

## SABIC

NEUTRAL

CURRENT PRICE SAR88.9

UPSIDE 8.2%

TARGET PRICE SAR96.2

EVENT FLASH

## Weakest results in more than 10 years

SABIC reported its weakest results in more than 10 years with a net loss of SAR720mn. This is compared to a profit of SAR834mn in Q3 19 and SAR3.2bn in Q4 18. The results were significantly lower than the NCBC and consensus estimates of SAR1.99bn and SAR1.78bn, respectively. The variance is due to 1) weak prices and margins and 2) a one-off charge of SAR1.3bn related to Ibn Rushd facility. Adjusted for that, SABIC net income would be SAR580mn.

- Revenues stood at SAR32.8bn, in-line with our estimates and reflects a decline of -19% yoy (-2.6% qoq). This is the lowest level since Q4 09. We believe the decline is due to lower prices (-19% yoy and -8% qoq) which was negated by higher volumes (+5% qoq). The Petrochemicals segment revenue stood at SAR28.5bn, down -19.6% yoy (-4% qoq). This is in-line with our estimates. The yoy decline is due to low prices (-17%) and volumes (-3%). The Agrinutrient sector revenues stood at SAR1.8bn vs our estimates of SAR1.2bn, down -18.6% yoy (+6% qoq). We believe the better than expected sales is due to higher volumes which mitigated the decline in prices. For the Metal sector, revenues stood at SAR2.5bn, up +2.1% yoy.
- Gross profit was SAR4.6bn, down -61% yoy (-52% qoq). This is the lowest level since Q1 09 and is significantly lower than our estimates of SAR8.6bn. Gross margin stood at 14.0% in Q4 19, contracting from 29.4% in Q4 18 and 28.6% in Q3 19. We believe the contraction in margins is due to 1) lower spreads and 2) write-off of Ibn Rushd. Adjusting for the SAR1.3bn write-off, gross income would be SAR5.9bn with a gross margin of 18%.
- EBITDA stood at SAR7.4bn, down 18% qoq and reflects an EBITDA margin of 23% (vs 27% in Q3 19). EBIT losses were SAR640mn, compared to a profit of SAR4.7bn in Q3 19 and SAR6.5bn in Q4 18.
- In Q4 19, HDPE prices decreased -27.1% yoy (-10.9% qoq) to US\$853, while PP prices decreased -17.1% yoy (-5.8% qoq) to US\$976. MEG prices declined -27.1% yoy (+2.2% qoq) to US\$563. PP-propane spread declined -0.5% yoy (-10.6% qoq) to US\$576. Urea prices declined -23.7% yoy (-10.0% qoq) to US\$246. Although prices started to improve in January 2020 following to the trade agreement between the US and China, it remains close to Q4 19 levels. Moreover, PP-Propane spread declined 25% yoy in Q1 2020 to US\$432.
- We are Neutral on SABIC with a PT of SAR96.2. The outlook of the sector remains muted due to concerns over global GDP growth and additional new capacities in the US and China. The stock is trading at 2020f PE of 20.7x, higher than the peer group average of 17.8x.

## Q4 19 Results Summary

SARmn	Q4 19	Q4 18	yoy	Q4 19f	var^	qoq
Revenues	32,810	40,270	(18.5)%	32,303	1.6%	(2.6)%
Gross Profit	4,610	12,200	(62.2)%	8,615	(46.5)%	(52.1)%
Gross margin (%)	14.1%	30.3%	(1624)bps	26.7%	(1262)bps	(1454)bps
Operating Income	(640)	6,550	NM	3,843	NM	NM
Operating margin (%)	(2.0)%	16.3%	NM	11.9%	NM	NM
Net income	(720)	3,219	NM	1,997	NM	NM
Adj. net income	580	3,219	(82.0)%	1,997	(71.0)%	(75.2)%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts, \*adjusted for other income

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## STOCK DETAILS

M52-week range H/L (SAR)	127/86
Market cap (\$mn)	71,120
Shares outstanding (mn)	3,000
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	(4.7)	(0.2)	(27.7)
Rel. to market	(2.5)	(5.1)	(22.4)

Avg daily turnover (mn)	SAR	US\$
3m	175.7	46.9
12m	310.1	82.7

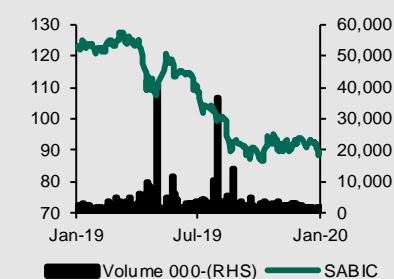
Reuters code	2010.SE
Bloomberg code	SABIC AB
	www.sabic.com

## VALUATION MULTIPLES

	19f	20f	21f
P/E (x)	47.3*	20.7	17.4
P/B (x)	1.6*	1.6	1.5
EV/EBITDA (x)	7.6	7.6	6.9
Div Yield (%)	4.9*	4.9	4.9

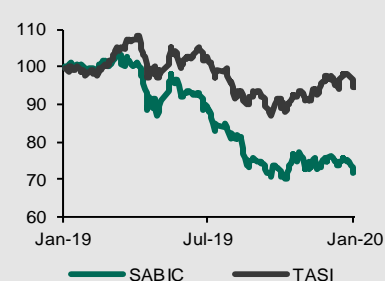
Source: NCBC Research estimates; \*Actual

## SHARE PRICE PERFORMANCE



Source: Tadawul

## RELATIVE PERFORMANCE



Source: Tadawul

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