

Rating **Buy**
12- Month Target Price **SAR 24.00**

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY (SIPCHEM)
4Q2018 First Look

Expected Total Return

Price as on Feb-13, 2019	SAR 19.00
Upside to Target Price	26.3%
Expected Dividend Yield	6.3%
Expected Total Return	32.6%

Market Data

52 Week H/L	SAR 24.30/17.90
Market Capitalization	SAR 6,966 mln
Shares Outstanding	366.7 mln
Free Float	89.0%
12-Month ADTV (000's)	1,027.6
Bloomberg Code	SIPCHEM AB

1-Year Price Performance



Source: Bloomberg

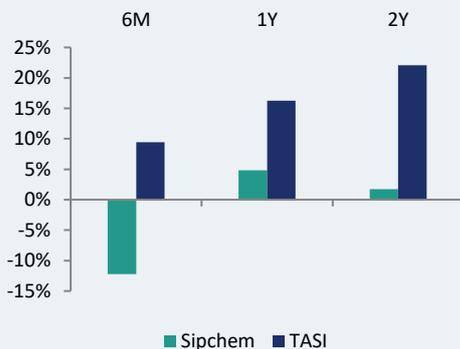


Fig in SAR mln	RC. Est	Actuals
Revenue	1,204	1,053
EBIT	229	74
Net Income	100	40
EPS (SAR)	0.27	0.11

Extended Shutdown Curtails Earnings

Saudi International Petrochemical Company (Sipchem) reported its 4Q2018 results that missed our expectations and market consensus. Net income was reported at SAR 40 million (EPS SAR 0.11) as compared to our forecast of SAR 100 million and street's estimate of SAR 87 million. Margins contracted on a quarterly and yearly basis as a result of the shutdown; expenses have also managed to decline marginally. Full year results were positive, however, as revenues increased to SAR 5.04 billion (+13% Y/Y) and earnings grew to SAR 583 million (+33% Y/Y). We reaffirm our target price at SAR 24.00 and maintain our Buy rating.

Revenues down -21% Q/Q

Sipchem posted revenues of SAR 1.05 billion (-18% Y/Y and -21% Q/Q), well below our forecast of SAR 1.20 billion. Lower methanol prices coupled with an extended shutdown in their methanol plant dampened the company's sales. It is important to note that the Methanol plant shutdown occurred at a time when methanol prices were at elevated levels (October) and came back online when prices were at their lowest. This compounded revenue losses for Sipchem during the quarter. Methanol prices declined -6% Q/Q but increased +8% Y/Y.

Margins drastically drop Q/Q & Y/Y

Gross profit fell -51% Y/Y and -56% Q/Q to settle at SAR 205 million. Gross margins drastically decreased to 19% from 33% last year and 35% in the preceding quarter. With the completion of the company's energy efficiency and performance enhancement project, we can expect gross margins to be relatively higher in 2019. Operating profit declined by -73% Y/Y and -77% Q/Q to reach SAR 74 million. Consequently, operating margins fell to 7% from 22% last year and 25% last quarter. Net income decreased to SAR 40 million (-76% Y/Y, -78% Q/Q) while net margins declined to 4% from 13% last year and quarter.

Maintain Buy

Methanol prices suffered badly from the hard fall in oil prices during the quarter, yet there are a couple of factors to merit optimism in global methanol demand. Firstly, Methanol-to-olefins plants are steadily rising in China and are expected to maintain moderate growth in the medium term as environmental regulation strengthen. Secondly, the International Maritime Organization (IMO) has set a limit for Sulphur in fuel oil used on board ships to 0.50% m/m (mass by mass) from January 1, 2020 versus a current limit of 3.50% m/m. Methanol marine fuel complies with the new limit and would also comply with future emissions regulations currently being considered. An increasing number of ships have already started utilizing methanol as fuel. We are still awaiting updates from Sipchem regarding methanol investments in the U.S to take advantage of rising demand. Sipchem is currently trading at a 2019E P/E of 11.7x which is below TASI's forward PE of 15.3x. We maintain our Buy rating and target price of SAR 24.00.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018*	2019E
Revenue	4,459	5,036	5,690
EBIT	935	1,096	1,252
Net Profit	437	583	598
EPS (SAR)	1.19	1.59	1.63
DPS (SAR)	0.50	1.15	1.20

*2018 numbers are preliminary

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	2.7%	3.5%	3.4%
ROAE	7.7%	9.8%	9.7%
P/E	15.9x	12.0x	11.7x
P/B	1.2x	1.2x	1.1x
EV/EBITDA	7.4x	6.6x	6.0x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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