

January 30, 2018

Rating Buy
12- Month Target Price SAR 21.00

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY (SIPCHEM)
4Q2017 First Look

Expected Total Return

Price as on Jan-29, 2018	SAR 18.77
Upside to Target Price	17.2%
Expected Dividend Yield	2.7%
Expected Total Return	19.9%

Market Data

52 Week H/L	SAR 19.5/12.8
Market Capitalization	SAR 6,882 mln
Enterprise Value	SAR 13,978 mln
Shares Outstanding	366.7 mln
Free Float	78.0%
12-Month ADTV (000's)	843.5
Bloomberg Code	SIPCHEM AB

1-Year Price Performance



Source: Bloomberg

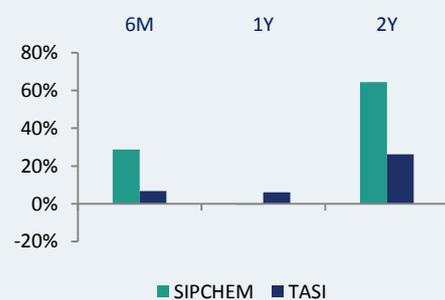


Fig in SAR mln	RC. Est	Actuals
Revenue	1,247	1,279
Gross Profit	472	455
EBIT	343	304
Net Income	172	164
EPS (SAR)	0.47	0.45

Spreads Propel Margins

Saudi International Petrochemical Company (Sipchem) reported in-line 4Q2017 results, with earnings in-line with our estimates, a modest 4% deviation; though beat street by 11%. Revenue stood close to our estimates with a modest beat of 2%. A rally in methanol and VAM spreads is captured well, with margins at 4-year high; meaning better cost efficiency this time. EPS of SAR 0.45 inched closer to our estimate of SAR 0.47 but beat consensus of SAR 0.41. With strong numbers in 4Q, we slightly adjust our 2018-19 estimates and raise our target price to SAR 21.00 from earlier SAR 18.50.

Management guidance and renewed outlook for 2018 lifts TP

CEO comments post 4Q results are encouraging; says i) restructuring has paid-off ii) margins to sustain until 1H2018 and iii) growth in local markets limited; eyes expansion and see potential in shale gas business, though not fully clear. With this guidance and renewed outlook for 2018, an upward revision in target price is warranted with factors such as a i) recovery cycle in methanol and VAM could raise topline prices further ii) methanol efficiency enhancement program to drive better yields from 2019 and expected to drive capacity up by 40% iii) products spreads to expand further; VAM spread at 62% is back at 2014 levels denotes recovery and could gradually rise further and lastly iv) 2018E P/E of 13.7x is cheaper than sectors 15.3x; at par with TASI's 13.8x.

Revenue in-line with our estimate

Revenue of SAR 1,279 million came in-line with our estimate of 1,247 million, grew by +35% Y/Y and +20% Q/Q, deviation from our estimates stood in a 1-2% range over the last two quarters. A surge in average prices of methanol by +19% Q/Q and +23% Y/Y followed by a spurt of +10% Q/Q and +30% Y/Y in VAM prices are reasons and needless to say, what drove revenues higher; but not to ignore the impact of higher volumes.

Gross margins at 4-year high

Methanol prices (USD 365/ton) drove some stability in margins but proportional VAM spreads at USD 685/ton though grew by +29% Y/ Y; moved only by +2% Q/Q. This has set some limitations for margins to expand in 4Q. Gross margins though at multi-year highs (best since 2Q2014) expanded feeble by 200 bps but spreads remain better. Gross profit of SAR 455 million in 4Q2017 increased by +24% Q/Q and +83% Y/Y.

Earnings in-line with estimates

It reported an operating profit of SAR 304 million versus our estimate of SAR 343 million; grew by +127% Y/Y and +20% Q/Q. Margins were stable at 24% in 4Q2017 flat Q/Q though expanded largely from 14% in 4Q2016. However, net margins slightly improved by 150 bps from 3Q2017 to 13%, expected to be on lower interest costs, as a process of deleveraging, coupled with impact of other income. Earnings of SAR 164 million came in-line with our estimate of SAR 172 million; beat street's SAR 149 million.

Raising TP to SAR 21.00 and maintain Buy

Year 2017 was a period of earnings recovery and expect earnings to grow in 2018. With oil prices nearing USD 70/bbl, we expect a lag impact of the oil recovery cycle to be reflected in product prices. The stock outperformed TASI by +22% (6M) and met our target price in less than 4 months since our update [report](#) on Sep-26th. Maintain Buy.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017P	2018E
Revenue	3,515	4,459	4,640
EBITDA	1,037	1,878	1,923
Net Profit	43	437	502
EPS (SAR)	0.12	1.19	1.37
DPS (SAR)	0.50	0.50	0.75
BVPS (SAR)	15.55	16.24	16.86

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	3%	5%	5%
ROAE	1%	7%	8%
P/E	160.1x	15.7x	13.7x
P/B	1.2x	1.1x	1.1x
EV/EBITDA	13.5x	7.4x	7.3x
EV/Sales	4.0x	3.1x	3.0x

Santhosh Balakrishnan

santhosh.balakrishnan@riyadcapital.com
+966-11-203-6809

Abdullah A. Alrayes

abdullah.a.alrayes@riyadcapital.com
+966-11-203-6814

Riyad Capital is licensed by the Saudi Arabia
Capital Market Authority (No. 07070-37)

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.