

Sahara Petrochemical posted a positive set of result with a net profit of SAR 221.2mn in 2Q2018, well above AJC estimates of SAR 142.20mn. Al-Waha high operating rate and higher than expected income from Tasnee and Sahara Olefins provided key support for overall performance during 2Q2018. Improved average product prices and higher products spread contributed positively to the 2Q2018 result; however, gross margin is not sustainable in 2H2018. **“Neutral”** recommendation with PT of SAR 20.40/share.

- Sahara Petrochemical Company (SAHARA) result came significantly higher than AJC and market consensus estimates of SAR 142.20mn and SAR 147.3mn, respectively. SAHARA posted net profit of SAR 221.2mn (EPS; SAR 0.50); indicating an increase of 149.7%YoY and 57.8%QoQ. We believe that the higher than expected results is mainly ascribed to i) high operating rate in Al-Waha Plant ii) higher than expected earnings from Tasnee and Sahara Olefins Company (TSOC) & (SAMAPCO), while a decline in the losses of the Saudi Acrylic Acid Company iii) impairment reversal of SAR 23mn.
- The income from associates is expected to stand at SAR 234mn (including provision reversal of SAR 23mn), higher than our estimate of SAR 168.5mn and against SAR 146.1mn in 1Q2018. In our view TSOC contributed SAR 91.6mn, higher than SAR 67.9mn in 1Q2018 and AJC estimate of SAR 71.5mn. Moreover, we expect that the Y/Y improved product price has reduced the Saud Acrylic Acid plant losses in 2Q2018 to SAR 21.4mn from SAR 54.8mn losses in 2Q2017.
- AlWaha's net profit in 2Q2018 is expected to stand at SAR 99.0mn, which is above our estimates of SAR 89mn. Based on our calculation, the plant was running with operating rate of 135%, higher than our estimate of 129%. This is mainly due to the positive impact after the plant maintenance in 2017 and partial sales from inventory. We expect gross margin to stand at 29.5% in 2Q2018, as compared to 26.3% in 1Q2018, which we believe was due to a decline in feedstock price compared to the increase in final product prices that resulted in PP-propane spreads to expand from USD 688/ton in 1Q2018 to USD 729/ton in 2Q2018. During the quarter, average selling prices of PP-Asia jumped by 1.8%QoQ and 23.9%YoY. HDPE prices increased by 20.9%YoY and 1.6%QoQ. LDPE average prices declined by 1.9%QoQ.

AJC View: We believe that the plant maintenance in 2017 and lower feedstock cost had a positive impact on AlWaha's performance, while further improvement was witnessed in other associates, due to improved sales prices. However, we believe that the company's margin is subject to shrink gradually starting from 3Q2018 due to expected lower spreads in PP-Propane. Furthermore, we expect that the company needs to focus on production efficiency and cost optimization to mitigate the impact on SAAC performance. In addition, despite the QoQ improved operating rate of the Butanol project (SAAC project); SAAC is expected to maintain its losses in 2018 with SAR 85mn compared to losses of SAR 103.4mn in 2017. We maintain our **“Neutral”** recommendation on the stock with target price of SAR 20.40/share. The company is trading at forward PE and P/B of 12.2x and 1.5x respectively based on our FY2018 earnings forecast. Dividend payment is expected to be maintained at SAR 1.0/share in FY2018.

Results Summary

SARmn (unless specified)	Q2-2017	Q1-2018	Q2-2018	Change YoY	Change QoQ	Deviation from AJC Estimates
Net Profit	88.6	140.24	221.2	149.7%	57.8%	55.5%
EPS	0.20	0.32	0.50	-	-	-

Source: Company reports, Aljazira Capital

Neutral

Target Price (SAR) **20.40**

Upside / (Downside)* **4.9%**

Source: Tadawul *prices as of 24th of July 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	-	-	-
Growth %	-	-	-
Net Income	431.39	444.52	703.7
Growth %	899%	3.0%	58.3%
EPS	0.98	1.01	1.60

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	-	-	-
Net Margin	-	-	-
P/E	15.08x	16.3x	12.2x
P/B	1.24x	1.33x	1.47x
EV/EBITDA (x)	9.8x	12.5x	8.1x
Dividend Yield	5.1%	6.1%	5.1%

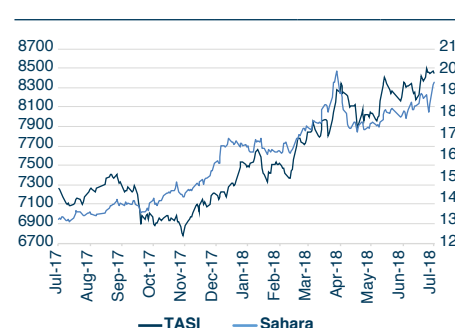
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	8.29
YTD %	16.4%
52 Week High/ Low	20.08/ 12.94
Shares Outstanding (mn)	438.8

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Analyst

Jassim Al-Jubran

+966 11 2256248

j.aliabran@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

Analyst
Sultan Al Kadi, CAIA
+966 11 2256374
s.alkadi@aljaziracapital.com.sa

Analyst
Muhanad Al-Odan
+966 11 2256115
M.alodan@aljaziracapital.com.sa

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers
Central Region
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers
Mansour Hamad Al-shuaibi
+966 12 6618443
m.alshuaibi@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068