



Key themes

Further drop in end product prices may be unlikely despite increase in supply. We believe valuation multiples are not expensive though a recovery in product prices may not be imminent.

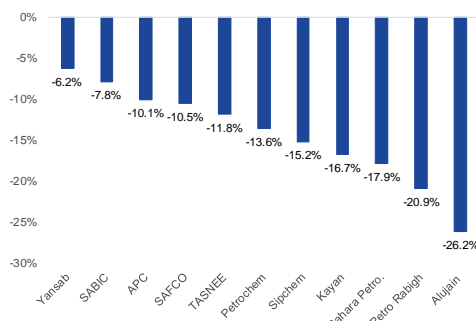
Stocks with resilient dividend payments are relatively better picks in the near term.

Upward revision in feedstock prices is the key risk.

What do we think?

Stock	Rating	Price Target
SABIC	N	SAR115
Yansab	N	SAR64
SAFCO	N	SAR78
APC	N	SAR57
Sipchem	OW	SAR24

Impact of feedstock price increase on 2018 profits (scenario 1)*



*Refer to page 2 for basis of calculation

Saudi Petchem Sector

Feedstock pricing scenarios and sector views

The two prevailing views on the sector: One view on the sector is that while global petchem supply is likely to increase (esp. from the US), there is weakness in demand because of downward revisions in global GDP especially in China due to concerns on trade tariffs. Saudi P/E multiples are at the higher end of the historical range as well as above global peers. Earnings have come below expectations for most Saudi petrochemical firms in 1Q 2019 and there are concerns of feedstock price increase (Figure 1&2).

The other view is more optimistic. End product prices have already declined significantly, up to as much as 30% for certain products and have stabilized currently. For a cyclical sector, these are early indicators of a recovery. Margins of the marginal cost producers have dropped to historical lows and could push up prices. This is because irrespective of supply and demand, the marginal cost producer would need to generate profits. But most importantly, oil prices set the cost base for the industry and Brent has increased ~15% in the last 6 months which could transmit to product price.

Where do we stand? While there are merits in either view, we believe that multiples are bound to be higher in the down cycle and hence multiples are not our concern. Moreover, while P/E multiples are at the higher end, excluding SAFCO and SABIC, the average level is still not expensive. While GDP growth estimates are revised lower, they are only marginally down and the base of demand is high to accommodate a lower GDP growth. Our interactions with company managements and recent price trends lead us to believe that we are past the bottom. At the same time, we believe that a rally may be unlikely in the near term given the oversupply concerns. For product prices to pick up, a sustained increase in oil prices is important. Being at the low end of the cost curve Saudi petchem firms are price takers and with eventual increase in product prices, emphasis on dividend yields would be one of the better strategies.

Scenario analysis of feedstock pricing: One of the key concerns for investors in Saudi is the expected increase in prices of feedstock. While the exact level of increase is not clear we have presented 3 sets of scenarios and the associated impact. We believe that the Govt. may consider an increase in feedstock prices only post recovery in product prices. Though the median impact can be as high as ~14% of 2018 net profit as per scenario 1, a mid-single digit increase in product prices can nullify most of the effect. Hence the real effect depends on a mix of factors towards the time of revision. We do not expect a price increase in the near term and expect that the Govt. would only do a moderate price increase

Revision in TP and top picks: In the current context, more resilient picks would be the ones that have already seen a significant decline in product prices and those stocks which at current level of prices have a dividend yield of 5-6%. For example, post drop in MEG price, though Yansab's fair value is lower, its ability to pay healthy dividends gives support to the stock. APC benefits from its exposure to PP, one of the least impacted products. Our other favourite pick continues to be Sipchem while we note Petrochem as a structurally well positioned idea. We are less optimistic on Kayan and Tasnee. Key risk remains increase in feedstock prices.



Scenario Analysis

We have analysed the possible impact on the Saudi petrochem companies' profitability in case of any change. Figure 2 indicates that APC, Yansab and SABIC are likely to be the least affected based on our scenario analysis.

Figure 1 Scenario base

Scenarios	Old	Current	Scenario 1	Scenario 2	Scenario 3
Naphtha / Propane / Butane Conversion	28%	20%	15%	13%	10%
Ethane (\$/MMBtu)	0.75	1.75	2.25	2.50	2.75
Methane / NG (\$/MMBtu)	0.75	1.25	1.75	2.00	2.25

Source: Company data, Al Rajhi Capital

Figure 2 Financial impact under different scenarios

Ticker	2018 Profits (SAR 'mn)	2018 Profits (SAR 'mn)	% increase / decrease in 2018 reported profits / losses*		
	Actual	Projected	Scenario 1	Scenario 2	Scenario 3
APC	717	645	-10.1%	-15.1%	-20.2%
Alujain	105	77	-26.2%	-39.2%	-52.3%
TASNEE	1,202	1,060	-11.8%	-17.7%	-23.7%
Petrochem	1,165	1,007	-13.6%	-20.6%	-27.7%
Petro Rabigh	669	529	-20.9%	-31.3%	-41.7%
Sahara Petro.	501	411	-17.9%	-26.8%	-35.7%
SAFCO	1,738	1,556	-10.5%	-15.7%	-21.0%
SABIC	21,520	19,832	-7.8%	-11.8%	-15.7%
Sipchem	583	494	-15.2%	-21.6%	-28.0%
Kayan	1,702	1,417	-16.7%	-25.1%	-33.5%
Yansab	2,414	2,264	-6.2%	-9.3%	-12.5%

Source: Company data, Al Rajhi Capital

Basis for calculation: In arriving at profits (Figure 2), we have assumed 100% utilization rate for all the companies to calculate revenues and have used 2018 as the base year.

We multiply the amount of feedstock used with the effective increase in price of feedstock to arrive at the total impact.

The product and feedstock prices remain the same across all the scenarios for proper comparison.

In the case of multiple subsidiaries with different ownership stakes, feedstock costs are assumed on a pro-rata basis based on the company's stake in each project to eliminate minority effect.

For our scenarios, we have also not considered any grace periods provided by Saudi Aramco to some companies in moving to newer feedstock pricing (Petrochem, SIIG and SIPCHEM's IPC plant). In the above analysis, we have used 2018 actual net profit for all the petchem companies.

The timing of the increase is uncertain but we believe that the Govt. would delay the increase till an increase in product price partially offsets the negative impact, for the comfort of the private sector.



Summary of 1Q earnings

Lower product prices amid weak demand dragged the cumulative earnings of Saudi petchem universe by ~40% y-o-y, with SABIC accounting for ~62% of decline. Weak oil prices in Q1 on account of concerns over slowing global economic growth weighed on petchem products prices with polymer prices dropping in the range of 10-20% y-o-y. Further, intermediate products like MEG and VAM saw sharp correction, plunging 15-30% y-o-y in Q1. However, lower prices were partly offset by decline in feedstock prices (-14% y-o-y for Propane; 11% for Naphtha and -8% for Butane). Among our covered petchem names, most companies (except APCC and SAFCO) had saw a decline in profitability, pushed down by lower top-line.

Market heavyweight SABIC reported 38% y-o-y decline in earnings (slightly above our estimates), largely due to lower top-line, while Yansab's bottom-line too dropped 38% y-o-y (missed our expectation), primarily due to lower than expected utilization (seasonally weak quarter) and higher-than-expected COGS (could be on account of inventory losses or one off costs). In addition, Tasnee and Sipchem also witnessed ~56% and 24% declines, respectively in Q1 earnings, largely on account of lower product spreads. On the other hand, APCC and SAFCO's earnings jumped 66% y-o-y and 41% y-o-y, respectively, improved production efficiencies, despite shutdown at their respective plants.

Figure 3 Q1 2019 earnings summary

	Revenue (SAR mn)						Net profit (SAR mn)					
	Q1 2018	Q4 2018	Q1 2019	Q1 2019E*	Y-o-Y	Q-o-Q	Q1 2018	Q4 2018	Q1 2019	Q1 2019E*	Y-o-Y	Q-o-Q
Covered												
APC	504	750	648	570	28.6%	-13.6%	98	164	162	160	66.1%	-1.1%
TASNEE	2,820	2,727	2,572	2,619	-8.8%	-5.7%	361	186	160	206	-55.9%	-14.1%
SAFCO	811	1,090	719	705	-11.3%	-34.0%	237	569	335	207	41.4%	-41.1%
SABIC	41,860	40,130	37,370	37,168	-10.7%	-6.9%	5,510	3,240	3,410	3,212	-38.1%	5.2%
Sipchem	1,171	1,053	1,122	1,084	-4.2%	6.6%	151	40	115	85	-23.8%	188.2%
Yansab	1,787	1,619	1,522	1,635	-14.8%	-6.0%	631	234	391	500	-38.0%	67.1%
Not-covered												
Alujain	5	7	7	-	-	-	62	(49)	(49)	-	-	-
Chemanol	157	162	155	NA	-1.5%	-4.1%	(10)	2	(0)	NA	NM	NM
Petrochem	2,211	2,183	2,020	1,973	-8.6%	-7.5%	334	236	187	220	-43.9%	-20.7%
Petro Rabigh	9,856	8,358	8,428	NA	-14.5%	0.8%	296	(106)	257	NA	-13.3%	NM
Sahara Petro.	-	210	365	NA	NM	73.9%	140	(29)	143	NA	1.7%	NM
SIIG	2,211	2,183	2,020	NA	-8.6%	-7.5%	199	26	178	181	-10.5%	593.4%
Kayan	2,727	2,636	2,544	2,446	-6.7%	-3.5%	463	(111)	(197)	208	NM	NM

Source: Company data, Al Rajhi Capital. * ARC estimates for covered companies and consensus estimates for non-covered companies

Revision to estimates

Post Q1 earnings and updating the last price deck, we revise our forward looking estimates for our petchem coverage, thereby leading to revision in our rating and target price downwards.

Figure 4 Changes in estimates and TP

Companies	2018A earnings (SARmn)	Old 2019E earnings (SARmn)	New 2019E earnings (SARmn)	Change (%)	Old rating	New rating	Old TP (SAR)	New TP (SAR)
SABIC	21,543	19,100	16,126	-16%	Neutral	Neutral	132.0	115.0
Sipchem*	583	678	553	-18%	Overweight	Overweight	24.0	24.0
SAFCO	1,738	1,607	1,679	4%	Neutral	Neutral	82.0	78.0
NIC	1,202	1,017	717	-30%	UR	UR	NA	NA**
Yansab	2,414	2,692	2,085	-23%	Neutral	Neutral	70.0	64.0
APCC	717	747	760	2%	Neutral	Neutral	57.0	57.0

Source: Company data, Al Rajhi Capital



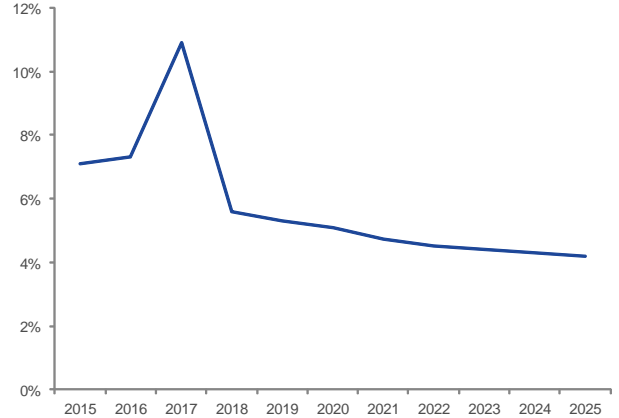
Key concerns

Figure 5 Downward revision in global GDP is negative for Petchem sector



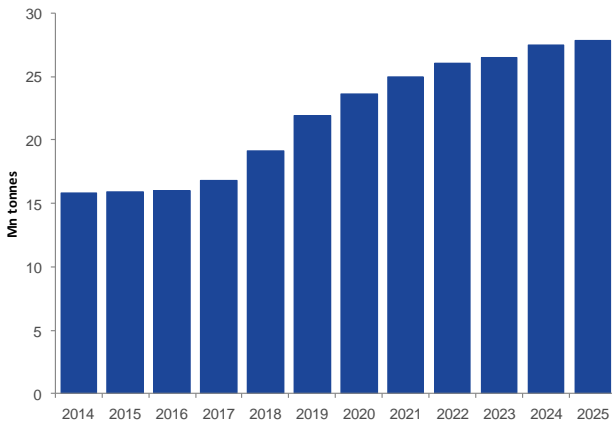
Source: IMF, Bloomberg, Al Rajhi Capital

Figure 6 PE demand in China is weakening



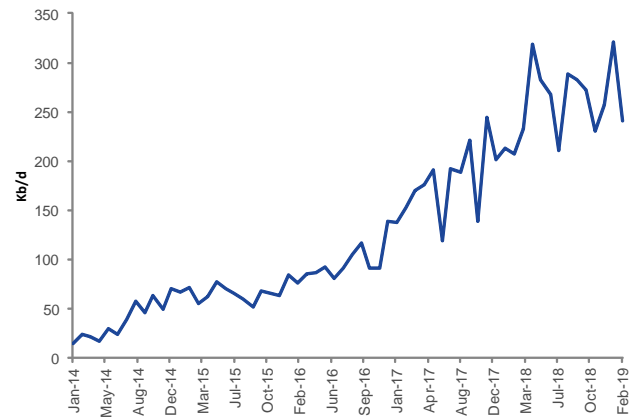
Source: ICIS, Al Rajhi Capital

Figure 7 US PE capacity is continued to increase ...



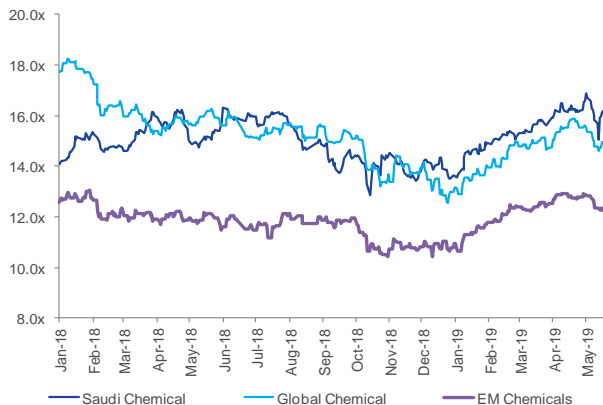
Source: ICIS, Al Rajhi Capital

Figure 8 ... because of Ethane supply



Source: EIA, Al Rajhi Capital

Figure 9 Saudi chemicals look expensive purely on 1Y fwd PE perspective



Source: ICIS, Al Rajhi Capital

Figure 10 Spot prices declined by double digit % from 2018 levels

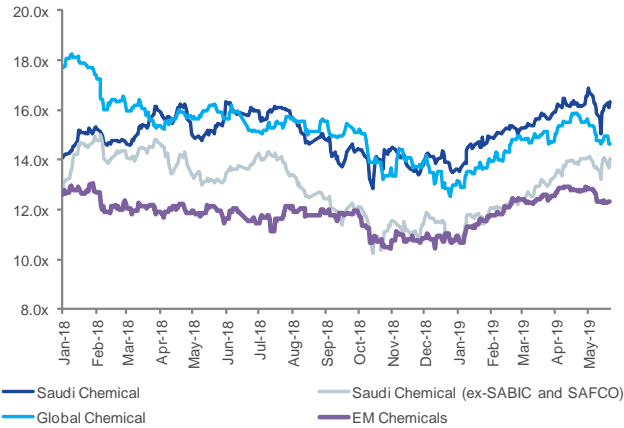
	2015	2016	2017	2018	2019 YTD	Spot price
Average oil prices						
Brent (US\$/bbl)	54	45	55	72	68	72
WTI (US\$/bbl)	49	43	51	65	59	63
Feedstock prices (US\$/t)						
Naphtha	491	399	496	616	550	569
Propane	415	323	464	539	488	525
Butane	435	355	497	536	503	530
Product prices (US\$/t)						
HDPE	1,238	1,144	1,180	1,302	1,089	1,090
PP	1,130	1,003	1,123	1,258	1,151	1,180
Methanol	295	249	340	409	320	325
Polycarbonates	2,361	2,328	2,736	3,293	2,223	2,150
MEG	938	796	1,028	1,103	796	775
VAM	938	808	967	1,258	1,003	980
TiO2	2,406	2,158	2,653	3,066	2,759	2,725

Source: EIA, Al Rajhi Capital



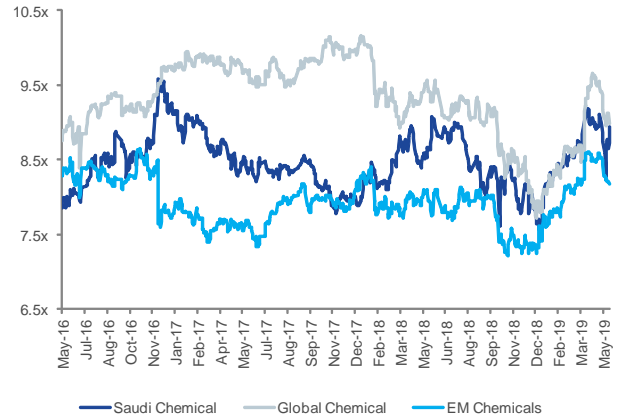
Positives

Figure 11 1Y Fwd PE Multiples do not look expensive post exclusion of SABIC and SAFCO



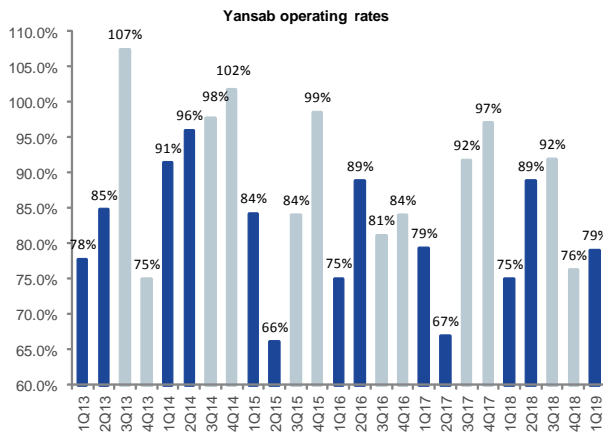
Source: Bloomberg, Al Rajhi Capital

Figure 12 Saudi chemicals do not look overvalued when we look at 1Y Fwd EV/ EBITDA Multiples



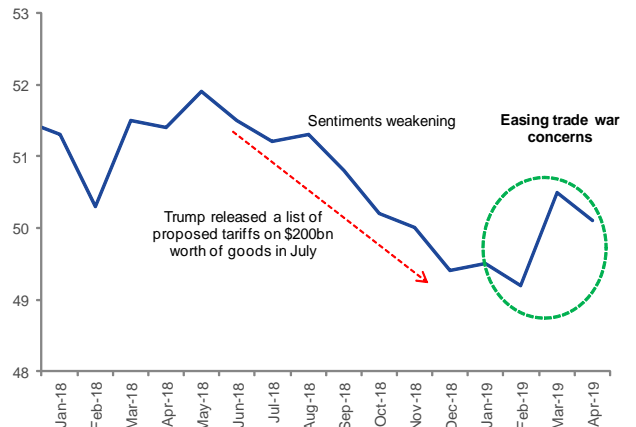
Source: Bloomberg, Al Rajhi Capital

Figure 13 1Q is seasonally weak and rates could pick up



Source: Company data, Al Rajhi Capital. Based on our calculations and hence may differ from company calculations

Figure 14 Chinese PMI data may be better than expected



Source: Bloomberg, Al Rajhi Capital

Figure 15 Rising oil prices increase the cost base of the marginal cost producer



Source: Bloomberg, Al Rajhi Capital

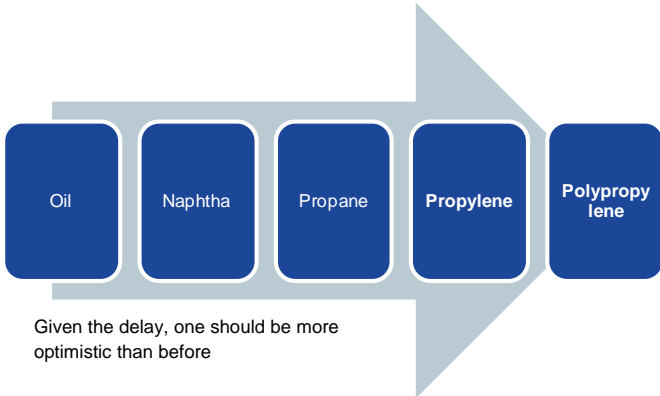
Figure 16 It takes time for the increase in costs to reflect in product

What happens when oil prices drop	Impact time frame	Emperical evidence since 2014 mid
Costs decline for everyone	Short term	Prices of NGLs declined sharply
Pricing impact depends on position in supply chain	Depends on position in supply chain. Upstream companies pass on price benefits sooner than midstream companies while downstream companies pass on benefits in the long term, if they do pass	Ethylene, which is in mid position in supply chain has dropped/ remained volatile whereas PE PP etc, have remained mostly resilient
Demand picks up	Long term	Demand from oil net import countries is likely to pick up

Source: Mckinsey Al Rajhi Capital

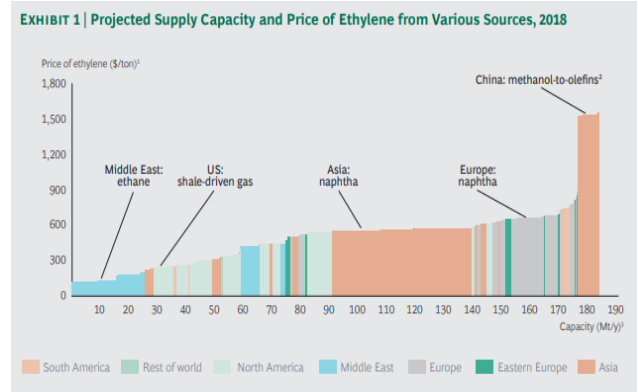


Figure 17 The farther from oil, the longer prices takes to reflect changes in oil



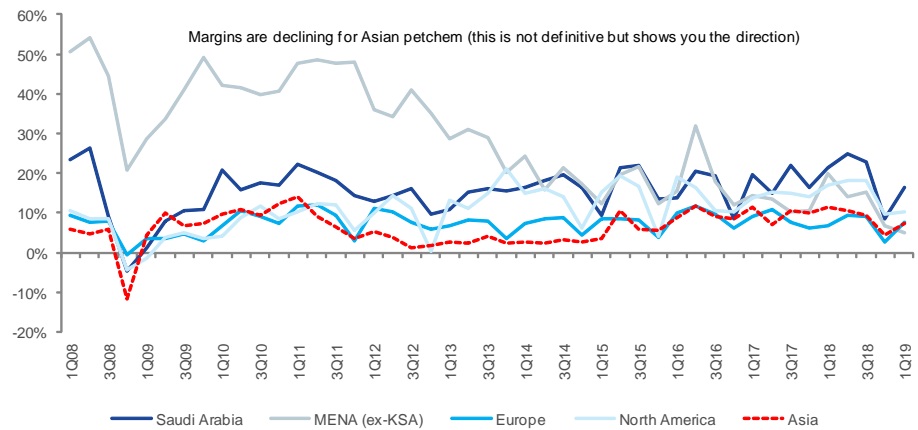
Source: Al Rajhi Capital

Figure 18 Saudi is price taker not price setter



Source: BCG, Al Rajhi Capital

Figure 19 Marginal producers are seeing declining margins



Source: Bloomberg, Al Rajhi Capital



Key financials and earnings summary

Figure 20 APCC

		1Q18	4Q18	1Q19	YoY	QoQ	1Q19E	
CMP (SAR)	54.3	Key Financials (SAR mn)						
TP (SAR)	57.0	Revenue	637	750	648	2%	-14%	647
Upside (%)	5.0	Gross Profit	153	213	194	27%	-9%	NA
		EBITDA	164	222	205	26%	-8%	182
		EBIT	115	169	152	32%	-10%	157
		Net Income	104	164	162	56%	-1%	165
Market Data		Margins (%)						
Market Cap (SAR mn)	11,316	Gross	24.0%	28.4%	29.9%	596 bps	149 bps	32.5%
Free Float (%)	85.7	EBITDA	34.0%	33.0%	33.5%	-50 bps	50 bps	0.3%
ADTV (SAR mn)	13.8	EBIT	26.0%	25.5%	26.2%	20 bps	70 bps	0.2%
52-Week High (SAR)	61.8	Net	16.3%	21.9%	25.0%	869 bps	313 bps	0.3%
52-Week Low (SAR)	44.2	TTM Valuation Multiples						
YTD Returns (%)	16.8	P/E (x)	14.3	13.9	14.0			
2019E P/E (x)	14.3	P/B (x)	2.9	3.1	3.4			
2019E P/B (x)	3.2	EV/EBITDA (x)	11.4	10.4	10.6			
2019E EV/EBITDA (x)	10.6							
Dividend Yield (%)	4.9							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Figure 21 Tasnee

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	16.3	Key Financials (SAR mn)						
TP (SAR)	UR	Revenue	2,889	2,727	2,572	-11%	-6%	2,619
Upside (%)	NA	Gross Profit	716	597	574	-20%	-4%	NA
		EBITDA	472	384	428	-9%	12%	NA
		EBIT	268	171	182	-32%	7%	NA
		Net Income	328	186	160	-51%	-14%	185
Market Data		Margins (%)						
Market Cap (SAR mn)	10,903	Gross	24.8%	21.9%	22.3%	-245 bps	42 bps	24.4%
Free Float (%)	79.6	EBITDA	12.1%	18.2%	17.8%	566 bps	-46 bps	NA
ADTV (SAR mn)	53.0	EBIT	4.3%	11.0%	9.9%	556 bps	-109 bps	NA
52-Week High (SAR)	23.8	Net	11.3%	6.8%	6.2%	-514 bps	-60 bps	0.1%
52-Week Low (SAR)	14.9	TTM Valuation Multiples						
YTD Returns (%)	7.8	P/E (x)	15.3	8.4	12.0			
2019E P/E (x)	15.2	P/B (x)	1.3	1.1	1.3			
2019E P/B (x)	0.8	EV/EBITDA (x)	21.0	12.1	13.9			
2019E EV/EBITDA (x)	5.0							
Dividend Yield (%)	NA							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Figure 22 SAFCO

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	77.7	Key Financials (SAR mn)						
TP (SAR)	78.0	Revenue	616	1,090	719	17%	-34%	824
Upside (%)	0.4	Gross Profit	149	689	378	154%	-45%	NA
		EBITDA	214	717	426	99%	-41%	459
		EBIT	51	578	296	482%	-49%	286
		Net Income	63	569	335	437%	-41%	264
Market Data		Margins (%)						
Market Cap (SAR mn)	32,083	Gross	24.1%	63.2%	52.6%	2851 bps	-1058 bps	54.3%
Free Float (%)	39.6	EBITDA	47.3%	57.4%	60.5%	1310 bps	304 bps	0.6%
ADTV (SAR mn)	21.1	EBIT	29.9%	43.9%	46.5%	1656 bps	251 bps	0.3%
52-Week High (SAR)	87.9	Net	10.1%	52.2%	46.7%	3653 bps	-548 bps	0.3%
52-Week Low (SAR)	60.0	TTM Valuation Multiples						
YTD Returns (%)	1.7	P/E (x)	30.7	18.5	18.3			
2019E P/E (x)	19.1	P/B (x)	4.0	4.1	4.1			
2019E P/B (x)	3.9	EV/EBITDA (x)	20.6	14.0	14.3			
2019E EV/EBITDA (x)	12.2							
Dividend Yield (%)	3.9							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Investment case

- APCC is one of the most consistent petrochemical players in the Saudi petchem sector, given its strong operating performance, healthy cash flows and management quality.
- PP is one of the few products that has relatively performed better than the other petrochemical products.
- Improvement in performance of the Korean subsidiary.
- Dividend is healthy, with a yield of 5.4%.

Investment risks

- Further weakness in product spread.
- Unplanned shutdown may drag the performance.

Valuation

- Our **TP of SAR57/share** is based on equal mix of relative (SAR56.7/sh. based on 14.0x 12 month forward PE) and DCF valuation (SAR58/sh. based on FCF, long term WACC/ cost of equity at 10.8%).
- Rating: **Neutral**

Investment case

- Average price of its key product has declined by ~11%, which could put pressure on the company's performance in the near-term. However, in the long term, we remain positive on the company's growth prospects, given strong plant utilization rates as well as better performance of its affiliates.
- In 2018, ~ SAR3.9bn was paid out to repay long-term liabilities / debt and this is likely to lower interest expenses as well in the coming years, boosting earnings.
- FCF yield for 2019e is at 10.8%.

Investment risks

- There are further risks of impairments across multiple subsidiaries.
- High leverage.

Valuation

- Based on the **midpoint of various scenarios**, the value could be estimated at around SAR17/share. Please refer our previous report for more details - [Tronox-Cristal update: Rally over; Risks seen](#)
- Rating: **UR**

Investment case

- The global Urea market continues to be structurally oversupplied with key product prices declining 18% q-o-q in Q1. However, prices may recover in the coming months on improvement in demand and higher oil prices.
- Urea plant utilizations are likely to remain under check in 1H 2019 due to SAFCO II (117 days) and III (43 days) plants shutdowns, reflecting sluggish top-line growth in the near-term.
- FY2019 DPS (SAR3.0/sh.) implies a healthy dividend yield of 3.9%.
- The stock trades at a PE of 19.1x on 2019E EPS, higher than the industry average, signalling limited upside potential for the stock.

Investment risks

- Lower Urea price and expensive acquisition of associates/subsidiaries.

Valuation

- Our **TP stands at SAR78/share** based on equal mix of relative (SAR83.8/sh. based on 19.0x 12 month forward EPS) and DCF valuation (SAR72.3/sh. based on FCF, cost of equity 9.5%)
- Rating: **Neutral**



Figure 23 SABIC

	1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E
CMP (SAR)	107.0					
TP (SAR)	115.0					
Upside (%)	7.5					
Market Data						
Market Cap (SAR mn)	336,600					
Free Float (%)	24.1					
ADTV (SAR mn)	309.8					
52-Week High (SAR)	131.4					
52-Week Low (SAR)	104.6					
YTD Returns (%)	(1.7)					
2019E P/E (x)	20.9					
2019E P/B (x)	1.5					
2019E EV/EBITDA (x)	8.9					
Dividend Yield (%)	3.9					
Key Financials (SAR mn)						
Revenue	40,328	40,270	37,370	-7%	-7%	38,043
Gross Profit	12,473	12,658	11,390	-9%	-10%	NA
EBITDA	9,815	10,125	10,153	3%	0%	NA
EBIT	6,574	6,538	6,153	-6%	-6%	7,494
Net Income	3,702	3,219	3,408	-8%	6%	4,044
Margins (%)						
Gross	30.9%	31.4%	30.5%	-45 bps	-95 bps	33.0%
EBITDA	29.3%	30.4%	29.7%	46 bps	-66 bps	NA
EBIT	19.4%	21.4%	20.3%	97 bps	-111 bps	0.2%
Net	9.2%	8.0%	9.1%	-6 bps	113 bps	0.1%
TTM Valuation Multiples						
P/E (x)	16.6	16.2	19.3			
P/B (x)	1.9	2.0	2.1			
EV/EBITDA (x)	7.9	7.6	8.6			

Investment case

- Key product prices are moving southward in 2019 so far, however we expect prices to stabilize/improve following a recovery in oil prices.
- SABIC has the highest weight (16.34%) in MSCI Saudi index. SABIC has received the largest inflows among the Saudi names in MSCI EM list (USD798mn) and is still expected to further inflows of ~USD1.9bn by Mar 2020. However, the stock has underperformed the index so far, in 2019 down by around 3.4% YTD as compared to the index at 10.5%, reflecting further upside potential.
- SABIC might able to secure higher feedstock post Aramco's stake purchase. Further many oil companies are trying to get into refining and petrochemicals – it can help with integration with refineries in other countries through Aramco.
- Trading at a 1Y Fwd EV/EBITDA of 8.1x, which is a discount to MSCI World Chemical index (9.0x).

Investment risks

- Delay in the commercial launch of its expansion projects.
- Weak oil prices can lead to lower product prices and thereby product spreads.
- The newer projects such as the OTC project are quite large and are unconventional, which could be a negative risk factor, if not successful.

Valuation

- We take an average of DCF based valuation (SAR117/share, WACC of 9.8%) and EV/EBITDA based valuation of SAR113/share (8x multiple, 10% discount to global peers as compared to 25% discount seen previously given the inclusion into global indices and stake sale) and arrive at a **target price of SAR115/share**.
- Rating: **Neutral**

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Figure 24 Sipchem

	1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E
CMP (SAR)	20.8					
TP (SAR)	24.0					
Upside (%)	15.4					
Market Data						
Market Cap (SAR mn)	7,627					
Free Float (%)	78.0					
ADTV (SAR mn)	12.3					
52-Week High (SAR)	23.5					
52-Week Low (SAR)	18.5					
YTD Returns (%)	7.7					
2019E P/E (x)	13.8					
2019E P/B (x)	1.1					
2019E EV/EBITDA (x)	8.1					
Dividend Yield (%)	6.3					
Key Financials (SAR mn)						
Revenue	1,279	1,053	1,122	-12%	7%	1,080
Gross Profit	426	205	405	-5%	98%	NA
EBITDA	468	332	462	-1%	39%	NA
EBIT	275	74	267	-3%	261%	278
Net Income	164	40	115	-30%	187%	116
Margins (%)						
Gross	33.3%	19.4%	36.1%	282 bps	1668 bps	36.0%
EBITDA	36.9%	38.5%	38.0%	115 bps	-45 bps	NA
EBIT	21.0%	21.8%	21.7%	69 bps	-11 bps	0.3%
Net	12.9%	3.8%	10.2%	-263 bps	644 bps	0.1%
TTM Valuation Multiples						
P/E (x)	14.7	12.6	13.5			
P/B (x)	1.1	1.2	1.3			
EV/EBITDA (x)	8.1	7.4	7.7			

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Investment case

- Key product price has dropped 23% y-o-y (-20% q-o-q) in Q1 2019 but likely have bottomed-out. However, the capacity is expected to increase by 40% and is not factored in the stock price.
- Its planned merger with Sahara is also positive in our view as it would give better diversification along with operational synergies.

Investment risks

- Delay (if any) in ramp up the production at key plant post completion of enhancement project.
- Further drop in key product prices.

Valuation

- Post merger, our **TP to SAR24/share** is based on equal mix of relative (SAR22.1/sh. based on 13.0x 12 month forward PE) and DCF valuation (SAR25.9/sh. based on FCF, cost of equity 12.5%).
- Rating: **Overweight**

Figure 25 Yansab

	1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E
CMP (SAR)	61.3					
TP (SAR)	64.0					
Upside (%)	4.4					
Market Data						
Market Cap (SAR mn)	36,450					
Free Float (%)	37.1					
ADTV (SAR mn)	36.7					
52-Week High (SAR)	77.5					
52-Week Low (SAR)	58.0					
YTD Returns (%)	4.4					
2019E P/E (x)	17.5					
2019E P/B (x)	2.1					
2019E EV/EBITDA (x)	9.2					
Dividend Yield (%)	5.4					
Key Financials (SAR mn)						
Revenue	2,167	1,619	1,522	-30%	-6%	1,674
Gross Profit	897	349	472	-47%	35%	NA
EBITDA	1,063	479	651	-39%	36%	NA
EBIT	780	200	379	-51%	90%	526
Net Income	778	233	391	-50%	67%	517
Margins (%)						
Gross	41.4%	21.5%	31.0%	-1033 bps	950 bps	39.1%
EBITDA	48.5%	45.3%	43.5%	-500 bps	-173 bps	NA
EBIT	33.4%	31.0%	28.6%	-483 bps	-236 bps	0.3%
Net	35.9%	14.4%	25.7%	-1023 bps	1125 bps	0.3%
TTM Valuation Multiples						
P/E (x)	13.9	14.9	19.2			
P/B (x)	2.0	2.1	2.4			
EV/EBITDA (x)	8.9	9.5	11.9			

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Investment case

- Weak key product price (-29% y-o-y; -21% q-o-q) in Q1 2019 might keep the top-line growth under check in the near-term. However, bottom-line is likely to be supported by improvement in operating efficiencies.
- Yansab is still one of the dependable plays in the Saudi chemicals space, given its robust operational capabilities coupled with robust balance sheet, healthy FCF generation capabilities and possibility of seeing an increase in DPS.
- The completion of MEG capacity expansion project is yet to contribute to the financials and not factored in the stock price.
- The stock has included in the MSCI EM index. Yansab has seen total inflows of US\$134mn in 2019 so far with addition of US\$312mn likely to come by Mar 2020.

Investment risks

- Unplanned plants shutdown and weak product price may impact its performance.

Valuation

- Our **12m TP to SAR64/share** is based on an equal mix of DCF (63.7/sh. based on FCF, long term WACC/ cost of equity at 12.3%) and relative valuation (SAR64.3/sh. based on 14x 2019 EPS).
- Rating: **Neutral**



Figure 26 Alujain

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	21.8	Key Financials (SAR mn)						
TP (SAR)	NA	Revenue	7	7	7	0%	4%	NA
Upside (%)	NA	Gross Profit	2	1	2	-12%	11%	NA
		EBITDA	(106)	(1)	(3)	NM	NM	NA
		EBIT	(3)	(2)	(4)	NM	NM	NA
		Net Income	36	28	(49)	NM	NM	NA
Market Data		Margins (%)						
Market Cap (SAR mn)	1,511	Gross	25.4%	21.0%	22.4%	-302 bps	134 bps	NA
Free Float (%)	91.0	EBITDA	-6.0%	-49.2%	-46.6%	NM	NM	NA
ADTV (SAR mn)	14.8	EBIT	10.2%	-60.0%	-59.0%	NM	NM	NA
52-Week High (SAR)	34.4	Net	512.7%	409.5%	-702.2%	NM	NM	NA
52-Week Low (SAR)	19.0	TTM Valuation Multiples						
YTD Returns (%)	12.2	P/E (x)	13.3	10.2	12.8			
2019E P/E (x)	NA	P/B (x)	1.3	1.6	1.0			
2019E P/B (x)	NA	EV/EBITDA (x)	NA	NA	NA			
2019E EV/EBITDA (x)	NA							
Dividend Yield (%)	NA							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Figure 27 Chemanol

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	8.6	Key Financials (SAR mn)						
TP (SAR)	NA	Revenue	160	162	155	-3%	-4%	NA
Upside (%)	NA	Gross Profit	28	41	37	33%	-9%	NA
		EBITDA	28	46	41	47%	-10%	NA
		EBIT	(3)	16	11	NM	-31%	NA
		Net Income	(15)	2	(0)	NM	NM	NA
Market Data		Margins (%)						
Market Cap (SAR mn)	1,031	Gross	17.4%	25.4%	24.1%	664 bps	-136 bps	NA
Free Float (%)	89.0	EBITDA	21.0%	31.4%	33.1%	1215 bps	171 bps	NA
ADTV (SAR mn)	11.4	EBIT	3.0%	13.4%	15.0%	1205 bps	161 bps	NA
52-Week High (SAR)	13.2	Net	-9.2%	1.4%	-0.2%	NM	NM	NA
52-Week Low (SAR)	8.2	TTM Valuation Multiples						
YTD Returns (%)	(7.8)	P/E (x)	NA	24.4	21.4			
2019E P/E (x)	35.6	P/B (x)	1.1	1.0	1.1			
2019E P/B (x)	0.9	EV/EBITDA (x)	13.8	8.1	8.1			
2019E EV/EBITDA (x)	8.2							
Dividend Yield (%)	NA							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Figure 28 Petrochem

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	25.4	Key Financials (SAR mn)						
TP (SAR)	NA	Revenue	2,169	2,183	2,020	-7%	-7%	1,965
Upside (%)	NA	Gross Profit	788	447	526	-33%	18%	NA
		EBITDA	829	715	593	-28%	-17%	NA
		EBIT	605	261	376	-38%	44%	413
		Net Income	391	236	187	-52%	-21%	200
Market Data		Margins (%)						
Market Cap (SAR mn)	12,192	Gross	36.3%	20.5%	26.0%	-1031 bps	555 bps	28.6%
Free Float (%)	16.6	EBITDA	34.5%	35.0%	33.0%	-146 bps	-193 bps	NA
ADTV (SAR mn)	5.2	EBIT	22.1%	22.5%	20.4%	-173 bps	-214 bps	0.2%
52-Week High (SAR)	30.8	Net	18.0%	10.8%	9.3%	-877 bps	-154 bps	0.1%
52-Week Low (SAR)	22.4	TTM Valuation Multiples						
YTD Returns (%)	6.5	P/E (x)	10.0	10.0	12.8			
2019E P/E (x)	11.7	P/B (x)	1.3	1.5	1.6			
2019E P/B (x)	1.5	EV/EBITDA (x)	7.5	6.3	7.1			
2019E EV/EBITDA (x)	6.7							
Dividend Yield (%)	2.0							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Investment case

- Lower PP prices might pressurize the product spreads in the near-term, although it is likely to improve in the coming months, due to improvement in oil prices.
- The company's associate, NATPET, witnessed a fire incident at its complex in Oct 2018 and thereby closing of all its plants. The company expects to start all the production units again by the end of Sep 2019.
- The company is yet to publish its detailed Q1 2019 financials. This can lead to a possible fine from the regulator and/or suspension of its trading in case any further delay.

Investment risks

- Further weakness in product spread
- Significant impact from fire incident at NATPET may drag the performance.

Valuation

- The stock is trading at a 1Y Fwd PE multiple of 12.6x, higher than its historical average of 11.6x.
- Rating: Not Covered

Investment case

- The company's performance is highly sensitive to Methanol prices, which declined ~20% q-o-q in Q1 2019, compared to 20% rise in 2018.
- Lower average Methanol prices (~\$325/t currently vs. \$410/t in 2018) should keep its top-line growth under pressure in 2019, given its methanol-based derivatives product portfolio.
- Further, persistent lower operating rates (2018: ~76%, ~83% in 2017 and 85% in 2016) may continue pressurize earnings in future unless operating rates improve.

Investment risks

- Continuous weakness in Methanol prices amid lower demand could significantly impact the financial performance of the company.

Valuation

- The stock is trading at a 1Y Fwd PE multiple of 35.5x, higher than its historical average of 29.2x.
- Rating: Not Covered

Investment case

- Efficient plants with utilization rates clocking +100% consistently since Q3 2017.
- Consistently maintaining +25% operating margins since Q3 2017, except in Q4 2018, where the margin impacted due to one-off non-cash expenses pertaining to the Polystyrene unit.
- Focusing on deleveraging its balance sheet with net debt to EBITDA improving to 1.4x in 2018 from 4.1x in 2015.
- Possibility of rise in dividend payout in the coming years, due to lower leverage position.

Investment risks

- Dependent only on Saudi Polymer plant. Therefore, any unexpected shutdown could impact the company materially.
- Higher-than-expected revision in feedstock prices.

Valuation

- The stock is trading at a 1Y Fwd PE multiple of 11.5x, slightly lower than its historical average of 12.0x.
- Rating: Not Covered



Figure 29 Rabigh

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	18.3	Key Financials (SAR mn)						
TP (SAR)	NA	Revenue	9,524	8,358	8,428	-12%	1%	NA
Upside (%)	NA	Gross Profit	894	271	818	-9%	201%	NA
		EBITDA	1,241	515	1,024	-17%	99%	NA
		EBIT	623	(91)	461	NM	NM	NA
Market Data		Net Income	641	(106)	257	NM	NM	NA
Market Cap (SAR mn)	16,031	Margins (%)						
Free Float (%)	25.0	Gross	9.4%	3.2%	9.7%	31 bps	646 bps	NA
ADTV (SAR mn)	22.4	EBITDA	12.0%	8.2%	8.6%	-340 bps	37 bps	NA
52-Week High (SAR)	29.8	EBIT	4.8%	2.3%	2.6%	-228 bps	29 bps	NA
52-Week Low (SAR)	17.5	Net	6.7%	-1.3%	3.0%	NM	NM	NA
YTD Returns (%)	(4.1)	TTM Valuation Multiples						
2019E P/E (x)	15.6	P/E (x)	10.1	24.8	28.2			
2019E P/B (x)	1.4	P/B (x)	1.4	1.6	1.6			
2019E EV/EBITDA (x)	12.2	EV/EBITDA (x)	12.9	16.4	20.3			
Dividend Yield (%)	NA							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Figure 30 SIIG

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	26.1	Key Financials (SAR mn)						
TP (SAR)	NA	Revenue	2,169	2,183	2,020	-7%	-7%	2,009
Upside (%)	NA	Gross Profit	788	455	517	-34%	14%	NA
		EBITDA	774	710	581	-25%	-18%	NA
		EBIT	550	256	363	-34%	42%	NA
Market Data		Net Income	398	26	178	-55%	593%	117
Market Cap (SAR mn)	11,745	Margins (%)						
Free Float (%)	79.0	Gross	36.3%	20.8%	25.6%	-1072 bps	477 bps	26.6%
ADTV (SAR mn)	18.0	EBITDA	33.2%	34.6%	32.5%	-68 bps	-205 bps	NA
52-Week High (SAR)	30.1	EBIT	20.8%	22.2%	19.9%	-89 bps	-226 bps	NA
52-Week Low (SAR)	21.4	Net	18.3%	1.2%	8.8%	-952 bps	764 bps	0.1%
YTD Returns (%)	17.9	TTM Valuation Multiples						
2019E P/E (x)	11.4	P/E (x)	8.6	11.9	13.1			
2019E P/B (x)	1.6	P/B (x)	1.3	1.5	1.6			
2019E EV/EBITDA (x)	6.7	EV/EBITDA (x)	8.6	6.8	7.6			
Dividend Yield (%)	5.7							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Figure 31 Kayan

		1Q18	4Q18	1Q19	Y-o-Y	Q-o-Q	1Q19E	
CMP (SAR)	12.1	Key Financials (SAR mn)						
TP (SAR)	NA	Revenue	2,305	2,636	2,544	10%	-3%	2,416
Upside (%)	NA	Gross Profit	156	274	262	68%	-4%	NA
		EBITDA	562	641	676	20%	6%	NA
		EBIT	12	62	98	748%	60%	398
Market Data		Net Income	(220)	(111)	(197)	NM	NM	207
Market Cap (SAR mn)	18,120	Margins (%)						
Free Float (%)	65.0	Gross	6.8%	10.4%	10.3%	354 bps	-9 bps	22.9%
ADTV (SAR mn)	93.9	EBITDA	39.5%	40.2%	36.0%	-353 bps	-427 bps	NA
52-Week High (SAR)	18.5	EBIT	16.3%	21.7%	16.9%	55 bps	-483 bps	0.2%
52-Week Low (SAR)	11.5	Net	-9.6%	-4.2%	-7.8%	NM	NM	0.1%
YTD Returns (%)	(8.5)	TTM Valuation Multiples						
2019E P/E (x)	17.4	P/E (x)	24.1	11.6	20.2			
2019E P/B (x)	1.1	P/B (x)	1.2	1.3	1.4			
2019E EV/EBITDA (x)	8.8	EV/EBITDA (x)	9.5	7.7	9.1			
Dividend Yield (%)	NA							

Source: Company data, Al Rajhi Capital. TTM Dividend yield

Investment case

- While near-term revenue is likely to remain under pressure, due to weak product prices, the increased production capacity on the back of integration of Rabigh Phase I and II projects should drive the revenue in the medium-term.
- However, earnings might come under pressure, on account of weak refining margin and depreciation associated with Rabigh 2 plant.
- Highly leverage balance sheet with net debt of SAR39.9bn and net debt to EBITDA of 11.9x as of 2018 is expected to continue pressurize the bottom-line in future.

Investment risks

- Slower ramp up at Rabigh 2 plant and weak refining margins.

Valuation

- The stock is trading at a 1Y Fwd EV/EBITDA multiple of 14.6x, in-line with its historical average of 14.7x.
- Rating: Not Covered

Investment case

- Continues to benefit from Petrochem's (50% stake) ability to maintain its operating rates above the name-plate capacity, coupled with improving financial performance and deleveraging balance sheet.
- The company's two 50% joint ventures, JCP and SCP, further contribute to earnings and cash flow, depending on Styrene prices.
- Styrene margin profile is likely to remain positive on limited capacity addition and sector consolidation.
- Trading at a TTM dividend yield of 5.7%.

Investment risks

- Weakness in product prices, particularly Styrene prices, could impact associates income from its JVs.
- Unplanned shutdowns and lower-than-expected dividend from Petrochem could impact the cash flow.

Valuation

- Trading at a 1Y Fwd PE multiple of 11.4x, above its historical average of 9.1x.
- Rating: Not Covered

Investment case

- Weak key products prices (8-20% fall in Q1) are likely to keep Kayan's financial performance under pressure in the near-term.
- Highly leverage balance sheet with net debt of SAR20.3bn and net debt to TTM EBITDA of 2.5x as of 2018 is expected to continue pressurize the bottom-line in future.
- Kayan has included in the MSCI EM index. The company has already seen total inflows of US\$126mn in 2019 so far, implying that only 43% of the expected inflows (by Mar 2020) have already come.

Investment risks

- Slower-than-expected recovery in key product prices coupled with unplanned shutdowns could impact the performance.

Valuation

- The stock is trading at a 1Y Fwd PE multiple of 17.8x, lower than its historical average of 18.8x.
- Rating: Not Covered



Valuation summary

Figure 32 ARC Petchem coverage valuation summary

Companies	Mcap (SARmn)	TP (SAR)	Upside (%)	Rating	ADTV (SARmn)	P/E (x)			EV/EBITDA (x)		
						2017A	2018A	2019E	2017A	2018A	2019E
SABIC	327,600	115	7.5%	Neutral	336.4	16.7x	15.2x	20.9	7.9x	7.2x	8.9
Sipchem*	7,627	24	15.4%	Overweight	12.2	14.6x	13.1x	13.8	8.1x	7.9x	8.1
SAFCO	31,792	78	0.4%	Neutral	26.5	30.9x	18.2x	19.1	20.6x	16.9x	12.2
NIC	10,703	NA**	NA	UR	79.3	15.3x	8.9x	15.2	11.1x	7.4x	5
Yansab	35,156	64	4.4%	Neutral	41.3	13.9x	14.5x	17.5	8.9x	8.2x	9.2
APCC	10,863	57	5.0%	Neutral	17.1	14.3x	15.3x	14.3	11.4x	11.2x	10.6

Source: Bloomberg, Al Rajhi Capital

Figure 33 Saudi petrochemical universe comparable multiples

Company Name	Market Cap (US\$ 'mn)	TTM Operating margin	TTM Net margin	2019E PE	P/B	2019E EV/Sales	2019E EV/EBITDA	TTM ROE	TTM ROA	Dividend Yield
Saudi Arabia										
SABIC	88,478	20.3	11.8	20.9x	1.9x	2.4x	8.9x	11.2	5.8	4.0
SAFCO	8,622	46.5	48.7	19.1x	3.9x	8.1x	12.2x	24.2	19.3	3.2
Sipchem	2,026	21.7	11.0	13.8x	1.3x	2.9x	8.1x	9.4	3.4	5.6
NIC	2,890	9.9	8.9	15.2x	1.1x	2.3x	5.0x	10.9	2.9	NA
Yansab	9,600	28.6	29.5	17.5x	2.0x	4.5x	9.2x	12.4	10.9	5.9
APC	2,954	26.2	27.0	14.3x	3.4x	3.8x	10.6x	24.8	16.1	5.0
SPC	2,043	(44.9)	NA	12.8x	1.5x	NA	NA	9.7	7.8	5.7
Saudi Kayan	4,760	16.9	8.6	17.2x	1.2x	3.2x	8.6x	7.0	2.5	NA
PetroRabigh	4,172	2.6	1.6	15.2x	1.4x	1.5x	15.3x	5.9	0.9	2.8
SIIG	3,102	19.9	9.7	11.3x	1.6x	2.7x	7.2x	12.2	3.4	5.8
Chemanol	272	15.0	8.0	35.2x	0.9x	2.4x	8.4x	5.0	2.6	NA
Nama	144	5.4	0.8	NA	1.5x	NA	NA	1.4	0.3	NA
Alujain	395	(59.0)	NA	NA	1.1x	NA	NA	8.3	8.2	NA
National Petrochemical	3,213	20.4	11.7	11.6x	1.5x	2.3x	7.2x	13.5	4.7	2.0
Median		18.4	10.3	15.2x	1.5x	2.7x	8.6x	10.3	4.1	5.0
Average		9.2	10.0	15.2x	1.5x	2.7x	8.6x	10.0	3.7	5.0
Middle East & Africa (ex-Saudi Arabia)										
Industries Qatar	18,113	7.2	78.2	14.9x	2.0x	10.5x	NA	13.7	13.2	5.5
Mesaieed Petrochem	9,288	NA	NA	NA	2.4x	NA	NA	9.3	9.1x	3.0x
Sidi Kerir	364	25.4	22.5	5.2x	1.6x	0.9x	3.8x	36.4	24.6	8.5
Al Qurain	1,321	8.5	23.2	NA	0.9x	NA	NA	11.0	6.5	3.6
Sasol	18,540	12.0	8.4	10.4x	1.1x	1.9x	7.0x	7.4	3.8	3.2
Median		10.2	22.8	10.4x	1.6x	1.9x	5.4x	11.0	9.1	3.6
Average		13.3	33.1	10.1x	1.6x	4.4x	5.4x	15.6	11.4	4.8
Europe										
BASF	65,020	8.0	7.0	10.7x	1.6x	1.2x	7.3x	12.3	5.1	5.0
Solvay	10,560	8.4	8.8	9.7x	1.2x	1.4x	6.1x	11.1	3.9	4.1
Lanxess	4,997	6.8	6.5	11.1x	1.6x	0.8x	5.7x	15.0	4.8	1.6
Arkema	6,912	10.0	7.5	9.0x	1.2x	0.8x	4.9x	13.6	6.5	2.8
Yara	11,430	3.6	1.1	10.6x	1.3x	1.1x	6.7x	1.5	0.8	1.8
Akzo Nobel	19,483	6.6	70.0	18.7x	2.0x	1.7x	11.3x	89.0	39.9	19.8
Median		7.4	7.3	10.7x	1.4x	1.1x	6.4x	13.0	5.0	3.5
Average		7.2	16.8	11.6x	1.5x	1.2x	7.0x	23.8	10.2	5.9
North America										
Eastman	9,884	14.7	10.1	7.5x	1.7x	1.6x	7.0x	17.5	6.1	3.3
Dow	37,922	8.4	5.9	9.0x	5.9x	1.1x	5.9x	NA	NA	NA
Westlake	8,005	13.4	9.2	8.5x	1.4x	1.2x	5.4x	14.4	6.6	1.5
Celanese Corp	12,869	18.7	16.9	8.6x	4.2x	2.3x	7.7x	37.5	12.2	2.2
Methanex	3,633	17.7	11.8	7.6x	2.4x	1.5x	4.9x	28.4	9.0	2.8
LyondellBasell Industries	29,682	12.5	11.2	6.7x	2.9x	1.0x	5.5x	43.0	15.1	5.0
Huntsman Corp	4,719	9.7	2.0	6.2x	1.8x	0.8x	5.3x	6.6	1.9	3.2
Median		13.4	10.1	7.6x	2.4x	1.2x	5.5x	23.0	7.8	3.0
Average		13.6	9.6	7.7x	2.9x	1.3x	6.0x	24.6	8.5	3.0
Asia										
Indorama Ventures	8,023	8.4	6.6	9.5x	1.8x	1.1x	7.9x	17.2	7.1	3.1
Mitsui Chemicals	4,609	6.3	5.1	6.1x	0.9x	0.6x	5.9x	14.3	5.2	4.0
Sumitomo	7,588	6.3	5.1	6.6x	0.8x	0.7x	5.3x	12.3	3.8	4.4
Formosa Chemicals & Fibre Corp	19,812	8.7	11.1	14.2x	1.6x	1.7x	12.6x	11.2	7.3	6.6
Lotte Chemical Corp	7,559	9.9	7.9	6.0x	0.7x	0.6x	3.9x	10.5	6.1	4.0
Formosa Plastics Corp	22,025	10.4	20.0	13.4x	1.8x	2.8x	19.2x	12.2	8.9	5.3
LG Chem	19,734	6.6	4.0	12.9x	1.4x	0.8x	5.7x	6.2	3.9	1.8
Median		8.4	6.6	9.5x	1.4x	0.8x	5.9x	12.2	6.1	4.0
Average		8.1	8.5	9.8x	1.3x	1.2x	8.6x	12.0	6.0	4.2
Indices										
S&P500 Chemical Index	477,501	10.0	7.1	16.9x	2.1x	2.4x	10.9x	8.8	3.9	2.1
MSCI World Chemical Index	1,056,880	9.5	8.2	15.5x	1.9x	1.7x	9.3x	12.2	5.4	2.9
TASI	538,013	20.2	16.5	14.6x	1.9x	4.0x	11.9x	9.7	2.4	3.5

* Market price as of May 19, 2019

Source: Company data, Bloomberg, Al Rajhi Capital



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