

What do we think?

Stock	Rating	Price Target	Upside
YANSAB	Neutral	SAR 35.0	-9.80%
SABIC AN	Neutral	SAR 131.0	0.50%
SABIC	Neutral	SAR 81.0	1.60%
Sipchem	Neutral	SAR 32.0	-1.10%

Saudi Petchem Sector

Headwinds intensify, but downside limited

The petrochemical companies in KSA were already navigating through a double whammy scenario of oversupply and a subdued global demand all throughout 2023. In addition to this, the recent notification on the upward revision in energy prices from Aramco, starting from 1st Jan 2024 further added to the woes of the sector. Delving deeper into the changes in the feedstock prices announced by Aramco, the following changes appear to have taken effect-

1. An upward revision of Methane prices from \$1.25/mmbtu to \$1.75/mmbtu implying an increase of \$0.5/mmbtu (the first since the similar revision in 2016).
2. An upward revision of Ethane prices from \$1.75/mmbtu to \$2.50/mmbtu implying an increase of \$0.75/mmbtu (the first since the similar revision in 2016).
3. A hike in diesel prices from SAR0.75/ltr to SAR1.15/ltr, implying an increase of 53% (the third since 2016).

In their respective notifications on Tadawul, the companies indicated the intensity of the estimated rise in their annual cost of sales with the impact being 2.8% for Yansab, 3.18% for Sipchem, 3.8% for SABIC Agri and 1.7% for SABIC. In our view, although the cost of sales for companies under our coverage (except APPC) is expected to inch up between 2-4% as an effect of the rise in feedstock costs, yet this would impact the already subdued margins thereby materially weighing on the profitability metrics.

Possibility of another hike as early as 2025- In line with the Kingdom's reforms for reducing subsidies on feedstock prices, we cautiously build in another hike in methane and ethane prices for 2025, in a proportion similar to the current revision (\$0.5/mmbtu for Methane and \$0.75/mmbtu for Ethane). However, improvement in product prices is expected to offset the dampening impact on earnings for 2025.

In conclusion, key polymer prices have shown mixed trends with no major recovery in early 2024. Hence, gross margins will continue to be depressed in the current financial year, albeit expected growth on an absolute basis. Additionally, the Global manufacturing PMI (49.0) for December'23 suggests that demand recovery is yet not visible. Although China's industrial data signalled a y-o-y improvement, it was more to do with the low base in Dec'22.

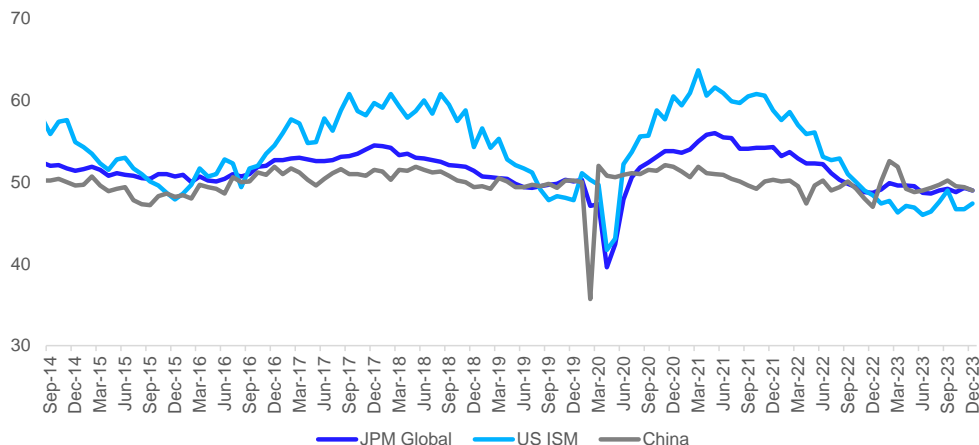
Nevertheless, we believe the negative news with respect to the energy price revision has been priced in by the market to some extent given the recent correction in prices limiting the scope for downside at the current levels. However, we reiterate our stance of being cautiously optimistic on price recovery in the near term owing to the weak demand outlook. Hence, we continue to remain 'Neutral' on the sector and revise the TPs for our coverage set of companies.

Figure 1 Product prices put up a mixed show

	2019	2020	2021	2022	2023	5Y Avg. price	Current spot price	2024E
Average oil prices								
Brent (US\$/bbl)	64	43	71	99	82	72	80	81
WTI (US\$/bbl)	57	39	68	94	78	67	75	77
Feedstock prices (US\$/t)								
Naphtha	525	382	648	789	654	600	672	650
Propane	435	398	620	747	575	555	620	564
Butane	441	405	606	740	525	544	630	515
Product prices (US\$/t)								
HDPE	991	886	1,178	1,182	1,032	1,054	1,010	1,040
LDPE	997	1,006	1,523	1,438	1,051	1,203	1,060	1,103
PP	1,082	956	1,296	1,175	998	1,102	980	1,010
Polycarbonates	2,047	1,931	3,417	2,391	1,822	2,322	1,765	1,913
MEG	689	557	813	683	570	662	564	580
Methanol	323	276	409	400	342	350	348	345
Urea	244	227	479	606	350	381	330	340
Spreads (US\$/t)								
LDPE-Naphtha	472	624	875	649	397	603	388	453
PP-Propane	648	558	677	428	423	547	360	446

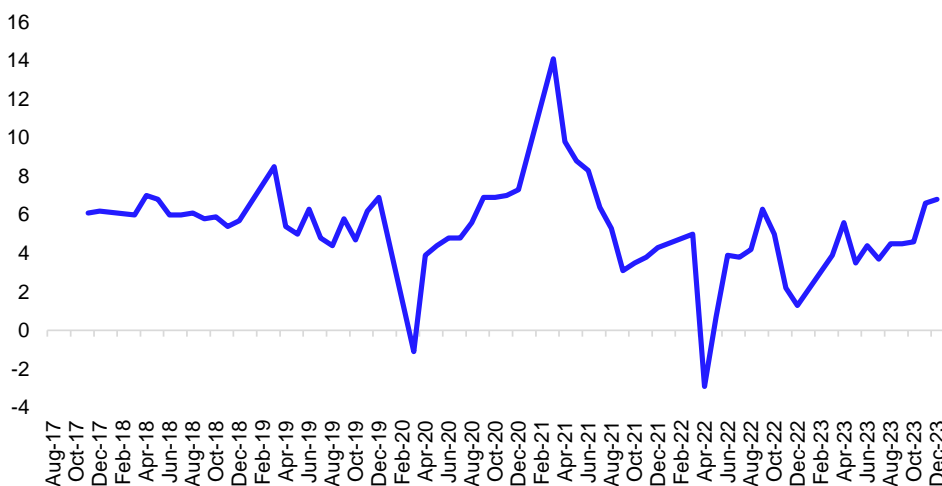
Source: Bloomberg, Al Rajhi Capital, Prices as of 25th January 2024

Figure 2 Manufacturing PMI



Source: Bloomberg, Al Rajhi Capital

Figure 3 China Monthly IIP (%)



Source: Bloomberg, Al Rajhi Capital

Valuation Changes-

Post updating our latest commodity price deck and factoring in the revision in key feedstock prices, we have revised our estimates for the petchem companies under our coverage as shown below. Our valuation methodology is a blended average of DCF and Dividend Yield (with different weights across companies).

Figure 4 Revised Estimates and Target Prices

Companies	2024E EPS (SAR)	2025E EPS (SAR)	ARC Estimated impact on COGS	2024E DPS (SAR)	2023E Div. Yield	Old rating	New rating	Old TP (SAR)	New TP (SAR)	Upside / CMP* (downside)
Yansab	0.2	0.8	3.2%	1.6	4.1%	Neutral	Neutral	40.0	35.0	38.8 -9.8%
SABIC Agri-Nutrients	8.1	8.7	3.3%	7.3	5.6%	Neutral	Neutral	134.0	131.0	130.4 0.5%
SABIC	1.0	2.0	1.5%	1.1	1.4%	Neutral	Neutral	80.0	81.0	79.7 1.6%
Sipchem	1.8	2.1	3.5%	1.6	5.0%	Overweight	Neutral	36.0	32.0	32.4 -1.1%

Source: Bloomberg, Al Rajhi Capital; *As of 29th January 2024.

Key upside risks include stronger-than-expected recovery in China driven by stability in oil prices, faster-than-expected improvement in product prices, significant improvement in demand dynamics and delay in hike in feedstock prices as expected for 2025. Key downside risks include unexpected plant shutdowns and volatility in oil prices, higher than expected feedstock price revision in 2025.

Financials

Figure 5 Yansab Income Statement

(SAR mn)	2024E	2025E	2026E
Revenue	6,097	6,566	6,965
Cost of revenues	(5,539)	(5,582)	(5,615)
Gross profit	558	984	1,349
Selling & General Administrative expenses	(488)	(525)	(488)
Other operating income	61	66	70
Operating profit	131	524	932
Interest income	52	38	25
Interest expense	(43)	(34)	(33)
Profit before zakat and income tax	140	528	924
Zakat and income tax	(20)	(74)	(129)
Profit for the period after minority interest	121	454	795

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 7 Yansab Balance Sheet

(SARmn)	2024E	2025E	2026E
Assets			
Cash & cash equivalents	2,550	2,533	2,865
Receivables	1,425	1,700	1,705
Inventories	566	637	719
Prepayments and other receivables	617	665	665
Total current assets	5,158	5,536	5,954
Property plant and equipment	7,993	7,040	6,090
Intangibles	9	8	6
Other non-current assets	428	464	496
Total non-current assets	8,581	7,662	6,742
Total assets	13,739	13,198	12,697
Liabilities			
Accounts payables	471	531	599
Other current liabilities	1,348	1,431	1,431
Total current liabilities	1,820	1,962	2,030
Lease Liabilities	144	144	144
Provisions and other non-current liabilities	822	810	796
Total non-current liabilities	966	953	940
Shareholders' equity			
Paid-up capital	5,625	5,625	5,625
Reserves	1,688	1,688	1,688
Actuarial reserve	267	267	267
Retained earnings	3,374	2,703	2,147
Total equity	10,954	10,283	9,726
Total liabilities	13,739	13,198	12,697

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 6 Yansab Cash Flow Statement

(SAR mn)	2024E	2025E	2026E
Operating activities	1,080	1,371	1,962
Investing activities	(244)	(263)	(279)
Financing activities	(900)	(1,125)	(1,351)
Change in cash	(63)	(17)	332
Cash and Cash equivalents, end of the period	374	357	689

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 8 Yansab Key Ratios

KPIs	2024E	2025E	2026E
Gross margin	9.1%	15.0%	19.4%
EBITDA margin	21.9%	26.5%	31.0%
Operating margin	2.1%	8.0%	13.4%
Net margin	2.0%	6.9%	11.4%
ROA (%)	0.9%	3.4%	6.3%
ROE (%)	1.1%	4.4%	8.2%
D/E (x)	0.0x	0.0x	0.0x

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 9 SABIC Agri Income Statement

(SARmn)	2024E	2025E	2026E
Revenue	10,188	10,792	11,367
Cost of revenues	(5,381)	(5,687)	(5,777)
Gross profit	4,807	5,105	5,589
Selling & General Administrative expenses	(815)	(863)	(909)
Other expenses	(63)	(67)	(70)
Operating Profit	3,929	4,175	4,610
Interest expense	(67)	(59)	(63)
Equity income	175	186	195
Other income	391	449	482
Profit before zakat and income tax	4,428	4,751	5,225
Zakat and income tax	(266)	(285)	(313)
Profit for the period after minority interest	3,866	4,152	4,580

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 11 SABIC Agri Balance Sheet

(SARmn)	2024E	2025E	2026E
Assets			
Cash & Cash Equivalents	10,217	11,304	12,254
Inventories	952	886	922
Receivables	2,121	2,150	2,270
Other current assets	4,363	4,363	4,363
Total Current Assets	17,653	18,703	19,809
Property plant and equipment	7,919	7,700	7,510
Intangibles	80	80	80
Investment	1,265	1,265	1,265
Other non-current assets	585	585	585
Total non-current assets	9,850	9,631	9,440
Total assets	27,503	28,334	29,249
Liabilities			
Accounts payables	829	878	925
Other current liabilities	873	857	864
Total current liabilities	1,702	1,735	1,789
Long term debt	-	-	-
Provisions and other non-current liabilities	3,763	3,832	3,905
Total non-current liabilities	3,763	3,832	3,905
Shareholders' equity			
Paid-up capital	4,760	4,760	4,760
Reserves	1,933	1,933	1,933
Share premium	3,998	3,998	3,998
Retained earnings	9,780	10,195	10,653
Minority interest	1,566	1,879	2,210
Total equity	22,037	22,766	23,555
Total liabilities	27,503	28,334	29,249

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 10 SABIC Agri Cash Flow Statement

(SARmn)	2024E	2025E	2026E
Operating activities	6,091	5,525	5,811
Investing activities	(662)	(701)	(739)
Financing activities	(3,480)	(3,737)	(4,122)
Change in cash	1,949	1,086	950
Cash and cash equivalents, end of the period	10,217	11,304	12,254

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 12 SABIC Agri Key Ratios

	2024E	2025E	2026E
Gross margin	47.2%	47.3%	49.2%
EBITDA margin	47.5%	47.2%	48.7%
Operating margin	38.6%	38.7%	40.6%
Net margin	37.9%	38.5%	40.3%
ROA (%)	14.1%	14.7%	15.7%
ROE (%)	17.5%	18.2%	19.4%
D/E (x)	0.0x	0.0x	0.0x

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 13 SABIC Income Statement

(SARmn)	2024E	2025E	2026E
Revenue	147,789	156,220	163,820
Cost of revenues	(126,916)	(128,036)	(128,596)
Gross profit	20,873	28,184	35,224
Selling & General Administrative expenses	(16,257)	(17,184)	(18,020)
Other expenses	(1,841)	(1,946)	(2,041)
Share of results of integral JVs	1,357	1,470	1,546
Operating Profit	4,132	10,523	16,709
Interest expense	(1,975)	(1,646)	(1,316)
Other income	2,757	1,751	1,263
Profit before zakat and income tax	4,914	10,629	16,656
Zakat and income tax	(491)	(1,063)	(1,666)
Profit for the period after minority interest	3,061	6,099	9,485

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 14 SABIC Cash Flow Statement

(SARmn)	2024E	2025E	2026E
Operating activities	9,389	24,905	32,969
Investing activities	(7,389)	(7,811)	(8,191)
Financing activities	(7,268)	(7,766)	(12,128)
Change in cash	(5,269)	9,328	12,649
Cash and cash equivalents, end of the period	27,665	36,993	49,643

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 15 SABIC Balance Sheet

(SARmn)	2024E	2025E	2026E
Assets			
Cash & Cash equivalents (incl. investments)	38,140	47,468	60,117
Receivables	17,815	18,831	20,314
Inventories	21,018	22,217	20,314
Prepayments and other receivables	21,022	21,022	21,022
Total current assets	97,994	109,538	121,767
Property plant and equipment	111,563	103,408	95,474
Investments	42,264	42,264	42,264
Other non-current assets	30,746	30,746	30,746
Total non-current assets	184,574	176,419	168,484
Total assets	282,568	285,957	290,251
Liabilities			
Short term debt	8,827	8,827	8,827
Accounts payables	16,783	17,740	18,604
Total current liabilities	36,679	38,268	39,700
Long term debt	24,083	24,083	24,083
Lease Liabilities	24,178	24,178	24,178
Total non-current liabilities	48,262	48,262	48,262
Shareholders' equity			
Paid-up capital	30,000	30,000	30,000
Reserves	109,253	109,253	109,253
Retained earnings	29,500	31,300	34,162
Minority interest	28,874	28,874	28,874
Total equity	197,627	199,427	202,289
Total liabilities	282,568	285,957	290,251

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 16 SABIC Key Ratios

(SARmn)	2024E	2025E	2026E
Gross margin	14.1%	18.0%	21.5%
EBITDA Margin	13.5%	17.0%	20.0%
Operating margin	2.8%	6.7%	10.2%
Net margin	3.0%	6.1%	9.2%
ROA (%)	1.1%	2.1%	3.3%
ROE (%)	1.5%	3.1%	4.7%
D/E (x)	0.2x	0.2x	0.2x

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 17 Sipchem Income Statement

(SARmn)	2024E	2025E	2026E
Revenue	8,111	8,792	9,133
Cost of revenues	(5,896)	(6,255)	(6,398)
Gross profit	2,216	2,537	2,735
Selling & General Administrative expenses	(767)	(832)	(864)
Operating profit	1,448	1,705	1,870
Interest expense	(198)	(183)	(152)
Other income	315	350	353
Profit before zakat and income tax	1,565	1,872	2,071
Zakat and income tax	(104)	(125)	(138)
Profit for the period after minority interest	1,461	1,747	1,933

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 19 Sipchem Balance Sheet

(SARmn)	2024E	2025E	2026E
Assets			
Cash & cash equivalents	1,569	1,425	1,384
Receivables	1,675	1,788	1,845
Inventories	1,277	1,384	1,438
Total current assets	4,520	4,598	4,667
Property plant and equipment	11,774	11,828	11,913
Intangibles	554	554	554
Investment in joint venture	4,236	4,523	4,823
Other non-current assets	1,464	1,464	1,464
Total non-current assets	18,028	18,370	18,754
Total assets	22,548	22,967	23,421
Liabilities			
Accounts payables	235	254	264
Short term debt	532	532	532
Other current liabilities	1,816	1,816	1,816
Total current liabilities	2,583	2,603	2,613
Long term debt	2,365	2,365	2,365
Provisions and other non-current liabilities	1,097	1,158	1,225
Total non-current liabilities	3,462	3,524	3,591
Shareholders' equity			
Paid-up capital	7,333	7,333	7,333
Reserves	1,533	1,533	1,533
Share premium	4,041	4,041	4,041
Retained earnings	2,509	2,666	2,839
Total equity	16,511	16,849	17,226
Total liabilities	22,557	22,976	23,429

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 18 Sipchem Cash Flow Statement

(SARmn)	2024E	2025E	2026E
Operating activities	1,966	2,207	2,493
Investing activities	(868)	(941)	(977)
Financing activities	(1,178)	(1,409)	(1,557)
Change in cash	(79)	(143)	(41)
Cash and cash equivalents, end of the period	1,236	1,093	1,051

Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 20 Sipchem Key Ratios

KPIs	2024E	2025E	2026E
Gross margin	27.3%	28.9%	29.9%
EBITDA margin	28.8%	29.5%	30.3%
Operating margin	17.9%	19.4%	20.5%
Net margin	16.1%	17.8%	18.9%
ROA (%)	5.8%	6.8%	7.4%
ROE (%)	7.9%	9.3%	10.0%
D/E (x)	0.2x	0.2x	0.2x

Source: Company Data, Al Rajhi Capital; ARC estimates

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Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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