

April 29, 2019

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

**SAUDI INTERNATIONAL PETROCHEMICAL COMPANY (SIPCHEM)**  
1Q2019 First Look

**Expected Total Return**

Price as on Apr-28, 2019	SAR 21.26
Upside to Target Price	12.9%
Expected Dividend Yield	5.6%
Expected Total Return	18.5%

**Market Data**

52 Week H/L	SAR 23.50/18.48
Market Capitalization	SAR 7,795 mln
Shares Outstanding	366.7 mln
Free Float	89.0%
12-Month ADTV (000's)	828.4
Bloomberg Code	SIPCHEM AB

**1-Year Price Performance**



Source: Bloomberg

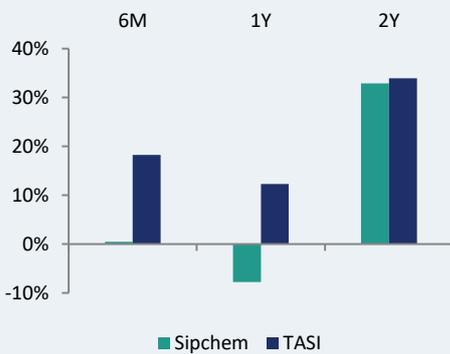


Fig in SAR mln	RC. Est	Actuals
Revenue	1,158	1,122
EBIT	278	267
Net Income	144	115
EPS (SAR)	0.39	0.31

**Merger and Financing Expenses Drive Earnings Miss**

Saudi International Petrochemical Company (Sipchem) reported its 1Q2019 results that missed our expectations. Net income was reported at SAR 115 million (EPS SAR 0.31) as compared to our forecast of SAR 144 million and street's estimate of SAR 117 million. Margins recovered to their usual levels after significantly contracting last quarter on account of the two month shutdown in their methanol plant. Revenues came in at SAR 1.12 billion (-4% Y/Y and +7% Q/Q), in line with our estimate of SAR 1.16 billion. The Company blamed the yearly earnings decrease on higher financing costs and merger expenses, in addition to lower selling prices. After getting all the necessary regulatory approval to merge with Sahara, the two companies will be holding an extra-ordinary meeting on the 16th of May to vote on the matter. Trading at a 2019E P/E of 13.1x, below TASI's forward PE of 17.1x, we reaffirm our target price at SAR 24.00 and maintain our Buy rating.

**Revenues inline**

Sipchem posted revenues of SAR 1.12 billion (-4% Y/Y and +7% Q/Q), inline with our forecast of SAR 1.16 billion. Topline was hit by weak Methanol prices during the quarter although this was partially offset by higher sales volume as the company's methanol production capacity has increased (from 0.97 million MT/Yr to 1.3 million MT/Yr). Methanol prices declined -23% Q/Q and -21% Y/Y.

**Margins rebound**

Gross profit fell -2% Y/Y but rose +98% Q/Q to settle at SAR 405 million. Gross margins recovered to 36% from 35% last year and 19% in the preceding quarter. Operating profit declined by -6% Y/Y but jumped +261% Q/Q to reach SAR 267 million. Consequently, operating margins remained flat at 24% compared to last year but expanded from 7% last quarter. Net income decreased to SAR 115 million (-24% Y/Y, +188% Q/Q) while net margins shrank to 10% from 13% last year but expanded from 4% last quarter.

**Maintain Buy**

Methanol prices have marginally increased after bottoming out at the beginning of the quarter and thus the full potential of the increased methanol production capacity was fully realized. We expect to see unprecedented revenues and earnings as soon as methanol prices recover to last year's levels. Having said that, all attention is now directed towards the upcoming extraordinary meeting on May 16<sup>th</sup> to vote on the proposed merger with Sahara, which will be a key catalyst for the stock. In the last earnings call, management reaffirmed their interest in investing in the U.S, but will primarily focus in the growth opportunities that arise after the Sahara merger. The stock is currently trading at a 2019E P/E of 13.1x which is below TASI's forward PE of 17.1x. We maintain our Buy rating and target price of SAR 24.00.

**Key Financial Figures**

FY Dec31 (SAR mln)	2018	2019E	2020E
Revenue	5,036	5,539	5,761
EBIT	1,096	1,190	1,239
Net Profit	583	598	622
EPS (SAR)	1.59	1.63	1.70
DPS (SAR)	1.15	1.20	1.25

**Key Financial Ratios**

FY Dec31	2018	2019E	2020E
ROAA	3.5%	3.4%	3.5%
ROAE	9.8%	9.7%	9.7%
P/E	13.5x	13.1x	12.6x
P/B	1.3x	1.3x	1.2x
EV/EBITDA	7.1x	6.6x	6.2x

## 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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