SABIC Second Quarter 2020 Earnings

Second Quarter 2020 Highlights:

- Revenue of SAR 24.62 billion [$ 6.57 billion], an 18% decrease quarter-over-quarter and a 29% decrease year-over-year.
- EBITDA of SAR 3.50 billion [$ 0.93 billion], a 19% decrease quarter-over-quarter and a 54% decrease year-over-year.
- Loss from operations of SAR 1.26 billion [$ 0.34 billion] was higher than the loss from operations of SAR 0.06 billion [$ 0.02 billion] in the previous quarter and lower than the profit from operations of SAR 4.02 billion [$ 1.07 billion] in the second quarter of 2019.
- Net loss of SAR 2.22 billion [$ 0.59 billion] was higher than the net loss of SAR 1.05 billion [$ 0.28 billion] in the previous quarter and lower than the net profit of SAR 2.03 billion [$ 0.54 billion] in the second quarter of 2019.

Comparisons with second quarter 2020 are available in the following table:

Table 1 – Summary Financial Results

Item	Three Months Ended			Six Months Ended		
	June 30, 2020	Mar. 31, 2020[3]	Change Q/Q	June 30, 2020	June 30, 2019[3]	Change %
Revenue	24.62	30.19	-18%	54.81	70.91	-23%
EBITDA[1]	3.50	4.35	-19%	7.85	16.21	-52%
Income (loss) from operations	-1.26	-0.06	NM	-1.32	9.18	NM
Net Income (loss)[2]	-2.22	-1.05	NM	-3.27	5.35	NM
Earnings (Loss) Per Share[2]	-0.74	-0.35	NM	-1.09	1.78	NM

All amounts in SAR billion unless otherwise stated, USD/SAR conversion used is 3.75. Certain figures and percentages included in this document have been subject to rounding adjustments.
[1]Income from operations plus depreciation, amortization and impairment.
[2]Attributable to equity holders of the parent.
[3]Restated figures due to change in accounting treatment

Saudi Basic Industries Corporation ("SABIC") (2010-SA) today announced its financial results for the second quarter of 2020 with revenue of SAR 24.62 billion [$ 6.57 billion], which represents a decrease of 18% compared with the first quarter of 2020. Similar to the first quarter of 2020, the second quarter results were impacted negatively by certain non-recurring charges and challenging supply / demand conditions coupled with lower oil prices, which were negatively impacted by COVID-19, resulting in lower product prices and margins.

Our operational performance was resilient as evident in the flat sales volumes maintained in the second quarter compared with the previous quarter, despite a difficult demand environment and economic contraction underpinned by COVID-19. In the second quarter of 2020, average sales prices decreased by 17% compared with the first quarter of 2020.

A decline in Brent price of more than 40% in the second quarter of 2020 compared with the previous quarter drove a decrease in feedstock prices. Both Japanese and European naphtha prices decreased by about 40% in the second quarter of 2020, quarter-over-quarter. Both Japanese propane and butane prices decreased by more than 20% in the second quarter of 2020 compared with the previous quarter. Cost of sales of SAR 21.15 billion [$ 5.64 billion] in the second quarter of 2020 was 17% lower than the first quarter of 2020 due to the aforementioned reduction in feedstock prices.

The non-recurring charges in the second quarter netted to SAR 1.18 billion [$ 0.31 billion] which was higher than the non-recurring charges of SAR 1.1 billion [$ 0.29 billion] in the previous quarter. This was primarily due to the impairment of certain petrochemical assets in the European region.

EBITDA of SAR 3.50 billion [$ 0.93 billion] decreased by 19%, due mainly to lower average sales prices partially offset by a decrease in feedstock prices and lower operating costs in the second quarter of 2020, quarter-over-quarter. Our operating costs declined by about 4% in the second quarter of 2020 compared with the previous quarter, reflecting our continuous focus on cost controls. This resulted in EBITDA margins of 14.2% in the second quarter slightly lower than 14.4% in the first quarter of 2020.

Second quarter net loss was SAR 2.22 billion [$ 0.59 billion], or SAR 0.74 per share [$ 0.20 per share] which was higher than the net loss of SAR 1.05 billion [$ 0.28 billion], or SAR 0.35 per share [$ 0.09 per share] from the first quarter of 2020.

After adjusting for non-recurring charges, second quarter net loss was SAR 1.04 billion [$ 0.28 billion], which was lower than the net profit of SAR 27 million [$ 7 million] in the previous quarter.

“There were strong headwinds in the second quarter as global growth declined significantly due to COVID-19 impacting the supply / demand balance for our critical products and associated prices and margins,” said Yousef Abdullah Al-Benyan, Vice Chairman and Chief Executive Officer of SABIC.

He added, “Despite the challenging environment, SABIC showed resilience in its operations. We remain committed to protecting the health and welfare of our employees, supplying our customers reliably, supporting humanitarian efforts and proactively collaborating with governments and health authorities.”

He added, “SABIC announced the completion of Saudi Aramco’s acquisition of the Public Investment Fund’s (PIF) stake in SABIC. This will further strengthen our position as a leader in the chemical industry. In addition, it will also support the Kingdom’s strategy of maximizing the value generated by the petrochemicals industry, and delivering Saudi Vision 2030.

“Our collaboration with Saudi Aramco will also accelerate the achievement of SABIC’s strategic objectives. There will be benefits for business and operations, with coordinated efforts for sales and marketing bringing one face to the market. We will work together with Saudi Aramco to realize the many potential synergies including capitalizing on expertise in executing and streamlining growth projects coupled with distribution, logistics and supply chain activities.”

Mr. Al-Benyan continued, “In the current tough macro environment, capital discipline, maintaining a strong balance sheet and a strong credit rating on a standalone basis, and delivering competitive dividends to our shareholders are high priorities”.

Recently, Moody’s affirmed SABIC’s A1 long-term issuer rating and A1 senior unsecured bond ratings following the completion of Saudi Aramco’s acquisition of a 70% stake in SABIC.

In connection to Saudi Aramco’s acquisition of 70% of SABIC’s shares, SABIC reassessed its control over certain 50% owned affiliates. Based on the reassessment of the control over these ventures and alignment of “critical judgements” under relevant accounting policies, SABIC, starting from the second quarter of 2020, will deconsolidate retrospectively “YANPET”, “KEMYA”, “SHARQ” (collectively, the “Joint Ventures”) and SAMAC (the “Joint Operation”). The “Joint Ventures” will be accounted for using the equity method while the “Joint Operation” will be accounted for under the joint operations accounting requirements. These changes will have no impact on SABIC’s business model and the legal arrangements between SABIC and the Joint Ventures / Operation.

In line with what was announced on 10/25/1440 (corresponding to 06/17/2020) with respect to the alignment of the accounting policies and critical accounting judgments related to the reassessment of SABIC's control over certain investments in ventures retrospectively as a result of Saudi Aramco’s acquisition of 70% of SABIC shares. During the second quarter of 2020, SABIC retrospectively reassessed the control over other investments related to SADAF and ARRAZI, where SABIC acquired additional shares in SADAF and ARRAZI in 2017 and 2018 respectively, increasing its shareholding from 50% to 100 % and 75% respectively. SADAF and ARRAZI were not classified among the existing ventures that had been announced in our aforementioned announcement. Accordingly, SABIC has performed retrospective control reassessment over SADAF and ARRAZI prior to the acquisitions of additional shares and classified them as joint arrangements. This resulted in the need to revalue SABIC's interests prior to the acquisition of the additional shares in SADAF and ARRAZI by applying IFRS 3 (Business Combination), and accordingly purchase price allocation has been applied to the applicable financial items.

Our continuous focus on sustainability and innovation remains resolute.

SABIC is pressing ahead with its commitment in the circular economy, with three of flagship TRUCIRCLE™ solutions having successfully undergone a rigorous ISO Critical Review process. The study revealed that SABIC’s certified circular polymers show a reduction of two kilograms of CO2 emissions for every kilogram of feedstock recycled polyolefins.

During this challenging period of the COVID-19 pandemic, the implementation of precautionary measures to protect public health and human life is the top priority for SABIC. That is why SABIC has stepped up production to meet increasing demands for essential materials, especially in medical and packaging applications. For example, SABIC’s LEXAN™ 8010 polycarbonate film is used in the production of safety facemasks. Meanwhile, LEXAN™ 9030 polycarbonate sheet creates protective antimicrobial screens for pharmacies, grocery stores and other public spaces to ensure maximum hygiene and minimized risk. LEXAN CLINIWALL AC6200 polycarbonate sheet is an anti-bacterial, easy to clean and disinfect material that provides an interior surface solution for environments that require a higher level of sanitation. SABIC's PURECARES™ polypropylene (PP) products are increasingly used in high-grade disposable medical gowns and protective masks.

Outlook

In terms of the 2020 outlook, the projected global GDP growth rate is expected to contract this year, primarily due to the negative impacts of COVID-19, before we see improvement next year. Weak economic activity in the second quarter has been partially mitigated by policy responses and fiscal stimulus from both developed and emerging markets and a gradual reopening of economies globally. Nevertheless, we expect economic activity will continue to be subdued impacting demand and that ample supply will keep product prices and margins under pressure for the foreseeable future.

SABIC Business Results Discussion by Reporting Segment:

SABIC operates through three strategic business units (SBUs) and Hadeed, a wholly owned manufacturing business. The reporting segments are as follows: 1) Petrochemicals & Specialties, 2) Agri-Nutrients, and 3) Hadeed.

1. Petrochemicals & Specialties

Table 2 – Petrochemicals & Specialties Financial Overview

Item	Three Months Ended			Six Months Ended		
	June 30, 2020	Mar. 31, 2020[2]	Change Q/Q	June 30, 2020	June 30, 2019[2]	Change %
Revenue	21.35	25.96	-18%	47.31	61.48	-23%
EBITDA[1]	3.25	3.72	-13%	6.97	14.36	-51%
Income (loss) from operations	-1.05	-0.21	NM	-1.26	8.28	NM

All amounts in SAR billion unless otherwise stated, USD/SAR conversion used is 3.75. Certain figures and percentages included in this document have been subject to rounding adjustments.
[1]Income from operations plus depreciation, amortization and impairment.
[2] Restated figures due to change in accounting treatment

Revenue of SAR 21.35 billion [$ 5.69 billion] was down in the second quarter, representing a quarter-over-quarter decrease of 18%, driven primarily by lower petrochemical sales prices partially offset by higher sales volumes. EBITDA of SAR 3.25 billion [$ 0.87 billion] in the second quarter was 13% lower than SAR 3.72 billion [$ 0.99 billion] in the first quarter of 2020.

The Petrochemicals SBU consists of three business units: Chemicals, Polyethylene and Performance Polymers & Industrial Solutions.

In the **Chemical** business unit, mono ethylene glycol (MEG) prices declined in the second quarter of 2020 amid continued low demand as downstream polyester sales slowed in Asia. This combined with increased supply resulted in high inventory levels, especially at Chinese ports. Methanol prices decreased during the second quarter of 2020 due to ample supply and weak demand from key end markets. MTBE prices were among those most impacted by the combination of a decline in oil prices and lower demand due to COVID-19 related lockdowns and curfews globally during the second quarter of 2020.

For the **Polyethylene** business unit, demand continued to hold up well driven by a higher demand for applications such as packaging and medical supplies. COVID-19 has had less relative impact on polyethylene demand, when compared to some of the other petrochemical products.

In the **Performance Polymers & Industrial Solutions** business unit, polypropylene (PP) margin improved driven by steady demand for fiber and film grades used in food packaging, personal hygiene and medical applications and lower propane and butane feedstock prices in the second quarter of 2020. Polycarbonate (PC) prices decreased due to ample supply and lower demand from key industry segments including autos, consumer durables and electronics in the second quarter of 2020.

2. Agri-Nutrients

Table 3 – Agri-Nutrients Financial Overview

Item	Three Months Ended			Six Months Ended		
	June 30, 2020	Mar. 31, 2020	Change Q/Q	June 30, 2020	June 30, 2019	Change %
Revenue	1.58	1.47	8%	3.05	3.61	-15%
EBITDA[1]	0.56	0.56	1%	1.12	1.42	-21%
Income (loss) from operations	0.37	0.36	5%	0.73	1.02	-28%

All amounts in SAR billion unless otherwise stated, USD/SAR conversion used is 3.75. Certain figures and percentages included in this document have been subject to rounding adjustments.
[1]Income from operations plus depreciation, amortization and impairment.

Revenue of SAR 1.58 billion [$ 0.42 billion] was up 8% driven by higher sales volumes, which offset a decrease in sales prices in the second quarter of 2020 compared with the first quarter of 2020. EBITDA in the second quarter of 2020 was SAR 0.56 billion [$ 0.15 billion], an increase of 1% from the first quarter of 2020. The improvement in sales volumes were driven by better operational performance in the second quarter of 2020 compared with the previous quarter.

Decrease in urea prices were driven by ample supply, lower demand in particular from the industrial sector coupled with a decrease in feedstock prices and higher exports from China in the second quarter of 2020. In addition, there were higher exports from Ukraine as a lower natural gas price prompted higher production and competition. Indian demand remained one of the key urea demand drivers, supported by a healthy monsoon season especially later in the second quarter of 2020.

3. Hadeed

Table 4 – Hadeed Financial Overview

Item	Three Months Ended			Six Months Ended		
	June 30, 2020	Mar. 31, 2020	Change Q/Q	June 30, 2020	June 30, 2019	Change %
Revenue	1.69	2.77	-39%	4.45	5.82	-23%
EBITDA[1]	-0.31	0.08	NM	-0.23	0.43	NM
Income (loss) from operations	-0.59	-0.21	NM	-0.80	-0.13	NM

All amounts in SAR billion unless otherwise stated, USD/SAR conversion used is 3.75. Certain figures and percentages included in this document have been subject to rounding adjustments.
[1]Income from operations plus depreciation, amortization and impairment.

Revenue of SAR 1.69 billion [$ 0.45 billion] was down by 39% quarter-over-quarter in the second quarter of 2020, driven by lower average sales prices and sales volumes due to a decrease in demand underpinned by lockdowns associated with COVID-19. EBITDA of negative SAR 310 million [$ 83 million] in the second quarter of 2020 was lower than SAR 75 million [$ 20 million] in the first quarter of 2020.

For details of restated figures for 2019 and H1 20, refer to the addendum published along with the earnings release this morning. All financial information in this earnings release reflect these accounting changes, including for prior periods.

For further information, please contact SABIC Investor Relations at IR@SABIC.com and / or visit https://www.sabic.com/en/investors