

# Saudi Basic Industries Corp. (SABIC)

Q4 2017

## Recommendation Neutral

Fair Value (SAR) 102.00

Price as of 6 February, 2018 104.82

Expected Return -2.70%

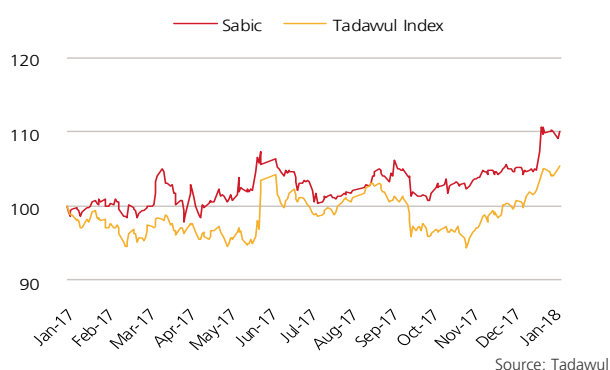
### Company Data

Tadawul Symbol	2010.SE
52 Week High (SAR)	109.00
52 Week Low (SAR)	94.25
YTD Change	3.58%
3-Month Average Volume (Thousand Shares)	4,234
Market Cap. (SAR Million)	314,460
Market Cap. (USD Million)	83,856
Outstanding Shares (Million Shares)	3,000

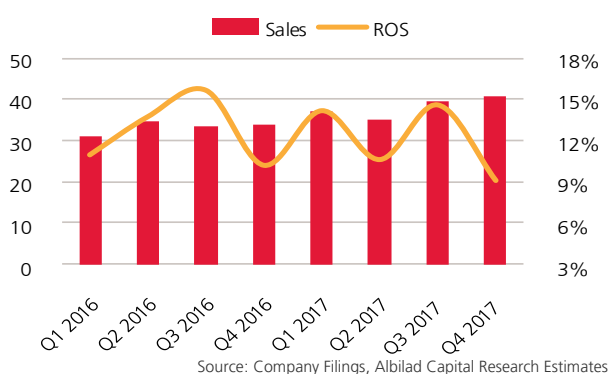
### Major Shareholders ( > 5% )

Public Investment Fund	70.00%
General Organization for Social Insurance	5.70%

### 52-week Stock Price Movement



### Quarterly Sales (SAR bn) and ROS



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Saudi Basic Industries Corporation (SABIC) revealed the financial statements for Q4 2017 reporting a net profit of SAR 3.67 billion, slumping 18.6% from SAR 4.51 billion in Q4 2016 and also plunging 36.6% QoQ. The annual figure soared 4.5% to SAR 18.4 billion compared to SAR 17.61 billion in 2016. However, the profit margin slid slightly to 12.2% compared with 12.3% in 2016.

Total revenues amounted to SAR 40.56 billion in Q4 2017 edging up 8% YoY from SAR 37.80 billion, and shrinking 4% QoQ from SAR 38.92 billion in Q3 2017. The annual figure hit SAR 150.3 billion compared with SAR 143 billion 2016 displaying an increase of 5%.

The company attributed the dip in fourth quarter profits to the decrease in quantities sold as a result of the scheduled maintenance of some manufacturing units. The profits were also affected by impairments of machines and equipment in Q4 2016. Hadeed SABIC by SAR 350 million. Ibn Sina also reported an impairment loss of SAR 274 million of that SABIC's share was SAR 136 million. While the rise in annual profits is fueled by higher average selling prices and lower S&GA.

The following table depicts the changes in a set of petrochemical prices:

Average Commodity Prices (US\$/Ton)	Current price	Q4 2017	Q4 2016	YoY	Q3 2017	QoQ
Methanol (SE Asia)	401	382	300	%27	311	%23
Polypropylene (SE Asia)	1,250	1,175	1,042	%13	1,130	%4
Polyethylene - High Density (SE Asia)	1,330	1,260	1,155	%9	1,137	%11
Polyethylene - Low Density (SE Asia)	1,260	1,257	1,188	%6	1,207	%4
Polystyrene (SE Asia)	1,515	1,433	1,262	%14	1,378	%4
Ammonia (Middle East)	330	307	222	%38	186	%65
UREA (Middle East)	250	261	225	%16	228	%14
DAP (Morocco)	412	380	336	%13	355	%7

The operating profit hit SAR 6.6 billion in Q4 2017 compared to SAR 6.1 billion in Q4 2016 leaping 8%, while plunging 24% QoQ. On annual basis, the operating profit surged 13.5% reaching SAR 29.3 billion compared with SAR 25.8 billion in 2016, thus the operating profit margin improved to 19.5% versus 18% in 2016.

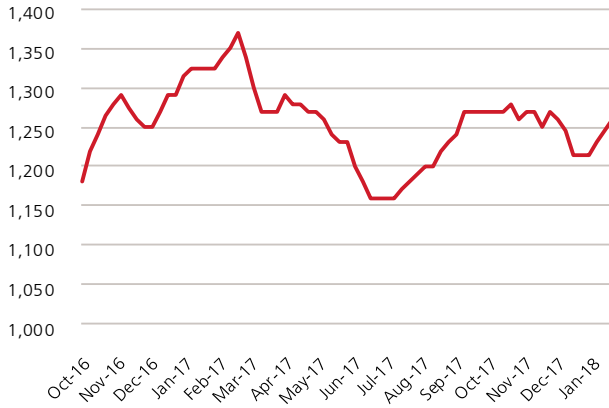
Net profit for Q4 2017 missed our estimate of SAR 5.5 billion and the analysts' consensus of SAR 5.4 billion. Petrochemical prices continued to rise in Q4 2017 fueled by oil prices improvement. It is worth mentioning that SABIC announced a series of strategic plans in 2017, including the establishment of a polycarbonate plant in China, which is expected to start operation by 2020, as well as acquiring 50% stake in Sadaf and 25% in Clariant AG. Moreover, we believe that SABIC is able to overcome fluctuations in feedstock prices by cutting operating cost and raising operational efficiency. The management plans to reduce operating cost by up to 7% in 2018. On the other hand, China's tendency to put restrictions on factories to limit emissions to the environment which will increase demand for petrochemicals products from outside China. As a result, we forecast the company's operating margins to improve in H1 2018. Consequently, we maintain our fair value of SABIC at SAR 102 per share.

FY - Ending December	2014A	2015A	2016A	2017A
EV/EBITDA	6.23	7.20	8.04	7.20
EV/Sales	1.73	2.15	2.23	2.07
P/E	13.57	16.87	17.99	17.22
Dividend Yield	5.2%	5.2%	3.8%	4.0%
P/BV	1.96	1.96	2.01	1.93
P/Revenue	1.68	2.12	2.22	2.11
Current Ratio	3.01	2.75	2.60	2.42
Revenue Growth	0.0%	-21.1%	-4.1%	5.2%

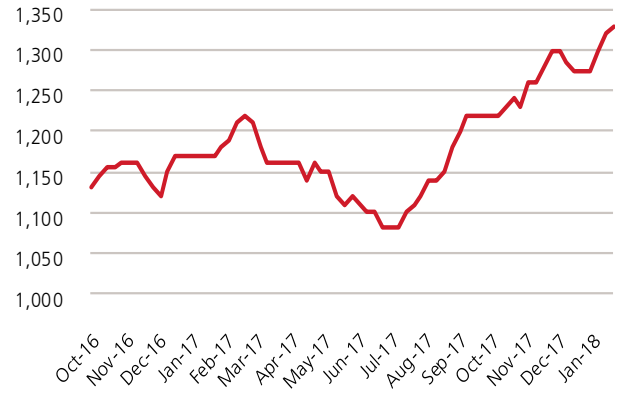
Source: Company Filings, Albilad Capital Research Estimates

## Prices of Some Products

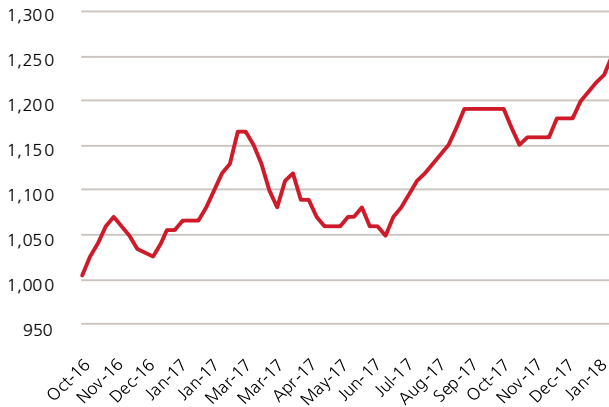
LDPE Polyethylene SE Asia Spot Price (US\$/Ton)



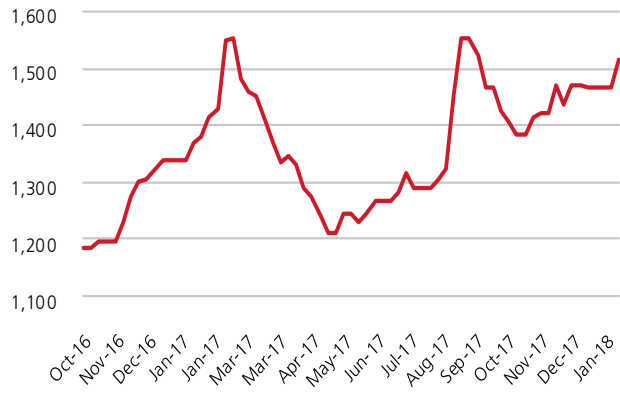
HDPE Polyethylene SE Asia Spot Price (US\$/Ton)



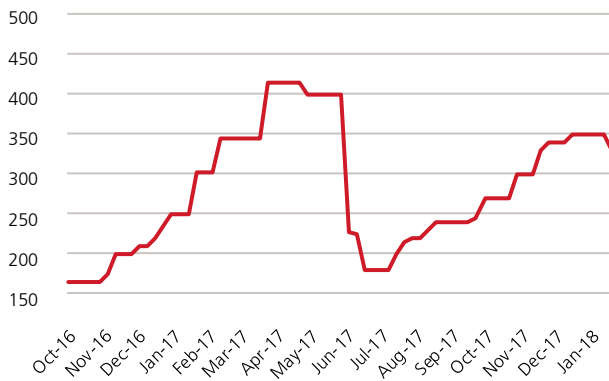
Polypropylene SE Asia Spot Price (US\$/Ton)



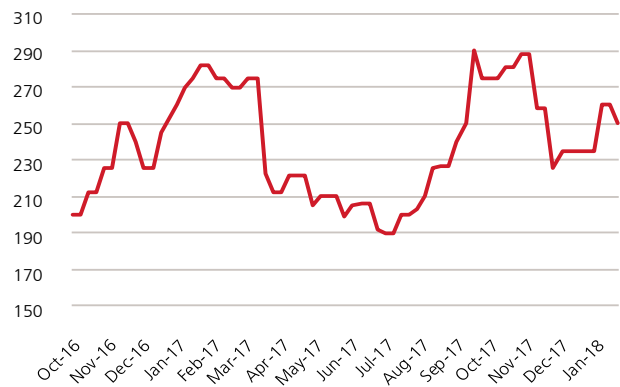
HIPS Polystyrene SE Asia Spot Price (US\$/Ton)



Ammonia Middle East Spot Price (US\$/Ton)



UREA Middle East Granular Spot Price (US\$/Ton)



Source: Bloomberg

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017A
Sales	188,986	188,989	149,167	142,999	150,390
COGS	119,881	123,016	90,790	81,895	86,215
SG&A	12,275	13,480	13,788	21,370	20,927
<b>EBITDA</b>	<b>56,830</b>	<b>52,493</b>	<b>44,590</b>	<b>39,734</b>	<b>43,247</b>
EBITDA Margin	30.1%	27.8%	29.9%	33.6%	33.6%
Depreciation and amortization	(14,291)	(14,762)	(15,372)	(13,864)	(13,882)
Provision for impairment losses on assets					
<b>EBIT</b>	<b>42,539</b>	<b>37,731</b>	<b>29,218</b>	<b>25,870</b>	<b>29,365</b>
Net interest income	(1,756)	(1,614)	(1,493)	1,647	1,247
Investment income	1,075	1,608	1,372	876	1,428
Others	609	920	421	(1,143)	(2,455)
<b>Pre-Tax and Zakat Income</b>	<b>42,466</b>	<b>38,646</b>	<b>29,518</b>	<b>27,251</b>	<b>29,585</b>
Tax and Zakat	2,300	2,100	2,100	3,873	4,150
<b>Net Income</b>	<b>40,166</b>	<b>36,546</b>	<b>27,418</b>	<b>23,378</b>	<b>25,435</b>
Minority	14,888	13,199	8,634	5,764	7,037
<b>NAI</b>	<b>25,278</b>	<b>23,347</b>	<b>18,784</b>	<b>17,614</b>	<b>18,397</b>
ROS	13.4%	12.4%	12.6%	12.3%	12.2%
Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017A
Cash and marketable securities	35,719	33,626	38,649	40,248	59,017
Short term investment	30,681	38,987	29,910	20,106	4,351
Account Receivables	30,116	26,000	19,376	19,853	22,638
Inventory	32,442	31,675	24,635	22,601	26,032
Others	4,066	4,129	4,492	4,818	5,592
<b>Total ST Assets</b>	<b>133,025</b>	<b>134,417</b>	<b>117,062</b>	<b>107,626</b>	<b>117,629</b>
Net Fixed Assets	137,065	136,216	140,692	170,350	167,455
Projects Under Implementation	28,370	32,655	32,466	12,940	14,373
Intangible assets	22,197	17,757	16,546	12,926	13,562
Others	16,587	18,996	21,453	10,013	9,496
<b>Total LT Assets</b>	<b>204,218</b>	<b>205,624</b>	<b>211,157</b>	<b>206,229</b>	<b>204,886</b>
<b>Total Assets</b>	<b>337,243</b>	<b>340,041</b>	<b>328,219</b>	<b>313,855</b>	<b>322,515</b>
Short term debt and CPLTD	6,089	13,907	13,306	13,212	16,424
Accounts Payable	19,504	17,617	16,515	16,369	18,069
Accrued Expenses	6,500	10,930	11,150	8,664	10,031
Others	10,545	2,202	1,633	3,136	3,993
<b>Total ST Liabilities</b>	<b>42,638</b>	<b>44,655</b>	<b>42,605</b>	<b>41,380</b>	<b>48,517</b>
Total Long Term Debt	73,947	69,176	59,279	49,898	41,557
Other Noncurrent Liabilities	14,001	15,984	16,478	20,498	22,366
Minority	50,385	48,886	47,933	44,544	46,210
<b>Equity</b>	<b>156,271</b>	<b>161,340</b>	<b>161,924</b>	<b>157,535</b>	<b>163,866</b>
<b>Total Liabilities and Equity</b>	<b>337,243</b>	<b>340,041</b>	<b>328,219</b>	<b>313,855</b>	<b>322,515</b>
Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017A
Cash flow from Operations	59,950	53,895	53,777	39,689	39,477
Cash flow from Financing	(43,072)	(30,084)	(35,896)	(32,749)	(26,304)
Cash flow from Investing	(17,995)	(25,551)	(12,859)	(4,699)	4,531
Change in Cash	(1,117)	(1,740)	5,023	2,242	17,704

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

All the historical financial statements were prepared in accordance with SOCPA standards until releasing (IFRS) financial statements.

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by  $< 10\%$ .

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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