August 2022

Saudi Basic Industries Corp (SABIC).

Result Flash Note Q2-22

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Saudi Basic Industries Corporation (SABIC) posted a net income of SAR 7.93bn, significantly above our and market estimates of SAR 5.61bn and SAR 5.92bn, respectively. The deviation from our expectation was mainly due to higher-than-expected revenue and gross margin, partially offset by higher selling and distribution expenses. Revenue increased 6.3% Q/Q to SAR 55.98bn in Q2-22, driven by strong performance by Agri-Nutrients and Petrochemical & Specialties segments. However, Hadeed recorded a top line decline. Gross margin expanded 166bps Q/Q to 29.6% and above our estimate of 26.2%. Gross margin expansion was led by higher prices of products such as MTBE and ethylene; aided by 55% fixed feedstock cost. Accordingly, we remain "Overweight" on the stock with a TP of SAR 117.0/share.

- SABIC's net income increased 22.6% Q/Q and 3.8% Y/Y SAR 7.93bn in Q2-22, exceeding AJC's and market estimates of SAR 5.61bn and SAR 5.92bn, respectively. The variance from our estimate was due to higher-than-expected revenue and gross margin, partially offset by higher selling and distribution expenses. The increase in share of income from associates and joint ventures also aided the bottom line growth.
- SABIC reported a 6.3% Q/Q increase in revenue to SAR 55.98bn, on the back of strong performance by Agri-Nutrients and Petrochemicals & Specialties segments. Agri-Nutrients' revenue jumped 41% Q/Q driven by higher volumes due to recognition of additional volumes in Q2-22 from in-transit shipments owing bad weather during Q1-22. Petrochemicals & Specialties revenue grew 4% Q/Q due to higher average selling prices and higher contribution from the Chemical segment. During the quarter, the average selling prices of MTBE surged by 23.9% Q/Q. MEG-SABIC, and Ethylene rose 7.9% Q/Q and 3.6% Q/Q, respectively. Methanol prices fell 3.4% Q/Q, while PP and PC average prices declined by 1.0% Q/Q and 6.3% Q/Q, respectively. Hadeed's revenues declined 6% Q/Q to SAR 4.08bn, due to lower sales volumes (-14% Q/Q) owing to effects of seasonality, partially offset by improved average selling prices (+8% Q/Q).
- Gross profit stood at SAR 16.56bn, above our estimate of SAR 13.20bn due to higher revenue and better margin. Gross margin expanded to 29.6% vs. 27.9% in the previous quarter and above our estimate of 26.2%, due to higher average prices for MTBE and ethylene and 55% fixed feedstock cost. However, cost for variable feedstock increased with propane and butane prices rising 5.4% Q/Q and 6.9% Q/Q in Q2-22. Propane-HDPE and Propane-PP spreads contracted by 12.7% Q/Q and 9.0% Q/Q, respectively.
- SABIC's EBITDA witnessed a growth of 4% Q/Q to SAR 13.28bn, resulting in steady EBITDA margins of 24% compared to Q1-22. Operating profit stood at SAR 9.80bn (+5.2% Q/Q), as higher sales volumes were offset by increase in selling and distribution expenses due to higher freight costs. OPEX to sales stood at 13.8% in Q2-22, as against our estimate of 11.8% and 11.6% recorded during the previous quarter.

AJC View: SABIC exhibited strong operating performance in Q2-22. The company's top line was supported by a significant growth in the Agri-nutrients segment volume as sales of in-transit shipments from Q1-22 were recorded in Q2-22. This was a one-off positive impact on revenue. The recent decline in product prices are likely to impact SABIC's revenue. Furthermore, expected slowdown in GDP growth, and continued supply chain issues are expected to weigh on the company's overall performance in H2-22. Nevertheless, SABIC's diverse portfolio in terms of product, feedstocks prices decline, and geography is expected support the company and minimize the risk. Additionally, the company will continue to benefit for synergies realized with Saudi Aramco. SABIC's total synergies realized with Saudi Aramco stood at SAR 2.73bn as of June 2022 (SAR 1.18bn in H1-22). SABIC is expected to post SAR 26.2bn in net income (8.75 EPS) for FY22, compared to SAR 23.1bn recorded for FY21. The company is trading at a forward PE of 13.5x based on our FY23 earnings forecasts, higher than the current PE of 11.9x. We remain "**Overweight**" on SABIC with a TP of **SAR 117.0/share.**

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**42,420**	**52,640**	**55,980**	32.0%	6.3%	11.2%
Gross Profit	13,650	14,700	16,560	21.3%	12.7%	25.5%
Gross Margin	*32.2%*	*27.9%*	*29.6%*	-	-	-
EBIT	10,050	9,320	9,800	-2.5%	5.2%	23.2%
Net Profit	**7,640**	**6,470**	**7,930**	3.8%	22.6%	41.4%
EPS	2.55	2.16	2.64	-	-	-

Source: Company Reports, AlJazira Capital

Overweight

Target Price (SAR)	117.0
Upside / (Downside)*	13.8%

Source: Tadawul *prices as of 9th of August 2022.

Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	116,949	174,883	201,201	170,671
Growth %	-13.6%	49.5%	15.0%	-15.2%
Net Income	67	23,066	26,246	22,849
Growth %	NM	NM	13.8%	-12.9%
EPS	0.02	7.69	8.75	7.62

Source: Company reports, Aljazira Capital policy

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	19.6%	29.2%	29.2%	30.8%
Net Margin	0.1%	13.2%	13.0%	13.4%
P/E (x)	High	16.2	11.8	13.5
P/B (x)	1.8	2.1	1.6	1.5
EV/EBITDA (x)	14.9	8.1	5.9	6.3
Dividend Yield	3.0%	3.2%	4.4%	3.9%

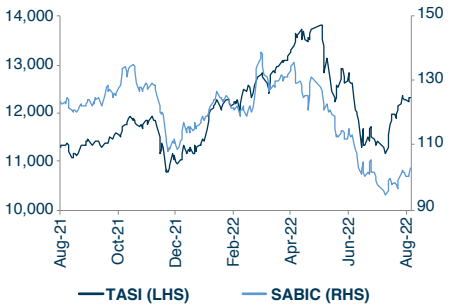
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	310.2
YTD %	-11.4%
52 Week (High)/(Low)	141.4 /93.5
Shares Outstanding (mn)	3000

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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