many expansion plans, marking a significant accomplishment for the company's EG growth aspirations with an annual production capacity of 700,000 MT of MEG. Additionally, SABIC and Saudi Aramco are preparing to launch a joint venture (JV) in KSA with a capacity of 400,000 barrels of crude per day to convert crude into petrochemicals. This unique concept intends to create a seamless chain from fundamental petrochemicals to specialized petrochemicals. Furthermore, SABIC, SINOPEC, and ARAMCO are looking into joint ventures for petrochemical and refining projects in China and the Kingdom of Saudi Arabia.

Alujain's PP expansion project to support its volumes and profitability from H1-26: Alujain has received feedstock allocation approval from the Ministry to produce plants in Yanbu city which includes i) propane gas processing plant (to produce PP), plant for production of PP, iii) complex to produce PP compounds and PP specialty materials. The new project will produce 600,000 tons of PP and its compounds in H1-26 once it starts operations. The company is thus striving to maximize its investment in propylene and PP industries and expanding capacity to 1.0mn tons of PP from 0.4mn tons of PP.

Sipchem to reap long-term benefits from its investment plans under the Shareek program: Through the Shareek program: Sipchem is evaluating ~USD 6.6bn of projects with the Ministry of Energy in the next decade. The company management has also mentioned more recently that its investment plans over the next decade could exceed USD 12bn. Sipchem has also signed agreement with German based Linde company to expand into the industrial gases and clean energy sector.

Kayan's additional ethane allocation to reduce its dependence on butane as a feedstock; a game changer for the company:

Saudi Kayan has received approval from Ministry of Energy for allocation of additional ethane by a maximum of 30 MCF/d based on availability of ethane from future projects. As Kayan currently operates on 70% of feedstock as butane, additional allocation of ethane will assist in reducing the company's dependence on butane. Moreover, the high price of Butane and volatility in butane prices is currently a concern for the company. Moreover, productivity of butane-based production is comparatively lower. Thus, the additional ethane allocation will assist decrease butane dependence, maximize ethane intake, lower operational costs, and strengthen Kayan's ability to deal with butane price variations. However, the company is still working with the Ministry on the timelines and implementation plans and hence limited details are provided.

Petrochemical sector results hit by weaker demand and lower product prices; but cautiously optimistic on the 2024 outlook ahead on the back of resilient economic recovery

In H1-23, the sector's net profitability came in significantly lower at SAR 3.1bn compared to SAR 24.2bn in H1-22. Weak demand, lower product prices & spreads, and China's slower-than-expected recovery had an impact on the H1-23 demand and overall performance. As a result, in FY23E, we expect the combined net income for the stocks under coverage to reach SAR10.0bn (-67.0% Y/Y) due to 1) lower average product prices and spreads, and 2) pressurized margins despite correction in feedstock costs. However, the recovery in growth and low inflation are positive signs that the global economy is on the right track. Thus, in FY24E, we expect the sector profits to record a strong rebound and to grow to SAR 23.0bn (+130.0% Y/Y) on higher prices and better margins, as product prices recover and normalize toward their mid-term averages.

Although the petrochemical industry is suffering from uncertainty due to volatility in oil prices and weak petrochemical demand, we think that prices have reached their bottom and a recovery is anticipated by FY2024. We do, however, point out that the primary **downside risks** to our valuation continue to include i) any additional fall in product prices and, as a result, spreads; ii) market volatility on a worldwide scale; and iii) unanticipated plant shutdowns that have an impact on the company's revenue and profitability. On the other hand, the primary **upside risks** continue to be the i) higher than anticipated price recovery, ii) increased product spreads and gross margins, and iii) higher than estimated global demand amid an improved macroeconomic scenario.

Figure 35. Petrochemical Sector profitability and outlook (SAR mn)

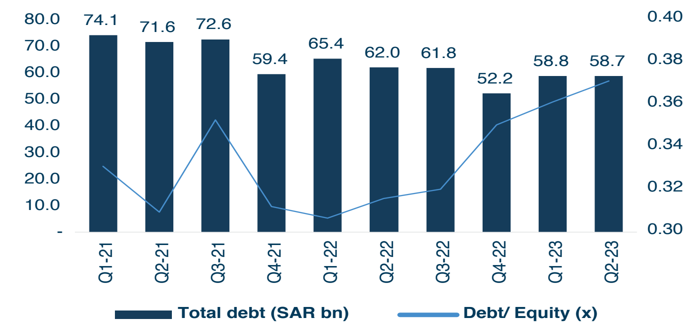
Net income (SAR mn)	FY22	FY23E	FY24E
SABIC	16,530	5,619	15,268
SABIC AN	10,037	3,501	3,157
Advanced Petrochemical	295	295	527
Yansab	414	(124)	910
Kayan	(1,244)	(1,314)	318
Tasnee	666	440	747
Sipchem	3,595	1,565	1,971
Alujain	119	46	137
Total	**30,412**	**10,028**	**23,035**
Y/Y change (%)		-67.0%	130.0%

Source: Company reports, Aljazira Capital Research

Expected rate cuts going ahead to reflect in reduce finance expense and mitigate the impact on highly leveraged companies

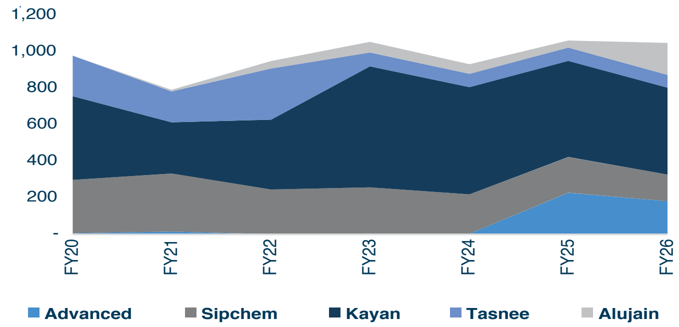
Current interest rates at multi-years high levels are having noticeable impact on profitability of more leveraged Saudi Petrochemical companies. The total debt for the Saudi petrochemical companies under our coverage has declined to SAR 58.7bn as of June 2023 compared to SAR 62.0bn as of June 2022, reflecting a decline of 5.4% Y/Y. However, the average Debt to equity ratio for the companies under coverage increased to 0.42x from 0.36x during the same period due to an increase in Advanced's debt. Within our coverage, Saudi Kayan and Tasnee are the most leveraged companies while SABIC AN and Yansab enjoys a debt-free balance sheet. Saudi Kayan holds a total debt of SAR 9.7bn as of June 2023, reflecting debt to equity ratio of 0.7x. The company paid finance expenses amounting to SAR 382.9mn in FY22 vs. SAR 279.1mn in FY21. Tasnee reported a total debt of SAR 5.7bn with a debt-to-equity ratio of 0.6x and it paid finance charges worth SAR 278.7mn in FY22 vs. SAR 169.8mn in FY21. The expected rate cuts in FY24E as the economy starts recovering, along with debt reduction will help reduce finance expense and thus benefit highly leveraged companies like Saudi Kayan and Tasnee. We expect financial expenses to be reduced with anticipated rate cuts from FY24E. Low financing costs will support bottom line and aid businesses of companies like Kayan that are incurring losses.

Figure 36. Petrochemical sector debt (SAR bn)



Source: Argaam, Aljazira Capital Research

Figure 37. Petrochemical companies Finance exp (SAR mn)

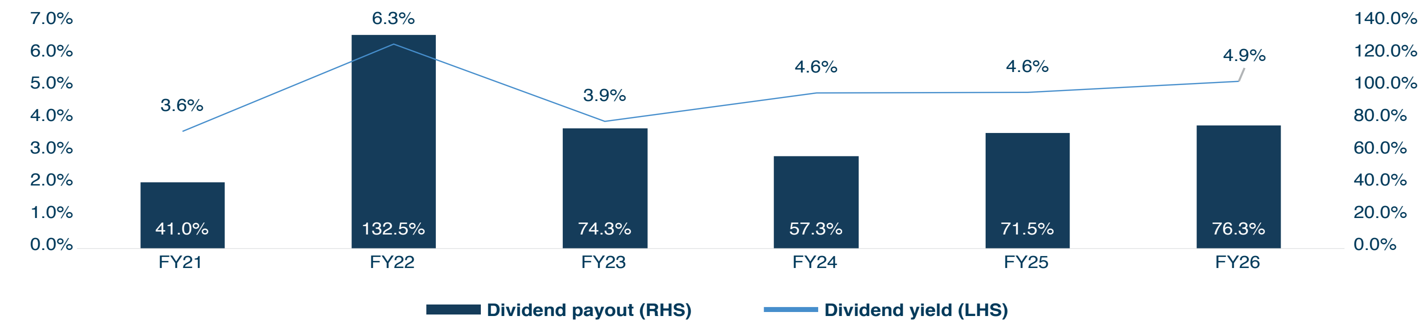


Source: Argaam, Aljazira Capital Research

SABIC, SABIC AN, Sipchem and SIIG likely to be top dividend yielding stock in the sector

Within our coverage, all the companies are expected to pay dividends in FY24E except Advanced, Kayan and Alujain due to weak cash flows amid its aggressive capex plans. We expect dividend yield for the sector (excluding non-dividend paying) to average at 4.6% in FY24E as profitability and free cash flows improve compared to 3.9% in FY23E. In FY24, investors can look at companies like SIIG (DY: 6.1%), Sipchem (5.5%), Yansab (4.5%), SABIC (4.4%) and SABIC AN (3.7%), to pay attractive dividends. Tasnee is expected to resume the payment of dividends from FY24E with a dividend payout of 40%, reflecting a dividend yield of 3.4%. This will be the first dividend payment by the company since its last dividend payment in 2015.

Figure 38. Petrochemical sector average dividend yield and payout (%)



Source: Company reports, Aljazira Capital Research

Investment thesis

The petrochemical sector's earnings in H1-23 were hit by dwindling product prices in light of subdued demand amid the global economic slowdown, weaker product spreads and several plant shutdowns. Now the product prices stand at COVID-level and are well below the historical average. Hence, further downwards movement in the prices is less likely. Moreover, global economic sentiments are expected to improve as the fears of recession receding, inflation is coming down and monetary easing is expected to start next year. Although all the economic concerns are not over yet, with the backdrop of expected economic recovery and current very low petrochemical products prices we see this could be the time to invest in the quality stocks in the sector given low risk to reward ratio. We believe valuations of some of the companies are attractive at current level when analyzed against expected improvement in financial performance owing to the recovery.

Overall, we remain cautiously optimistic on Saudi Arabia's petrochemical sector. Yet we favor certain companies which we believe have great potential due to positive outlook on their key products, feedstock cost advantage, strong financial strength and cash flow, and attractive dividend-paying ability. Based on these factors, we maintain our "**Overweight**" rating on **SABIC** and **Sipchem** and upgrade **Advanced** and **Kayan** to "**Overweight**". We initiate our coverage on Alujain with "**Overweight**" recommendation. We have a "**Neutral**" rating on SABIC AN, Yansab and Tasnee.

Saudi Basic Industries Corp. (SABIC): Diverse portfolio and a strong market leadership makes SABIC a resilient player

SABIC is facing weaker demand and ample supply in its key markets across the major products. However, a better outlook on the global economy is expected to support demand and push product prices even higher. Additionally, we believe SABIC's market leadership, diverse portfolio and geographic exposure makes it a resilient player and would support a good recovery next year. Furthermore, realized synergies with Saudi Aramco, and steady dividend payments are the key positives. Recently, the company announced selling its 100% stake in Hadeed to PIF for SAR 12.5bn (above BV of SAR 10.7bn). We see the deal to be positive for the company as it will enable SABIC to monetize currently loss-making assets and focus on core petrochemical business. We recommend "Overweight" rating with a TP of SAR 102.1 per share.

SABIC'S diverse portfolio to support during the phase of recovery: SABIC's revenue is estimated to improve by 10.5% to SAR 170.8bn in FY24E following a decline of 22.1% in FY23E. Anticipated recovery in global economic sentiments and current low prices are likely to underpin demand and push petrochemical prices higher. This, along with a rich product mix and diverse geographic exposure of the company is expected to support its top line. SABIC is expected to record a net income of SAR 15.3bn in FY24E from SAR 5.6bn expected in FY23E.

Higher prices and improved product spreads to help FY24 margins surpass FY22 levels: SABIC's margins are expected to recover to 21.7% in FY24E after contracting to 16.4% in FY23E driven by improved product spreads. Propane-HDPE and Propane-PP spreads are projected to expand by 22.4% Y/Y to USD 694/ ton and 21.6% Y/Y to USD 601.2 per ton, respectively, during the same period driven by improved product prices and stabilizing feedstock cost.

Feedstock cost remains an advantage: Almost half of the SABIC's feedstock is fixed cost based subsidized feedstock, while remaining half is variable LPG based feedstock. This helps the company to manage through any volatility in the feedstock prices. Subsequently supporting margins and mitigating profitability pressures partially. The feedstock pricing structure will continue to support SABIC's cost advantage over global non-integrated naphtha-based petrochemical companies and aid margin expansion during recovery in product prices.

Capex is likely to be higher on expansion plans but synergies with Aramco to relieve Opex pressure: SABIC's capex is expected to remain at an average of SAR 4.3bn per year over FY23E-FY26E, driven by expansion plans in and outside KSA. SABIC is building an integrated industrial complex to convert crude oil to chemicals in Yanbu, in partnership with Saudi Aramco. Both the companies are also exploring options for a new petrochemical complex in Ras Al Khair to convert 400,000 bpd of oil into petrochemicals. In China, SABIC has a JV that is investing USD 6.2bn in a project consisting of a mixed feed steam cracker. On the other hand, synergies realized with Aramco (USD 1.5bn till June 2023) would relieve Opex pressure.

A healthy dividend payout expected: We forecast dividends of SAR 3.10 per share in FY23E and SAR 3.80 per share in FY24E reflect a stable dividend yield of 3.5% and 4.4%, at current market prices. The company's healthy dividend payout of over 100% in FY23E and a long-term average of 70% going forward is expected to be supported by strong liquidity and healthy free cash flows.

Divestment of Hadeed business to help SABIC focus on its core business: The divestment of Hadeed to PIF at a transaction value of SAR 12.5bn (above the book value of SAR 10.65bn) is expected to close before the end of Q1-24. SABIC announced the financial impact of a non-cash loss of SAR 2-2.5bn to be reflected over Q3-23 earnings. We believe this transaction is positive for the company as i) the transaction proceeds will infuse liquidity in the company, ii) help focus on the core petrochemical business, iii) help improve margins as Hadeed as a business segment is volatile, with losses reported in FY19 and FY20. As of H1-23, SABIC's EBITDA margin without Hadeed was 15% vs a 13% margin with Hadeed. However, we await clarity from the management with regards to the financial impact of a non-cash loss of SAR 2.5bn (when the asset value is SAR 10.65bn) to be recorded in Q3-23 while the transaction is expected to close in Q1-24.

Valuation: We value SABIC with 50% weightage to DCF based SOTP (risk free rate = 3.5%, WACC = 9.2%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY24 P/E (17.0x) and EV/EBITDA (9.5x) multiples each to arrive at a blended TP of SAR 102.1 per share. The stock currently trades at FY23 and FY24 forward P/E of 46.1x and 17.0x, respectively, based on our estimates.

Blended valuation

	Fair value	Weights	Weighted average
DCF - SOTP	**110.6**	**50%**	55.3
EV/EBITDA	**100.6**	**25%**	25.1
P/E	**86.5**	**25%**	21.6
Weighted Average 12-month TP			102.1
Upside / (downside) potential			**19.4%**

Source: Aljazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**102.1**
Upside/(Downside)	**19.4%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	174,883	198,467	154,547	170,807
Growth %	49.5%	13.5%	-22.1%	10.5%
Net Income	23,066	16,530	5,619	15,268
Growth %	HIGH	-28.3%	-66.0%	171.7%
EPS	7.69	5.51	1.87	5.09
DPS	4.00	4.25	3.10	3.80

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	29.2%	21.5%	16.4%	21.7%
Net Margin	13.2%	8.3%	3.6%	8.9%
P/E (x)	16.21	18.66	46.13	16.98
P/B (x)	2.08	1.66	1.42	1.39
EV/EBITDA (x)	8.07	7.90	10.89	7.34
Dividend Yield	2.6%	4.4%	3.5%	4.4%

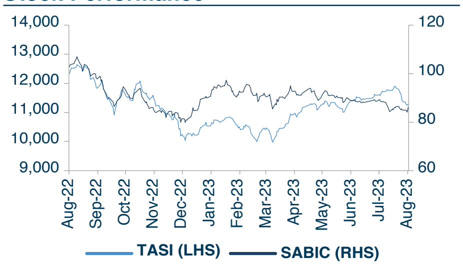
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	259.50
YTD%	-3.36%
52-week (High)/(Low)	107.40 / 79.20
Share Outstanding (mn)	3000

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	174,883	198,467	154,547	170,807	176,937	180,284
Y/Y growth	**49.5%**	**13.5%**	**-22.1%**	**10.5%**	**3.6%**	**1.9%**
Cost of sales	(123,796)	(155,794)	(129,267)	(133,696)	(135,247)	(137,418)
Gross profit	**51,087**	**42,672**	**25,280**	**37,111**	**41,690**	**42,866**
General & administrative expense	(21,120)	(20,516)	(18,795)	(19,643)	(20,348)	(20,733)
Operating profit	**33,600**	**24,619**	**8,424**	**19,220**	**23,156**	**23,982**
Y/Y growth	**NM**	**-26.7%**	**-65.8%**	**128.2%**	**20.5%**	**3.6%**
Share in earnings of equity-accounted investees	2,453	2,683	581	2,210	3,602	4,688
Financial Charges/Earnings On Deposits	(1,965)	(1,314)	(73)	(166)	(157)	(128)
Profit before zakat & minority interest	**34,088**	**25,988**	**8,931**	**21,264**	**26,602**	**28,542**
Minoriity interest	(7,436)	(6,963)	(1,841)	(3,817)	(4,775)	(5,123)
Zakat	(3,586)	(2,495)	(1,472)	(2,179)	(2,726)	(2,925)
Net profit	**23,066**	**16,530**	**5,619**	**15,268**	**19,100**	**20,493**
Y/Y growth	**NM**	**-28.3%**	**-66.0%**	**171.7%**	**25.1%**	**7.3%**
EPS (SAR)	7.69	5.51	1.87	5.09	6.37	6.83
Balance sheet						
Assets						
Cash and bank balance	42,319	40,059	38,109	40,965	49,926	56,854
Other current assets	60,929	58,079	54,627	57,545	59,578	61,325
Property plant & equipment	131,019	126,797	121,107	115,634	110,389	105,383
Other non-current assets	73,664	73,185	75,502	77,862	80,264	82,709
Total assets	**319,355**	**313,106**	**304,448**	**307,229**	**315,633**	**322,006**
Liabilities & owners' equity						
Total current liabilities	51,194	48,194	42,326	42,089	42,965	43,974
Long-term loans	32,670	26,847	26,578	25,250	26,512	25,186
Total non-current liabilities	23,658	20,448	20,652	20,859	21,068	21,278
Minority interests	31,693	31,571	32,376	32,700	33,027	33,357
Paid -up capital	30,000	30,000	30,000	30,000	30,000	30,000
Statutory reserves	15,000	15,000	15,000	15,000	15,000	15,000
General reserves	107,346	108,958	108,958	108,958	108,958	108,958
Retained earnings	27,795	32,088	28,557	32,374	38,104	44,252
Total owners' equity	180,141	186,046	182,515	186,332	192,062	198,210
Total equity & liabilities	**319,355**	**313,106**	**304,448**	**307,229**	**315,633**	**322,006**
Key fundamental ratios						
Current ratio (x)	2.1	2.2	2.4	2.6	2.8	2.9
Cash ratio (x)	0.8	0.8	0.9	1.0	1.2	1.3
Gross profit margin	29.21%	21.5%	16.4%	21.7%	23.6%	23.8%
Operating margin	19.2%	12.4%	5.5%	11.3%	13.1%	13.3%
EBITDA margin	25.8%	11.4%	14.7%	19.4%	20.9%	20.9%
Net profit margin	13.2%	8.3%	3.6%	8.9%	10.8%	11.4%
Return on assets	7.5%	5.2%	1.8%	5.0%	6.1%	6.4%
Return on equity	13.3%	9.0%	3.0%	8.3%	10.1%	10.5%
Interest coverage (x)	17.10	18.74	114.81	115.82	147.74	187.85
Debt / equity (x)	0.18	0.15	0.15	0.14	0.14	0.13
EV/sales (x)	2.08	1.49	1.60	1.42	1.33	1.26
EV/EBITDA (x)	8.07	7.90	10.89	7.34	6.37	6.02
EPS (SAR)	7.69	5.51	1.87	5.09	6.37	6.83
BVPS (SAR)	60.05	62.02	60.84	62.11	64.02	66.07
DPS (SAR)	4.00	4.25	3.05	3.80	4.45	4.75
Dividend yield	2.6%	4.4%	3.5%	4.4%	5.2%	5.5%
P/E ratio (x)	16.21	18.66	46.13	16.98	13.57	12.65
P/BV ratio (x)	2.08	1.66	1.42	1.39	1.35	1.31

Source: Company reports, Aljazira Capital Research

Yanbu National Petrochemical Company (Yansab): Operating efficiency following the shutdown in Q1-23 and technical glitch in Q3-23 to partially offset the impact of weak MEG prices.

Yansab exhibits a sound financial profile with a debt- free balance sheet, strong FCF generation and high liquidity. Moreover, the company's ability to pay steady dividends is a key positive. Margins would be under pressure in FY23E due to declining product spreads driven by lower MEG prices coupled with a 53-day planned shutdown in Q1-23 and Q3-23 shutdown owing to technical glitch. However, GP margin is likely to improve in FY24E driven by operational efficiency and improvement in product spreads. The operating rates are expected to improve to an average of 95.2% in 2H-23 (average of 91.3% in FY23E) and 97.2% in FY24E following the shutdown in FY23. We recommend "Neutral" rating on the stock with a TP of SAR 48.5 per share.

Production and volumes to improve following the shutdown in Q1-23, some drag from technical shutdown in Q3-23: The scheduled 53-day planned maintenance in Q1-23 is expected to gradually support the company's production efficiency and volumes going ahead. However, Yansab's revenues are expected to decline 25.8% Y/Y due to lower average selling prices of key products and planned and unplanned shutdowns in Q1-23 and Q3-23, respectively. Gross profit margins are expected to drop to 5.2% in FY23E from 13.8% in FY22 and improve to 19.3% in FY24E. With an improved global economic outlook and thus petrochemical demand, higher operating efficiency following the shutdown in Q1-23, the revenues are expected to increase by 53.4% in FY24E to SAR 8.0bn. We expect average operating rates to be around 91.3% in FY23E and 97.2% in FY24E.

The decline in MEG prices remains a short-term concern: The demand for MEG is expected to stay weak in the S-T amid ample supplies. The bearish sentiment is expected to continue amid strengthening supplies and weak demand. Consequently, we expect average MEG (Asia) prices to decrease 12.0% to USD 506 per ton in FY23E. However, in FY24E, prices are expected to increase 14.2% to USD 577 per ton with the expectation of an improved global economic outlook and some recovery in China market amid government's stimulus measures. The recovery in China will be the key for Yansab as it is a major market for the company (37% of total sale in Asia in FY22).

Strong financial performance and attractive dividends is a key positive: Yansab demonstrates financial stability driven by a debt free-balance sheet and robust profitability ratios. The company reported a healthy FCF generation with an FCF yield of 6.7% (FY22) and consequently, an attractive dividend yield of 7.7%. Going ahead, due to strong FCF generation (CAGR of 31.1% over FY23E-FY26E), we expect the company to pay a high dividend payout of over 100%. At current prices, the company is expected to result in a dividend yield of 3.4% in FY23E and 4.5% in FY24E.

Valuation: We value Yansab with 50% weightage to DCF (risk free rate = 3.5%, WACC = 9.7%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY24 EV/EBITDA (11.5x) multiple and dividend yield (4.5%) based valuation each to arrive at a blended TP of SAR 48.5 per share. The stock currently trades at FY24 forward P/E of 27.0x based on our estimates.

Blended valuation

	Fair value	Weights	Weighted average
DCF	**49.0**	**50%**	24.5
EV/EBITDA	**51.5**	**25%**	12.9
D/Y (%)	**44.4**	**25%**	11.1
Weighted Average 12-month TP			**48.5**
Upside / (downside) potential			**15.1%**

Source: Aljazira Capital Research

Recommendation	**Neutral**
Target Price (SAR)	**48.50**
Upside/(Downside)	**15.1%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	7,408	7,024	5,214	7,996
Growth %	47.1%	-5.2%	-25.8%	53.4%
Net Income	1,531	414	-124	910
Growth %	126.0%	-73.0%	NM	NM
EPS	2.72	0.74	-0.22	1.62
DPS	3.00	2.75	1.50	2.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	29.1%	13.8%	5.2%	19.3%
Net Margin	20.7%	5.9%	-2.4%	11.4%
P/E (x)	24.91	53.24	NEG	26.97
P/B (x)	2.54	1.57	1.87	1.90
EV/EBITDA (x)	12.48	12.42	19.31	10.41
Dividend Yield	4.1%	7.7%	3.4%	4.5%

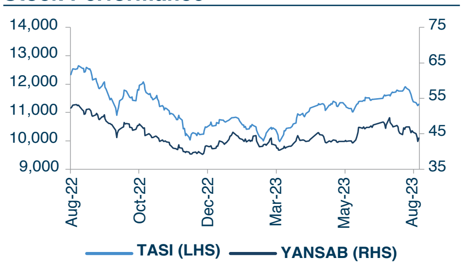
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	24.53
YTD%	4.93%
52-week (High)/(Low)	53.60 / 38.85
Share Outstanding (mn)	562.50

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	7,408	7,024	5,214	7,996	8,493	8,622
Y/Y growth	**47.1%**	**-5.2%**	**-25.8%**	**53.4%**	**6.2%**	**1.5%**
Cost of sales	(5,253)	(6,054)	(4,944)	(6,453)	(6,605)	(6,614)
Gross profit	**2,154**	**970**	**270**	**1,543**	**1,889**	**2,008**
General & administrative expense	(503)	(528)	(433)	(544)	(578)	(586)
Operating profit	**1,651**	**442**	**(163)**	**1,000**	**1,311**	**1,422**
Y/Y growth	**126.9%**	**-73.2%**	**NM**	**NM**	**31.2%**	**8.5%**
Other income	107	152	152	143	144	145
Financial Charges	(29)	(39)	(49)	(46)	(40)	(35)
Profit before zakat & minority interest	**1,729**	**555**	**(60)**	**1,097**	**1,415**	**1,532**
Zakat	(197)	(141)	(64)	(186)	(241)	(260)
Net profit	**1,531**	**414**	**(124)**	**910**	**1,174**	**1,272**
Y/Y growth	**126.0%**	**-73.0%**	**NM**	**NM**	**29.0%**	**8.3%**
EPS (SAR)	2.72	0.74	(0.22)	1.62	2.09	2.26
Balance sheet						
Assets						
Cash and bank balance	329	232	600	700	1,224	1,830
Other current assets	7,337	6,726	5,946	6,958	7,181	7,262
Property plant & equipment	10,128	9,230	8,371	7,524	6,689	5,868
Total assets	**18,161**	**16,680**	**15,411**	**15,681**	**15,597**	**15,468**
Liabilities & owners' equity						
Total current liabilities	1,886	1,649	1,273	1,649	1,697	1,711
Total non-current liabilities	1,232	980	1,066	1,143	1,234	1,334
Share capital	5,625	5,625	5,625	5,625	5,625	5,625
Statutory reserves	1,688	1,688	1,688	1,688	1,688	1,688
Retained earnings	7,813	6,539	5,572	5,357	5,122	4,868
Total owners' equity	15,125	13,852	12,884	12,670	12,435	12,180
Total equity & liabilities	**18,161**	**16,680**	**15,411**	**15,681**	**15,597**	**15,468**
Key fundamental ratios						
Current ratio (x)	4.1	4.2	5.2	4.6	5.0	5.3
Cash ratio (x)	0.2	0.1	0.5	0.4	0.7	1.1
Gross profit margin	29.1%	13.8%	5.2%	19.3%	22.2%	23.3%
Operating margin	22.3%	6.3%	-3.1%	12.5%	15.4%	16.5%
EBITDA margin	40.9%	25.0%	22.3%	28.7%	30.6%	31.3%
Net profit margin	20.7%	5.9%	-2.4%	11.4%	13.8%	14.7%
Return on assets	8.6%	2.4%	-0.8%	5.9%	7.5%	8.2%
Return on equity	10.2%	2.8%	-0.9%	7.0%	9.2%	10.1%
Interest coverage (x)	57.42	11.25	(3.32)	21.94	32.68	40.25
EV/sales (x)	5.10	3.11	4.63	3.01	2.77	2.66
EV/EBITDA (x)	12.48	12.42	20.75	10.49	9.06	8.49
EPS (SAR)	2.72	0.74	(0.22)	1.62	2.09	2.26
BVPS (SAR)	26.74	24.98	23.28	22.91	22.52	22.08
DPS (SAR)	3.00	2.75	1.50	2.00	2.50	2.70
Dividend yield	4.1%	7.7%	3.4%	4.5%	5.7%	6.2%
P/E ratio (x)	24.91	53.24	NEG	27.19	21.07	19.46
P/BV ratio (x)	2.54	1.57	1.89	1.92	1.95	1.99

Source: Company reports, Aljazira Capital Research

Sahara international Petrochemical Company (Sipchem): Diversified market segments and a favourable product mix are key positives.

We remain positive on the stock driven by i) Sipchem's strong balance sheet which acts as a protection shield against adverse macro-economic challenges, ii) steady dividend payment, iii) a diversified product portfolio and rich product mix, iv) strong footprint in key geographies. Moreover, production and operating efficiencies, cost saving measures along with the ability to generate strong FCF and comfortable debt position are the key positives for the company. We recommend "Overweight" rating on the stock with a TP of SAR 42.6 per share.

Top-line to benefit in short-to-medium term: The improvement in company's production efficiency following the maintenance shutdown at its plants in Q2-23, along with the recent improvement in product prices will support the growth in SIPCHEM's top line. Moreover, Sipchem continues to expand customer base in Asia, Indian subcontinent, the Middle East and Europe and thus benefits from a rich product mix across diverse geographies. We expect revenues to improve to 8.6% to SAR 8.1bn in FY24E following a 27.1% Y/Y decline in FY23E. We estimate average VAM (-45.0%) and Methanol (-16.6%) prices to recover in FY24E (+7.2% and +7.6 %, respectively) following the decline in prices in FY23E. Acetic acid prices are expected to increase 13.3% in FY24E after a drop of 20.3% in FY23E.

Sipchem continues to benefit from feedstock cost advantage: Sipchem has a favorable feedstock cost and adjusts its feedstock mix to maximize contribution margins. The company's methane dominated feedstock provides stability to its cost structure. Despite the probability of a modest increase in gas prices in FY23E, the pricing established by the Saudi Arabian government will continue to support local companies' cost advantage. We expect GP margins to marginally improve to 35.9% in FY24E from 34.2% in FY23E as the product prices and spreads improve.

Strong balance sheet profile makes Sipchem an attractive bet: Sipchem's improving leverage position with a reducing gearing ratio of 17.4% as at June 2023 from 19.9% in FY22 driven by repayments of the loans is expected to lower financial pressure and thus reduce the pressure on profitability to some extent. Additionally, Sipchem holds a healthy cash balance and short term investments of SAR 2.73bn (as of June 2023), thus providing scope for further deleveraging and keeping finance costs under control during rising interest rates. Moreover, the company's healthy annualized return on capital employed of 10.5% (H1-23) indicates efficient use of capital.

Continue to reward shareholders with an attractive dividend yield: The company continues to maintain a healthy dividend payout and announced a DPS of SAR 1.25/ share in H1-23 translating in to top percentile dividend yield for the company in the sector and maximizing shareholder return. The company's strong cash reserves and FCF generation makes it a financially strong. Thus, we expect Sipchem to continue paying attractive dividends of SAR 1.75 per share and SAR 2.0 per share, reflecting a dividend yield of 4.8% and 5.5% in FY23E and FY24E, respectively.

Valuation: We value Sipchem with 50% weightage to DCF (risk free rate = 3.5%, WACC = 10.2%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY24 P/E (15.0x) and EV/EBITDA (9.5x) to arrive at a blended TP of **SAR 42.6 per share.** The stock currently trades at FY23 and FY24 forward P/E of 17.2x and 13.7x, respectively, based on our estimates.

Blended valuation

	Fair value	Weights	Weighted average
DCF	**44.8**	**50%**	22.4
EV/EBITDA	**40.3**	**25%**	10.1
P/E	**40.4**	**25%**	10.1
Weighted Average 12-month TP			42.6
Upside / (downside) potential			17.7%

Source: Aljazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**42.60**
Upside/(Downside)	**17.7%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	9,982	10,254	7,476	8,121
Growth %	87.5%	2.7%	-27.1%	8.6%
Net Income	3,592	3,595	1,565	1,971
Growth %	HIGH	0.1%	-56.5%	26.0%
EPS	4.90	4.90	2.13	2.69
DPS	2.20	3.25	1.75	2.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	55.9%	47.2%	34.2%	35.9%
Net Margin	36.0%	35.1%	20.9%	24.3%
P/E (x)	8.64	6.65	17.22	13.67
P/B (x)	2.13	1.51	1.68	1.63
EV/EBITDA (x)	5.94	4.81	9.31	8.24
Dividend Yield	5.3%	10.0%	4.8%	5.5%

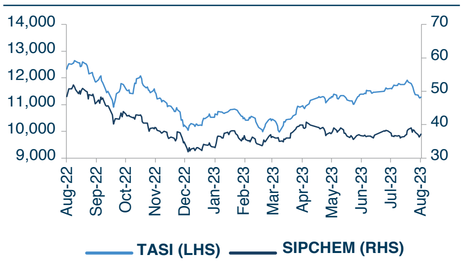
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	26.77
YTD%	8.25%
52-week (High)/(Low)	52.00 / 30.90
Share Outstanding (mn)	733.33

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	9,982	10,254	7,476	8,121	8,304	8,375
Y/Y growth	**87.5%**	**2.7%**	**-27.1%**	**8.6%**	**2.3%**	**0.9%**
Cost of sales	(4,402)	(5,415)	(4,920)	(5,205)	(5,342)	(5,335)
Gross profit	**5,580**	**4,839**	**2,556**	**2,916**	**2,962**	**3,041**
General & administrative expense	(1,115)	(792)	(741)	(810)	(828)	(835)
Operating profit	**4,464**	**4,047**	**1,815**	**2,106**	**2,134**	**2,205**
Y/Y growth	**NM**	**-9.3%**	**-55.1%**	**16.0%**	**1.3%**	**3.3%**
Investment income/Expenses	(269)	17	110	109	98	101
Financial charges	(319)	(245)	(255)	(217)	(195)	(146)
Net income of associates and JV investment	**531**	**365**	**192**	**357**	**373**	**381**
Profit before zakat & minority interest	4,408	4,184	1,863	2,355	2,410	2,540
Minority interest	(366)	(358)	(167)	(210)	(215)	(227)
Zakat	(450)	(231)	(131)	(173)	(177)	(187)
Net profit	**3,592**	**3,595**	**1,565**	**1,971**	**2,018**	**2,127**
Y/Y growth	**NM**	**0.1%**	**-56.5%**	**26.0%**	**2.4%**	**5.4%**
EPS (SAR)	4.90	4.90	2.13	2.69	2.75	2.90
Balance sheet						
Assets						
Cash and bank balance	2,666	2,456	3,024	3,714	4,677	5,792
Other current assets	3,251	2,967	2,746	2,922	2,991	3,050
Property plant & equipment	12,183	11,944	11,606	11,280	10,969	10,671
Other non-current assets	6,365	6,108	6,082	6,060	6,076	6,092
Total assets	**24,465**	**23,475**	**23,458**	**23,976**	**24,713**	**25,605**
Total current liabilities	2,927	2,721	2,925	3,211	3,536	3,911
Total non-current liabilities	5,816	4,018	3,435	3,099	2,925	2,823
Total Liabilities	**8,743**	**6,738**	**6,360**	**6,310**	**6,461**	**6,734**
Share capital	7,333	7,333	7,333	7,333	7,333	7,333
Statutory reserves	1,612	1,972	2,128	2,325	2,527	2,740
Retained earnings	2,014	2,891	3,017	3,312	3,615	3,934
Total equity	**14,585**	**15,807**	**16,089**	**16,582**	**17,087**	**17,618**
Total equity & liabilities	**24,465**	**23,475**	**23,458**	**23,976**	**24,713**	**25,605**
Key fundamental ratios						
Current ratio (x)	2.0	2.0	2.1	2.2	2.3	2.3
Cash ratio (x)	0.9	1.0	1.2	1.3	1.5	1.6
Gross profit margin	55.9%	47.2%	34.2%	35.9%	35.7%	36.3%
Operating margin	44.7%	39.5%	24.3%	25.9%	25.7%	26.3%
Net profit margin	36.0%	35.1%	20.9%	24.3%	24.3%	25.4%
EBITDA margin	55.8%	68.1%	35.3%	37.4%	37.1%	0.0%
Return on average assets	15.0%	6.7%	8.3%	8.3%	8.5%	8.5%
Return on average equity	24.6%	22.7%	9.7%	11.2%	11.5%	11.5%
Interest coverage (x)	0.34	0.16	0.13	0.12	0.11	0.10
Debt / equity (x)	14.00	7.12	9.72	10.94	15.07	16.52
EV/sales (x)	3.31	2.39	3.57	3.15	2.94	2.77
EV/EBITDA (x)	5.94	4.81	9.31	8.24	7.86	7.41
EPS (SAR)	4.90	4.90	2.13	2.69	2.75	2.90
BVPS (SAR)	19.89	21.56	21.94	22.61	23.30	24.02
DPS (SAR)	2.20	3.25	1.75	2.00	2.05	2.20
Dividend yield	5.3%	10.0%	4.8%	5.5%	5.6%	5.9%
P/E ratio (x)	8.64	6.65	17.22	13.67	13.36	12.67

Source: Company reports, Aljazira Capital Research

SABIC Agri-Nutrients Co. (SABIC Agri): Volatility in urea prices remain a key concern.

SABIC AN demonstrates a healthy financial profile with high cash reserves, low debt/ equity ratio, and steady dividends. The company has a feedstock advantage due to its fixed cost methane feedstock. However, the company is at risk due to any volatility in urea prices which weighs on SABIC AN's margins. The steep decline in urea prices since H2-22 remains a concern. The near-term outlook for urea looks uncertain with abundant capacities in the market. We recommend "Neutral" rating on the stock with a TP of SAR 133.0 per share.

Urea prices remain a concern: The sharp volatility in urea prices remains a key concern for the company. The prices crossed USD 1,000/ ton last year after the outbreak of Russia-Ukraine war and remained high owing to natural gas shortage in Europe. As supply concerns diminished, the prices dropped below USD 300/ ton. In the short-term, the demand looks relatively stable globally with an expectation for seasonal Q3-23 purchasing in South America / India offsetting a decline from North America / Europe / Southeast Asia amid mixed supply developments during the quarter as several export plants come back from maintenance. Over the long-term, prices are not expected to rise to the extent seen over the last two years amid ample new capacities added in the market. We expect average urea prices to decline 47.4% to USD 356/ ton in FY23E, while a drop of 4.9% to USD 338/ ton is estimated in FY24E.

Weak urea prices to weigh on revenues: The decline in urea prices due to oversupplies and weak demand would drag revenues down in FY23E and FY24E. We expect revenues to decline 42.6% Y/Y to SAR 10.9bn in FY23E and decrease by 7.6% Y/Y to SAR 10.1bn in FY24E.

Impact of low urea prices to trickle down to margins: SABIC AN has a fixed cost feedstock; the margins are impacted by any volatility in urea prices. The steep decline in product prices and a fixed cost-based feedstock hampers the company's ability to earn lucrative margins. GP margins are expected to come in at 39.9% in FY23E and 38.2% in FY24E from 58.9% in FY22 due to lower urea prices.

Acquisition of 49% stake in ETG Inputs HoldCo Ltd is a key development: SABIC Agri-Nutrients completed the acquisition of 49% stake in ETG Inputs Holdco Ltd. in Q2-23. The acquisition is expected to aid the company in improving its distribution in regions such as Africa where ETG has a presence. This acquisition will support overall growth in the company's volumes and aid the top-line amid the weak price outlook.

A debt-free balance sheet and healthy cash reserves demonstrate financial strength: The company enjoys a debt-free balance sheet plus a healthy cash balance (SAR 10.3bn including short-term investments as of June 2023), implying a stable financial profile. The company is expected to continue rewarding its shareholders driven by healthy cash reserves and growth in earnings. We anticipate SABIC AN to reflect a dividend yield of 4.0% in FY23E. Going forward, the company is likely to deliver an average dividend payment of 5.0/share over FY24E-FY26E

Valuation: We value SABIC AN with 50% weightage to DCF based (risk free rate = 3.5%, WACC = 9.1%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY24 P/E (18.0x) and EV/EBITDA (15.0x) multiples each to arrive at a blended TP of **SAR 133.0 per share.** The stock currently trades at FY23 and FY24 forward P/E of 19.2x and 21.7x, respectively, based on our estimates.

Blended valuation

	Fair value	Weights	Weighted average
DCF	**127.4**	**50%**	63.7
EV/EBITDA	**156.5**	**25%**	39.1
P/E	**119.4**	**25%**	**29.8**
Weighted Average 12-month TP			133.0
Upside / (downside) potential			**-4.2%**

Source: Aljazira Capital Research

Recommendation	**Neutral**
Target Price (SAR)	**133.0**
Upside/(Downside)	**-4.2%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	9,592	18,981	10,904	10,077
Growth %	188.3%	97.9%	-42.6%	-7.6%
Net Income	5,228	10,037	3,501	3,157
Growth %	303.9%	92.0%	-64.5%	-10.8%
EPS	10.98	21.08	7.36	6.63
DPS	4.25	12.00	5.50	5.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	67.8%	58.9%	39.9%	38.2%
Net Margin	54.5%	52.9%	32.1%	31.3%
P/E (x)	15.39	6.94	18.73	20.78
P/B (x)	5.17	3.50	3.19	3.08
EV/EBITDA (x)	11.36	5.51	12.83	14.11
Dividend Yield	2.5%	8.2%	4.0%	3.7%

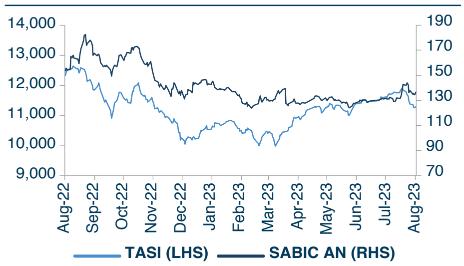
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	65.69
YTD%	-5.06%
52-week (High)/(Low)	185.80/ 123.20
Share Outstanding (mn)	476.04

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	9,592	18,981	10,904	10,077	9,830	9,871
Y/Y growth	**188.3%**	**97.9%**	**-42.6%**	**-7.6%**	**-2.5%**	**0.4%**
Cost of sales	(3,085)	(7,794)	(6,559)	(6,221)	(6,055)	(6,019)
Gross profit	**6,507**	**11,187**	**4,346**	**3,857**	**3,775**	**3,852**
Selling & distribution expenses	(206)	(359)	(319)	(302)	(295)	(296)
General & administrative expense	(489)	(534)	(575)	(554)	(541)	(543)
Operating profit	**5,813**	**10,294**	**3,451**	**3,000**	**3,235**	**3,309**
Y/Y growth	**344.4%**	**77.1%**	**-66.5%**	**-13.1%**	**2.3%**	**2.5%**
Interest income & financial charges	(59)	44	-	-	-	-
Profit before zakat & minority interest	**5,738**	**10,508**	**3,934**	**3,423**	**3,235**	**3,309**
Income from Ibn-Baytar	243	408	140	122	117	118
Zakat	(341)	(455)	(360)	(230)	(225)	(230)
Net profit	**5,228**	**10,037**	**3,501**	**3,157**	**3,098**	**3,168**
Y/Y growth	**303.9%**	**92.0%**	**-64.5%**	**-10.8%**	**1.2%**	**2.2%**
EPS (SAR)	10.98	21.08	7.36	6.63	6.51	6.65
Balance sheet						
Assets						
Cash and bank balance	5,295	8,618	10,850	12,162	13,359	14,523
Other current assets	4,050	8,130	7,194	7,172	7,248	7,383
Property plant & equipment	8,501	8,378	7,892	7,418	6,958	6,511
Other non-current assets	1,120	1,214	1,205	1,201	1,203	1,212
Total assets	**19,853**	**27,057**	**27,869**	**28,690**	**29,503**	**30,361**
Liabilities & owners' equity						
Total current liabilities	1,566	2,449	2,365	2,383	2,377	2,400
Total non-current liabilities	1,103	1,042	1,052	1,063	1,074	1,085
Paid -up capital	4,760	4,760	4,760	4,760	4,760	4,760
Statutory reserves	1,428	1,428	1,428	1,428	1,428	1,428
Retained earnings	4,871	9,202	10,023	10,748	11,488	12,243
Total owners' equity	15,551	19,894	20,720	21,450	22,195	22,956
Total equity & liabilities	**19,853**	**27,057**	**27,869**	**28,690**	**29,503**	**30,361**
Key fundamental ratios						
Current ratio (x)	6.0	6.8	7.6	8.1	8.7	9.1
Cash ratio (x)	3.4	3.5	4.6	5.1	5.6	6.1
Gross profit margin	67.8%	58.9%	39.9%	38.3%	38.4%	39.0%
Operating margin	60.6%	54.2%	31.6%	29.8%	32.9%	33.5%
EBITDA margin	69.1%	58.6%	39.2%	37.6%	37.9%	38.4%
Net profit margin	54.5%	52.9%	32.1%	31.3%	31.5%	32.1%
Return on assets	37.8%	44.6%	13.5%	11.7%	11.1%	11.0%
Return on equity	47.6%	59.0%	18.3%	15.6%	14.8%	14.6%
EV/sales (x)	7.85	3.23	5.08	5.37	5.38	5.24
EV/EBITDA (x)	11.36	5.51	12.83	14.11	14.21	13.66
EPS (SAR)	10.98	21.08	7.36	6.63	6.51	6.65
BVPS (SAR)	32.67	41.79	43.53	45.06	46.62	48.22
DPS (SAR)	4.25	12.00	5.50	5.00	5.00	5.00
Dividend yield	2.5%	8.2%	4.0%	3.7%	3.7%	3.7%
P/E ratio (x)	15.39	6.94	19.21	21.73	21.33	20.86
P/BV ratio (x)	5.17	3.50	3.19	3.08	2.98	2.88

Source: Company reports, Aljazira Capital Research

Saudi Kayan Petrochemical Co. (Saudi Kayan): Expect to return to profitability from 2024; ethane feedstock allocation a key positive for future performance

We expect Kayan to return to profitability from FY24, due to improved efficiency and expected product price recovery as the market stabilizes and demand improves. We expect MEG prices to recover in FY24 when current oversupply and high inventory level in China normalize and polyester capacity addition drives demand. Whereas PC prices recovery is likely to be led by improvement in fundamentals of end user industries. Moreover, additional allocation of ethane gas by the Ministry would help reduce the company's dependence on butane as a feedstock and will be a game changer for the company. Kayan's strong cash flow generation and reducing debt levels and gearing ratio are key positives. Further, we expect the finance costs to reduce as rate cuts are anticipated in FY24E. Unplanned shutdown at Polycarbonate (PC) plant to result in an expected impact of SAR 100-120mn on Q3-23 top-line. We recommend "Overweight" rating with a TP of SAR 16.7 per share.

Product outlook improves amid better economic prospects: The global economy appears to be recovering, putting recession fears behind. Thus, the outlook for petrochemical products looks better as global demand and prices start to improve. We expect average PC prices to increase 12.2% to USD 2,075 per ton in FY24E, MEG-Asia prices to increase 14.2% to USD 577 per ton in FY24E. Consequently, Saudi Kayan's revenue are projected to increase 23.6% to SAR 10.4bn in FY24E from SAR 8.4bn in FY23E. GP margins are expected to improve to 15.0% in FY24E from a loss margin of 0.8% expected in FY23E. This is mainly due to higher average product prices and spreads.

Unplanned shutdown at Polycarbonate (PC) plant to result in an expected Impact of SAR 100-120mn on Q3-23 top-line: Kayan announced an unplanned temporary shutdown at its PC plant as a limited fire broke out at the plant on September 13, 2023. However, the company mentioned that all its factories and facilities are covered by insurance in accordance with the regulatory terms and conditions. We expect this unplanned shutdown to have a financial impact of SAR 100-120mn on Q3-23 top-line.

Additional allocation of ethane gas by Ministry, a key development: The company has received approval from the Ministry of Energy to increase ethane allocation by 30mn cu. ft. Butane accounts for most of the company's operational costs, and this development is expected to reduce the company's dependence on butane. Moreover, the high price of Butane and lower productivity with Butane feedstock is another concern for the company. The additional ethane allocation will help lower operational costs and strengthen Kayan's ability to deal with butane price variations. However, yet there is no clarity on the timeline of allocation.

Reduced debt and gearing ratio reflect the company's determination to lower external debt: The company reported a total debt of SAR 9.7bn indicating a debt-to-equity ratio of 0.67x as of June 2023. This has reduced from SAR 9.8bn in FY22 and SAR 13.1bn in FY21. This reflects the company's strong determination to reduce reliance on external debt. Saudi Kayan's finance expense is expected to reduce at an average of 10.0% Y/Y over the long-term beginning FY24E due to an anticipated cuts in interest rates and debt reduction. This is positive for companies like Kayan which have a leveraged balance sheet and will help support its profitability.

Strong cash flow generation, a key positive: Kayan has reported an average free cash flow of SAR 2.8bn per year over the last five years and repaid almost SAR 11.6bn debt during the same period (averaging SAR 2.5bn annually). Going forward, the company is expected to generate an annual average cash flow of SAR 2.8bn (FY24E-FY30E). We believe that once debt has reached manageable levels, the free cash flows could be used to make dividend payments. We expect Kayan to start making dividend payments from FY25E with an average dividend payout of 67.5% over the long term.

Valuation: We value Saudi Kayan with 50% weightage to DCF (risk free rate = 3.5%, WACC = 8.8%, terminal growth = 2.5%) and relative valuation based on FY24 EV/EBITDA (9.0x) multiple each to arrive at a blended TP of **SAR 16.7 per share.**

Blended valuation

	Fair value	Weights	Weighted average
DCF	**20.3**	**50%**	10.2
EV/EBITDA	**13.0**	**50%**	6.5
Weighted Average 12-month TP			16.7
Upside / (downside) potential			**32.5%**

Source: Aljazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**16.7**
Upside/(Downside)	**32.5%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	12,656	11,157	8,448	10,444
Growth %	58.1%	-11.8%	-24.3%	23.6%
Net Income	2,390.6	-1,243.9	-1,313.9	318.5
Growth %	NM	NM	NM	NM
EPS	1.59	-0.83	-0.88	0.21
DPS	0.00	0.00	0.00	0.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	28.1%	-0.9%	-0.8%	15.0%
Net Margin	18.9%	-11.1%	-15.6%	3.0%
P/E (x)	12.27	NEG	NEG	57.37
P/B (x)	1.78	1.26	1.29	1.26
EV/EBITDA (x)	7.74	17.84	14.62	7.19
Dividend Yield	0.0%	0.0%	0.0%	0.0%

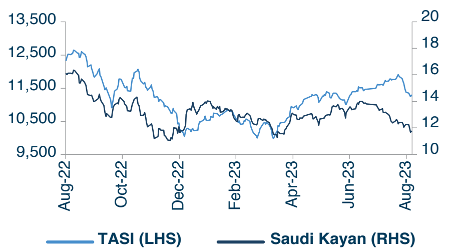
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	18.45
YTD%	-10.83%
52-week (High)/(Low)	16.56/ 10.80
Share Outstanding (mn)	1500

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	12,656	11,157	8,448	10,444	11,081	11,247
Y/Y growth	**58.1%**	**-11.8%**	**-24.3%**	**23.6%**	**6.1%**	**1.5%**
Cost of sales	(9,099)	(11,254)	(8,518)	(8,874)	(9,193)	(9,263)
Gross profit	**3,558**	**(97)**	**(69)**	**1,570**	**1,888**	**1,984**
Selling & general expenses	(734)	(739)	(596)	(650)	(656)	(666)
Operating profit	**2,824**	**(857)**	**(666)**	**920**	**1,231**	**1,318**
Y/Y growth	**NM**	**NM**	**NM**	**NM**	**33.8%**	**7.0%**
Financial Charges	(279)	(383)	(661)	(586)	(527)	(475)
Other income	(36)	-	-	-	-	-
Income before zakat	**2,515**	**(1,218)**	**(1,297)**	**364**	**733**	**873**
Zakat	(124)	(26)	(17)	(46)	(92)	(109)
Net profit	**2,391**	**(1,244)**	**(1,314)**	**318**	**642**	**764**
Y/Y growth	**NM**	**NM**	**NM**	**NM**	**101.5%**	**19.0%**
EPS (SAR)	1.59	(0.83)	(0.88)	0.21	0.4	0.5
Balance sheet						
Assets						
Cash and bank balance	961	415	322	871	1,676	2,721
Other current assets	6,026	4,006	4,146	4,288	4,489	4,585
Property plant & equipment	25,301	23,304	21,342	19,539	17,768	16,031
Other non-current assets	610	548	540	533	537	541
Total assets	**32,897**	**28,273**	**26,350**	**25,231**	**24,470**	**23,878**
Liabilities & owners' equity						
Total current liabilities	4,020	4,304	4,426	3,823	3,934	3,968
Long-term loans	11,267	7,461	6,696	5,825	4,660	3,728
Total non-current liabilities	1,141	1,031	1,065	1,101	1,138	1,176
Share capital	15,000	15,000	15,000	15,000	15,000	15,000
Statutory reserves	288	288	288	288	453	706
Retained earnings	668	(575)	(1,889)	(1,571)	(1,479)	(1,464)
Total owners' equity	15,957	14,713	13,399	13,718	13,974	14,241
Total equity & liabilities	**32,897**	**28,273**	**26,350**	**25,231**	**24,470**	**23,878**
Key fundamental ratios						
Current ratio (x)	1.7	1.0	1.2	1.4	1.8	1.1
Cash ratio (x)	0.24	0.10	0.21	0.15	0.24	0.10
Gross profit margin	28.1%	-0.9%	-0.8%	15.0%	17.0%	17.6%
Operating margin	22.3%	-7.7%	-7.9%	8.8%	11.1%	11.7%
EBITDA margin	40.5%	13.4%	19.9%	0.0%	2.0%	4261.6%
Net profit margin	18.9%	-11.1%	-15.6%	3.0%	5.8%	6.8%
Return on assets	7.2%	-4.1%	-1.7%	-2.3%	7.2%	-4.1%
Return on equity	15.7%	-7.8%	-4.2%	-5.4%	15.7%	-7.8%
Interest coverage (x)	10.1	(2.2)	(1.0)	1.6	2.3	2.8
Debt / equity (x)	0.8	0.6	1.2	1.2	0.8	0.6
EV/sales (x)	3.1	2.4	2.9	2.2	1.9	1.7
EV/EBITDA (x)	7.7	17.8	14.6	7.2	6.0	5.4
EPS (SAR)	1.59	(0.83)	(0.88)	0.21	0.4	0.5
BVPS (SAR)	11.0	10.3	9.4	9.7	9.8	10.0
DPS (SAR)	-	-	-	-	0.26	0.33
Dividend yield	0.0%	0.0%	0.0%	0.0%	2.1%	2.7%
P/E ratio (x)	12.27	NEG	NEG	57.37	28.47	23.93
P/BV ratio (x)	1.78	1.26	1.29	1.26	1.24	1.22

Source: Company reports, Aljazira Capital Research

Advanced Petrochemical Co. (Advanced): Strong operational efficiency, gross margin set to imrpove; major expansion plans remain a key catalyst

Advanced boasts a strong operational track record with one of the highest utilization rates in the sector. With PP demand expected to pick up in H2-23, we foresee an improvement in revenues and margins going forward after a subdued H1-23 performance. The company's expansion plans in Jubail and additional feedstock allocation will be a game-changer for the company and a key growth driver. However, we remain cautious over the dividend payment as the company has not declared any dividends this year due to expansion plan. We recommend "Overweight" rating on the stock with a TP of SAR 52.1 per share.

Revenues and margins to recover in FY24E as market sentiments improve: The improved global economic outlook indicates a stronger rebound in demand, supporting a recovery in petrochemical prices. PP demand is expected to pick up in H2-23 following sluggish demand in H1. With demand normalizing, we expect average PP prices to increase 14.1% to USD 1,061 per ton in FY24E following a 11.4% Y/Y decline in FY23E. Consequently, revenues are expected to increase 12.6% Y/Y to SAR 2.7bn in FY24E after a 17.5% Y/Y fall in FY23E. GP margins are expected to improve to 23.6% in FY24E from 20.9% in FY23E driven by improved product spreads. PP-propylene spread is expected to increase 21.6% Y/Y to USD 601/ ton in FY24E.

High utilization rates and expansion plans to support the company's top line: Advanced reports one of the best operational efficiencies within the sector. The company has a track record and has reported a long-term average operating rate of over 130%. Moreover, the company has plans aggressively expand the production capacity and fixed contracts for sale of products. Thus, Advanced's topline is set to expand significantly in coming years.

Expansion plans in Jubail and additional feedstock allocation will be a game-changer: Advanced is constructing a new petrochemical plant with capacity to produce 843,000 tons of propylene and 800,000 tons of polypropylene per annum. The plant is expected to be operational in H2-24. The expansion would be key catalyst for the company's growth in the long term. Moreover, the company has been allocated additional feedstock to operate new plant. Thus, ensuring sufficient feedstock availability to operate new plant at healthy operating rates. Thus, we expect full with the positive impact from additional capacity revenue would surge 84.2% in FY25E.

SK Advanced, an associate, to report profitability from FY24E as product prices and spreads improve; dividend payment expected to resume in FY25E: We expect SK Advanced to report profitability from FY24E after reporting losses in FY22 and FY23E due to contraction in product spreads. We expect SK Advanced to return to profitability in FY24E as the market stabilizes and product spreads improve. The associate is expected to report a profit of SAR 47.7mn in FY24E after an expected loss of SAR 51.7mn in FY23E. Advanced is not expected to announce any dividends in FY23E and FY24E amid its aggressive capex program (PDH-PP-IPA expansion plan). However, we expect the company to resume paying dividends post the completion of the expansion project in H2-24 and an improvement in product spreads. We expect the company to pay a dividend of SAR 1.65 per share in FY25E.

Valuation: We value Advanced Petrochemical with 50% weightage to DCF (risk free rate = 3.5%, WACC = 7.3%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY24 P/E (17.0x) and EV/EBITDA (14.5x) multiples each to arrive at a blended TP of SAR 52.1 per share. The stock currently trades at FY23 and FY24 forward P/E of 38.5x and 21.6x, respectively, based on our estimates.

Blended valuation

	Fair value	Weights	Weighted average
DCF	**76.4**	**50%**	38.2
EV/EBITDA	**21.4**	**25%**	5.3
P/E	**34.5**	**25%**	8.6
Weighted Average 12-month TP			52.1
Upside / (downside) potential			**28.0%**

Source: Aljazira Capital Research

Recommendation	**Overweight**
Target Price (SAR)	**52.1**
Upside/(Downside)	**28.0%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	3,111	2,948	2,433	2,741
Growth %	39.4%	-5.2%	-17.5%	12.6%
Net Income	812	295	295	527
Growth %	36.3%	-63.7%	0.3%	78.6%
EPS	3.12	1.13	1.14	2.03
DPS	2.15	2.20	0.00	0.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	34.0%	18.2%	20.9%	23.6%
Net Margin	26.1%	10.0%	12.1%	19.3%
P/E (x)	18.58	44.50	38.48	21.55
P/B (x)	3.81	3.62	2.89	2.54
EV/EBITDA (x)	17.38	22.37	28.27	20.19
Dividend Yield	3.7%	4.3%	0.0%	0.0%

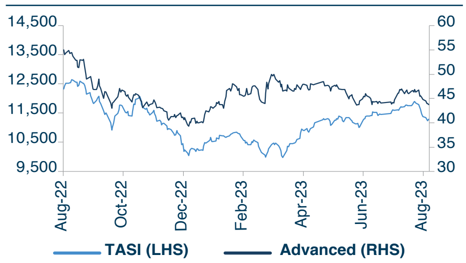
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	10.91
YTD%	-0.35%
52-week (High)/(Low)	56.00/ 38.45
Share Outstanding (mn)	260.0

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	3,111	2,948	2,433	2,741	5,048	6,286
Y/Y growth	**39.4%**	**-5.2%**	**-17.5%**	**12.6%**	**84.2%**	**24.5%**
Cost of sales	(2,052)	(2,412)	(1,926)	(2,095)	(4,006)	(4,752)
Gross profit	**1,059**	**536**	**508**	**645**	**1,042**	**1,534**
General & administrative expense	(194)	(137)	(154)	(153)	(303)	(352)
Operating profit	**865**	**399**	**354**	**492**	**739**	**1,210**
Y/Y growth	**45.9%**	**-53.9%**	**-11.4%**	**39.1%**	**50.2%**	**59.9%**
Other income/expenses Net	11	7	3	6	7	7
Shares in SK Advanced	11	(109)	(52)	48	65	75
Profit before zakat & minority interest	**871**	**296**	**303**	**543**	**502**	**1,055**
Zakat	(59)	(3)	(9)	(17)	(19)	(34)
Net profit	**812**	**295**	**295**	**527**	**488**	**1,023**
Y/Y growth	**36.3%**	**-63.7%**	**0.3%**	**78.6%**	**7.5%**	**85.1%**
EPS (SAR)	3.12	1.13	1.14	2.03	2.18	4.04
Balance sheet						
Assets						
Cash and bank balance	243	1,007	698	675	827	738
Other current assets	813	700	667	736	1,042	1,223
Property plant & equipment	2,985	5,185	6,804	8,415	8,108	7,819
Other non-current assets	233	218	220	222	225	227
Total assets	**5,890**	**8,238**	**9,335**	**10,720**	**11,214**	**11,154**
Liabilities & owners' equity						
Total current liabilities	1,603	2,158	2,221	2,330	2,611	2,244
Long-term loans	-	2,042	2,942	3,942	3,617	3,500
Total non-current liabilities	145	167	183	201	219	238
Share capital	2,165	2,600	2,600	2,600	2,600	2,600
Statutory reserves	697	465	494	547	604	709
Retained earnings	492	252	533	1,023	1,124	1,296
Total owners' equity	3,353	3,317	3,627	4,170	4,327	4,605
Total equity & liabilities	**5,890**	**8,238**	**9,335**	**10,720**	**11,214**	**11,154**
Key fundamental ratios						
Current ratio (x)	0.66	0.79	0.61	0.61	0.72	0.87
Cash ratio (x)	0.15	0.47	0.31	0.29	0.32	0.33
Gross profit margin	34.0%	18.2%	20.9%	23.6%	20.6%	24.4%
Operating margin	27.8%	13.5%	14.5%	18.0%	14.6%	18.8%
EBITDA margin	35.6%	17.3%	19.9%	26.6%	26.5%	28.2%
Net profit margin	26.1%	10.0%	12.1%	19.3%	11.3%	16.7%
Return on assets	13.8%	3.6%	3.1%	4.7%	5.0%	9.4%
Return on equity	20.5%	8.1%	7.5%	11.8%	12.2%	21.3%
Interest coverage (x)	54.19	286.41	147.3	173.1	3.2	6.5
Debt / equity (x)	-	0.56	0.7	0.9	0.8	0.7
EV/sales (x)	6.19	3.88	5.62	5.37	2.82	2.26
EV/EBITDA (x)	17.38	22.37	28.27	20.19	10.66	8.01
EPS (SAR)	3.12	1.13	1.14	2.03	2.18	4.04
BVPS (SAR)	15.22	13.92	15.11	17.20	17.91	18.98
DPS (SAR)	2.15	2.20	-	-	1.65	3.00
Dividend yield	4.7%	3.3%	0.0%	0.0%	3.7%	6.9%
P/E ratio (x)	18.58	44.50	38.48	21.55	20.04	10.83
P/BV ratio (x)	3.81	3.62	2.89	2.54	2.44	2.30

Source: Company reports, Aljazira Capital Research

National Industrialization Co. (Tasnee): Reduced debt and improved earnings pave way for dividend payments from 2024

Tasnee earnings are expected to improve in FY24E driven by higher revenues, improved margins and increase in associate income. Moreover, reduced debt levels, improved earnings, and high free cash flows available to make dividend payments are a key positive and the company is expected to resume dividend payment from 2024. However, the delay in commencement of titanium ilmenite smelter project and economic feasibility of the project remains a key concern. Additionally, volatility in income from JVs and associate is a risk to the company's performance. We recommend "Neutral" rating on the stock with a TP of SAR 15.4 per share.

Profitability to improve in FY24E driven by improved revenues, better margins, and higher associate income: We forecast Tasnee's revenues to improve by 13.4%Y/Y to SAR 4.0bn in FY24E following a decline of 8.8% in FY23E. This is due to higher average selling prices as product demand strongly recovers from weakness seen in H1-23. GP margins are expected to expand to 20.9% in FY24E from 17.8% in FY23E. The company is expected to report a net profit of SAR 747mn in FY24E (+69.8% Y/Y) following a 34.0% decline in FY23E. This is mainly driven by higher revenues, expansion in margins and increased associate income. We expect the company's share in associate income to increase to SAR 1.1bn in FY24E (+27.3%).

Reduced debt, improved earnings and high free cash flows is a key positive for dividend payments: Tasnee recorded a total debt of SAR 5.7bn with a debt-to-equity ratio of 0.46x as of June 2023. Though the company has a more leveraged balance sheet, its debt has reduced from SAR 5.8bn in FY22 and SAR 6.8bn in FY21. With the deleveraging of the balance sheet and expected rate cuts in FY24E, the company's finance expense is expected to reduce going forward. The company's current cash balance of SAR 3.5bn (including short-term investments) supports further deleveraging. We expect the company to pay dividends starting 2024 as earnings improve (69.8% Y/Y) and debt reduces with higher free cash flows available (+60.8% Y.Y) to make dividend payments.

Ambiguity surrounding Titanium Smelter project continues; economic feasibility of the project a concern: Titanium ilmenite smelter plant has seen multiple delays which remains a concern for the investors. However, as a recent update, AMIC – a subsidiary of Tasnee, has entered into an agreement with Metso Outotec (MO) to evaluate the enhancement for Furnace 1 and 2 and expects completion of the evaluation studies during 2023. The Furnace 1 has started operations in December 2021. We cautiously watch the ramping up of the operations of Furnace 2 and await any major developments, as there are few doubts about economic feasibility of the project

Valuation: We value Tasnee with 50% weightage to DCF (risk free rate = 3.5%, WACC = 8.9%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY24 P/E (14.0x) and EV/EBITDA (9.0x) multiples each to arrive at a blended TP of SAR 15.4 per share. The stock currently trades at FY23 and FY24 forward P/E of 20.2x and 11.9x, respectively, based on our estimates.

Blended valuation

	Fair value	Weights	Weighted average
DCF	**14.6**	**50%**	7.3
EV/EBITDA	**16.9**	**25%**	4.2
P/E	**15.6**	**25%**	3.9
Weighted Average 12-month TP			15.4
Upside / (downside) potential			**19.8%**

Source: Aljazira Capital Research

Recommendation	**Neutral**
Target Price (SAR)	**15.4**
Upside/(Downside)	**19.8%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	3,673	3,883	3,541	4,017
Growth %	61.7%	5.7%	-8.8%	13.4%
Net Income	1,356	666	440	747
Growth %	NM	-50.9%	-34.0%	69.8%
EPS	2.03	1.00	0.66	1.12
DPS	0.00	0.00	0.00	0.45

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	26.9%	22.3%	17.8%	20.9%
Net Margin	36.9%	17.2%	12.4%	18.6%
P/E (x)	9.83	15.84	20.22	11.91
P/B (x)	1.53	1.10	0.89	0.85
EV/EBITDA (x)	6.01	8.85	10.93	7.15
Dividend Yield	0.0%	0.0%	0.0%	3.4%

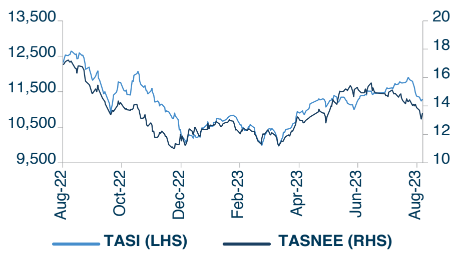
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	8.79
YTD%	7.61%
52-week (High)/(Low)	17.42/ 10.84
Share Outstanding (mn)	668.91

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	3,673	3,883	3,541	4,017	4,123	4,188
Y/Y growth	**61.7%**	**5.7%**	**-8.8%**	**13.4%**	**2.6%**	**1.6%**
Cost of sales	(2,686)	(3,019)	(2,911)	(3,176)	(3,206)	(3,241)
Gross profit	**987**	**864**	**630**	**841**	**918**	**947**
Selling & marketing expenses	(174)	(169)	(175)	(191)	(196)	(199)
General & administrative expenses	(419)	(324)	(390)	(406)	(417)	(424)
Company's share in net income of associated companies	2,783	1,147	836	1,065	1,104	1,157
Provision for legal cases	(662)	(197)	(89)	-	-	-
Operating profit	**2,515**	**1,321**	**812**	**1,309**	**1,409**	**1,481**
Y/Y growth	**NM**	**-47.5%**	**-38.5%**	**61.3%**	**7.6%**	**5.2%**
Financial Charges	(170)	(126)	(77)	(75)	(73)	(71)
Profit before zakat & minority interest	**2,383**	**1,373**	**906**	**1,397**	**1,495**	**1,569**
Minority interest	(697)	(419)	(228)	(356)	(381)	(400)
Zakat	(329)	(287)	(238)	(293)	(314)	(330)
Net profit	**1,356**	**666.3**	**440.1**	**747.3**	**799.8**	**839.6**
Y/Y growth	**NM**	**-50.9%**	**-34.0%**	**69.8%**	**7.0%**	**5.0%**
EPS (SAR)	2.03	1.00	0.66	1.12	1.20	1.26
Balance sheet						
Assets						
Cash and bank balance	3,394	2,836	2,598	2,266	2,385	2,660
Other current assets	3,015	13,417	12,262	10,812	9,926	9,484
Property plant & equipment	2,825	2,639	2,478	2,325	2,181	2,040
Other non-current assets	15,745	15,711	15,151	15,179	15,130	15,085
Total non-current assets	18,571	18,349	17,629	17,504	17,311	17,125
Total assets	**24,980**	**24,658**	**23,728**	**23,372**	**23,355**	**23,487**
Total current liabilities	4,768	5,448	4,755	4,226	4,163	4,233
Total non-current liabilities	8,649	6,814	6,058	5,700	5,321	4,938
Total liabilities	13,417	12,262	10,812	9,926	9,484	9,171
Share capital	6,689	6,689	6,689	6,689	6,689	6,689
Statutory reserves	1,490	1,557	1,601	1,676	1,755	1,839
Retained earnings	1,109	1,752	2,148	2,522	2,842	3,178
Other reserves	(587)	(383)	(387)	(391)	(395)	(399)
Total shareholders' equity	**8,702**	**9,615**	**10,051**	**10,496**	**10,892**	**11,308**
Minority interest	**2,861**	**2,780**	**2,864**	**2,950**	**2,979**	**3,009**
Total equity	11,563	12,395	12,915	13,446	13,871	14,317
Total equity & liabilities	**24,980**	**24,658**	**23,728**	**23,372**	**23,355**	**23,487**
Key fundamental ratios						
Current ratio (x)	1.3	1.2	1.3	1.4	1.5	1.5
Cash ratio (x)	0.7	0.5	0.5	0.5	0.6	0.6
Gross profit margin	26.9%	22.3%	17.8%	20.9%	22.3%	22.6%
Operating margin	68.5%	34.0%	22.9%	32.6%	34.2%	35.4%
EBITDA margin	75.9%	39.5%	33.1%	49.9%	69.4%	44.8%
Net profit margin	36.9%	17.2%	12.4%	18.6%	19.4%	20.0%
Return on assets	5.7%	2.7%	1.8%	3.2%	3.4%	3.6%
Return on equity	12.8%	5.6%	3.5%	5.7%	5.9%	6.0%
Interest coverage (x)	14.82	10.46	10.60	17.56	19.37	20.90
Debt / equity (x)	0.59	0.47	0.35	0.28	0.24	0.20
EV/sales (x)	4.56	3.49	3.13	2.64	2.45	2.25
EV/EBITDA (x)	6.01	8.85	10.93	7.15	6.41	5.73
EPS (SAR)	2.03	1.00	0.66	1.12	1.20	1.26
BVPS (SAR)	13.01	14.37	15.03	15.69	16.28	16.90
DPS (SAR)	-	-	-	0.45	0.60	0.60
Dividend yield	0.0%	0.0%	0.0%	3.4%	4.5%	4.7%
P/E ratio (x)	9.83	15.84	20.22	11.91	11.12	10.60
P/BV ratio (x)	1.53	1.10	0.89	0.85	0.82	0.79

Source: Company reports, Aljazira Capital Research

Alujain No dividend payments until FY26. Initiation coverage with a "Overweight" rating and a TP of SAR 57.10/ share

Alujain has successfully increased its stake in NATPET to 76.4% and there is a potential to further increase its ownership to 88.6%, as the company signs an agreement with GOSI to acquire all its stake in NATPET. This acquisition of an additional stake in NATPET is a positive for Alujain as NATPET is the main revenue contributor to the company. This may support a higher dividend once capex requirements are met. Along with this deal, the company is also working on a major expansion plan and also reconsidering its Zain business. However, heavy capex requirement in the early stage of business may hamper free cash flows and the company's ability to pay dividends until FY26E. Thus, we initiate "Overweight" rating on the stock with a TP of SAR 57.10 per share.

Revenues and margins to recover in FY24E as market sentiments improve: The improved global economic outlook points towards a stronger demand, supporting a recovery in petrochemical prices. PP demand is expected to pick up in H2-23 following sluggish demand in H1-23. With demand normalizing, we expect average PP prices to increase 14.1% to USD 1,061 per ton in FY24E following a 11.4% Y/Y decline in FY23E. Consequently, revenues are expected to increase 13.9% Y/Y to SAR 1.9bn in FY24E after a 14.8% Y/Y fall in FY23E. GP margins are expected to improve to 19.6% in FY24E from 16.9% in FY23E driven by improved product spreads. PP-Propane spread is expected to increase 21.6% Y/Y to USD 601/ ton in FY24E.

Expansion plans in Yanbu; a key catalyst for long-term growth: Alujain has received feedstock allocation approval from the Ministry to produce plants in Yanbu city which includes i) propane gas processing plant for production of PP, iii) complex to produce PP compounds and PP specialty materials. The new project will produce 600,000 tons of PP and its compounds in H1-26 once it starts operations. The company is thus striving to maximize its investment in propylene and PP industries and strengthen its value chain. The expansion plan would be a key catalyst for the company's long-term growth and would considerably help increase the company's top-line. Alujain's revenue is expected to grow at CAGR of 17.2% over FY23-FY30.

Potential increase in NATPET stake from 76.40% to 88.59% is a key positive development: Alujain has increased its stake in NATPET from 75.4% in FY22 to the current 76.4% and owns majority equity in the company. NATPET is the main cash cow for the company, and we believe any further stake increase may help the company announce higher dividends to the shareholders once the heavy capex requirements are met. In June, Alujain had signed a share-swap agreement with GOSI to acquire its entire stake of 12.19% in NATPET. The deal upon finalization will increase Alujain's stake in NATPET from the current 76.40% to 88.59%.

Debt requirement to finance the heavy capex needs in early stage of business may impact dividend payment: The company is expected to raise debt amounting SAR 6.75bn to meet its heavy capex requirement of SAR 7.5bn owing to the planned expansion plan in Yanbu city. This may hamper the free cash flows and impact the dividend paying ability of the company. We expect the SAR 6.75bn capex for the plant to be incurred in in FY24, FY25 and partly in FY26. As a result, we expect the company to pay no dividends from FY23E-FY26E. From FY27E, we expect the company to resume paying dividends as capex requirements are met and free cash flows to the firm improve following three consecutive years of negative free cash flows.

AJC View and valuation: Alujain is poised to reap the benefits of its increased stake in NATPET and is reconsidering its Zain business model. However, with the announcement of the recent expansion plans and heavy capex requirement, its ability to pay dividends is key to the company. We value Alujain with 50% weightage to DCF (Rfr = 3.5%, terminal growth = 2.5%, average WACC = 9.6%) and 50% weightage to FY24E EV/ EBITDA (12.8x). Thus, we initiate our coverage on the stock with "**Overweight**" rating and TP of **SAR 57.1 per share.**

Upside risks: 1) further increase in the stake of NATPET, 2) mergers with companies into similar activities, 3) anticipated price recovery and improved product spreads and gross margins. **Downside risks:** 1) volatility in PP prices, 2) less widely tracked, 3) inability to pay dividends, 4) frequent shutdowns than expected, and 5) heavy expansion plans in the early stages of business

Recommendation	**Overweight**
Target Price (SAR)	**57.10**
Upside/(Downside)	**25.6%**

Source: Tadawul *prices as of 17th of September 2023

Key Financials

(in SAR mn, unless specified)	FY21	FY22	FY23E	FY24E
Revenues	519	1,911	1,628	1,855
Growth %	NM	268.0%	-14.8%	13.9%
Net Income	1,622	119	46	137
Growth %	682.8%	-92.6%	-61.7%	199.0%
EPS	24.41	2.42	0.93	2.77
DPS	1.00	1.50	0.00	0.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	22.9%	21.1%	16.9%	19.6%
Net Margin	312.4%	6.2%	2.8%	7.4%
P/E (x)	2.21	15.36	51.98	17.39
P/B (x)	1.43	0.98	1.24	1.18
EV/EBITDA (x)	11.46	5.71	8.69	15.53
Dividend Yield	1.9%	4.0%	0.0%	0.0%

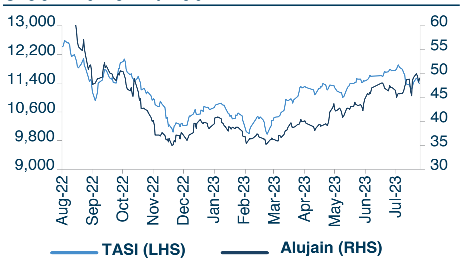
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	3.33
YTD%	29.13%
52-week (High)/(Low)	66.60/ 33.75
Share Outstanding (mn)	69.20

Source: Company reports, Aljazira Capital Research

Stock Performance



Source: Tadawul, Aljazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement						
Revenues	519	1,911	1,628	1,855	1,934	3,062
Y/Y growth	**NM**	**268.0%**	**-14.8%**	**13.9%**	**4.2%**	**58.3%**
Cost of sales	(400)	(1,507)	(1,353)	(1,492)	(1,529)	(2,486)
Gross profit	**119**	**404**	**275**	**363**	**405**	**576**
General & administrative expense	(37)	(180)	(79)	(83)	(85)	(116)
Operating profit	**334**	**221**	**128**	**207**	**246**	**369**
Y/Y growth	**59.3%**	**-33.8%**	**-42.0%**	**61.4%**	**18.9%**	**50.0%**
Finance Cost	(8)	(41)	(60)	(51)	(39)	(163)
Finance Income	0	3	6	9	6	6
Re-measurement gain on equity invest. designated as FVTPL	1,352	-	-	-	-	-
Share of Result of a joint venture	(0)	12	13	12	12	12
Profit before zakat & minority interest	**1,678**	**195**	**87**	**177**	**225**	**224**
Minority interest	-	1				
Zakat	(37)	(25)	(18)	(23)	(29)	(29)
Net profit	**1,622**	**119**	**46**	**137**	**174**	**173**
Y/Y growth	**682.6%**	**-92.6%**	**-61.7%**	**199.0%**	**27.2%**	**-0.5%**
EPS (SAR)	24.41	2.42	0.93	2.77	3.52	3.50
Balance sheet						
Assets						
Cash and bank balance	411	295	444	296	303	291
Other current assets	1,108	931	832	939	974	1,364
Property plant & equipment	2,053	1,997	1,888	5,173	8,470	8,992
Other non-current assets	1,630	1,642	1,651	1,662	1,672	1,683
Total assets	**5,202**	**4,866**	**4,816**	**8,070**	**11,419**	**12,330**
Liabilities & owners' equity						
Total current liabilities	687	521	413	437	440	682
Long-term loans	973	803	794	3,870	7,021	7,496
Total non-current liabilities	104	98	97	96	96	96
Share capital	692	692	692	692	692	692
Statutory reserves	288	288	288	288	288	288
Treasury Shares	(627)	(632)	(632)	(632)	(632)	(632)
Non-controlling interest	827	800	823	841	863	885
Retained earnings	2,294	2,316	2,362	2,498	2,672	2,844
Total owners' equity	3,439	3,443	3,512	3,666	3,862	4,057
Total equity & liabilities	**5,202**	**4,866**	**4,816**	**8,070**	**11,419**	**12,330**
Key fundamental ratios						
Current ratio (x)	2.2	2.4	3.1	2.8	2.9	2.4
Cash ratio (x)	0.6	0.6	1.1	0.7	0.7	0.4
Gross profit margin	22.9%	21.1%	16.9%	19.6%	20.9%	18.8%
Operating margin	64.4%	11.6%	7.9%	11.2%	12.7%	12.0%
EBITDA margin	69.8%	21.5%	19.2%	20.6%	21.4%	23.0%
Net profit margin	312.4%	6.2%	2.8%	7.4%	9.0%	5.6%
Return on assets	47.0%	2.4%	0.9%	2.1%	1.8%	1.5%
Return on equity	75.4%	4.5%	1.7%	5.0%	6.0%	5.6%
Interest coverage (x)	39.5	5.5	2.13	4.08	6.37	2.26
Debt / equity (x)	0.34	0.30	0.26	1.08	1.84	1.90
EV/sales (x)	8.00	1.22	1.67	3.21	4.70	3.13
EV/EBITDA (x)	11.46	5.71	8.69	15.53	21.96	13.58
EPS (SAR)	24.41	2.42	0.93	2.77	3.52	3.50
BVPS (SAR)	37.74	38.20	38.86	40.83	43.34	45.84
DPS (SAR)	1.00	1.50	-	-	-	-
Dividend yield	1.9%	4.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	2.21	15.36	51.98	17.39	13.67	13.74
P/BV ratio (x)	1.43	0.98	1.24	1.18	1.11	1.05

Source: Company reports, Aljazira Capital Research

Company Overview

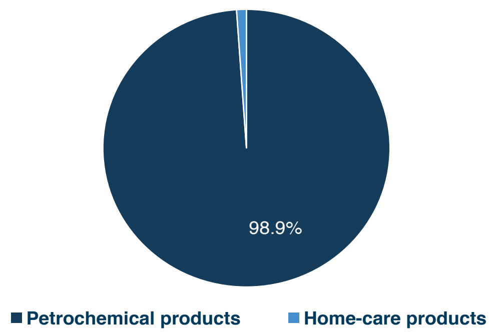
Alujain is operating since December 1991 with its headquarters being in Riyadh, Saudi Arabia. The strategic objectives of Alujain Corporation involve identifying, evaluating, promoting, developing, and investing in significant industrial projects related to petrochemicals, mining, metals, energy sectors, and other areas inside and outside of Saudi Arabia. The company's subsidiaries include National Petrochemical Industrial Company (NATPET) and Zain Industries Company LTD. (Zain), with Alujain holding a majority stake of 98.75% in Zain and a 76.40% equity stake in NATPET. The company's majority revenues are derived from manufacturing polypropylene.

Overview of its subsidiaries

NATPET is a joint stock company based in Yanbu, Kingdom of Saudi Arabia, specializing in the production of Propylene/Polypropylene and its derivatives. Their production capacity for polypropylene stands at 400,000 tons per year. NATPET's sales is exports dominated with the subsidiary selling almost 86% of its production outside KSA and remaining 14% sold locally. In November 2021, the group obtained control over NATPET by purchasing the entire stake of Haji Abdullah Alireza & Co. to support its strategic investment plans and thus making it a subsidiary. During FY22, Alujain Corporation increased its ownership stake in NATPET from 75.37% to 76.40%.

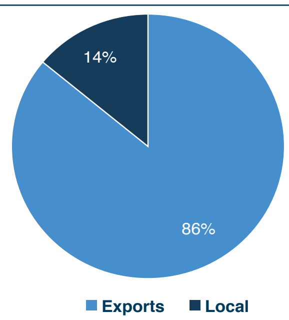
Another subsidiary of Alujain, Zain, operates from Jubail Industrial City. Zain manufactures various homecare products, including spray starch, air fresheners, anti-static spray, bleach, fabric softener, oven cleaner, furniture polish, stainless steel polish, and more. Additionally, Zain produces a wide range of insecticides, agricultural pesticides, herbicides, fungicides, and various general health products in different forms. However, it does not materially contribute to the group.

Figure 27. Operating revenue mix in FY22 (%)



Source: Alujain BOD report 2022, Aljazira Capital Research

Figure 28. NATPET geographical analysis in FY22 (%)



Source: Alujain BOD report 2022, Aljazira Capital Research

Business Segments

Alujain has two business segments namely:

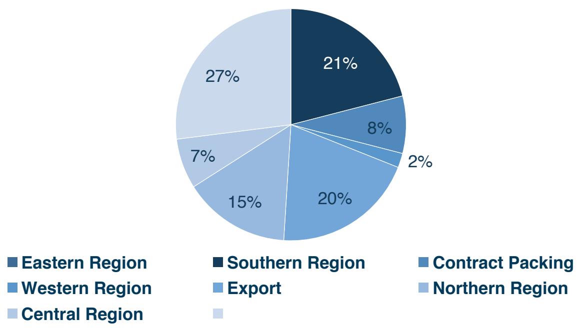
- **Manufacturing of Petrochemical products:** The primary source of revenue for the Company is derived from petrochemical products, making up approximately 98.85% of the total revenue in FY22. Alujain's expansion plan includes establishing a new industrial complex for the production of propylene, PP and specialized transformation materials. The new project upon its completion will produce over 600,000 tons of PP, PP compounds, and specialized construction materials from PP derivates along with the production of 25,000 tons of stable hydrogen on an annual basis. The new project is expected to cost SAR 7.5bn and come on-line in H1-26. Thus, the company is striving to maximize its investment in propylene and PP industries, which is the main revenue contributor to the company.
- **Manufacturing of Home care products:** In FY22, the revenue generated from manufacturing home care products accounted for just 1% of the total revenue. To expand the business, Zain plans to implement various development strategies and intends to introduce new products. The move aims to position the Company as a strong competitor in both wholesale and retail markets,

rather than solely focusing on the commercial laundry market. Alujain is reconsidering Zain's business model and sustainability and is looking to enter mergers with companies that have similar activities. Alujain has also signed an agreement with Falaj Holding Co. to sell its 98.75% stake in Zain Industries, however, this deal is subject to completion of necessary transactions and required regulatory approvals.

Geographical Revenue split by Subsidiaries

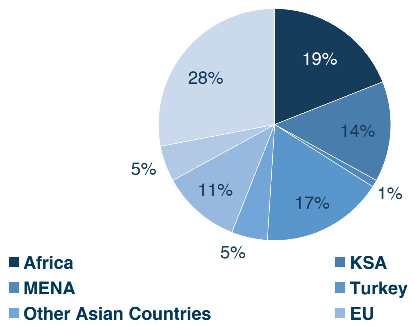
- **NATPET's geographical sales:** In FY22, NATPET's revenue amounted to SAR 1.9bn, experiencing a decline of 5.9% compared to SAR 2.0bn in FY21. The company sells its petrochemical products both domestically and internationally, through direct and indirect channels. The major contributors to the revenue are Latin and North America, accounting for 28% of the total. Africa and Turkey follow closely, contributing SAR 358.9mn and SAR 321.1mn, respectively, to the total revenue. The Kingdom of Saudi Arabia reported 14%, while Europe amounted to 11%. China and other Asian countries contributed 5% of the total revenues, each. The Middle East and North Africa (MENA) region reported 1% of the total revenue.
- **Zain Industries sales:** In FY22, Zain's sales amounted to SAR 21.9mn compared to SAR 23.9mn in FY21. The revenue distribution across regions shows that the Central region contributed the highest share, accounting for 27% of the total revenue, while the Eastern region contributed 21%. The Western region recorded a revenue of SAR 4.38mn, making up 20% of the total revenue. Exports and the Southern Region together contributed around 15% and 8%, respectively, of the total revenue for the same period. The Northern region reported SAR 1.5mn in total revenue for FY22. Zain Industries sells all its products within and outside of Saudi Arabia.

Figure 29. Zain geographical split in FY22 (%)



Source: Alujain BOD report 2022, Aljazira Capital Research

Figure 30. NATPET geographical split in FY22 (%)

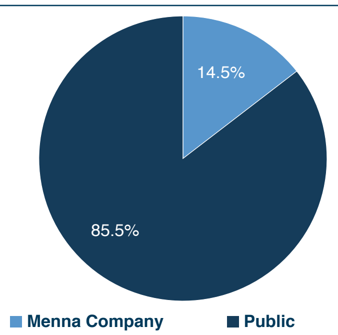


Source: Alujain BOD report 2022, Aljazira Capital Research

Ownership structure

The current major shareholder of Alujain is Menna Company which owns 14.5%. QFI holding is currently at 4.5% out of the 85.5% holding available to the public

Figure 31. Current share ownership (%)



Source: Alujain BOD report 2022, Aljazira Capital Research

Valuations

We have assigned a 50.0% weightage to DCF, and 50.0% to the FY24E EV/ EBITDA (12.8x) multiple. Based on the combined valuation, we arrived at a blended TP of **SAR 57.1/share** and this implies an upside of **25.6%** over the current market price. We initiate the stock with a "**Overweight**" rating.

DCF valuation

Our valuation of Alujain is based on a 50% weightage to DCF (Rfr = 3.5%, terminal growth = 2.5%, and a CAPM = 10.6%), yielding a value of SAR 4.3bn (TP of SAR 60.3 per share).

	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
NOPAT	110,729	183,933	216,689	339,788	568,954	603,449	659,111	701,407
(-) CAPEX	(73,271)	(3,458,482)	(3,462,014)	(857,156)	(172,380)	(171,187)	(148,120)	(148,073)
(+) Depreciation and Amortisation	186,187	177,246	169,435	337,967	553,128	530,341	507,570	486,195
(+) Change in WC	85,896	(75,394)	(24,430)	(255,583)	(505,551)	34,816	17,807	79,760
Free Cash Flow to firm	**309,542**	**(3,172,697)**	**(3,100,320)**	**(434,984)**	**444,150**	**997,419**	**1,036,368**	**1,119,290**
Interest charge x (1-T)	(58,784)	(49,461)	(37,657)	(158,864)	(259,947)	(253,103)	(244,547)	(234,280)
Net borrowing	(106,683)	3,066,858	3,140,109	579,049	(200,000)	(200,000)	(300,000)	(300,000)
FCFE	**144,075**	**(155,300)**	**2,132**	**(14,800)**	**(15,797)**	**544,316**	**491,707**	**584,797**
Discounted FCFE	139,420	(135,727)	1,684	(10,556)	(10,179)	316,770	258,510	277,751
Total Discounted FCFE								837,674
Terminal Value								7,316,129
Discounted Terminal Value								3,474,821
NPV								**13,067,582**
Minority interest								(1,491,011)
Debt								(7,695,794)
Cash + investments								295,776
Net Worth								**4,312,494**
Number of shares								69,200
Terminal Growth Rate								2.5%
Firm Value								**60.3**

Source: Tadawul, Aljazira Capital Research

Relative valuation

We value Alujain using a 50% weightage to relative valuation methodology based on the FY24E EV/ EBITDA (12.8x), yield-ing a value of SAR 3.7bn (TP of SAR 53.9 per share).

EV/EBITDA Calculations (All figures in SAR'000, unless specified)	
Sector EV/EBITDA	12.8
Implicit EV	4,900,344
Minority interest	(559,129)
Cash	295,776
Debt	(909,778)
Equity Value	3,727,213
EV/EBITDA - 12M PT	**53.90**

Source: Tadawul, Aljazira Capital Research

Blended Valuation

Particulars	Fair Value	Weights	Weighted Average
Value based on -			
DCF	60.3	50.0%	30.1
EV/EBITDA	53.9	50.0%	26.9
Weighted average 12-month price target			**57.1**
Upside / Downside			**25.6%**

Source: Tadawul, Aljazira Capital Research

RESEARCH DIVISION

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer