

Rating **Neutral**  
 12- Month Target Price **SAR 98.00**

## SAUDI BASIC INDUSTRIES CORP (SABIC)

4Q2017 First Look

### Expected Total Return

Price as on Jan-25, 2018	SAR 108.87
Upside to Target Price	-10.0%
Expected Dividend Yield	5.1%
Expected Total Return	-4.9%

### Market Data

52 Week H/L	SAR 109.00 /94.25
Market Capitalization	SAR 326,610 mln
Shares Outstanding	3,000 mln
Free Float	21.0%
12-Month ADTV	3,649,231
Bloomberg Code	SABIC AB

### 1-Year Price Performance



Source: Bloomberg

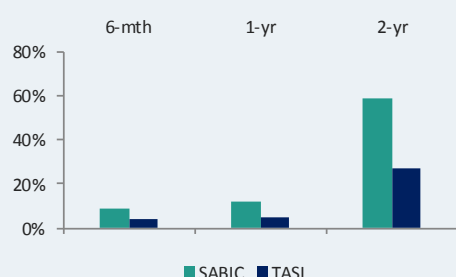


Fig in SAR bln	RC Est.	Actuals
Revenues	40.4	40.6
Gross Profit	13.8	12.6
Net Income	5.4	3.7
EPS (SAR)	1.81	1.22

## Earnings Volatility

Earnings surprise versus expectations continued for the third consecutive quarter as Sabic reported SAR 3.7 billion in net income as compared to street as well as our estimates of SAR 5.4 billion. EPS fell -19% Y/Y and -37% Q/Q to SAR 1.22 and reversed a SAR 5.8 billion positive surprise in 3Q. At first look, it appears lower margins (gross margins at 31%) coupled with impairments at Hadeed and Ibn Sina were the main culprits. Oil prices witnessed a substantial jump in 4Q. However, this has led to higher feedstock prices while product prices have not kept pace. Below par results at Safco and Kayan's losses have not helped either. Market is likely to take these results negatively in the short-term but we believe elevated crude prices and expectations of better margins could make for an improved 2018. Maintain Neutral.

### Revenues do well in 4Q

Revenue growth was in line with expectations, up +8% Y/Y and +4% Q/Q to SAR 40.6 billion as higher product prices helped the Company register a good topline. Basic petchem prices have risen well in 4Q but lagged the crude rise. Ethylene has risen +29% Y/Y while polyethylene is up +4% Y/Y. MEG and methanol have increased +35% Y/Y and +23% Y/Y respectively. While urea prices have continued their uptrend, +30% Y/Y to USD 259/ton, shutdown at Safco 4 resulted in just SAR 63 million in net income, hurting Sabic.

### Weak gross margins

In our view, weakness in gross margins was the major contributor to below expectations bottomline. At 31.1%, gross margins came in below 35.6% in the preceding quarter and our estimates of 34.0% primarily due to a sharper rise in feedstock prices compared to product prices. As a result, although gross profit is up +14% Y/Y, it is down -10% on a Q/Q basis. Operating expenses are in line at SAR 5.5 billion. There have been developments below the operating level that have impacted. While management has talked about cost savings by merging the petrochemical and polymers business into one unit, there have also been impairments' related to Hadeed (around SAR 350 million) and Ibn Sina (close to SAR 136 million).

### Kayan and Safco disappointed

Yansab was the only subsidiary that reported a strong set of numbers with a net income of SAR 778 million and beat market estimates led by a +17% Y/Y growth in revenues. Shutdown at the Safco 4 plant, plummeted 4Q earnings of Safco to just SAR 63 million, market was forecasting SAR 281 million. Kayan was no better, plunging to a loss of SAR (220) million due to a shutdown spread over 40+ days although topline witnessed a decent growth.

### Net income misses estimates

Net profit of SAR 3.7 billion was unpleasant for the market. SAR 1.22 EPS is down -19% Y/Y and -37% Q/Q. Market and our forecast was for SAR 5.4 billion in net income. Media reports point to Sabic focusing on reducing costs by 5-7% in 2018 and restructuring its business. 2018E P/E of 15.1x appears reasonable although we may revise earnings post release of full financials. At present, recommend a Neutral with SAR 98.00 target.

### Key Financial Figures

FY Dec31 (SAR bln)	2016A	2017E	2018E
Revenue	143.0	150.4*	154.9
EBITDA	47.2	42.1	43.5
Net Profit	17.6	18.4*	21.1
EPS (SAR)	5.87	6.13*	7.03
DPS (SAR)	4.00	5.00	5.50

### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	70.10	72.70	74.52
ROAE	11.0%	10.6%	11.7%
ROAA	5.6%	5.5%	6.2%
EV/EBITDA	12.9x	11.5x	10.9x
P/E	17.8x	17.3x	15.1x

## 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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