

# Sahara International Petrochemical Co. (SIPCHEM) - 4Q23 Results Review

Analyst: Neetika Gupta

Previous Recommendation:

**Accumulate**

Target Price (SAR):

**40.60**

Previous Reco. & Date:

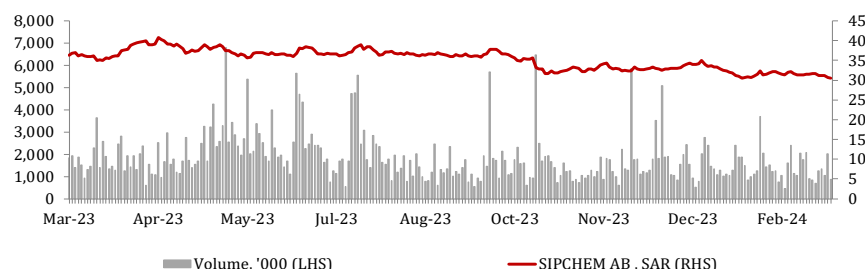
TP: SAR 40.6 per share; Accumulate on 25-July-2023

Upside / (Downside):

33%

Date: 04-03-2024

Bloomberg Ticker	SIPCHEM AB
Current Market Price (SAR)	30.5
52wk High / Low (SAR)	40.9/30.25
12m Average Vol. (000)	1,542.1
Mkt. Cap. (USD/SAR mn)	6,039/22,367
Shares Outstanding (mn)	733.3
Free Float (%)	89%
3m Avg Daily Turnover (000)	49,832.7
6m Avg Daily Turnover (000)	51,553.7
P/E'24e (x)	14.3x
EV/EBITDA'24e (x)	9.2x
Dividend Yield '24e (%)	2.7%
Price Perf. (1m/3m) (%)	-5.1%/-6.7%



## Revenue increases 14% QoQ for 4Q23 ahead of Bloomberg consensus and U-Capital estimate

SIPCHEM's revenue for 4Q23 stood at SAR 2,040mn (4% YoY and 14% QoQ) ahead of Bloomberg consensus of SAR 1,758mn and U-Capital estimate of SAR 1,727mn. The variance from our estimate is probably attributable to higher-than-expected sales volume in 4Q23. For FY23, revenue declined by 26% to SAR 7,618mn due to reductions in selling prices for the company's products and a decrease in sales volumes due to periodic turnaround maintenance activities of its plants in 2023.

## Gross and operating profits decrease significantly YoY for 4Q23

The company's gross profit for 4Q23 stood at SAR 428mn (-47% YoY and -6% QoQ) below Bloomberg consensus of SAR 475mn and U-Capital estimate of SAR 489mn. Operating income for the quarter stood at SAR 200mn (-68% YoY and -34% QoQ) below Bloomberg consensus of SAR 294mn and U-Capital estimate of SAR 342mn. The deviation from our estimate is likely attributable to higher-than-expected feedstock costs and operating expenses in 4Q23. For FY23, operating income amounted to SAR 1,419mn, reflecting a 65% YoY decline due to reduced topline figures amid declining prices and lower volumes.

## Net profit declined 32% QoQ for 4Q23 – below Bloomberg consensus and U-Capital estimate

The company recorded a net profit of SAR 160mn (-67% YoY and -32% QoQ) in 4Q23 – below Bloomberg consensus of SAR 220mn and U-Capital estimate of SAR 254mn. The deviation is primarily due to lower-than-expected operating margins (10% vs 20% expected) in 4Q23. For FY23, Net income stood at SAR 1,175mn, reflecting a 67% YoY decrease due to a lower topline and a reduction in contribution from joint ventures and associates in FY23.

## Maintain target price

We anticipate that the petrochemical industry will continue to face challenges until the first half of 2024 amid global economic concerns, including the potential for a recession, prolonged periods of higher interest rates, slow recovery in China, and ongoing conflicts in West Asia and the Red Sea region. Additionally, SIPCHEM is anticipated to experience rising feedstock costs amid Saudi Aramco amending some of feedstock prices starting from January this year and the group has scheduled periodic Turnaround maintenance for Al-Waha Petrochemicals, an affiliate of SIPCHEM, which will further impact the company's revenue and profitability until 1H-24e. However, stability is expected in the sector post 1H-24e, with favourable pricing trends likely driven by the demand for end products like plastics, textiles, and footwear. Moreover, SIPCHEM remains in its expansion phase, having commenced trial operations for the Khair Inorganic Chemical Industries Company's factory, which is set to produce 300,000 tons of Soda Ash and 350,000 tons of Calcium Chloride annually. Furthermore, an expansion project for the ethylene cracker plant at Saudi Ethylene and Polyethylene Company has been announced, with production expected to commence in the first half of 2026, leading to an approximate 18% increase in olefins production at the ethylene cracker plant. Taking these factors into account, we maintain our target price at **SAR 40.60 per share** and maintain our **Accumulate** rating for the stock.

## Valuation

SIPCHEM is trading at a 2024e P/E of 14.3x, compared to its historical average 1-year forward P/E of 14.8x. Additionally, the stock is valued at a EV/EBITDA multiple of 9.2x, based on FY24 estimate, compared to the historical average of 9.5x.

Income Statement												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales/Revenue	1,955	2,087	1,702	1,789	2,040	1,727	4%	14%	18%	10,254	7,618	-26%
Gross Profit (Loss)	810	755	528	458	428	489	-47%	-6%	-12%	4,839	2,169	-55%
Operating Profit (Loss)	617	561	353	305	200	342	-68%	-34%	-42%	4,047	1,419	-65%
<b>Net Profit (Loss)</b>	<b>479</b>	<b>469</b>	<b>313</b>	<b>233</b>	<b>160</b>	<b>254</b>	<b>-67%</b>	<b>-32%</b>	<b>-37%</b>	<b>3,595</b>	<b>1,175</b>	<b>-67%</b>
Balance Sheet												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholders' Equity	15,807	16,256	15,688	15,908	15,569	16,651	-2%	-2%	-6%	15,807	15,569	-2%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Gross Profit Margin	41%	36%	31%	26%	21%	28%				47%	28%	
Operating Profit Margin	32%	27%	21%	17%	10%	20%				39%	19%	
Net Profit Margin	24%	22%	18%	13%	8%	15%				35%	15%	
Return on Equity (RoE)	12%	12%	8%	6%	4%	6%				23%	8%	

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report, please [click here](#).

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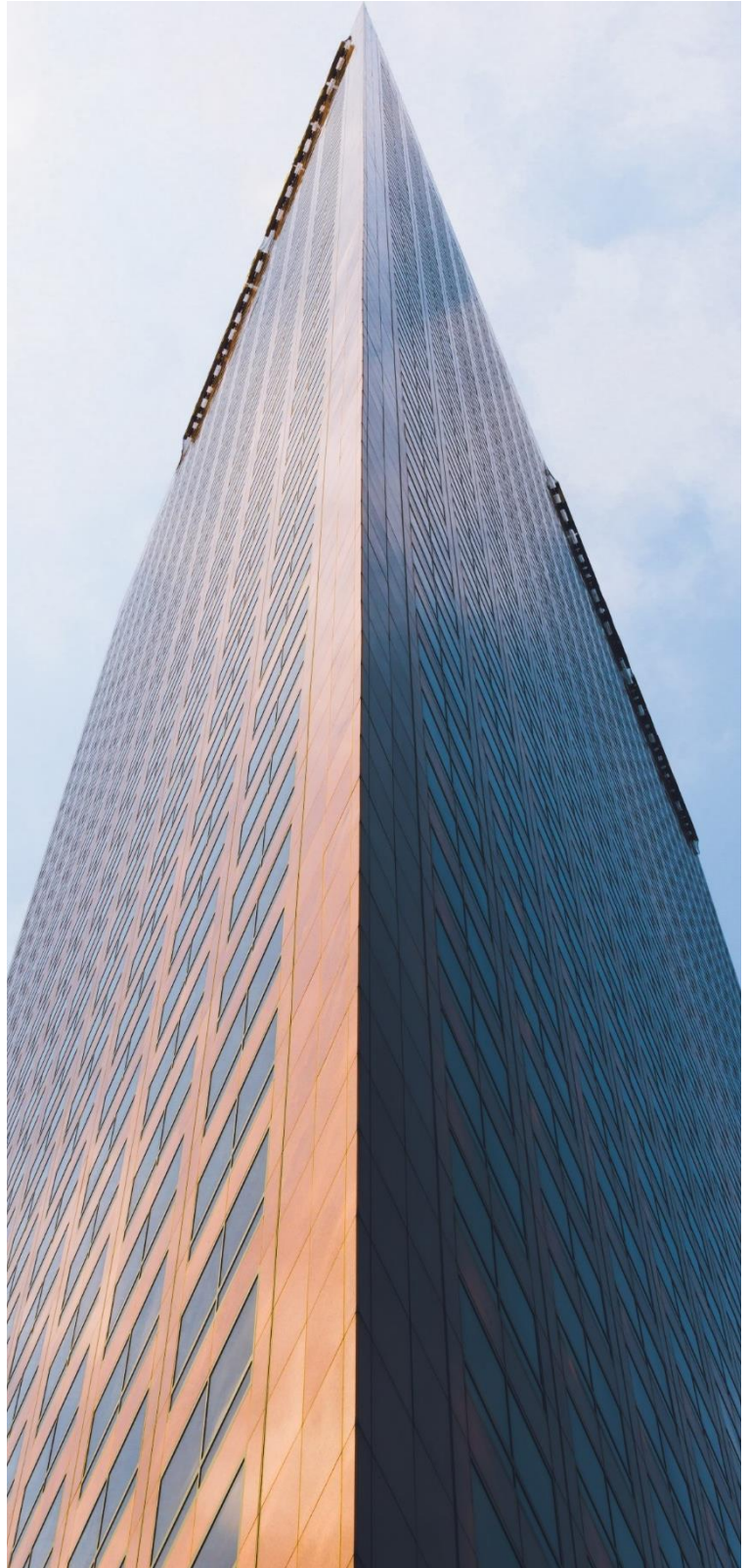
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## Recommendation

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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