

# Rabigh Refining and Petrochemical Co. (Petro Rabigh)

Target Price: SAR 24.1

Upside: 41.4%

Recommendation	Buy
Bloomberg Ticker	Petror:AB
Current Market Price (SAR)	17.1
52wk High / Low (SAR)	23.7 / 14.4
12m Average Vol. (mn)	5.2
Mkt.Cap. (SAR bn)	28.5
Shares Outstanding (mn)	1,671
Free Float (%)	25.0%
3m Avg Daily Turnover (SAR mn)	93.4
6m Average Daily Turnover (SAR mn)	89.2
PE 2022e (x)	14.2x
EV/EBITDA 2022e (x)	11.6x
Dividend Yield '22e (%)	0.0%
<b>Price Performance:</b>	
1 month (%)	-9.5%
3 months (%)	-16.2%
12 months (%)	-0.3%

Source: Refinitiv, as of 30<sup>th</sup> June 2022

Price -Volume Performance



Source: Refinitiv

- The ongoing supply crunch from sanctions on Russia, lack of refining capacity and reduced exports from China is causing refining margins to stay at elevated levels
- Target price adjusted on the backdrop of the conducive business environment for refiners and to account for an increase in shares via a rights issue. We continue to maintain a Buy rating on the stock

Global crude oil prices continue to remain high due to fears of a supply crunch as a fallout of sanctions on Russia over the Ukraine conflict. However, refined product prices have risen even higher due to additional factors like China restricting exports. Consequently, refining companies making end products like gasoline, diesel, and jet fuel have witnessed a surge in their margins, likely benefiting refiners like Rabigh.

The refining products market is witnessing a supply crunch owing to Russia's invasion of Ukraine, the US ban on Russian oil and gas, China limiting its export quotas of refined products, sanctions imposed by the EU on Russia and a dearth of adequate capacity to refine petrol and diesel which are pushing the margins of refiners higher. Russia is one of the largest exporters of all oil products, and post sanctions imposed on Russia, a significant portion of oil and refined product supplies are out of the market. Before the onset of the war and the sanctions imposed on Russia, Russia exported approximately 1 million barrels of gasoil per day. However, since Russia's invasion, the US has banned imports of oil, gas, coal, and other energy products from Russia. The US has garnered around 30 allies and partners from around the world to impose substantial costs on Russia, further putting pressure on Russia.

Concerning China, China's refineries are running at historical low run rates. The independent refineries are running at ~60% of their capacity, while the bigger ones are running at ~71%. The demand in China is hit by the on and off Covid lockdowns. China is limiting its export quotas, which are daunting refiners to produce less, to remain focused on emission reduction plans. Despite having unused refining capacities, China plans to prioritize its long-term emission reduction targets rather than increasing fuel production and contributing to exports.

In June 2022, the European Council adopted the sixth package of sanctions against Russia that, among others, prohibits the purchase, import or transfer of crude oil and certain petroleum products from Russia to the EU. The restrictions will be applied in a phased manner, with crude oil getting prohibited from imports within 6 months and other refined petroleum products within eight months. However, a few EU member states are allowed to use Russian oil through the pipeline, which due to their geographic situation, have a higher reliance on Russian supplies with no possible options.

Russian supplies getting off the market is stretching the refining space further, already running at full capacity. With the US completely banning oil and gas products, the EU banning in a phased manner and China focusing on emission reduction, it is likely that the margins will remain at the current levels before normalizing in late 2022. Global research suggests that the current high levels of refining margins are not sustainable and are likely to fall in 3Q or 4Q of 2022 as global supply is partly restored.

We note that the Saudi refining and retail fuel sales market operates in a controlled environment (retail fuel prices have been capped since last year to prevent volatility of international crude prices from being passed on to consumers). With Petro Rabigh selling around 61% of its refined product within Saudi Arabia, we expect the company to benefit in a limited manner from the rise in refining margins.

**Petrochemical segment:** Petrochemical prices rose in 2021 and continued to remain high in 1Q22 but started to fall in 2Q22. The widened spreads (between end products and feedstock prices) witnessed during 2021 are narrowing with increasing feedstock (crude oil) prices. Rising interest rates coupled with shortages of key commodities like oil and fertilizers hint at a slowdown in global economic activities, which would cause the demand for petrochemicals to moderate. Petrochemical prices on average during 2Q22 remained a mixed bag. Prices of some products increased on a quarterly basis while some remained low. With the current rise in interest rates, inflation and looming slowdown, we foresee the prices of petrochemicals to trend down further in the coming quarters.

**Valuation and risk:** We are revising our 2022 revenue estimate from SAR 46.6 bn to SAR 52.7 bn, an increase of 12.9% to account for strong performance in 1Q22, an extraordinary quarter for the company. The company, which recorded losses from 4Q19 to 3Q20, recovered strongly in 1Q22 due to refining and petrochemicals performing well. Currently, the refining space is favourable for the refiners due to widened spreads, and Petro Rabigh derives ~61% of its topline from the refining business. The refining space will continue to remain conducive for some time before the refining margins slowly start narrowing down from Q3 and Q4 of 2022. Accordingly, we revise our 2022 PAT estimate by 47.7%, from SAR 1.4 bn to SAR 2.0 bn. On a separate note, the number of shares has increased from 876 mn to 1,671 mn due to the company's rights issue offering during 2Q22. Considering the upside from higher refining margins but adjusting for the increased number of shares from the rights issue, our new adjusted target price is SAR 24.1 per share, implying an upside of 41.4% over the current market price, while the rating remains Buy. Currently, the stock trades at 14.2x FY22 P/E and 11.6x FY22 EV/EBITDA. The downside risks to our valuation include ease in the Russia-Ukraine tensions, which is expected to ease refined product margins. Another risk is a sharp pick-up in exports from China stemming from the removal of export restrictions.

**Rights Issue Details:** The company underwent a rights issue (RI) offering of 795,000,000 equity shares with a nominal value of SAR 10 each at an offer price of SAR 10 per share to raise SAR 7.95 bn. The company offered 0.907534 rights for each share held by its shareholders on the eligibility date. The shareholders eligible for the rights were the ones who owned shares in the company at the date of the Extraordinary General Assembly relating to the capital increase and who were registered in the company's shareholder register at Edaa at the end of the second trading day following the Extraordinary General Assembly due to be held on June 08, 2022.

A total of 772,357,255 shares were subscribed during the subscription period from June 14 to June 26, 2022, with a coverage ratio of 97.15%. The rump shares (22,642,745) will be offered to a number of institutional investors who will submit their purchase offers for the rump shares. The allocation will be based on the highest offer to the lowest (provided that it is not less than the offer price of SAR 10). Institutional investors who have tendered offers at the same price will be allocated shares pro-rata. The rump period window was Wednesday, June 29, to Thursday, June 30, 2022. The shares remaining unsubscribed post the rump offering will be underwritten by underwriters, namely HSBC Saudi Arabia Company, Riyadh Capital Company, Alinma Investment Company, GIB Capital Company, SNB Capital Company, Arab National Investment Company, Saudi Fransi Capital Company, and Aljazira Capital Company at the offer price.

From the net proceeds, Petro Rabigh will utilize SAR 5.96 bn to repay the loans owed to the founding shareholders (Saudi Aramco and Sumitomo Chemical) by capitalizing the due amounts, and the remaining SAR 1.93 bn will be used for partial repayment of the equity bridge loans. Petro Rabigh's share capital will now stand increased at SAR 16.71 bn from SAR 8.76 bn earlier.

#### Financial and valuation summary

Year (SAR mn)	FY19	FY20	FY21	Prev.FY22e	FY22e	Prev.FY23e	FY23e	Prev.FY24e	FY24e
Sales	34,062	21,870	45,638	46,649	52,687	49,251	52,322	51,941	55,115
Gross profit	1,718	(903)	4,756	3,978	4,940	4,182	4,488	4,614	4,881
EBITDA	2,832	758	6,377	5,535	6,291	5,859	5,888	6,240	6,226
Operating profit	439	(2,436)	3,192	2,204	3,079	2,499	2,642	2,841	2,937
Net income	(544)	(3,781)	2,037	1,356	2,003	1,633	1,661	1,948	1,967
EPS	-0.62	-4.32	2.32	0.81	1.20	0.98	0.99	1.17	1.18
P/E (x)	-15.7	-2.8	9.1	28.2	14.2	23.4	17.2	19.6	14.5
EV/EBITDA (x)	25.2	87.1	10.0	11.8	11.6	11.2	12.4	10.5	11.7
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Reports, U Capital Research

P/E and EV/EBITDA from 2022 onwards calculated on price of 30/06/2022

(SAR mn)	FY19	FY20	FY21	FY22e	FY23e	FY24e
<b>Income Statement</b>						
Sales	34,062	21,870	45,638	52,687	52,322	55,115
COGS	(32,344)	(22,773)	(40,882)	(47,747)	(47,833)	(50,234)
<b>Gross profit</b>	<b>1,718</b>	<b>(903)</b>	<b>4,756</b>	<b>4,940</b>	<b>4,488</b>	<b>4,881</b>
Selling & marketing expenses	(406)	(661)	(835)	(905)	(942)	(992)
General & administrative expenses	(960)	(928)	(881)	(986)	(994)	(1,046)
<b>Operating profit</b>	<b>439</b>	<b>(2,436)</b>	<b>3,192</b>	<b>3,079</b>	<b>2,642</b>	<b>2,937</b>
Finance charges	(1,022)	(1,505)	(1,089)	(817)	(767)	(716)
Finance income	264	202	196	0	0	0
<b>Income before tax</b>	<b>(319)</b>	<b>(3,739)</b>	<b>2,299</b>	<b>2,262</b>	<b>1,875</b>	<b>2,221</b>
Zakat and Income tax	(225)	(42)	(263)	(258)	(214)	(254)
<b>Net income for the period</b>	<b>(544)</b>	<b>(3,781)</b>	<b>2,037</b>	<b>2,003</b>	<b>1,661</b>	<b>1,967</b>
<b>Balance Sheet</b>						
Cash and bank balances	316	1,016	3,972	5,251	6,926	8,652
Trade receivables	5,364	3,990	8,257	9,533	9,502	9,982
Inventories	3,406	3,071	3,806	4,960	5,297	5,139
Property, plant and equipment	46,111	46,050	44,090	42,729	41,069	40,235
Right of use assets	12,039	11,342	10,669	9,955	9,242	8,528
Long term loans	3,450	2,983	179	170	162	154
<b>Total assets</b>	<b>74,030</b>	<b>70,694</b>	<b>73,362</b>	<b>75,584</b>	<b>75,103</b>	<b>75,659</b>
Trade and other payables	9,402	7,690	12,398	14,651	14,663	15,396
Total borrowings	40,455	43,212	38,729	29,048	27,257	25,466
Total lease liabilities	12,306	11,766	11,234	10,726	10,241	9,777
Share capital	8,760	8,760	8,760	16,710	16,710	16,710
Statutory reserve	252	252	252	252	252	252
Retained earnings	1,034	(2,804)	(702)	1,302	2,963	4,930
<b>Total stockholders' equity</b>	<b>10,041</b>	<b>6,203</b>	<b>8,306</b>	<b>18,259</b>	<b>19,920</b>	<b>21,887</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>74,030</b>	<b>70,694</b>	<b>73,362</b>	<b>75,584</b>	<b>75,103</b>	<b>75,659</b>
<b>Cash Flow Statement</b>						
Cash from operating activities	1,829	944	5,297	4,587	4,752	5,652
Cash from investing activities	(1,815)	(2,336)	2,829	(1,069)	(801)	(1,671)
Cash from financing activities	(961)	2,092	(5,170)	(2,239)	(2,276)	(2,254)
Net changes in cash	(948)	700	2,956	1,279	1,675	1,727
Cash at the end of the period	316	1,016	3,972	5,251	6,926	8,652
<b>Key Ratios</b>						
Current ratio	0.4	0.5	0.5	0.7	0.8	0.9
Inventory turnover ratio	9.8	7.0	11.9	10.9	9.3	9.6
Debtors' turnover ratio	6.0	4.7	7.5	5.9	5.5	5.7
Creditors turnover ratio	3.4	2.7	4.1	3.5	3.3	3.3
Gross profit margin	5.0%	-4.1%	10.4%	9.4%	8.6%	8.9%
Operating margin	1.3%	-11.1%	7.0%	5.8%	5.0%	5.3%
Net profit margin	-1.6%	-17.3%	4.5%	3.8%	3.2%	3.6%
EBITDA margin	8.3%	3.5%	14.0%	11.9%	11.3%	11.3%
Average return on equity	-5.3%	-46.6%	28.1%	15.1%	8.7%	9.4%
Average return on assets	-0.8%	-5.2%	2.8%	2.7%	2.2%	2.6%
Debt/Equity (x)	5.25x	8.86x	6.02x	2.18x	1.88x	1.61x
Interest coverage ratio (x)	0.43x	-1.62x	2.93x	3.77x	3.45x	4.10x
P/E	-14.95x	-2.99x	7.11x	14.23x	17.16x	14.49x
EV/EBITDA	25.22x	87.07x	10.05x	11.60x	12.39x	11.72x
EV/Sales	2.10x	3.02x	1.40x	1.38x	1.39x	1.32x
EPS (SR)	-0.62	-4.32	2.32	1.20	0.99	1.18
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt (SR 'million)	52,445	53,962	45,990	34,523	30,572	26,591
Net debt/ EBITDA	18.52	71.15	7.21	5.49	5.19	4.27
ROCE	0.8%	-4.4%	6.8%	8.8%	8.5%	10.7%

Source: Company Reports, U Capital Research

## Disclaimer

### Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%



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