

## SIIG

OVERWEIGHT

CURRENT PRICE SAR25.3

UPSIDE +21.7%

TARGET PRICE SAR30.8

EVENT FLASH

## Higher operating rates offset by higher zakat

SIIG reported a net income of SAR319mn, increasing 41.2% yoy (flat qoq). Net income was broadly in-line with our estimates, however came significantly higher than the consensus estimates of SAR272mn. We believe the better than expected performance of Petrochem was offset by higher Zakat expense.

- Revenues was SAR2.30bn, up 30.9% yoy (+2.6% qoq). This is 5.9% higher than our estimates of SAR2.17bn. This is the highest level since inception. Based on our calculations, we believe the facilities operated at 116%, higher than our estimates and Q2 18 of 109% and vs Q3 17 levels of 97%. We believe Petrochem's ability to increase efficiency and thereby sustain high operating rates over the last four quarters is a key highlight of the results.
- Gross margins stood at 32.0%, in-line with our estimates. This is compared to Q3 17 of 31.5% and Q2 18 of 33.0%. The decline in margins is mainly due to lower PP-naphtha spread which declined 4.6% yoy and 3.4% qoq.
- Based on our estimates, we believe SIIG's share in SCP and JCP profits stood at SAR184mn in Q3 18, coming in-line with our estimates. This compares to SAR195mn in Q2 18 and SAR158mn in Q3 17. We believe the qoq decline is mainly due to lower spreads and prices, while the yoy improvement is supported by higher prices and a loss of SAR12mn related to PCC (discontinued and sold in 2018).
- The better than expected operating income was offset by higher Zakat expense. We estimate that Zakat expense came in at SAR85mn, higher than our estimates of SAR71mn and compared to SAR90mn in Q3 17.
- In Q3 18, PP remained flat qoq (+16.1% yoy) to US\$1,240, while HDPE declined 3.8% qoq (+15.8% yoy) to US\$1,302. PS prices declined 2.4% qoq (+11.4% yoy) to US\$1,501 while benzene increased 2.1% qoq (+13.4% yoy) to US\$863. PP-naphtha spread declined 3.4% qoq and 4.6% yoy to US\$573.
- SIIG announced a cash dividend of SAR0.75 for H2 18, increasing the full year dividend to SAR1.25 and reflecting a dividend yield of 4.9%. This is higher than our estimates of SAR1.0 and compared to 2017 of SAR0.50.
- We are Overweight on the stock with a PT of SAR30.8. Improving operational efficiency after the shutdown in Q1 18, higher dividends and attractive valuation are the stock's key positives. The stock is trading at 2019f PE of 9.4x, lower than the sector peer average of 12.3x. Adjusting for the Petrochem stake, SIIG is trading at 2019f P/E of 8.2x.

## Q3 18 Results Summary

SARmn	Q3 18	Q3 17	% yoy	Q3 18f	%var^	% qoq
Revenues	2,297	1,755	30.9	2,169	5.9	2.6
Gross income	742	552	34.4	696	6.6	2.8
Gross margin (%)	32.3%	31.5%	0.85	32.1%	0.22	0.06
EBIT	755	546	38.3	707	6.9	1.3
EBIT Margin (%)	32.9%	31.1%	1.76	32.6%	0.29	(0.40)
Net income	319	226	41.2	313	2.0	(0.6)
Net margin (%)	13.9%	12.9%	1.01	14.4%	(0.53)	(0.45)
EPS (SAR)	0.71	0.50	41.2	0.69	2.0	(0.6)

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

الأهلي كابيتال  
NCB Capital

## STOCK DETAILS

M52-week range H/L (SAR)	30/19
Market cap (\$mn)	3,040
Shares outstanding (mn)	450
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	(4.2)	(14.5)	13.9
Rel. to market	(3.0)	(7.8)	1.0

Avg daily turnover (mn)	SAR	US\$
3m	17.9	4.8
12m	20.6	5.5

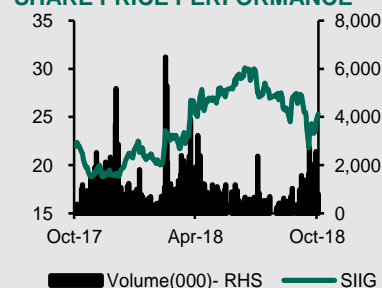
Reuters code	2250.SE
Bloomberg code	SIIG AB
	www.siig.com.sa

## VALUATION MULTIPLES

	17a	18f	19f
PE (x)	11.3	9.8	9.4
PB (x)	1.7	1.5	1.4
EV/EBITDA (x)	7.4	6.4	6.6
Div Yield (%)	2.0	4.0	4.0

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

## RELATIVE PERFORMANCE



Source: Tadawul

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