Rabigh Refining and Petrochemical Co.

Energy| Petro Rabigh| 2380

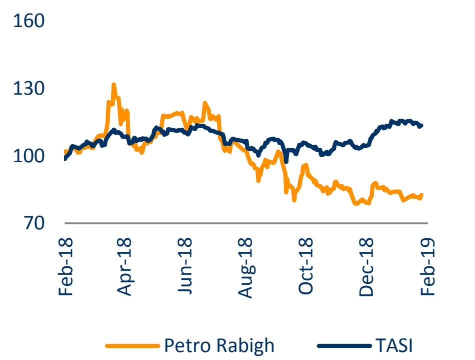
FY18 Results Update **March 04, 2019**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	20.1
Target Price (SAR)	19.0
Upside/Downside (%)	-5.1%

As of March 3, 2019

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	17.6
52-Wk High (SAR)	31.8
52-Wk Low (SAR)	18.3
Total Outstanding Shares (in mn)	876
Free Float (%)	21.7%

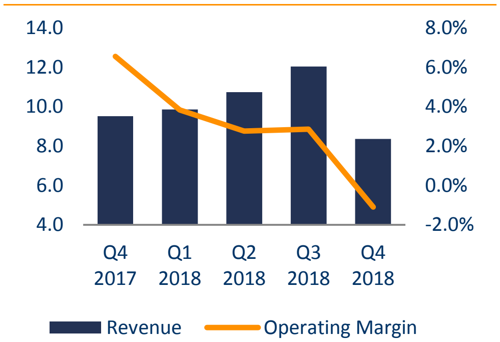
Petro Rabigh vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(1.0%)	(0.6%)
6m	(22.0%)	(27.9%)
12m	(17.4%)	(30.9%)

Major Shareholders (%)	
Sumitomo Chemical Co.	37.5%
The Saudi Arabian Oil Company (Aramco)	37.5%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 3, 2019

FY18 net profit slumps 53% on lower refining margins

Petro Rabigh's FY18 revenues grew 19.8% YoY to SAR 41.0bn, primarily on higher sales volume and increased petrochemical prices for most part of the year. However, operating level losses from refining products more than offset these gains. A sharp rise in selling and marketing expenses was also witnessed in the year, which grew to SAR 439mn in FY18 from 73.8mn in FY17. Consequently, operating income slumped 43.9% YoY to SAR 927mn, and operating margins shrunk to 2.3% in FY18 from 4.8% in FY17. This further led to a 53.0% YoY drop in the company's net profit to SAR 669mn. In 4Q18, the company swung to operating losses for the first time in six quarters on lower revenues and higher operating expenses.

We expect revenue growth to continue rising in the coming years, due to the increased production capacity of Ethylene and Propylene following the integration of Rabigh Phase I and Phase II projects in the Petro Rabigh Industrial Complex. However, profitability may be impacted due to the company's high level of debt and shrinking refining margins. Therefore, we maintain our "Neutral" view on the stock.

- Petro Rabigh's revenue increased 19.8% YoY to SAR 41.0bn, mainly due to higher petrochemical prices and growth in volumes. Revenue from refined products stood at SAR 31.4bn (+19.9% YoY), while that from petrochemicals was SAR 9.6bn (+19.8% YoY).
- Gross profit declined 14.1% YoY to SAR 2.3bn due to lower refining margins. As a result, gross margin dropped to 5.6% in FY18 from 7.9% in FY17.
- Selling and marketing expenses grew manifold to SAR 439mn in FY18, while general and administrative expenses declined 2.2% YoY to SAR 948mn.
- Operating income (excluding other income) declined 43.9% YoY to SAR 927mn due to lower gross margin and higher selling and marketing expenses, partially offset by lower general and administrative expenses. Consequently, operating margin shrunk to 2.3% in FY18 (FY17: 4.8%). During 4Q18, company swung to operating losses of SAR 91mn compared to an operating profit of SAR 623mn in 4Q17.
- Net income declined 53% YoY to SAR 669mn, mostly in line with lower operating income, as higher finance and zakat charges were offset by higher finance and other income.
- The company recently signed a 5-year contract worth SAR 300mn with Jacobs Engineering Group to provide FEED and project management services for its fuel oil upgrade project. The new project will have a production capacity reaching to 75,000 barrels per day..
- We expect revenue growth to continue in line with the higher production following the integration of Rabigh Phase I and Phase II projects. However, shrinking refining margins and uncertainty over the petrochemical prices are expected to hamper profit growth.

Valuation: We revise our target price down slightly to a fair value of SAR 19.0 per share given the weak results in FY18. We maintain our "Neutral" rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	8,358	9,524	-12.2%	45,807	40,998	11.7%
Gross Profit (SAR mn)	271	894	-69.7%	3,301	2,315	42.6%
EBITDA (SAR mn)	515	1,241	-58.5%	4,367	3,361	29.9%
Net Profit (SAR mn)	-106	641	NA	1,291	669	93.1%
EPS Basic (SAR)	-0.1	0.7	NA	1.5	0.8	93.1%
Gross Margin (%)	3.2%	9.4%	-6.1%	7.2%	5.6%	1.6%
EBITDA Margin (%)	6.2%	13.0%	-6.9%	9.5%	8.2%	1.3%
Net Profit Margin (%)	-1.3%	6.7%	-8.0%	2.8%	1.6%	1.2%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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