

SIPCHEM reported a weak set of result with a net profit of SAR 40.0mn; missing AJC and the market consensus estimates. Q4-18 sales came lower than our estimate by 6.7%, due to lower than expected operating rate; whereas an increase in production cost was due to expenses associated with IMC plant shutdown and high depreciation level. However, we expect a forward performance improvement for operating rates and volumes, given high production efficiency and new capacities coming on stream in Q1-19. We reiterate our **“Overweight”** recommendation with revised TP at SAR 23.50/share.

- Saudi International Petrochemical Company (SIPCHEM) posted net profit of SAR 40mn, as compared to SAR 180.3mn in Q3-18 and SAR 164.5mn in Q4-17. The result came significantly below estimates, missing AJC and market consensus profits estimates of SAR 100.7mn and SAR 86.5mn, respectively. The weak results is primary attributed to i) decline in volumetric sales after the Methanol Plant Energy Efficiency and Performance Enhancement Project ii) decline in selling prices of all the company’s main products. The deviation of Q4-18 earnings from our estimates is mainly ascribed to higher than expected COGS due to plant shutdown.
- SIPCHEM’s sales in Q4-18 stood at SAR 1,052.7mn, below our estimates of SAR 1,128.1mn and 1,337.8mn in Q3-18; impacted by lower average product prices and scheduled IMC plant maintenance for 55 days during Q4-18. During the quarter, average selling prices of Methanol dropped by 13.3%Q/Q and 5.7%Y/Y. Vinyl Acetate Monomer (VAM) and Acetic acid (AA) prices declined by 10.5%Q/Q and 8.3%Q/Q, respectively. LDPE average prices showed a decline of 6.7%Q/Q and 13.8%Y/Y.
- Gross profit stood at SAR 204.7mn, came significantly below AJC estimates of SAR 356mn due to higher than expected cost associated with IMC plant shutdown and high depreciation level. Depreciation stood at SAR 230mn compared to an average of SAR 175mn during 9M-18. Gross margin declined to 19.4% in 4Q-18 against our estimate of 31.6% and 35.2% in Q3-18.
- Operating profit stood at SAR 74mn; where the company recorded lower managerial expenses (SG & A) at SAR 130.6mn, as compared to SAR 142.4mn in the previous quarter and our estimate of SAR 135.6mn in Q4-18.

AJC view: We believe that the pressure on the company’s top line and margins was mainly attributed to low operating rate, IMC plant shutdown in Q4-18 and an adjustment of year end deprecation. However, the company is expected to witness improved forward performance for operating rates and volumes, given high production efficiency and new capacities coming on stream in Q1-19. Going forward, the company is expected to add almost 300Kt/annum of Methanol, which is expected to contribute more than SAR 300mn in FY19 revenues. Furthermore, we expect operating rate to stabilize above 95% during FY19 due to efficiency improvement after shutdown. However, PBT and IDC plants are expected to witness a shutdown in Q1-19 for 3 weeks and 41 days respectively, which could weigh on top line. On the other hand, although methanol prices have noticeably declined since Nov 2018 due to weak demand and newly-built methanol capacity in China; methanol prices started to pick-up again as supply became limited, given the two new methanol-to-olefins (MTO) plants in China. We remain **“Overweight”** on the stock with a revised TP to **SAR 23.50/share**. The company is trading at a forward PE of 10.8x based on our FY19 earnings forecasts compared to its global peer group average of 12.0x.

Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,278.6	1,337.8	1,052.7	-17.7%	-21.3%	-6.7%
Gross Profit	425.7	470.4	204.6	-51.9%	-56.5%	-42.6%
Gross Margin	33.29%	35.16%	19.43%	-	-	-
EBIT	274.9	327.9	74.0	-73.1%	-77.4%	-66.5%
Net Profit	164.5	180.3	40.0	-75.7%	-77.8%	-60.2%
EPS	0.45	0.49	0.11	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Overweight

Target Price (SAR)	23.50
Upside / (Downside)*	23.6%

Source: Tadawul *prices as of 13th of February 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	4,459	5,036	5,123
Growth %	26.9%	12.9%	1.7%
Net Income	437.5	583.1	640.9
Growth %	915%	33.3%	9.9%
EPS	1.19	1.59	1.75

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	32.0%	32.5%	34.2%
Net Margin	9.8%	11.6%	12.5%
P/E	14.6x	11.9x	10.9x
P/B	1.12x	1.2x	1.1x
EV/EBITDA (x)	5.33x	5.56x	4.97x
Dividend Yield	2.8%	6.0%	6.0%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	6.86
YTD %	-6.3%
52 Week (High)/(Low)	17.90/13.80
Shares Outstanding (mn)	366.67

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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