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KSA Petrochemical Sector: An opportunity in difficulty

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Petrochemical demand faces new challenges as pessimism over global economic growth, interest rate hikes, and high inflation are likely to weigh on consumption. However, a continued energy price crisis, geopolitical risks, and global plant shutdowns are expected to keep product prices at high levels in short to medium terms. In such a scenario, we believe that Saudi petrochemical players hold a competitive advantage due to their access to low-cost feedstock. The KSA petrochemical sector is expected to deliver low-single-digit bottom-line growth for FY22. Thus, selected companies with favorable products and feedstock mix, sound financials, and attractive valuations are expected to provide good returns to investors. We recommend an "Overweight" rating on SABIC, Yansab, and Sipchem.

New hopes stem from a global economy recovering from COVID-19 in front of growing pessimism over global economic growth: Global easing of COVID-19 restrictions, as well as China lifting strict COVID-19 lockdowns and planning to provide economic stimulus, all sheds light on supply chain issues untangling and improving freight costs, providing hopes for the petrochemical industry. However, geopolitical tensions due to the Russia-Ukraine war and its impact on inflation, as well as dampened outlooks on global economic growths, have hampered the process of recovery. The IMF, World Bank, and OECD have downgraded their outlook for the global economy. Additionally, central banks across the globe are heading to aggressive monetary tightening, which is likely to affect global consumption.

KSA petrochemical sector is expected to deliver low-single-digit growth in bottom-line FY22: We expect the combined revenue of the petrochemical companies under our coverage to grow 12.0% Y/Y to SAR 247.0bn in FY22 (FY21: SAR 221.3bn), driven by higher product prices. The sector's GP margin is expected to contract to 30.7% from 32.1% in the previous year, impacted by higher feedstock prices amid a surge in crude oil prices. Net income for the sector is estimated to stand at SAR 39.4bn in FY22, implying a growth of 3.6% Y/Y.

Dividend yield likely to improve: We expect the average dividend yield for the sector to improve to 3.3% in FY22 compared to 2.7% in FY21. Investors can look for Yansab (6.0%), Sipchem (4.9%), SABIC (4.5%), and Advanced (4.3%) stocks to earn healthy dividends.

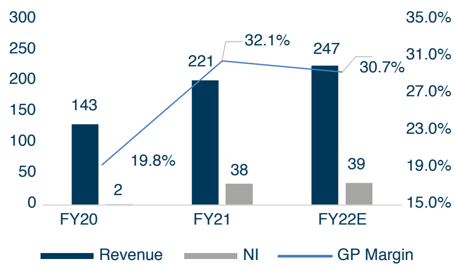
Neutral on the sector with a positive outlook for selected companies: Overall, we are neutral on Saudi Arabia's petrochemical sector. Yet we favor certain companies which we believe have great prospects due to positive outlook on their key products, feedstock cost advantage, financial strength, and dividend-paying ability. Based on these factors, **SABIC, Yansab**, and **Sipchem** with "**Overweight**" rating, while have a "**Neutral**" rating on SABIC Agri, Saudi Kayan, Advanced, and Tasnee.

Product price forecast (USD per ton)

	FY21	FY22E	FY23E
HDPE	**1,103**	**1,152**	**1,034**
	26.4%	4.4%	-10.2%
LDPE	**1,422**	**1,446**	**1,298**
	44.3%	1.7%	-10.3%
PP	**1,161**	**1,116**	**1,007**
	25.6%	-3.9%	-9.7%
Urea	**514**	**681**	**475**
	106.6%	32.5%	-30.2%
Methanol	**320**	**349**	**318**
	58.4%	8.9%	-8.8%
MEG	**675**	**646**	**605**
	44.0%	-4.2%	-6.4%
PC	**3,412**	**2,665**	**2,151**
	76.5%	-21.9%	-19.3%
VAM	**1,823**	**2,190**	**1,800**
	136.8%	20.1%	-17.8%
MTBE	**729**	**1,133**	**969**
	66.6%	55.4%	-14.5%
PVC	**1,363**	**1,245**	**1,120**
	56.0%	-8.7%	-10.0%

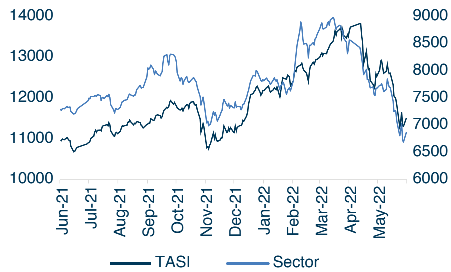
Source: Argaam, Aljazira Capital Research

Sector financial performance



Source: Bloomberg, Aljazira Capital Research

Materials sector vs. TASI



Source: Bloomberg, Aljazira Capital Research

Table 1. Price target and recommendation

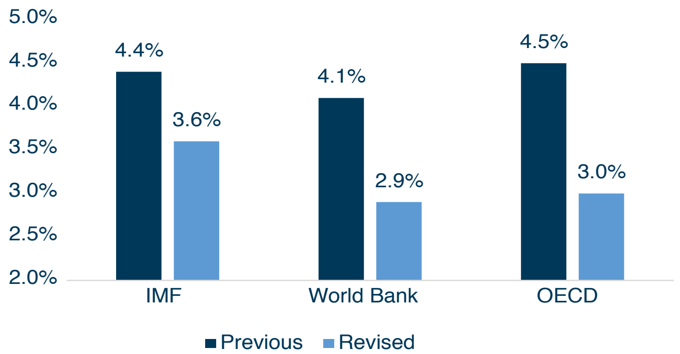
Company Name	Recommendation	TP (SAR per share)	EPS FY21 (SAR)	EPS FY22E (SAR)	DY FY21 (%)	DY FY22E (%)	P/E FY22E
SABIC	Overweight	**117.0**	7.69	7.73	3.2%	4.5%	13.0x
Yansab	Overweight	**59.5**	2.72	2.02	4.4%	6.0%	24.6x
Sipchem	Overweight	**56.5**	4.90	5.28	5.3%	4.9%	8.7x
SABIC Agri	Neutral	**152.0**	10.98	17.74	2.5%	4.5%	7.6x
Saudi Kayan	Neutral	**16.6**	1.59	0.55	-	-	27.7x
Advanced	Neutral	**59.0**	3.12	2.67	3.7%	4.3%	18.9x
Tasnee	Neutral	**18.8**	2.03	1.65	-	-	9.6x

Source: Company financials, Aljazira Capital Research

Petrochemical demand faces new challenges, as global economic growth is likely to be slower than earlier expectations. However, continued energy price crisis, geopolitical risks, and global plants shutdown are expected to keep products prices high in short to medium terms.

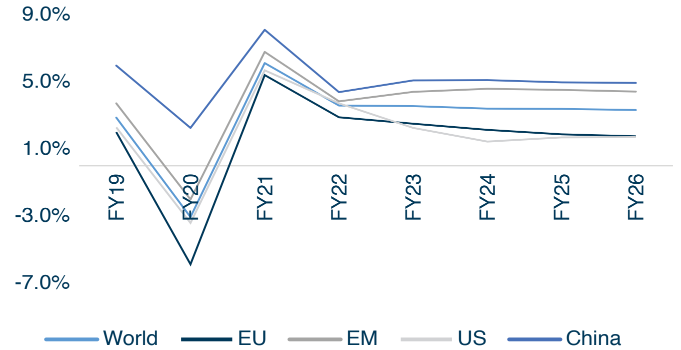
The year 2022 was supposed to be the year of recovery for the global economy after two years of the pandemic. However, continued supply chain issues and elevated fuel prices worsened by the Russia-Ukraine war, high inflation levels, and interest rate hikes by central banks worldwide are impacting economic growth. The International Monetary Fund (IMF) lowered its FY22 growth forecasts for global GDP by around 80 bps to 3.6% in April 2022, and a further downgrade is expected, as per IMF officials. Recently, World Bank (2.9%) and OECD (3.0%) lowered their global growth forecasts for FY22. The slower economic growth and higher inflation are likely to impact petrochemical consumption worldwide adversely. However, continued high energy prices and geopolitical risks would keep the supply issue intact among high feedstock prices and global plants shutdown which could maintain most average products prices in short/mid-terms at higher level compared to average prices in FY20 and FY21.

Figure 1. Downward revisions to global GDP growth forecasts



Source: IMF, World Bank, OECD, Aljazira Capital Research

Figure 2. GDP growth forecast for major economies

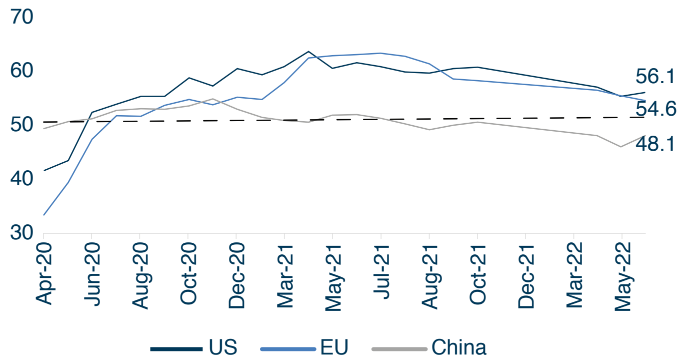


Source: IMF, Aljazira Capital Research

Manufacturing sector's battle with supply-side issues and COVID-19 restrictions continues

Manufacturing sector in the US and eurozone has been recovering from the pandemic, with activity in the sector consistently expanding as economies opened with receding impact of COVID-19. However, supply chain concerns, higher input, and labor costs continued to hold back manufacturing sector. Particularly in the past few months, since the outbreak of the Russia-Ukraine war and fresh lockdowns in China, the sector has been witnessing a slowdown in activity. Manufacturing activity has been consistently contracting in China for the past few months, bearing the impact of the country's zero-COVID policy. Although supply chain problems are expected to continue in the short run, gradual softening is seen with easing restrictions in China.

Figure 3. Manufacturing PMI

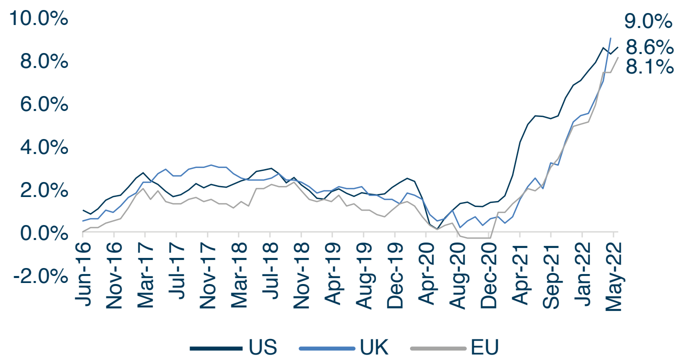


Source: Bloomberg, ISM, Aljazira Capital Research

Inflationary pressure adds to demand woes

Inflation levels currently have jumped to alarming high in major economies. US inflation for May was at 8.6%, the highest in 40 years. Inflation in EU and the UK are also at multi-year high levels. Such high inflation levels would impact spending and purchasing power of consumers. Thus, adding to the factors mentioned above impacting global petrochemical demand. Additionally, high inflation levels and economic slowdown, if continued for a longer period, pose a risk of stagflation in front of global economy.

Figure 4. Inflation at multi-year highs

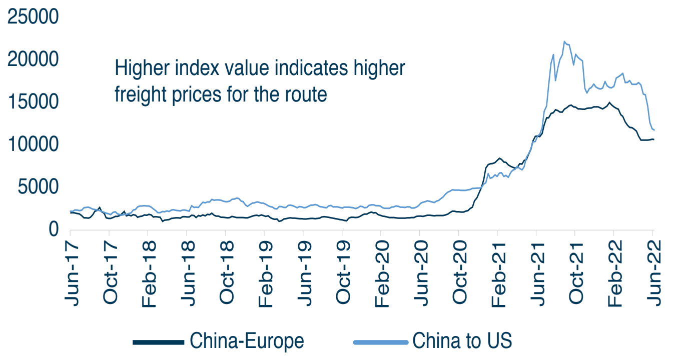


Source: Bloomberg, Aljazira Capital Research

Supply chain pressure seems to ease with downward trend in freight costs as China lifts lockdowns

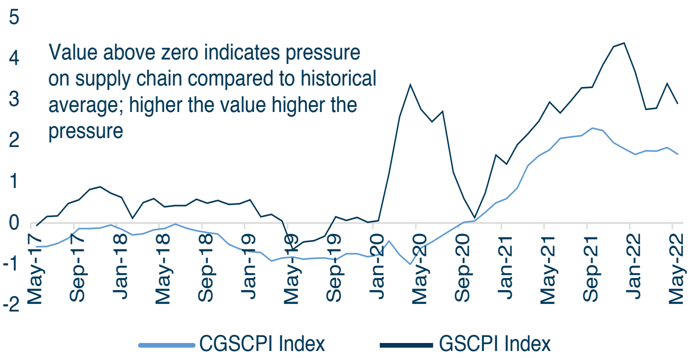
Multiple waves of COVID-19 followed by lockdowns in different regions of the world at different times led to disruption in global supply chain. This resulted in a multi-fold jump in shipping costs. Margins of petrochemical companies' margins have been negatively impacted by higher shipping costs for the past few quarters. Recently, new wave of the pandemic in China and zero-covid policy implemented by the Chinese government impacted supply chains adversely. With easing of restrictions in the country, the pressure has started to alleviate, showing signs of recovery in May and June. Although freight prices are still very high compared to pre-COVID level, a continued decrease in shipping costs would benefit petrochemical companies.

Figure 5. Freight Indices



Source: Bloomberg, Freightos

Figure 6. Global Supply Chain Pressure Indices

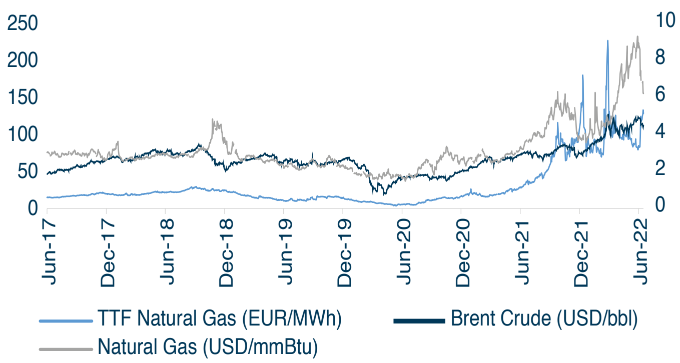


Source: Bloomberg, Federal Reserve Bank of New York

Prolonged Russia-Ukraine war – an opportunity in difficulty: Saudi petrochemical players with discount/fixed feedstock prices hold a competitive advantage.

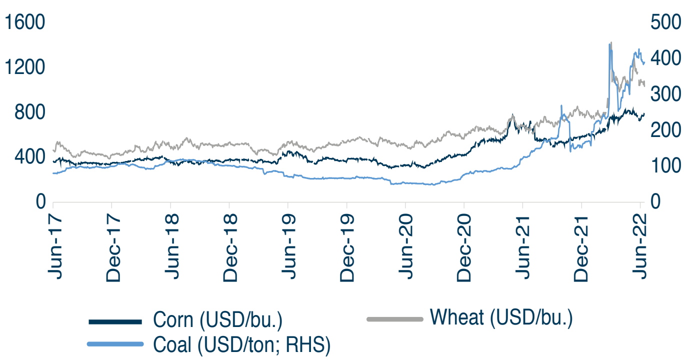
Russia-Ukraine war started in late February, has stretched beyond expectations. Following the attack on Ukraine, Russia faced several sanctions from the US, Europe, and other countries. Russia being one of the top crude oil exporters, the largest exporter of fertilizers, and a major supplier of some other commodities, sanctions resulted in tighter supply of crucial commodities such as oil, natural gas, wheat, corn, and fertilizers. The surge in oil and natural gas prices led to a sharp increase in key petrochemical feedstock prices, which led to supply distribution via plants shutdown and NG shortage.

Figure 7. Oil and Natural Gas Prices



Source: Bloomberg

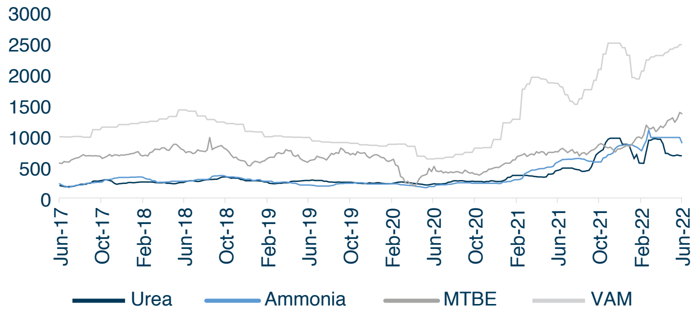
Figure 8. Commodity Prices



Source: Bloomberg

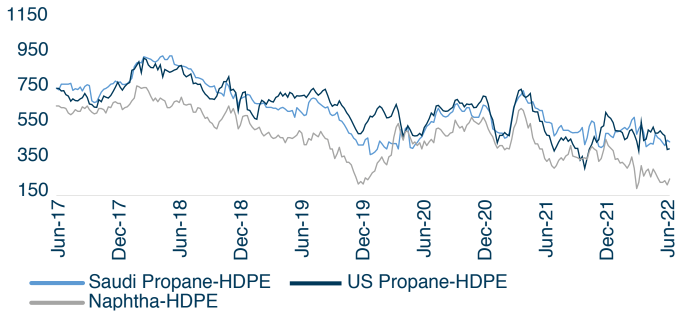
KSA petrochemical sector may have a competitive advantage: Overall, higher feedstock prices impact petrochemical companies' margins. Many petrochemical plants, particularly in Europe, are forced to shut down due to a spike in feedstock prices. Natural gas supply is expected to remain tight owing to ongoing Russia-Ukraine war, which will keep feedstock prices high. However, Saudi companies stand out in such a scenario, given their ability to procure feedstocks at discounted and regularized (fixed) costs. Hence, the impact of higher feedstock prices on Saudi petrochemical firms would be lower compared to their global peers and would ensure high products prices levels in short to medium terms for the interest of Saudi petrochemical players.

Figure 9. Methane-based Products Prices



Source: Argaam, AJC Research

Figure 10. Spreads Trend



Source: Argaam, AJC Research

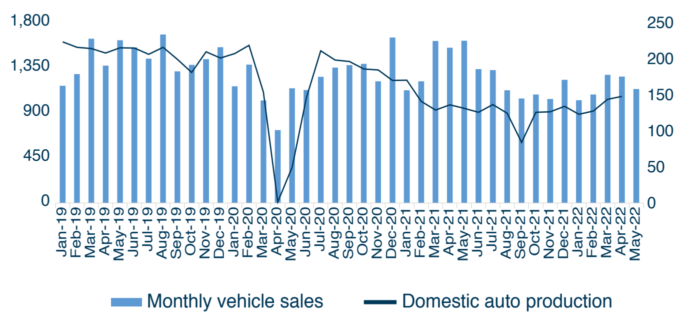
Products with methane as feedstocks, such as urea, ammonia, MTBE, and VAM, have surged more than 150% since beginning of FY21, while feedstock cost for Saudi companies is fixed at USD 1.25/mmbtu form methane. Similarly, ethane prices are also fixed at USD 1.75/mmbtu. This gives advantage to Saudi petrochemical players compared to their global players in terms of maintaining healthy margins. Propane-PE spreads increased recently for KSA players compared to spreads in the international market.

Automobile sector is engrossed in supply constraints, but an uptrend in auto production has been seen recently

Automobile sector is one of the key sectors for petrochemical consumption, as most of the components are made from various kind of petrochemical products. Since the pandemic, auto sector has been witnessing supply issues related to a shortage of semiconductors. Pressure from supply constraints and higher lead times continues to impact automobile manufacturing. Production levels in the US have increased on Y/Y basis in March (+11.5%) and April (+8.4%) this year, after declining for several months in a row earlier. This might be indicative of easing supply-side pressure. However, total vehicle sales in the US continue to fall, recording a decline of 29.7% Y/Y in May.

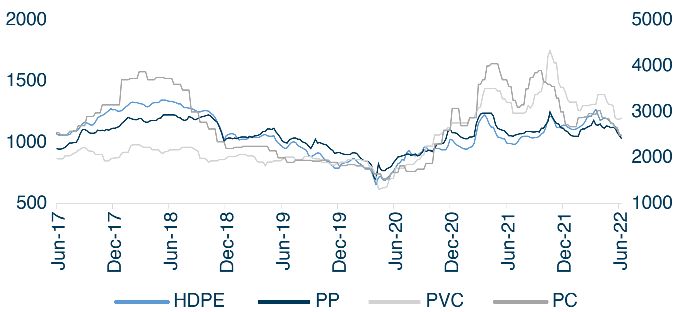
Another factor that needs to be highlighted here is how the demand side reacts under current higher level of inflation and rising interest rates. Because if automobile demand gets impacted by the lower purchasing power due to these factors, production levels will remain low. Thus, impacting petrochemical demand from the automobile sector for the products such as HDPE, PP, PC, PVC.

Figure 11. US Monthly Vehicle Sales and Domestic Production ('000)



Source: FRED, Countryeconomy, AJC Research

Figure 12. Price Trend for Petrochemicals Used in Automobiles

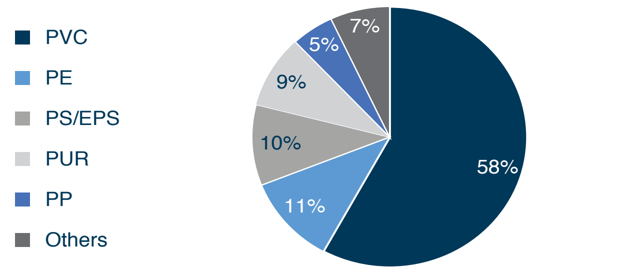


Source: FRED, Countryeconomy, AJC Research

Construction sector demand to be impacted by economic slowdown and rate hikes; certain emerging markets likely to draw demand

Construction is another sector where petrochemicals are widely used. The sector's growth is expected to be impacted higher energy prices, inflation and economic slowdown. Further, interest rate hikes by the central banks across the globe is weighing on economic feasibility of infrastructure projects. However, certain emerging markets such as India are expected to witness some activity in the sector, thus drawing demand for petrochemicals. Moreover, economic stimulus plans by Chinese government might encourage infrastructure projects and provide boost to the crisis-ridden sector.

Figure 13. Key Petrochemicals Used in Construction



Source: ICIS Analytics, Aljazira Capital Research

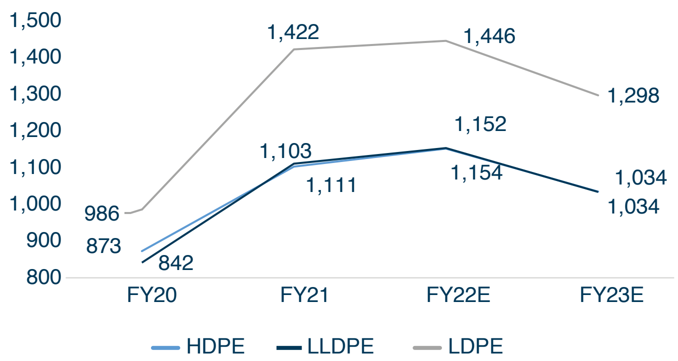
Products outlook

Polyethylene

Polyethylene (PE) supply is expected to increase in Q3-22 due to capacity addition in China and Southeast Asia. However, unplanned outages due to fire at two major production units in China limit increase in supply to some extent. In the long term, PE capacity is expected to increase at CAGR of 4.7%, while production is anticipated to rise at CAGR of 3.7% during FY21-26, according to IHS Markit. Consumption of PE is expected to be driven by easing of COVID restrictions and economic stimulus package from Chinese government.

We expect average HDPE prices to increase 4.4% to USD 1,152 per ton in FY22 and decrease 10.2% to USD 1,034 per ton. LDPE and LLDPE prices are estimated to rise 1.7% and 3.8% in FY22, while would decline 10.3% and 10.4%, respectively, in FY23.

Figure 14. PE Average Prices



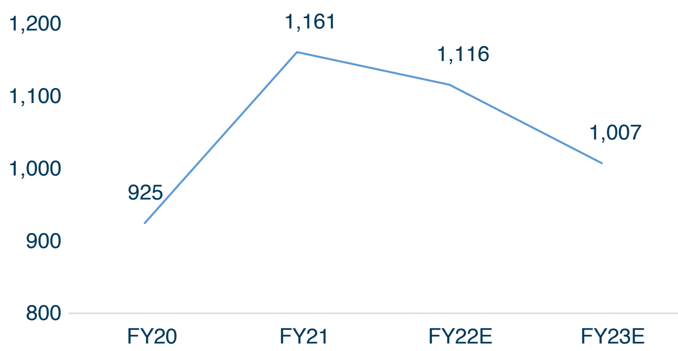
Source: Argaam, Aljazira Capital Research

Polypropylene

Similar to PE, polypropylene (PP) supply is also expected to increase in mid-long term. According to IHS Markit, global PP capacity is expected to increase to 112.0mn metric tons by FY25 from 90.5mn tons in FY21. Most of the capacity addition is expected to come from China, while some additions are expected to come from North America as well. In FY22, total new capacity in China is estimated to be at 6.05mn tons of which 4.75mn tons is due in H2-22, according to ICIS. PP demand from healthcare sector in China is likely to be strong due to PCR testing centers established by the government. Whereas inflationary pressure globally may have negative impact on PP consumption.

Given the overcapacity concerns, we expect average PP prices to drop 3.9% to USD 1,116 per ton in FY22. A further decrease of 9.7% to USD 1,007 per ton is estimated in FY23.

Figure 15. PP Average Prices



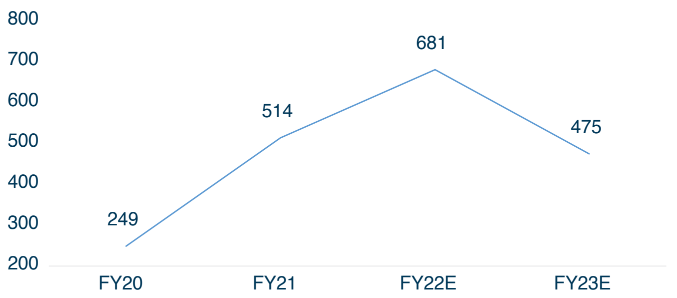
Source: Argaam, Aljazira Capital Research

Urea

In Q2-22, urea prices eased owing to re-exports from the US and aggressive selling of sanctioned Russian products. Supply is expected to remain abundant in H2-22, with products from new capacities coming into the market. Demand is expected to recover gradually by early next year with a price fall. Total new capacity of 12.1mn ton (excluding China) is expected to be added till FY26, of which 5.1mn ton is expected in FY22, as per Yara company. According to Argus Media data, net new additions during 2022-23 are expected to be 7.4mn tons. However, some new capacities are from Russia, and their commissioning might be impacted by ongoing war.

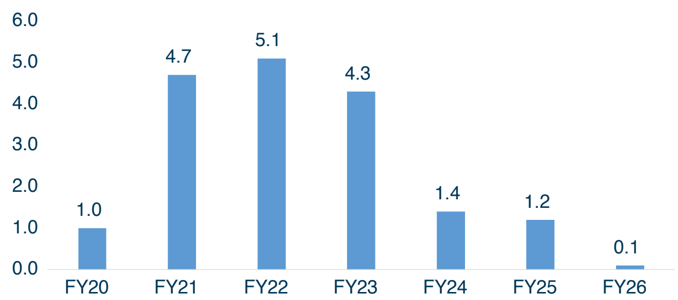
We expect average urea prices to increase 32.5% to USD 681 per ton in FY22, while a drop of 30.2% to USD 475 per ton is estimated in FY23 due to sluggish demand scenario and additional capacity.

Figure 16. Urea Average Prices



Source: Argaam, Aljazira Capital Research

Figure 17. New Urea Capacity (ex-China; mn tons)

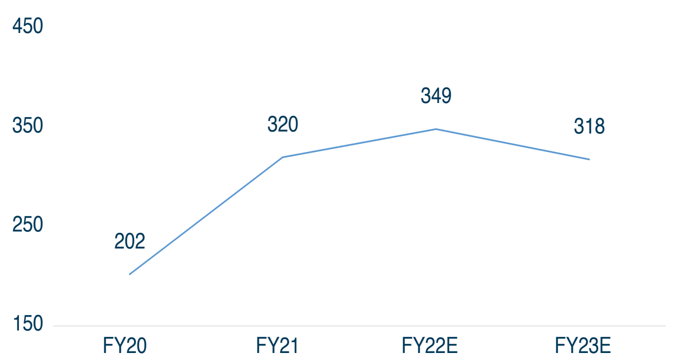


Source: Yara, Aljazira Capital Research

Methanol

Methanol supplies continue to be plentiful globally as Russian supplies find ways into other markets after being banned from Europe. Demand is less likely to improve in the short term owing to expected economic slowdown. However, demand growth is anticipated to be higher in the long term than upcoming capacity additions. According to Methanex, global methanol consumption is expected to clock a CAGR of ~3% during FY21-25, while growth capacity will be comparatively slower, thus leading to increase in operating rates. We expect average methanol prices to increase 8.9% to USD 349 per ton in FY22, after increasing by 58.4% in FY21. In FY23, prices are expected to fall back to FY21 levels, recording a decline of 8.8%.

Figure 18. Methanol Average Prices



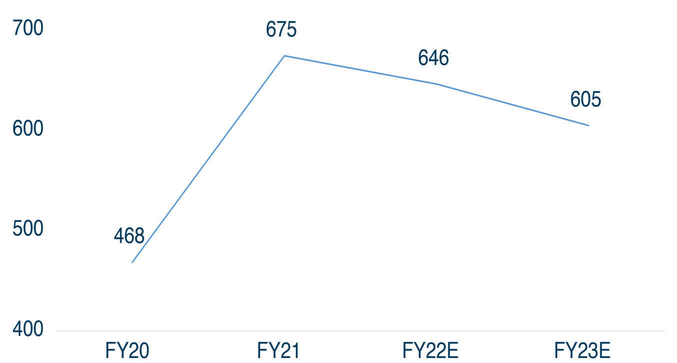
Source: Argaam, Aljazira Capital Research

MEG

MEG demand continues to be subdued, as despite easing of lockdowns in China recovery was slow. Downstream polyester fibers demand is impacted by sluggishness in textile industry. Global MEG capacity is expected to grow 5.6% annually during FY21-26 from 48.8mn tons to 64.1mn tons, according to IHS Markit. On the other hand, demand for MEG is expected to be at slower rate of 3.7% during same period. This is expected to weigh on MEG prices.

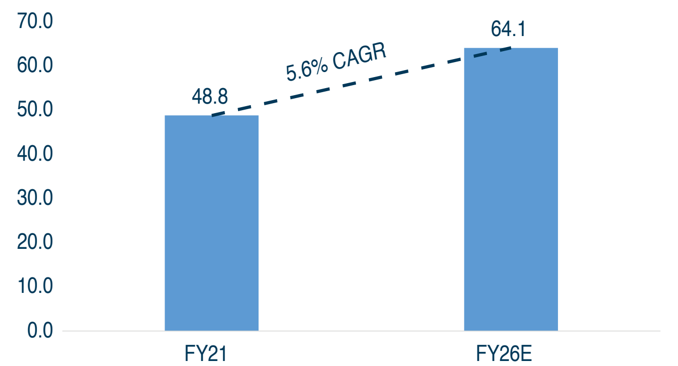
We expect average MEG prices to decrease 4.2% to USD 646 per ton in FY22. In FY23, prices are expected to reduce further to USD 605 per ton, reflecting a decline of 6.4%.

Figure 19. MEG-Asia Average Prices



Source: Argaam, Aljazira Capital Research

Figure 20. MEG Global Capacity Addition

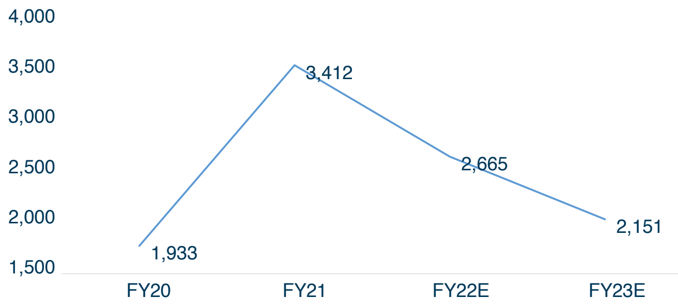


Source: IHS Markit, Aljazira Capital Research

Polycarbonate (PC)

Outlook for PC remains muted, as demand from the end user industries continues to be sluggish. Automobile and electronics sector is impacted by chip shortages, while construction sector is affected by high raw material prices amid inflationary pressure. Moreover, as per ICIS, new capacity addition is expected in China in future for PC, further weakening the outlook. We expect average PC prices to decline 21.9% to USD 2,665 per ton in FY22. In FY23, prices are expected to reduce further to USD 2,151 per ton, reflecting a decline of 19.3%.

Figure 21. PC Average Prices



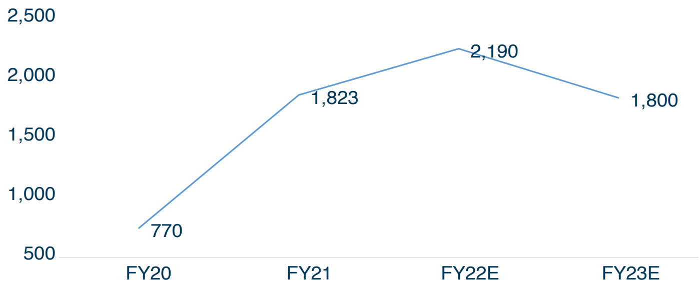
Source: Argaam, Aljazira Capital Research

VAM

VAM supply is expected to remain constrained due to ongoing production issues in some of the plants in the US, while demand is likely to be health driven by positive outlook for China's photovoltaic industry. However, steep rise in prices in the past two years is weighing affordability in the downstream industries, thus impacting demand and which might lead to partial easing of VAM prices.

We expect average VAM prices to jump 20.1% to USD 2,190 per ton in FY22. However, prices are expected retreat to USD 1,800 per ton in FY23.

Figure 22. VAM Average Prices



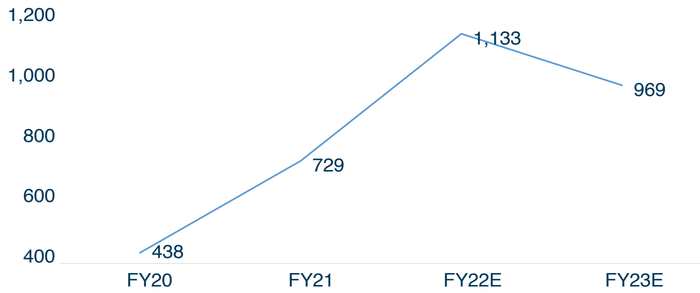
Source: Argaam, Aljazira Capital Research

MTBE

MTBE demand is expected to be strong driven by higher gasoline demand in Europe and the US. Thus, expected higher consumption of MTBE for gasoline blending.

We expect average MTBE prices to surge 55.4% to USD 1,133 per ton in FY22. In FY23, prices are expected to ease to USD 969 per ton, reflecting a decline of 14.5%.

Figure 23. MTBE Average Prices

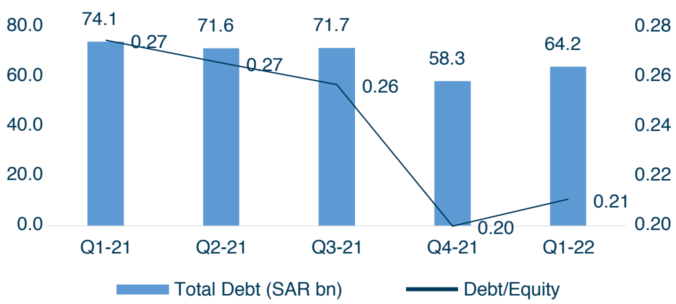


Source: Argaam, Aljazira Capital Research

Total debt in the sector reduced; high debt companies to be impacted amid rising interest rates

Total debt for the Saudi petrochemical companies under our coverage has reduced to SAR 64.2bn as of March 2022 compared to SAR 74.1bn as of March 2021, a decline of 13.4%. Debt to equity ratio has also improved from 0.27x to 0.21x during same period. Saudi Kayan and Tasnee are most leveraged companies in the sector. Saudi Kayan holds total debt of SAR 13.0bn, reflecting debt to equity ratio of 0.8x. The company paid finance expensing amounting to SAR 279.1mn in FY21. Tasnee's total debt stands at SAR 6.8bn with debt to equity ratio of 0.7x and it paid finance charges worth SAR 169.8mn in FY21. Thus, higher interest rates are expected to impact these two companies the most.

Figure 24. Petrochemical Sector Debt and Leverage Ratio



Source: Argaam, Aljazira Capital Research

Table 2. Company-wise Debt and Leverage

Company	Total Debt (SAR mn)	Debt/Equity
Saudi Kayan	13,011	0.8x
Tasnee	6,754	0.7x
Sipchem	5,062	0.3x
Advanced	1,079	0.3x
SABIC	38,269	0.2x
SABIC Agri-nutrients	0	0.0x
Yansab	0	0.0x
Total	64,175	0.2x

Source: Argaam, Aljazira Capital Research

Saudi Basic Industries Corp. (SABIC): Placed well to sail through market uncertainties with diverse portfolio, cost synergies and expansion plans.

SABIC's growth in mid-long term would be driven by expansion plans and improved margins due to cost synergies; expected to be realized from acquisition of 70% stake in the company by Saudi Aramco. Additionally, diverse product portfolio and geographic presence is likely to ensure consistent performance amid market volatility. We recommend "Overweight" rating on the stock with a TP of SAR 117.0 per share.

- **Top line growth on the back of higher average selling prices:** SABIC's revenue is estimated to increase 10.9% to SAR 193.9bn in FY22, while decline 13.0% to SAR 168.8bn in FY23. The revenue growth in FY22 would primarily be driven by higher average selling prices, which are expected to ease in FY23. Average MTBE prices are forecast to surge 55.4% to USD 1,133 per ton in FY22, before falling to the average of USD 969 per ton in FY23. Ethylene prices are anticipated to rise 11.0% to USD 1,121 per ton in FY22 but decrease 8.5% to USD 1,026 per ton in FY23. Methanol prices estimated to increase 8.9% in FY22 and decrease 8.8% in FY23. Average MEG-SABIC prices are forecast to increase 14.5% in FY22, before falling to the average of USD 925 per ton in FY23. SABIC is expected to post SAR 23.2bn in net income (7.73 EPS) for FY22, compared to SAR 23.06bn recorded for FY21.
- **Short-term pressure on margins; synergies to boost performance in the long term:** SABIC's GP margin is expected to reduce to 28.3% in FY22 from 29.2% a year earlier. In FY23, GP margin would rise to 30.7% due to our estimate of lower LNG feedstock prices. More than half of the company's feedstock being fixed cost based would support its GP margin. Additionally, SABIC expects to realize its annual share of combined synergy with Saudi Aramco worth SAR 5.6bn to 6.8bn by FY25. SABIC's value capture associated with Saudi Aramco until Q1-22 (since 16th June 2020) is SAR 2.09bn (USD 557mn).
- **Scope for capital hike:** SABIC has large amount of retained earnings at SAR 34.3bn as of Q1-22. Hence, there is possible of capital increase through bonus share in future. The increased capital can be employed into the company's expansion plans.
- **Healthy dividend yields anticipated:** The company paid a healthy dividend of SAR 2.25 per share in H1-22, and we expect same amount to be paid in H2-22. This implicates a dividend yield of 4.5% at current market price, and we expect dividend yield to remain strong at 4.0% in FY23. The company's healthy dividend payments would be well supported by good amount of liquidity (cash + short-term investments of more than SAR 50bn), in addition to financial performance.

Valuation: We value SABIC with 50% weightage to DCF based SOTP (risk free rate = 3.5%, WACC = 8.9%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY23 P/E (15.0x) and EV/EBITDA (9.5x) multiples each to arrive at a blended TP of **SAR 117.0 per share**. The stock currently trades at FY22 and FY23 forward P/E of 13.0x and 13.4x, respectively, based on our estimates.

Blended Valuation

	Fair Value	Weight	Weighted Avg
DCF-SOTP	113.5	50%	56.7
EV/EBITDA	129.5	25%	32.4
P/E	112.0	25%	28.0
Weighted Avg 12-month TP			**117.0**
Upside/(downside) potential			**16.5%**

Source: Company reports, Aljazira Capital

Overweight

Target Price (SAR)	**117.0**
Upside / (Downside)*	**17.0%**

Source: Tadawul *prices as of 23rd of June 2022

Key Financials

in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenues	116,949	174,883	193,956	168,815
Growth %	-13.6%	49.5%	10.9%	-13.0%
Net Income	67	23,066	23,184	22,407
Growth %	NM	NM	0.5%	-3.3%
EPS	0.02	7.69	7.73	7.47

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	19.6%	29.2%	28.3%	30.7%
Net Margin	0.1%	13.2%	12.0%	13.3%
P/E (x)	High	16.21	13.0	13.4
P/B (x)	1.79	2.1	1.6	1.5
EV/EBITDA (x)	14.9	8.1	6.2	6.3
Dividend Yield	3.0%	3.2%	4.5%	4.0%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	301.2
YTD %	13.5%
52 Week (High / Low)	141.4 / 99.0
Shares Outstanding (mn)	3000

Source: Company reports, Aljazira Capital

Stock Performance

Source: Company reports, Aljazira Capital

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E
Income statement						
Revenues	135,396	116,949	174,883	193,956	168,815	164,401
YoY growth	**-19.9%**	**-13.6%**	**49.5%**	**10.9%**	**-13.0%**	**-2.6%**
Cost of sales	(105,991)	(94,078)	(123,796)	(139,147)	(116,917)	(115,453)
Gross profit	**29,405**	**22,871**	**51,087**	**54,809**	**51,897**	**48,948**
General & administrative expense	(19,616)	(19,306)	(21,120)	(24,113)	(21,608)	(20,961)
Operating profit	**11,955**	**4,503**	**33,600**	**34,278**	**33,531**	**31,176**
YoY growth	**-66.7%**	**-62.3%**	**646.2%**	**2.0%**	**-2.2%**	**-7.0%**
Share in earnings of equity-accounted investees	(1,595)	66	2,453	2,901	3,142	3,669
Financial Charges/Earnings On Deposits	(1,160)	(1,292)	(1,965)	(1,718)	(2,232)	(2,147)
Profit before zakat & minority interest	**9,199**	**3,277**	**34,088**	**35,460**	**34,441**	**32,697**
Minority interest	(1,406)	(1,189)	(7,436)	(8,288)	(8,152)	(7,399)
Zakat	(2,595)	(2,021)	(3,586)	(3,989)	(3,882)	(3,687)
Net profit	**5,198**	**67**	**23,066**	**23,184**	**22,407**	**21,612**
YoY growth	**-75.8%**	**NM**	**NM**	**0.5%**	**-3.3%**	**-3.6%**
Balance sheet						
Assets						
Cash and bank balance	36,639	33,156	41,403	49,612	53,231	56,915
Other current assets	45,325	42,381	60,929	65,667	63,855	64,218
Property plant & equipment	136,416	136,180	131,019	129,964	129,208	128,771
Other non-current assets	70,102	72,272	73,664	75,954	78,304	80,699
Total assets	**300,481**	**295,469**	**318,439**	**332,704**	**336,187**	**342,276**
Liabilities & owners' equity						
Total current liabilities	37,543	37,493	49,405	51,300	44,842	43,634
Long-term loans	34,354	38,794	32,670	34,304	33,961	32,263
Total non-current liabilities	21,771	24,944	24,530	24,775	25,023	25,273
Minority interests	28,091	26,611	31,693	32,501	33,329	33,663
Paid -up capital	30,000	30,000	30,000	30,000	30,000	30,000
Statutory reserves	15,000	15,000	15,000	15,000	15,000	15,000
General reserves	107,624	107,555	107,346	107,346	107,346	107,346
Retained earnings	26,098	15,071	27,795	37,478	46,685	55,097
Total owners' equity	178,722	167,626	180,141	189,824	199,031	207,443
Total equity & liabilities	**300,481**	**295,469**	**318,439**	**332,704**	**336,187**	**342,276**
Key fundamental ratios						
Current ratio (x)	2.3	2.2	2.2	2.4	2.8	3.3
Cash ratio (x)	1.0	0.9	0.8	1.0	1.3	1.6
Gross profit margin	21.72%	19.6%	29.2%	28.3%	30.7%	29.8%
Operating margin	8.83%	3.9%	19.2%	17.7%	19.9%	19.0%
EBITDA margin	21.87%	17.5%	25.8%	23.3%	26.8%	26.1%
Net profit margin	3.84%	0.1%	13.2%	12.0%	13.3%	13.1%
Return on assets	1.68%	0.0%	7.5%	7.1%	6.7%	6.4%
Return on equity	2.96%	0.0%	13.3%	12.5%	11.5%	10.6%
Interest coverage (x)	10.30	3.49	17.10	19.95	15.03	14.52
Debt / equity (x)	0.20	0.26	0.18	0.18	0.17	0.16
EV/sales (x)	2.06	2.61	2.09	1.47	1.67	1.68
EV/EBITDA (x)	9.43	14.91	8.10	6.19	6.23	6.44
EPS (SAR)	1.73	0.02	7.69	7.73	7.47	7.20
BVPS (SAR)	59.57	55.88	60.05	63.27	66.34	69.15
Dividend yield	4.7%	3.7%	2.6%	4.5%	4.0%	4.0%
P/E ratio (x)	54.19	4,489.34	16.21	12.99	13.44	13.94
P/BV ratio (x)	1.58	1.79	2.08	1.59	1.51	1.45

Source: Company reports, Aljazira Capital

Yanbu National Petrochemical Company (Yansab): Healthy dividends supported by strong balance sheet and FCF makes valuation attractive

Yansab has sound financials with debt free balance sheet and strong free cash flows. We expect the stock to generate healthy dividend yield of above 5%. The company's operating rates are expected to improve in FY23, which dropped this year due to the impact of last year's maintenance turnaround. Margins would be under pressure due to higher feedstock prices, particularly significant deterioration in Propane-MEG spreads in FY22; however GP margin is likely to improve in FY23. We recommend "Overweight" rating on the stock with a TP of SAR 59.50 per share.

- **Operating rates and gross margin to improve during 2023:** Based on our calculation, operating rates drop to an average of 91% during Q4-21/Q1-22 after the maintenance turnaround, compared to an average of 101% before maintenance. However, we expect operating rates to return to normal rates by the end of FY22. Thus, Yansab's bottom line growth in FY23 is expected to be driven by better operating rates, and gross margin due to expected lower feedstock prices for 2023.
- **Significant drop in spreads for key products to weight on margins:** We forecast GP margin to contract to 21.8% in FY22 (FY21: 29.1%), before recovering to 25.5% in FY23. The decline in GP margin this year would be due to higher feedstock prices. Propane-MEG have seen significant deterioration in Q2-22. Propane-MEG spreads are likely to remain under pressure for Q2-22 with subdued downstream demand for MEG and high inventory levels. The company's net income is forecast to decline to SAR 1.1bn, down 25.5% in FY22. The bottom line is estimated to increase 13.8% to SAR 1.3bn in FY23.
- **Dividend yield to remain attractive:** Yansab's debt free balance sheet (excluding lease liabilities) and strong FCF generation makes it financially strong. The company's FCF/share stood at SAR 3.4 in FY21. Hence, we expect Yansab to continue to maintain high dividend payout of more than 100%. At current market valuation, with share price down ~30% in last three months, the stock provides dividend yield of 6.0% for FY22 and 5.0% for FY23, based on our estimates.

Valuation: We value Yansab with 50% weightage to DCF (risk free rate = 3.5%, WACC = 8.7%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY23 EV/EBITDA (11.5x) multiple and dividend yield based valuation each to arrive at a blended TP of **SAR 59.50 per share.** The stock currently trades at FY22 and FY23 forward P/E of 24.6x and 21.6x, respectively, based on our estimates.

Blended Valuation

	Fair Value	Weight	Weighted Avg
DCF-SOTP	58.1	50%	29.0
EV/EBITDA	62.3	25%	15.6
P/E	60.0	25%	15.0
Weighted Avg 12-month TP			**59.5**
Upside/(downside) potential			**19.7%**

Source: Company reports, Aljazira Capital

Overweight

Target Price (SAR)	**59.50**
Upside / (Downside)*	**19.7%**

Source: Tadawul *prices as of 23rd of June 2022

Key Financials

in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenues	5,035	7,408	7,927	7,296
Growth %	-17.0%	47.1%	7.0%	-8.0%
Net Income	678	1,531	1,139	1,294
Growth %	-37.8%	126.0%	-25.6%	13.7%
EPS	1.20	2.72	2.02	2.30

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	21.6%	29.1%	21.8%	25.5%
Net Margin	13.5%	20.7%	14.4%	17.7%
P/E (x)	52.88	24.91	24.55	21.60
P/B (x)	2.39	2.54	1.87	1.87
EV/EBITDA (x)	17.85	12.50	10.71	9.68
Dividend Yield	3.9%	4.4%	6.0%	5.0%

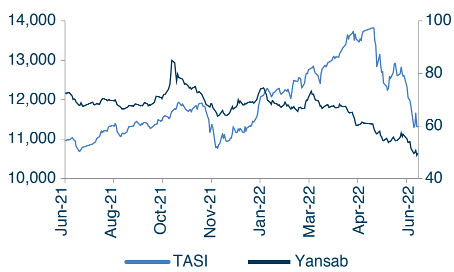
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	27.95
YTD %	27.66%
52 Week (High / Low)	86.50 / 48.20
Shares Outstanding (mn)	562.50

Source: Company reports, Aljazira Capital

Stock Performance



Source: Company reports, Aljazira Capital

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E
Income statement						
Revenues	6,065	5,035	7,408	7,927	7,299	7,163
Revenue Growth	**-20.5%**	**-17.0%**	**47.1%**	**7.0%**	**-7.9%**	**-1.9%**
Cost of sales	(4,567)	(3,946)	(5,253)	(6,202)	(5,441)	(5,324)
Gross profit	**1,498**	**1,089**	**2,154**	**1,725**	**1,858**	**1,838**
General & administrative expense	(402)	(361)	(503)	(532)	(490)	(481)
Operating profit	**1,096**	**728**	**1,651**	**1,193**	**1,368**	**1,357**
Operating profit growth	**-53.6%**	**-33.6%**	**126.9%**	**-27.8%**	**14.7%**	**-0.8%**
Other income	155	115	107	123	123	123
Financial charges	(26)	(25)	(29)	(25)	(23)	(20)
Profit before zakat & minority interest	**1,225**	**817**	**1,729**	**1,291**	**1,469**	**1,460**
Zakat	(135)	(140)	(197)	(152)	(173)	(172)
Net profit	**1,090**	**678**	**1,531**	**1,139**	**1,295**	**1,288**
Net profit growth	**-54.9%**	**-37.8%**	**126.0%**	**-25.6%**	**13.8%**	**-0.6%**
Balance sheet						
Assets						
Cash and bank balance	136	20	276	871	1,589	2,548
Other current assets	5,706	5,918	7,337	7,590	7,419	7,428
Property plant & equipment	11,849	11,078	10,128	9,298	8,477	7,665
Total assets	**18,070**	**17,340**	**18,108**	**18,128**	**17,856**	**18,015**
Liabilities & owners' equity						
Total current liabilities	1,153	1,339	1,785	1,691	1,287	1,284
Total non-current liabilities	775	1,015	1,280	1,455	1,657	1,888
Share capital	5,625	5,625	5,625	5,625	5,625	5,625
Statutory reserves	1,688	1,688	1,688	1,688	1,688	1,688
Retained earnings	8,838	7,828	7,813	7,756	7,691	7,627
Total owners' equity	16,151	15,141	15,125	15,068	15,004	14,939
Total equity & liabilities	**18,070**	**17,340**	**18,108**	**18,128**	**17,856**	**18,015**
Key fundamental ratios						
Current ratio (x)	5.1	4.4	4.3	5.0	7.0	7.8
Cash ratio (x)	0.1	0.0	0.2	0.5	1.2	2.0
Gross profit margin	24.7%	21.6%	29.1%	21.8%	25.5%	25.7%
Operating margin	18.1%	14.5%	22.3%	15.0%	18.7%	18.9%
EBITDA margin	43.2%	39.8%	40.9%	31.9%	37.3%	37.9%
Net profit margin	18.0%	13.5%	20.7%	14.4%	17.7%	18.0%
Return on assets	5.9%	3.8%	8.6%	6.3%	7.2%	7.2%
Return on equity	6.5%	4.4%	10.2%	7.6%	8.7%	8.7%
Interest coverage (x)	42.03	29.37	57.42	47.05	60.23	67.86
EV/sales (x)	5.16	7.11	5.11	3.42	5.95	6.01
EV/EBITDA (x)	11.96	17.85	12.50	10.71	15.93	15.86
EPS (SAR)	1.94	1.20	2.72	2.02	2.30	2.29
BVPS (SAR)	28.70	26.64	26.74	26.63	26.51	26.39
Dividend yield	6.7%	3.9%	4.4%	6.0%	5.0%	4.8%
P/E ratio (x)	28.85	52.88	24.91	24.55	21.58	21.71
P/BV ratio (x)	1.95	2.39	2.54	1.87	1.87	1.88

Source: Company reports, Aljazira Capital

Sahara International Petrochemical Company (Sipchem): A positive product outlook

Sipchem is expected to deliver strong performance in FY22 with 7.9% growth in net income to SAR 3.9bn. Higher prices of products such as VAM, AA, and Methanol, healthy gross margins, and higher income from JVs and associates are expected to drive the bottom-line growth. The company is expected to maintain good margin levels in the mid-term as well. We are positive on the stock with an "Overweight" rating and TP of SAR 56.5 per share.

- **Higher product prices to aid strong revenue for the second consecutive year:** Sipchem's revenue is forecast at SAR 9.7bn (-2.3% Y/Y) in FY22. The decline is expected to be due to a higher base last year and the impact of scheduled maintenance. Higher key product prices would support the healthy topline. We estimate average VAM (+20.1%) and Methanol (+8.9%) prices to continue to increase in FY22 before moderating in FY23. VAM prices are expected to stay higher due to tight supply amid production outages in the US and Asia and strong downstream demand from EVA sector driven by expected photovoltaic industry growth in China. However, acetic acid prices are anticipated to drop 24.0% in FY22 and 7.7% in FY23.
- **An opportunity amid higher feedstock prices:** The company's volumetric sales are likely to get boost from shutdowns in Europe due to higher feedstock prices. As natural gas prices are expected to remain high due to the Russia-Ukraine war, Sipchem is placed well to benefit from the supply gap.
- **The company to maintain healthy margins:** Sipchem enjoys good GP margin despite increased feedstock prices, as the fixed cost methane forms a larger portion of the company's feedstock. The company's GP margin for FY22 is estimated at 54.2%, compared to 55.9% in FY21. We expect the company to continue registering healthy GP margins (significantly above historical average) in mid-to-long term.
- **Synergy targets achieved ahead of time:** Sipchem announced meeting synergy target from its merger with Sahara Petrochemicals. The company realized synergies of SAR 298mn in FY21 ahead of scheduled June 2022. This will help the company to enhance its operating performance.
- **Cash-rich balance sheet to support deleveraging:** As of March 2022, Sipchem holds SAR 3.7bn worth of cash. The company can utilize this cash to deleverage the balance sheet. Sipchem already done some repayments and pre-settlement of the loans during Q1-22, which has reduced finance charges by 34.2% Y/Y. The company can go for further deleveraging to avoid the impact of rising interest rates.

Valuation: We value Sipchem with 50% weightage to DCF (risk free rate = 3.5%, WACC = 8.8%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY23 P/E (15.0x) and EV/EBITDA (9.5x) multiples each to arrive at a blended TP of **SAR 56.5 per share**. Sipchem Co. is expected to post a net profit of SAR 3.87bn for FY22 compared to a net profit of SAR 3.59bn in FY21. The company is trading at a forward PE of 8.7x based on our FY22 earnings forecasts vs. the current TTM of 7.8x.

Blended Valuation

	Fair Value	Weight	Weighted Avg
DCF-SOTP	60.2	50%	30.1
EV/EBITDA	49.9	25%	12.5
P/E	55.6	25%	13.9
Weighted Avg 12-month TP			**56.5**
Upside/(downside) potential			**22.8%**

Source: Company reports, Aljazira Capital

Overweight

Target Price (SAR)	**56.50**
Upside / (Downside)*	**22.8%**

Source: Tadawul *prices as of 23rd of June 2022

Key Financials

in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenues	5,323	9,982	9,749	8,441
Growth %	-2.1%	87.5%	-2.3%	-13.4%
Net Income	175.9	3,592	3,875	2,717
Growth %	-41.3%	NM	7.9%	-29.9%
EPS	0.24	4.90	5.28	3.70

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	22.0%	55.9%	54.2%	48.1%
Net Margin	3.3%	36.0%	39.8%	32.2%
P/E (x)	72.1	8.6	8.7	12.4
P/B (x)	1.0	2.1	2.0	1.8
EV/EBITDA (x)	10.8	5.9	6.1	7.2
Dividend Yield	2.9%	5.3%	4.9%	3.3%

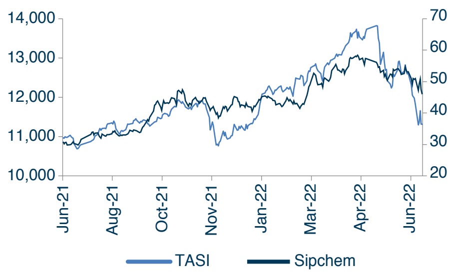
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	33.73
YTD %	9.52%
52 Week (High / Low)	60.0 / 28.35
Shares Outstanding (mn)	733.33

Source: Company reports, Aljazira Capital

Stock Performance



Source: Company reports, Aljazira Capital

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E
Income statement						
Sales revenue	5,440	5,323	9,982	9,749	8,441	8,359
Sales revenue growth	**8.0%**	**-2.1%**	**87.5%**	**-2.3%**	**-13.4%**	**-1.0%**
Cost of sales	(3,804)	(4,150)	(4,402)	(4,464)	(4,385)	(4,428)
Gross Profit	**1,635**	**1,173**	**5,580**	**5,284**	**4,057**	**3,931**
General & administration expenses	(729)	(813)	(1,115)	(951)	(886)	(878)
Operating Profit	**906**	**360**	**4,464**	**4,333**	**3,171**	**3,053**
Operating profit growth	**-17.3%**	**-60.3%**	**NM**	**-2.9%**	**-26.8%**	**-3.7%**
Investment income/Expenses	(119)	153	(269)	35	36	37
Financial charges	(370)	(294)	(319)	(252)	(298)	(286)
Net income of associates and JV investment	(27)	(34)	531	430	390	394
Profit before zakat & minority interest	**390**	**185**	**4,408**	**4,546**	**3,299**	**3,199**
Minoriity interest	55	(119)	(366)	(363)	(269)	(261)
Zakat	(145)	(128)	(450)	(308)	(313)	(304)
Net profit	**300**	**176**	**3,592**	**3,875**	**2,717**	**2,634**
Net profit growth	**-48.6%**	**-41.3%**	**NM**	**7.9%**	**-29.9%**	**-3.0%**
Balance sheet						
Cash & equivalents	1,791	2,130	2,690	5,347	7,466	9,455
Other current assets	2,336	2,476	3,255	3,292	3,133	3,207
Property plant & equipment	13,971	13,016	12,218	11,889	11,532	11,215
Other non-current assets	5,893	5,776	6,340	6,307	6,278	6,255
Total assets	**23,991**	**23,398**	**24,504**	**26,836**	**28,409**	**30,132**
Total current liabilities	1,931	3,465	2,936	3,071	3,202	3,353
Total non-current liabilities	7,722	6,464	5,873	5,566	5,290	5,045
Total liabilities	**9,653**	**9,929**	**8,809**	**8,637**	**8,492**	**8,398**
Share capital	7,333	7,333	7,333	7,333	7,333	7,333
Statutory reserves	1,235	1,253	1,612	2,000	2,271	2,535
Retained earnings	603	398	2,014	4,035	5,380	6,834
Total equity	**13,342**	**12,620**	**14,585**	**16,994**	**18,610**	**20,328**
Total liabilities & shareholders' equity	**23,991**	**23,398**	**24,504**	**26,836**	**28,409**	**30,132**
Key fundamental ratios						
Current ratio (x)	2.1	1.3	2.0	3.3	3.8	4.2
Cash ratio (x)	0.9	0.6	0.9	2.3	2.8	3.2
Gross profit margin	30.1%	22.0%	55.9%	54.2%	48.1%	47.0%
Operating margin	16.7%	6.8%	44.7%	44.4%	37.6%	36.5%
Net Profit margin	5.5%	3.3%	36.0%	39.8%	32.2%	31.5%
EBITDA margin	38.2%	28.6%	55.8%	63.4%	50.7%	48.7%
Return on average assets	1.5%	-0.3%	15.0%	9.8%	9.0%	8.4%
Return on average equity	2.8%	-0.4%	24.6%	14.3%	12.6%	11.5%
Debt / equity (x)	0.53	0.48	0.34	0.24	0.20	0.18
Interest coverage (x)	2.45	1.23	14.00	10.64	10.67	11.04
EV/sales (x)	2.96	3.08	3.31	3.36	3.59	3.35
EV/EBITDA (x)	7.74	10.77	5.94	6.12	7.16	6.83
EPS (SAR)	0.41	0.24	4.90	5.28	3.70	3.59
BVPS (SAR)	18.19	17.21	19.89	23.17	25.38	27.72
P/E ratio (x)	43.82	72.14	8.64	8.70	12.42	12.81
P/BV ratio (x)	0.98	1.01	2.13	1.99	1.81	1.66

Source: Company reports, Aljazira Capital

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

SABIC Agri-Nutrients Co. (SABIC Agri): Higher fertilizers prices bode well; recent increase in price volatility is a key challenge

The sharp increase in fertilizer prices in the past two quarters has helped SABIC Agri-Nutrients post strong revenue and margins. The company's fixed cost-based feedstock would support margin but expected scheduled maintenance turnarounds in FY22-23 would lower operating rates. Furthermore, the product prices, particularly urea, have been very volatile. Thus, we recommend "Neutral" rating on the stock with a TP of SAR 152.0 per share.

- **Tighter fertilizer supply favors revenue growth:** Tight fertilizer supply earlier due to China and Russia reducing their exports and the due to Russia-Ukraine war has led to significant rise in prices. The higher product prices would support revenue growth of 73.1% to SAR 16.6bn in FY22. In FY23, revenue is forecast at SAR 11.4bn, representing a decline of 31.2%, primarily due to easing of product prices. We estimate Urea prices to average at USD 681 per ton in FY22 (+32.6%) and at USD 475 per ton in FY23 (-30.3%).
- **Bottom-line growth driven by higher revenue and healthy margins:** SABIC AN has fixed cost-based feedstock, which enables it to earn lucrative margins when product prices are high and protects margins from increases in feedstock prices globally. We forecast FY22 GP margin at 62.5% compared to 67.8% in FY21 (After the company becomes the marketer to sell its own products). GP margin is expected to fall to 49.2% in FY23. The company's net income is expected to jump 61.5% to SAR 8.4bn in FY22 and then decrease 49.5% to SAR 4.3bn.
- **Operating rates to be lower amid maintenance multiple turnarounds:** SABIC has announced a shutdown due to scheduled maintenance during FY22-23 at Ibn Al-Baytar (H1-22), SAFCO 2 (H2-22), Al-Bayroni (H2-22) and SAFCO 4 (H2-22 to H1-23). These shutdowns would result in lower operating rates and impact margins negatively.
- **Higher dividend expected:** With sharp growth in earnings, increased liquidity (SAR 8.4bn cash and short-term investments, as of March 2022) and lower intensity of CAPEX anticipated, SABIC's dividend payout is likely to improve. We expect higher dividends in FY22 by the company at SAR 6.0/share, generating a yield of 4.5% at current stock price.

Valuation: We value SABIC AN with 60% weightage to DCF based SOTP (risk free rate = 3.5%, WACC = 8.5%, terminal growth = 2.5%) and 20% weightage to relative valuation based on FY23 P/E (17.0x) and EV/EBITDA (14.0x) multiples each to arrive at a blended TP of **SAR 152.0 per share**. The stock currently trades at FY22 and FY23 forward P/E of 7.6x and 14.9x, respectively, based on our estimates.

Neutral

Target Price (SAR)	**152.0**
Upside / (Downside)*	**13.3%**

Source: Tadawul *prices as of 23rd of June 2022

Key Financials

in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenues	3,328	9,592	16,603	11,427
Growth %	1.2%	188.3%	73.1%	-31.2%
Net Income	1,294	5,228	8,444	4,279
Growth %	-12.2%	NM	61.5%	-49.5%
EPS	3.11	10.98	17.74	8.99

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	50.0%	67.8%	62.5%	49.2%
Net Margin	38.9%	54.5%	50.9%	37.4%
P/E (x)	25.9	15.4	7.6	14.9
P/B (x)	4.7	5.2	3.0	2.7
EV/EBITDA (x)	9.4	11.4	5.6	9.4
Dividend Yield	3.1%	2.5%	4.5%	3.0%

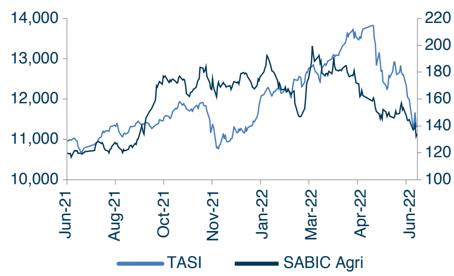
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	63.88
YTD %	24.0%
52 Week (High / Low)	202.40 / 116.80
Shares Outstanding (mn)	476.04

Source: Company reports, Aljazira Capital

Stock Performance



Source: Company reports, Aljazira Capital

Blended Valuation

	Fair Value	Weight	Weighted Avg
DCF-SOTP	146.3	60%	87.8
EV/EBITDA	168.2	20%	33.6
P/E	152.8	20%	30.6
Weighted Avg 12-month TP			**152.0**
Upside/(downside) potential			**13.3%**

Source: Company reports, Aljazira Capital

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E
Income statement						
Sales revenue	3,288	3,328	9,592	16,603	11,427	9,852
Sales revenue growth	**-14.8%**	**1.2%**	**188.3%**	**73.1%**	**-31.2%**	**-13.8%**
Cost of sales	(1,594)	(1,662)	(3,085)	(6,226)	(5,802)	(5,487)
Gross profit	**1,694**	**1,665**	**6,507**	**10,376**	**5,625**	**4,365**
General & administrative expenses	(89)	(206)	(489)	(890)	(686)	(591)
Operating profit	**1,328**	**1,308**	**5,813**	**8,842**	**4,494**	**3,390**
Operating profit growth	**-21.7%**	**-1.5%**	**344.4%**	**52.1%**	**-49.2%**	**-24.6%**
Interest income & financial charges	(19)	(4)	(59)	(23)	(24)	(24)
Profit before zakat & minority interest	**1,348**	**1,306**	**5,738**	**8,814**	**4,461**	**3,352**
Income from Ibn-Baytar	127	48	243	375	194	149
Zakat	(1)	(60)	(341)	(290)	(158)	(119)
Net profit	**1,474**	**1,294**	**5,228**	**8,444**	**4,279**	**3,217**
Net profit growth	**-15.2%**	**-12.2%**	**303.9%**	**61.5%**	**-49.5%**	**-24.8%**
Balance sheet						
Assets						
Cash & equivalent	754	465	5,231	10,324	14,201	16,303
Other current asstes	1,414	2,248	4,050	4,979	4,023	3,743
Property plant & equipment	5,898	5,590	8,501	8,336	8,088	7,855
Other non-current assets	879	894	1,120	1,117	1,119	1,126
Total Assets	**9,663**	**9,995**	**19,789**	**25,691**	**28,384**	**29,992**
Liabilities & owners' equity						
Long-term debts	106	103	157	155	154	152
Other current liabilities	681	639	1,455	1,721	1,723	1,737
Other non-current liabilities	879	1,092	1,150	1,167	1,179	1,191
Paid -up capital	4,167	4,167	4,760	4,760	4,760	4,760
Statutory reserves	1,250	1,250	1,428	1,428	1,428	1,428
Unrealized gain from investment	358	434	480	485	489	494
General reserves	-	-	3,998	3,998	3,998	3,998
Retained earnings	2,221	2,310	4,884	10,462	13,100	14,641
Total owners' equity	7,996	8,161	15,551	21,134	23,776	25,322
Total equity & liabilities	**9,663**	**9,995**	**19,789**	**25,691**	**28,384**	**29,992**
Key fundamental ratios						
Current ratio (x)	3.2	4.2	6.4	8.9	10.6	11.5
Cash ratio (x)	1.1	0.7	3.6	6.0	8.2	9.4
Gross profit margin	51.5%	50.0%	67.8%	62.5%	49.2%	44.3%
Operating margin	40.4%	39.3%	60.6%	53.3%	39.3%	34.4%
EBITDA margin	57.1%	159.8%	69.1%	58.2%	46.5%	42.8%
Net profit margin	44.8%	38.9%	54.5%	50.9%	37.4%	32.7%
Return on assets	15.4%	13.2%	37.9%	39.1%	16.6%	11.6%
Return on equity	18.5%	16.0%	47.6%	48.5%	20.0%	13.8%
EV/sales (x)	11.02	14.98	7.86	3.24	4.36	4.85
EV/EBITDA (x)	19.32	9.37	11.37	5.56	9.37	11.32
EPS (SAR)	3.54	3.11	10.98	17.74	8.99	6.76
BVPS (SAR)	16.80	17.14	32.67	44.39	49.95	53.19
Dividend yield	3.9%	3.1%	2.5%	4.5%	3.0%	3.0%
P/E ratio (x)	21.91	25.95	15.39	7.57	14.93	19.86
P/BV ratio (x)	4.61	4.70	5.17	3.02	2.69	2.52

Source: Company reports, Aljazira Capital

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Saudi Kayan Petrochemical Co. (Saudi Kayan): Subdued outlook for key products weighs on financial performance

PC and MEG, two key products for Saudi Kayan, are facing downward pricing pressure due to lower demand. Furthermore, spreads for these products are expected to contract due to rising feedstock prices, thus lowering the company's margins. Saudi Kayan is also expected to be impacted by surging interest rates due to its high debt levels. We recommend "Neutral" rating on the stock with a TP of SAR 16.6 per share.

- **Pressure on key products to drag revenue:** PC prices are down almost 30% this year, primarily impacted by lower demand from automobile sector, which is facing supply issues due to semiconductor shortages. Similarly, MEG-Asia prices are also under pressure due lack of demand from textiles sector. Both these products contributed ~36% to Saudi Kayan's FY21 revenues. The outlook for these products continues to be subdued, with prices expected to fall further. We forecast average PC prices to drop 21.9% to USD 2,665 per ton in FY22 and further decline 19.3% to USD 2,251 per ton in FY23. MEG-Asia prices are forecast to fall 4.2% and 6.4% to USD 646 per ton and USD 605 per ton in FY22 and FY23, respectively. Saudi Kayan's revenue is estimated to decrease 4.2% to SAR 12.1bn in FY22 and 11.1% to SAR 10.8bn in FY23.
- **Lower product prices and higher feedstock prices to weigh on margins:** Kayan's GP margins being highly sensitive to feedstock prices, are expected to contract significantly. With Butane-MEG (Asia) spreads falling below zero and PC price also under pressure, GP margin is expected to drop to 15.5% in FY22 compared to 28.1% in FY22. In FY23, GP margin is expected to improve to 18.5% due to our estimates of lower feedstock prices.
- **Additional allocation of ethane gas by the government is a positive development:** The company has received approval from the Ministry of Energy to increase ethane allocation by 30mn cu. ft. This is likely to help Saudi Kayan reduce its dependence on Butane as feedstock in the future.
- **Finance expenses to rise amid increasing interest rates:** Saudi Kayan is among most leveraged companies in KSA petrochemical sector. The company has total debt of SAR 13.1bn indicating debt to equity ratio of 0.8x. Hence, with ongoing interest rate hikes, the company's finance expenses are expected to increase.

Valuation: We value Saudi Kayan with 40% weightage to DCF (risk free rate = 3.5%, WACC = 8.1%, terminal growth = 2.5%) and 30% weightage to relative valuation based on FY23 P/E (14.0x) and EV/EBITDA (9.0x) multiples each to arrive at a blended TP of **SAR 16.6 per share**. Based on our estimates, the stock currently trades at FY22 and FY23 forward P/E of 27.6x and 25.5x, respectively.

Neutral

Target Price (SAR)	**16.60**
Upside / (Downside)*	**9.2%**

Source: Tadawul *prices as of 23rd of June 2022

Key Financials

in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenues	8,007	12,656	12,119	10,771
Growth %	-16.0%	58.1%	-4.2%	-11.1%
Net Income	(784.7)	2,390.6	826.9	888.8
Growth %	23.2%	-404.6%	-65.4%	8.3%
EPS	(0.52)	1.59	0.55	0.60

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	5.6%	28.1%	15.5%	18.5%
Net Margin	-9.8%	18.9%	6.8%	8.3%
P/E (x)	NEG	12.3	27.7	25.5
P/B (x)	1.6	1.8	1.4	1.3
EV/EBITDA (x)	17.4	7.8	8.8	8.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%

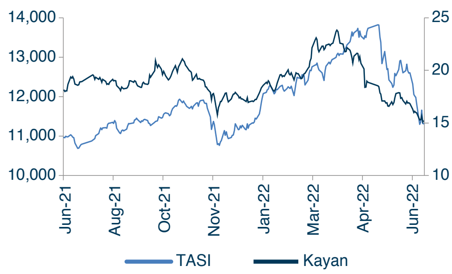
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	22.86
YTD %	10.5%
52 Week (High / Low)	24.0 / 14.88
Shares Outstanding (mn)	1500

Source: Company reports, Aljazira Capital

Stock Performance



Source: Company reports, Aljazira Capital

Blended Valuation

	Fair Value	Weight	Weighted Avg
DCF-SOTP	25.1	40%	10.0
EV/EBITDA	13.7	30%	4.1
P/E	8.4	30%	2.5
Weighted Avg 12-month TP			**16.6**
Upside/(downside) potential			**9.2%**

Source: Company reports, Aljazira Capital

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E
Income statement						
Revenues	9,536	8,007	12,656	12,119	10,771	10,573
Revenue Growth	**-22.2%**	**-16.0%**	**58.1%**	**-4.2%**	**-11.1%**	**-1.8%**
Cost of sales	(8,477)	(7,559)	(9,099)	(10,240)	(8,780)	(8,625)
Gross profit	**1,059**	**448**	**3,558**	**1,879**	**1,991**	**1,948**
Selling & general expenses	(680)	(615)	(734)	(658)	(590)	(579)
Operating profit	**379**	**(167)**	**2,824**	**1,221**	**1,402**	**1,369**
Operating profit growth	**-85.8%**	**-144.2%**	**-1787.2%**	**-56.8%**	**14.8%**	**-2.3%**
Financial charges	(1,045.3)	(457.4)	(279.1)	(284.4)	(390.6)	(371.1)
Other income	15.0	(62.2)	(35.9)	5.5	5.7	5.9
Income before zakat	(538.5)	(667.8)	2,515.1	948.1	1,016.7	1,003.8
Zakat	(98.2)	(117.0)	(124.5)	(121.2)	(127.9)	(126.3)
Net income	**(636.8)**	**(784.7)**	**2,390.6**	**826.9**	**888.8**	**877.5**
Net income growth	**-137.4%**	**23.2%**	**-404.6%**	**-65.4%**	**8.3%**	**-1.3%**
Balance sheet						
Assets						
Cash & equivalent	913	586	919	1,429	1,769	2,337
Other current assets	4,469	4,918	6,026	6,248	6,434	6,636
Property, plant & equipment	28,781	27,238	25,301	23,399	21,532	19,747
Other non-current assets	1,165	764	610	601	594	587
Total assets	**35,328**	**33,505**	**32,854**	**31,679**	**30,330**	**29,308**
Liabilities & owners' equity						
Total current liabilities	2,887	3,347	3,943	3,890	3,270	2,940
Long-term debt	16,469	14,918	11,267	9,645	8,348	7,096
Total other non-current liabilities	1,019	1,232	1,175	1,222	1,271	1,322
Share capital	15,000	15,000	15,000	15,000	15,000	15,000
Statutory reserves	49	49	288	371	461	549
Retained earnings	(698)	(1,483)	668	1,038	1,468	1,889
Total equity	14,351	13,566	15,957	16,409	16,929	17,438
Total equity & liabilities	**35,328**	**33,505**	**32,854**	**31,679**	**30,330**	**29,308**
Key fundamental ratios						
Current ratio (x)	1.9	1.6	1.8	2.0	1.6	1.9
Cash ratio (x)	0.32	0.18	0.23	0.37	0.28	0.20
Gross profit margin	11.1%	5.6%	28.1%	15.5%	18.5%	18.4%
Operating margin	4.0%	-2.1%	22.3%	10.1%	13.0%	12.9%
EBITDA margin	29.1%	25.6%	40.5%	29.0%	34.0%	0.0%
Net profit margin	-6.7%	-9.8%	18.9%	6.8%	8.3%	8.3%
Return on assets	-1.7%	-2.3%	7.2%	2.6%	2.9%	3.0%
Return on equity	-4.2%	-5.4%	15.7%	5.0%	5.2%	5.0%
Interest coverage (x)	0.4	(0.4)	10.1	4.3	3.6	3.7
Debt / equity (x)	1.2	1.2	0.8	0.7	1.2	1.2
EV/sales (x)	3.2	4.4	3.1	2.6	2.7	2.6
EV/EBITDA (x)	11.1	17.4	7.8	8.8	8.0	7.7
EPS (SAR)	(0.42)	(0.52)	1.59	0.55	0.6	0.6
BVPS (SAR)	10.0	9.3	11.0	11.3	11.6	12.0
P/E ratio (x)	(23.79)	(27.72)	12.27	27.65	25.54	25.86
P/BV ratio (x)	1.01	1.55	1.78	1.35	1.31	1.27

Source: Company reports, Aljazira Capital

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Advanced Petrochemical Co. (Advanced): Expected rise in global PP supply to keep pricing pressure; expansion plans a key long-term driver

A significant addition to PP capacity is expected globally, thus increasing the supply. This might lead to lower prices and thus impact Advanced's revenue, as the company produces single product, PP. Moreover, higher propylene prices and a decline in propylene-PP spread will likely weigh on the company's margins. The company's expansion plans in Jubail will be a key growth driver for the company from FY24 onwards. We recommend "Neutral" rating on the stock with a TP of SAR 59.0 per share.

- **PP price to be under pressure amid global capacity additions:** Advanced's revenue is likely to be hit by lower PP prices, impacted expected increase in global supply. According to IHS Markit, approximately 13.6mn tons of new capacity is expected to be added in China during FY21-25, while North America is also expected to add 1.6mn tons of capacity of PP during this period. We estimate average PP-Asia prices to fall 3.9% to USD 1,116 per ton in FY22 and decrease further by 9.7% to USD 1,007 per ton in FY23. Advanced's revenue is forecast to increase 3.9% to SAR 3.2bn (due to the impact of the plant shutdown in 2021) while decrease 15.0% to SAR 2.7bn in FY23.
- **Lower product spreads to drag margins in near term:** The decline in PP prices and higher propane and outsourced propylene prices are expected to impact the company's GP margins. Propylene-PP spreads have dropped significantly in Q1-22 and Q2-22 compared to last year. As a result, we expect GP margin to decrease to 25.5% in FY22 from 34.0% in FY21 while recovering to 30.7% in FY23 due to our estimates of improved product spreads. Net profit is forecast to fall 14.3% to SAR 695.7mn in FY22 while rise 12.3% to SAR 781.2mn in FY23.
- **SK Adanced's contribution likely to increase:** Advanced's bottom line was impacted by losses in SK Advanced during the past few quarters. We expect SK Advanced to return to profit in H2-22, which will support the net profit of Advanced.
- **Expansion plans to key catalyst for long-term growth:** The company plans to construct a new petrochemical plant with capacity to produce 843,000 tons of propylene and 800,000 tons of polypropylene per annum. The plant is expected to be operational in H2-24. The expansion would be key catalyst for the company's growth in the long term and would help in increasing the company's market share.

Valuation: We value Advanced Petrochemical with 50% weightage to DCF (risk free rate = 3.5%, WACC = 7.4%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY23 P/E (15.0x) and EV/EBITDA (14.0x) multiples each to arrive at a blended TP of **SAR 59.0 per share.** Based on our estimates, the stock currently trades at FY22 and FY23 forward P/E of 18.9x and 16.8x, respectively.

Neutral

Target Price (SAR)	**59.0**
Upside / (Downside)*	**17.1%**

Source: Tadawul *prices as of 23rd of June 2022

Key Financials

in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenues	2,231	3,111	3,233	2,747
Growth %	-14.0%	39.4%	3.9%	-15.0%
Net Income	595.6	811.8	695.7	781.2
Growth %	-21.6%	36.3%	-14.3%	12.3%
EPS	2.29	3.12	2.67	3.00

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	32.7%	34.0%	25.5%	30.7%
Net Margin	26.7%	26.1%	21.5%	28.4%
P/E (x)	24.3	18.6	18.9	16.8
P/B (x)	4.2	3.8	3.1	2.6
EV/EBITDA (x)	20.3	17.4	14.6	14.2
Dividend Yield	3.9%	3.7%	4.3%	4.3%

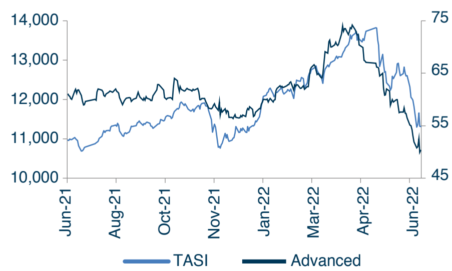
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	13.1
YTD %	14.1%
52 Week (High / Low)	75.0 / 48.0
Shares Outstanding (mn)	260.0

Source: Company reports, Aljazira Capital

Stock Performance



Source: Company reports, Aljazira Capital

Blended Valuation

	Fair Value	Weight	Weighted Avg
DCF-SOTP	69.7	50%	34.9
EV/EBITDA	52.8	25%	13.2
P/E	45.0	25%	11.2
Weighted Avg 12-month TP			**59.0**
Upside/(downside) potential			**17.1%**

Source: Company reports, Aljazira Capital

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E
Income statement						
Revenues	2,594.5	2,231.4	3,111.3	3,233.5	2,747.6	2,860.8
Revenue growth	**-5.6%**	**-14.0%**	**39.4%**	**3.9%**	**-15.0%**	**4.1%**
Cost of sales	(1,695)	(1,502)	(2,052)	(2,409)	(1,905)	(2,087)
Gross profit	**899**	**729**	**1,059**	**824**	**843**	**774**
General & administrative expense	(167)	(137)	(194)	(112)	(110)	(114)
Operating profit	**732**	**592**	**865**	**713**	**733**	**659**
Operating profit growth	**4.5%**	**-19.1%**	**45.9%**	**-17.6%**	**2.9%**	**-10.1%**
Other income/expensess Net	20	3	11	6	22	27
Shares in SK Advanced	77	34	11	9	61	85
Profit before zakat & minority interest	**789**	**624**	**871**	**716**	**803**	**761**
Zakat	(29)	(29)	(59)	(21)	(24)	(22)
Net profit	**759.3**	**595.6**	**811.8**	**695.7**	**781.2**	**741.6**
Net profit growth	**5.9%**	**-21.6%**	**36.3%**	**-14.3%**	**12.3%**	**-5.1%**
Balance sheet						
Assets						
Cash and bank balance	48	62	243	254	213	701
Other current assets	482	591	813	858	821	869
Property plant & equipment	1,779	1,756	2,985	4,530	6,101	7,581
Other non-current assets	260	262	233	235	237	240
Total assets	**3,706**	**3,824**	**5,102**	**6,722**	**8,233**	**10,269**
Liabilities & owners' equity						
Total current liabilities	328	397	1,603	1,695	1,703	1,774
Long-term loans	-	-	-	1,200	1,900	3,100
Total non-current liabilities	111	129	145	159	174	191
Share capital	2,165	2,165	2,165	2,165	2,165	2,165
Statutory reserves	637	697	697	766	844	918
Retained earnings	465	435	492	737	1,447	2,121
Total owners' equity	3,267	3,297	3,353	3,667	4,456	5,204
Total equity & liabilities	**3,706**	**3,824**	**5,102**	**6,722**	**8,233**	**10,269**
Key fundamental ratios						
Gross profit margin	34.7%	32.7%	34.0%	25.5%	30.7%	27.0%
Operating margin	28.2%	26.6%	27.8%	22.0%	26.7%	23.0%
EBITDA margin	40.2%	37.9%	35.6%	29.7%	37.9%	38.3%
Net profit margin	29.3%	26.7%	26.1%	21.5%	28.4%	25.9%
Return on assets	20.0%	15.0%	13.8%	9.2%	8.6%	6.7%
Interest coverage (x)	18.39	106.96	54.19	61.43	57.41	60.75
EV/sales (x)	4.54	7.71	6.19	4.35	5.38	5.42
EV/EBITDA (x)	11.30	20.34	17.38	14.63	14.21	14.14
EPS (SAR)	3.51	2.75	3.75	2.67	3.00	2.84
Market-Cap (SAR mn)	12,844	14,513	15,249	13,104	13,104	13,104
Dividend yield	4.3%	3.9%	3.7%	4.3%	4.3%	4.3%
P/E ratio (x)	14.08	20.29	15.64	18.86	16.82	17.74
P/BV ratio (x)	3.83	4.24	3.85	3.07	2.59	2.25

Source: Company reports, Aljazira Capital

National Industrialization Co. (Tasnee): Inconsistent performer with heavy leverage

Tasnee's earnings have been inconsistent due to volatility in income from associates and impairments of assets. The company's earnings are expected to decline in FY22, as it recorded exceptionally high share in income from associated last year. Higher finance charges due to high debt and increasing interest rates would also pressure the company's bottom line. We recommend "Neutral" rating on the stock with a TP of SAR 18.8 per share.

- **Revenue and GP margin to improve, but net profit to be under pressure:** Tasnee's revenue is expected to inch up 0.8% to SAR 3.7bn in FY22, driven by improved operating rates. GP margin is estimated to increase to 29.1% in FY22 from 26.9% in FY21 due to an improvement in average selling prices, while feedstock prices are partially fixed. However, net profit is expected to fall 18.7% to SAR 1.1bn in FY22 and further decrease by 10.5% to SAR 987.1mn in FY23, as share of the company from income from associates normalizes after being exceptionally high in FY21. In FY21, income from associates was SAR 2.8bn compared to SAR 869mn in the year earlier. Moreover, impairments of financial and non-financial assets add to the inconsistency of earnings.
- **Delay in commencement of titanium ilmenite smelter plant a concern:** Titanium ilmenite smelter plant was delayed multiple times earlier, which can be seen as a concern by investors. However, in December 2021, the company started trial operations at the plan and targets to achieve sustainable operations by the end of FY22.
- **Heavy debt level to cause higher financial expenses:** Tasnee has total debt of SAR 6.8bn with debt to equity ratio of 0.7x. With the increase in interest rates, finance expenses are expected to increase. We forecast finance expenses to rise 9.1% in FY22 and 33.2% in FY23.

Valuation: We value Tasnee with 50% weightage to DCF (risk free rate = 3.5%, WACC = 10.6%, terminal growth = 2.5%) and 25% weightage to relative valuation based on FY23 P/E (11.0x) and EV/EBITDA (9.0x) multiples each to arrive at a blended TP of SAR 18.8 per share. Based on our estimates, the stock currently trades at FY22 and FY23 forward P/E of 9.6x and 10.7x, respectively.

Neutral

Target Price (SAR)	18.80
Upside / (Downside)*	19.3%

Source: Tadawul *prices as of 23rd of June 2022

Key Financials

in SAR mn, unless specified)	FY20	FY21	FY22E	FY23E
Revenues	2,272	3,673	3,702	3,284
Growth %	-23.7%	61.7%	0.8%	-11.3%
Net Income	(461.1)	1,356.4	1,103.3	987.2
Growth %	NM	NM	-18.7%	-10.5%
EPS	(0.67)	2.03	1.65	1.48

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	14.5%	26.9%	29.1%	29.5%
Net Margin	-20.3%	36.9%	29.8%	30.1%
P/E (x)	NEG	9.8	9.6	10.7
P/B (x)	1.1	1.5	1.1	1.0
EV/EBITDA (x)	50.6	6.0	5.8	5.9
Dividend Yield	0.0%	0.0%	0.0%	0.0%

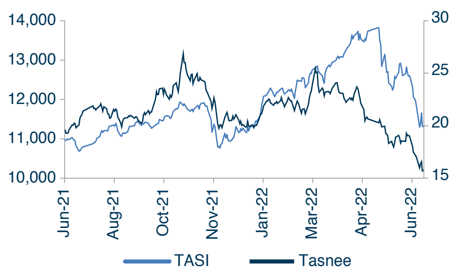
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	10.55
YTD %	20.94%
52 Week (High / Low)	27.40 / 15.48
Shares Outstanding (mn)	668.91

Source: Company reports, Aljazira Capital

Stock Performance



Source: Company reports, Aljazira Capital

Blended Valuation

	Fair Value	Weight	Weighted Avg
DCF-SOTP	19.8	50%	9.9
EV/EBITDA	19.4	25%	4.9
P/E	16.2	25%	4.1
Weighted Avg 12-month TP			**18.8**
Upside/(downside) potential			19.3%

Source: Company reports, Aljazira Capital

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Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22E	FY23E	FY24E
Income statement						
Revenues	2,979	2,272	3,673	3,702	3,284	3,222
Revenue Growth	**-2.8%**	**-23.7%**	**61.7%**	**0.8%**	**-11.3%**	**-1.9%**
Cost of sales	(2,577)	(1,942)	(2,686)	(2,623)	(2,315)	(2,263)
Gross profit	**401**	**330**	**987**	**1,079**	**969**	**959**
Selling & marketing expenses	(163)	(163)	(174)	(180)	(177)	(174)
General & administrative expenses	(488)	(504)	(419)	(367)	(338)	(332)
Company share in net income of associated companies	1,085	869	2,783	1,532	1,470	1,453
Provison for legal cases	(1,114)	(556)	(662)	(20)	-	-
Operating profit	**(278)**	**(24)**	**2,515**	**2,044**	**1,923**	**1,907**
Operating profit growth	**NM**	**NM**	**NM**	**-18.7%**	**-5.9%**	**-0.8%**
Financial charges	(537)	(223)	(170)	(185)	(247)	(248)
Profit before zakat & minority interest	**(1,834)**	**(268)**	**2,383**	**1,880**	**1,698**	**1,681**
Minoriity interest	281	2	(697)	(514)	(474)	(469)
Zakat	(123)	(194)	(329)	(262)	(237)	(235)
Net profit	**(1,676)**	**(461.1)**	**1,356.4**	**1,103.3**	**987.2**	**977.0**
Net profit growth	**NM**	**NM**	**NM**	**-18.7%**	**-10.5%**	**-1.0%**
Balance sheet						
Assets						
Cash & equivalent	2,723	2,655	3,394	3,303	2,903	2,659
Other current assets	2,609	2,518	3,015	3,122	3,232	3,346
Plant, property & equipments, net	2,951	2,976	2,825	4,363	4,217	4,080
Other non-current assets	490	526	565	554	543	532
Total assets	**22,769**	**22,321**	**24,980**	**24,943**	**24,630**	**24,486**
Total current liabilities	3,682	3,641	4,768	4,306	4,020	3,820
Total non-current liabilities	8,895	9,097	8,649	7,848	7,040	6,318
Total liabilities	**12,577**	**12,738**	**13,417**	**12,154**	**11,059**	**10,138**
Share capital	6,689	6,689	6,689	6,689	6,689	6,689
Statutory reserves	1,355	1,355	1,490	1,600	1,699	1,797
Retained earnings	335	(111)	1,109	2,102	2,656	3,201
Other reserves	(552)	(663)	(587)	(592)	(598)	(604)
Total shareholders' equity	**7,827**	**7,270**	**8,702**	**9,800**	**10,446**	**11,083**
Minority interest	**2,366**	**2,313**	**2,861**	**2,990**	**3,124**	**3,265**
Total equity	**10,193**	**9,583**	**11,563**	**12,789**	**13,571**	**14,348**
Total liabilities & equity	**22,769**	**22,321**	**24,980**	**24,943**	**24,630**	**24,486**
Key fundamental ratios						
Current ratio (x)	1.4	1.4	1.3	1.5	1.5	1.6
Cash ratio (x)	0.7	0.7	0.7	0.8	0.7	0.7
Gross profit margin	13.5%	14.5%	26.9%	29.2%	29.5%	29.8%
Operating margin	-9.3%	-1.1%	68.5%	55.2%	58.6%	59.2%
EBITDA margin	3.8%	11.0%	75.9%	61.3%	69.8%	71.0%
Net profit margin	-56.3%	-20.3%	36.9%	29.8%	30.1%	30.3%
Return on assets	-6.0%	-2.0%	5.7%	4.4%	4.0%	4.0%
Return on equity	-14.6%	-4.5%	12.8%	9.1%	7.5%	7.0%
Interest coverage (x)	(0.52)	(0.11)	14.82	11.04	7.80	7.69
Debt / equity (x)	0.75	0.75	0.59	0.46	0.37	0.29
EV/sales (x)	4.72	5.54	4.56	3.54	3.86	3.74
EV/EBITDA (x)	122.85	50.58	6.01	5.78	5.92	5.70
EPS (SAR)	(2.51)	(0.67)	2.03	1.65	1.48	1.46
BVPS (SAR)	11.70	10.87	13.01	14.65	15.62	16.57
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio (x)	(5.46)	(18.03)	9.83	9.57	10.69	10.80
P/BV ratio (x)	1.17	1.11	1.53	1.08	1.01	0.95

Source: Company reports, Aljazira Capital

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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