



US\$7.980bn Market cap
90% Free float
US\$32.59mn Avg. daily volume

Target price 48.00 +17.6% over current
Current price 40.80 as at 4/10/2021

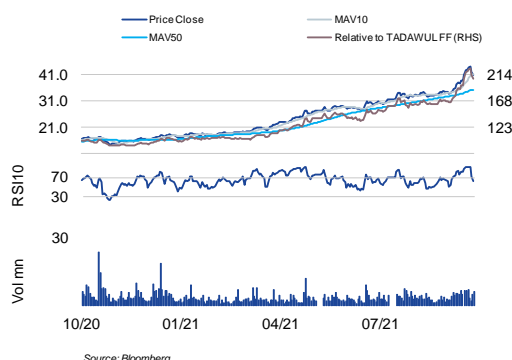
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2020	2021e	2022e
Revenue	5,323	9,387	8,801
Y-o-Y	-2.1%	76.3%	-6.2%
Gross profit	1,173	5,301	4,840
Gross margin	22.0%	56.5%	55.0%
EBITDA	1,291	4,836	4,461
EBITDA margin	24.3%	51.5%	50.7%
Net profit	176	2,967	2,846
Net margin	3.3%	31.6%	32.3%
EPS (SAR)	0.24	4.05	3.88
DPS (SAR)	0.50	1.50	2.00
Payout ratio	208.5%	37.1%	51.5%
ROE	0.7%	11.4%	10.1%
EV/EBITDA	27.0x	7.2x	7.8x
P/E	NM	10.1x	10.5x

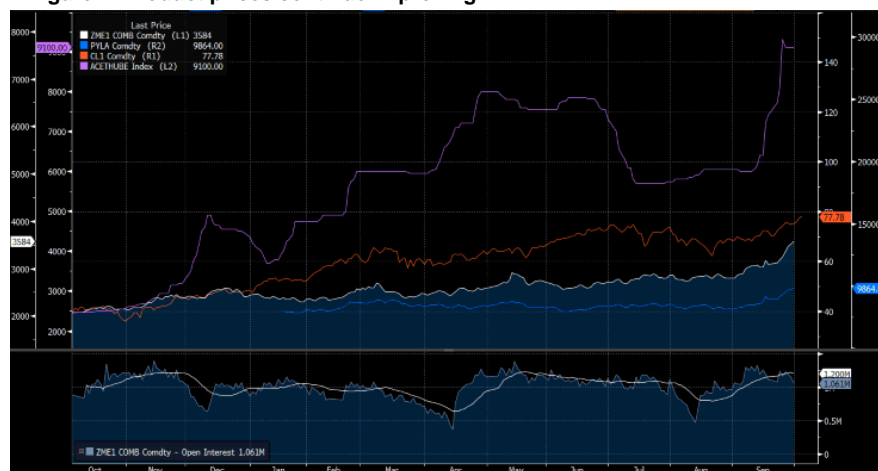
Source: Company data, Al Rajhi Capital

SIPCHEM

Revising TP upwards to SAR48/share

Methanol prices have continued to rise since Q2 2020 and have averaged around \$416/t in Q3 (higher than the YTD average price of \$393/t and our earlier forecast of \$400/t for 2021). In Sep 2021 alone, Methanol price (Generic 1st 'ZME' Future) jumped ~28% (currently trading at \$556/t), mainly aided by tight supply-demand balance and rising oil prices. Accordingly, we revise our Methanol price forecast (while keeping other product prices mostly unchanged). This is our fifth revision in the last one year and each of the times the stock has moved accordingly. While Sipchem's share price has gained ~135% YTD, we expect a further rally given the market conditions and possibly a better dividend outlook (2021E DPS: SAR1.5 vs. SAR0.5/sh in 2020). Sipchem also has the advantage of high operating leverage which means it benefits disproportionately from any increase in product prices given a mostly fixed cost base. Based on our revised estimates and DCF valuation, we raise our TP to SAR48/sh. from SAR40/sh. The downside risks primarily depend on a drop in product prices (which may be sharp) and unannounced shutdown, but the option to buy back shares and annualized current dividend yield at ~4% provide downside support.

Figure 1 Product prices continue improving YTD



Source: Bloomberg, Al Rajhi Capital.

Valuation and Risks: We value Sipchem using DCF (based on FCF, cost of equity 11.3%) at SAR48/share (SAR40/sh. earlier), implying an Overweight rating for the stock. As for 3Q, we expect the company to post a good set of Q3 earnings (SAR935mn vs. SAR10mn in Q3 2020), driven by improved product prices and better-operating efficiency. The stock currently trades at ~10-11x on our 2021/22E EPS, lower than the historical three years' average of 16.8x.

Key upside drivers for the stock are better-than-expected product prices, announcement of new projects, suspending unprofitable ventures, and higher-than-expected dividends. Major downside risks to earnings involve unexpected disruption at the company's upstream operations, which can further impact its downstream plants as well and sudden drop in product prices, particularly Methanol prices.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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