



## What do we think?

Stock	Rating	Price Target	Upside
APCC	Neutral	SAR43.0	-8.0%
YANSAB	Neutral	SAR42.0	+3.1%
SABIC AN	Neutral	SAR135.0	-2.0%
SABIC	Neutral	SAR90.0	+2.7%
Sipchem	OW	SAR46.0	+31.1%

## Saudi Petchem Sector

### Petchem market to remain oversupplied

The petrochemical sector has been witnessing headwinds in the form of weak demand amid growing risks of a global slowdown on ongoing monetary tightening across the globe to combat the inflationary pressure, and a supply glut in the market. While the latest JPM global PMI data (reaching 50 for the first time since Aug 2022) for February 2023 suggests there may be some recovery in demand, we expect the market will still remain mostly oversupplied (mainly for polymer products like HDPE, PP, PC as well for MEG), as the incremental capacity is likely to surpass the product demand in 2023. In addition, the product spreads for PE, PP, and MEG in China are currently very thin, and if the spreads improve from the current level, then this will further trigger supply from the Chinese markets, adding pressure on the product prices (mainly polymer) in the near term. Further, growing risk of recession amid the ongoing banking crisis globally may impact the petchem demand and thereby keeping product prices under check this year. Nonetheless, we expect the market dynamics to improve from the next year, with limited capacity expansion, and accordingly, we expect product prices to gradually improve over the medium term.

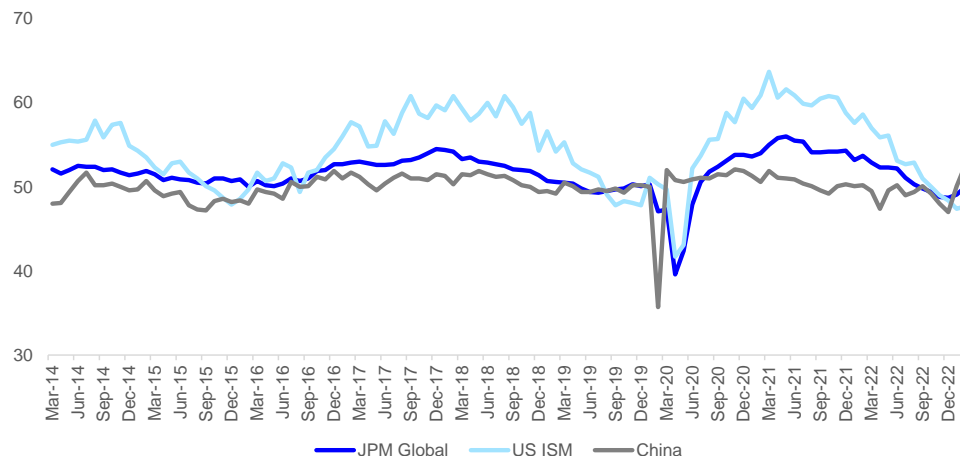
Overall, we continue to remain Neutral on the sector and hence maintain our TPs for SABIC, Yansab, and APPC. However, we see good upside potential in Sipchem, mainly due to i) its diversified product portfolio and resilient Methanol prices, ii) robust production and operating efficiencies, iii) strong FCF generation capabilities amid improving the financial leverage, and iv) healthy dividend yield (~7% for 2023E). Hence, we revise our TP from SAR41/sh. to SAR46.0/sh., implying an Overweight rating for the stock. On the other hand, we revise our TP for SABIC AN from SAR142/sh. to SAR135/sh., largely due to weak Urea market fundamentals amid lower gas prices.

Figure 1 Product prices to remain under pressure

	2019	2020	2021	2022	5Y Avg. price	Current spot price	2023E
<b>Average oil prices</b>							
Brent (US\$/bbl)	64	43	71	99	70	82	81
WTI (US\$/bbl)	57	39	68	94	65	75	76
<b>Feedstock prices (US\$/t)</b>							
Naphtha	525	382	649	789	592	691	718
Propane	435	398	620	747	551	720	708
Butane	441	405	606	740	546	740	720
<b>Product prices (US\$/t)</b>							
HDPE	991	886	1,178	1,182	1,108	1,110	1,179
LDPE	997	1,006	1,523	1,438	1,229	1,160	1,188
PP	1,082	956	1,296	1,175	1,154	1,110	1,182
Polycarbonates	2,047	1,931	3,417	2,391	2,616	1,910	1,983
MEG	689	557	813	683	768	586	590
Methanol	323	276	409	400	371	382	380
Urea	244	227	479	606	363	303	336
<b>Spreads (US\$/t)*</b>							
LDPE-Naphtha	472	624	874	649	637	470	470
PP-Propane	648	558	677	428	603	390	474

Source: Bloomberg, Al Rajhi Capital. \* Spreads may be misleading given that feedstock costs are much lesser than product revenues. Price as of 13 March 2023

Figure 2 Manufacturing PMI



## Valuation changes

Post updating our latest commodity price desk, and updating the 2022 financials, we have revised our estimates for our petchem companies, which are shown below.

Figure 3 Changes in estimates and TP

Companies	2023E	2024E	2023E	2024E	2023E	Old rating	New rating	Old	New	CMP*	Upside / (downside)
	EPS	EPS	DPS (SAR)	DPS (SAR)	Div. Yield			TP (SAR)	TP (SAR)		
APPC**	1.4	2.4	2.2	2.2	4.7%	Neutral	Neutral	43.0	<b>43.0</b>	46.8	-8.0%
Yansab	0.7	1.4	2.1	2.4	5.2%	Neutral	Neutral	42.0	<b>42.0</b>	40.8	3.1%
SABIC Agri-Nutrients	8.8	10.7	7.1	8.6	5.1%	Neutral	Neutral	142.0	<b>135.0</b>	137.8	-2.0%
SABIC	1.4	3.3	3.0	3.0	3.4%	Neutral	Neutral	90.0	<b>90.0</b>	87.6	2.7%
Sipchem	3.5	4.1	2.5	2.9	7.1%	Neutral	Overweight	41.0	<b>46.0</b>	35.1	31.1%

Source: Bloomberg, Al Rajhi Capital. \* As of 19 March 2023. \*\* Including the PDH-PP project

Key upside risks include better-than-expected global economic growth, faster-than-expected product prices, and above-expected dividends. Major downside risks involve unexpected disruption at the company's plants, slower-than-expected growth in product prices, particularly polymer prices, and weak-than-expected product spreads.

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## Saudi Petrochemicals Sector

Petrochemicals –Industrial  
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