

SIPCHEM: The company reported weak result of SAR 151.4mn; missing AJC and the market consensus estimates of SAR 182.6mn and SAR 178.0mn, respectively. 1Q2018 sales came lower than our estimate by 15.8%, due to unexpected shutdowns in Diol plant and Acetic Acid plants. Despite lower than expected sales and gross margin, decline in finance expenses and zakat expenses slightly enhanced the bottom line. Gross margin stood at 35.4% vs. 29.6% in 1Q2017, which is the highest level in two years. We expect better improvement in production efficiency and margin during 2Q-2018 with a net income of SAR 196mn. Long-term stable outlook on methanol fundamentals to support methanol prices. Recommendation is updated to **"Overweight"** with higher TP at SAR 23.80/share.

- Saudi International Petrochemical Company (Sipchem) result came below estimates, missing AJC and market censuses profits estimates of SAR 182.6mn and SAR 178mn, respectively. SIPCHEM posted net profit of SAR 151.4mn, as compared to SAR 91.7mn in 1Q2017 and SAR 164.4mn in 4Q2017. The YoY earning growth is primarily attributed to i) increase in average selling prices ii) higher sales volume; despite the impacts of unscheduled shutdown. iii) decline in finance expenses to stand at SAR 34.6mn compared to SAR 79.5mn in 4Q2017 iv) a decline in Zakat expenses. On the other hand, the deviation of 1Q2018 earnings from our estimates is mainly ascribed to i) lower than expected operating rate due to unscheduled shutdowns in Acetic acid plant of International Acetate Company (IAC) and Diol plant (IDC) ii) higher than expected OPEX. We believe that the production efficiency and operating rate are expected to improve in 2Q2018 and onward after the plants maintenance in 1Q2018.
- SIPCHEM's sales in 1Q2018 stood at SAR 1,170.9mn, below AJC estimates of SAR 1,393mn and SAR 1,278.6mn in 4Q2017. We believe that despite the higher average product prices; the company's operating rate was lower than expected, due to unscheduled shutdowns in Diol plant and Acetic acid plant. Thus, we expect sales to improve in the coming quarters due to expected higher operating rate and our mid-term optimistic outlook of methanol price, which is the key catalyst to support the company's downstream prices. During the quarter, average selling prices of Methanol increased by 11.2%YoY and 5.7%QoQ. VAM prices increased by 5.9%QoQ and 57.2%YoY. Acetic Acid (AA) jumped by 26.5%QoQ and 73.2%YoY. However, LDPE average prices showed a decline of 0.2%QoQ and 4.2%YoY.
- Gross profit stood at SAR 414.8mn, significantly below AJC estimates of SAR 519.8mn due to lower than expected gross margins and sales. Gross margin increased to 35.4% in 1Q2018 against our estimate of 37.3% and 33.3% in 4Q2017, which is the highest since FY2016. Operating profit stood at SAR 283.6mn; where the company recorded higher managerial expenses (SG & A) at SAR 131.2mn, as compared to SAR 121.6mn in 1Q2017 and our estimate of SAR 122.7mn.

AJC view: Going forward, we believe that the plants shutdown in 2017 and 1Q2018 would translate into efficiency improvement in 2Q2018 and onward. We believe that the company needs to focus more on production efficiency and cost optimization to mitigate the impact on performance. On the other hand, although methanol prices have slowly declined since April 2018, the current long-term outlook has become quite bullish on account of the growing methanol-to-olefins (MTO) sector, where 16 MTO plants are now operating in china. These plants have the capability to consume about 19mn tonnes/year of methanol at full operating rates according to ICIS. Consequently, this would increase methanol imports into China over the next few years, supporting methanol prices. Therefore; we revised our recommendation to **'Overweight'** on the stock with a PT of SAR 23.80/share. SIPCHEM Co. is expected to post SAR 708.1mn in net income (1.93 EPS) for FY2018, indicating an increase of 61.9%YoY. The company is trading at a forward PE and PB of 10.8x and 1.24x respectively based on our FY2018 earnings forecasts. We expect the company to raise its dividend payment to SAR 1.0 DPS (4.8% D/Y) in 2018, compared to SAR 0.5 DPS in 2017.

Results Summary

SARmn (unless specified)	1Q-2017	Q4-2017	Q1-2018	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	1,190.0	1,278.6	1,170.9	-1.6%	-8.4%	-15.8%
Gross Profit	352.3	425.7	414.8	17.7%	-2.6%	-20.2%
Gross Margin	29.6%	33.3%	35.4%	-	-	-
EBIT	230.7	275	283.6	22.9%	3.1%	-28.6%
Net Profit	91.7	164.4	151.4	65.1%	-7.9%	-17.1%
EPS	0.25	0.45	0.41	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	Overweight
Current Price* (SAR)	20.88
Target Price (SAR)	23.80
Upside / (Downside)	14.0%

Source: Tadawul *prices as of 30th of April 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	3,515	4,459	5,344
Growth %	0.0%	26.9%	19.8%
Net Income	43.1	437.5	708.1
Growth %	-85.1%	915%	61.9%
EPS	0.12	1.19	1.93

Source: Company reports, Aljazira Capital policy

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	24.5%	32.0%	35.3%
Net Margin	1.2%	9.8%	13.3%
P/E	160.0x	14.6x	10.8x
P/B	1.31x	1.12x	1.24x
EV/EBITDA (x)	7.41x	5.33x	3.81x
Dividend Yield	-	2.8%	4.8%

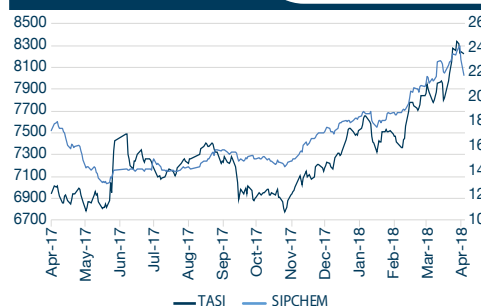
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	8.89
YTD %	17.2%
52 Week (High)	24.30
52 Week (Low)	12.76
Shares Outstanding (mn)	366.67

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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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.

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