



#### What do we think?

Stock	Rating	Price Target	Upside
SABIC	Neutral	SAR135.0	-1.3%
YANSAB	Neutral	SAR75.0	+2.5%
SABIC AN	Neutral	SAR200.0	+ 6.8%
APCC	OW	SAR90.0	+12.5%

## Saudi Petchem Sector

### To benefit from the commodity rally; Urea best positioned

At the end of February, polymer spreads were lower than 5Y averages (Figure 1) because of the surge in feedstock prices led by oil prices. Our stance before the Russian/Ukraine situation was that spreads will remain improve back to 2021 levels (slightly lower than 5Y averages) as global feedstock prices would recede because of seasonality and improving demand. However, the surge in oil/commodities witnessed due to the Russian/Ukrainian situation has resulted in a significant spike in polymer prices. This is more positive for KSA petchem firms with fixed/discounted feedstock prices as well as those companies in the first quartile cost of production. Accordingly, we revise our revenue and margin estimates upwards. Russia being the largest exporter of Urea and dependence of Russian gas for Urea in Europe, Urea/SAFCO stands best positioned.

Figure 1 Healthy product prices

	2019	2020	2021	5Y Avg. price	2022E	% change over 2021	Current spot price
<b>Average oil prices</b>							
Brent (US\$/bbl)	64	43	71	61	111	57%	118
WTI (US\$/bbl)	57	39	68	56	106	57%	116
<b>Feedstock prices (US\$/t)</b>							
Naphtha	525	382	649	534	1,016	57%	1,060
Propane	435	398	620	491	936	51%	895
Butane	441	405	606	497	915	51%	920
<b>Product prices (US\$/t)</b>							
HDPE	991	886	1,178	1,107	1,484	26%	1,310
LDPE	997	1,006	1,523	1,192	1,918	26%	1,640
PP	1,082	956	1,296	1,143	1,633	26%	1,330
Polycarbonates	2,047	1,931	3,417	2,685	2,800	-18%	2,965
MEG	689	557	813	841	850	5%	844
Methanol	323	276	409	371	440	8%	473
Urea	248	232	493	290	650	32%	740
<b>Spreads (US\$/t)*</b>							
HDPE-Naphtha	466	504	529	574	468	-12%	251
PP-Propane	648	558	677	652	697	3%	435

Source: Bloomberg, Al Rajhi Capital. \* Spreads may be misleading given that feedstock costs are much lesser than product revenues. Price as of 25 Feb 2022

### Valuation changes

Figure 2 Changes in estimates and TP

Companies	2021A EPS	2022E EPS	2021A DPS (SAR)	2022E DPS (SAR)	2022E Div. Yield	Old rating	New rating	Old TP (SAR)	New TP (SAR)	CMP*	Upside / (downside)
APCC**	3.8	4.0	2.6	2.6	3.3%	Overweight	Overweight	90.0	90.0	80.0	12.5%
Yansab	2.7	2.5	3.0	3.0	4.1%	Neutral	Neutral	75.0	75.0	73.2	2.5%
SABIC Agri-Nutrients	11.0	14.3	4.3	8.0	4.3%	Neutral	Neutral	180.0	200.0	187.2	6.8%
SABIC	7.7	8.5	4.0	5.0	3.7%	Neutral	Neutral	120.0	135.0	136.8	-1.3%

Source: Bloomberg, Al Rajhi Capital. \* As of 6 March 2022. \*\* Including the PDH-PP project

Please refer to our last published report on Sipchem ([Raise Target Price to SAR55/sh.](#)), with a TP of SAR55/share.



## SABIC Agri-Nutrients Co.

### TP increased to SAR200/sh. on higher Urea prices

(SARmn)	2020	2021	2022e
Revenue	3,328	9,592	12,404
y-o-y	1.2%	188.3%	29.3%
Gross Profit	1,665	6,507	8,817
Gross margin	50.0%	67.8%	71.1%
Net income	1,294	5,229	6,819
y-o-y	-12.1%	304.0%	30.4%
Net margin	38.9%	54.5%	55.0%
EPS (SAR)	3.1	11.0	14.3
DPS (SAR)	2.0	4.3	8.0
Payout ratio	64%	39%	56%
P/E (Curr)	47.3x	13.4x	10.3x
P/E (Target)	49.9x	14.1x	10.8x

**Q4 2021 results.** Q4 top-line reported at SAR4,040mn, above our estimate of SAR3,346mn (consensus: SAR3,523mn), mainly due to higher-than-expected sales volume. The company, in its 2020 Annual Board report, announced a couple of planned shutdowns (36 days shutdown at the SAFCO 4 Ammonia and Urea plants, 32 days shutdown at the SAFCO 5 Urea plant, and 23 days shutdown at the 2-Ethylhexanol plant - Al Bayroni) in H2 2021. We assumed the shutdowns would be equally spread between Q3 and Q4, however, it seems the company could have finished the larger portion of shutdowns in Q3 2021, leading to a top-line beat in Q4. Further, the company witnessed a significant improvement in production and operating efficiencies, helping the gross and operating profit margins to improve 8.8pps q-o-q and 12.0pps q-o-q to 79.0% and 74.1%, respectively (vs. our gross margin estimate of 76.3% and operating margin estimate of 69.8%). Accordingly, the company reported a net profit of SAR2,764mn, beating our estimate of SAR2,108mn (consensus: SAR2,289mn).

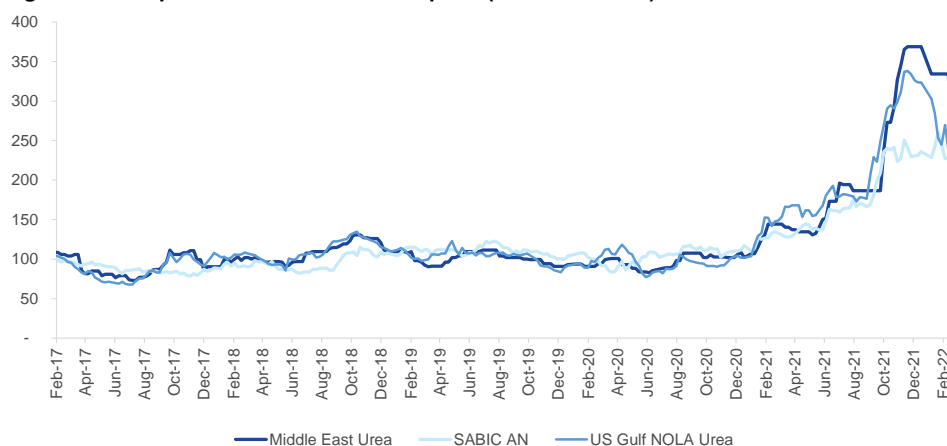
Figure 3 SABIC Agri-Nutrients Co. Q4 2021 results

(SAR mn)	Q4 2021	Q4 2020	Y-o-Y	Q3 2021	Q-o-Q	ARC est	vs ARC
Revenue	4,040	768	425.8%	2,207	83.1%	3,346	20.7%
Gross profit	3,191	358	791.8%	1,548	106.1%	2,553	25.0%
Gross margin	79.0%	46.6%		70.1%		76.3%	
Operating profit	2,993	282	962.4%	1,369	118.6%	2,335	28.2%
Operating margin	74.1%	36.7%		62.0%		69.8%	
Net profit	2,764	234	1083.3%	1,206	129.1%	2,108	31.1%
Net margin	68.4%	30.4%		54.7%		63.0%	
EPS	5.80	0.56	934.7%	2.53	128.8%	4.43	31.0%

Source: Company data, Al Rajhi Capital

**Russia is the largest exporter of Urea.** Average Urea prices, after maintaining their strong upward momentum in 2021, had started correcting this year, due to rising natural gas supplies, the end of the winter season, and full warehouses, mainly in the US. US Urea and Middle East Urea prices had corrected 30% and 40% this year (till mid-Feb). However, with the Russian/Ukraine issue, the whole situation has changed. We expected continued surge in Urea prices (US Urea prices are already up by 36% over the past couple of weeks) as Russia is the largest exporter of Urea and Europe depends on Russian gas for Urea production. Russia is also the leading wheat producer, which implies demand for fertilizers elsewhere to compensate for the possible decline in food supply because of Russia.

Figure 4 Urea prices vs SABIC AN share price (Rebased to 100)



Source: Bloomberg, Al Rajhi Capital



**Likely plant shutdowns in 2022.** The company has indicated that there would be shutdowns for some of the plants in 2022 and relevant details would be disclosed in the board report. While this will lower the sales volume, higher Urea prices are expected to more than offset the impact, in our view. We would wait for further details to reflect it in our model.

**SABIC Agri-Nutrients Co. inks a deal to acquire a 49% stake in ETG Inputs Holdco LTD.** The company has recently announced the signing of a binding agreement to acquire a 49% stake in ETG Inputs Holdco LTD (SPA) for SAR1.2bn (USD 320mn). ETG Inputs Holdco is engaged in blending and distributing Agri-nutrients products directly to farmers and end customers in several African countries. The company has indicated that it will fund this acquisition through internal resources (SAR3.1bn cash and cash equivalents as of Q3 2021) and bank facilities. We believe that this acquisition will help the company in strengthening its position in the Agri-Nutrients value chain in the global markets and directly assessing the end consumers to tap the growth opportunities. The company expects the financial impact to be reflected in H2 2022, although it didn't disclose the numbers. We await further details on this transaction to evaluate the impact on our estimates and valuation.

**Valuation and risks:** Post revision in our Urea price assumptions and estimates, we revise TP to SAR200/share (SAR180/sh. earlier) based on the dividend yield method (4% yield and SAR8 DPS based on Urea at US\$650 vs spot at US\$740/tonne for US Gulf NOLA). We use the dividend method to help investors cash in near-term movement in Urea prices and possible jump in dividends if the prices were to continue at these levels. Key upside risks to our estimates include major shutdowns of Urea plants globally, delayed suspension of construction of newer Urea plants worldwide, sharp pick-up in demand, drop in natural gas supplies, the prolonged shutdown of ammonia capacities, higher than expected rise in Urea prices, and increase in dividends above our expectations. Downside risks to our estimates may arise from the drop in gas prices and the steep decline in Urea price as the plants closed temporarily reopen.



## SABIC

### Raise TP to SAR135/sh. Maintain Neutral

(SARbn)	2020	2021	2022e
Revenue	117.0	174.9	212.8
Revenue growth	-13.6%	49.6%	21.7%
Gross profit	22.6	51.6	59.3
Gross margin	19.4%	29.5%	27.8%
EBITDA	20.2	48.3	51.6
EBITDA margin	17.3%	27.6%	24.3%
Net profit	0.1	23.0	25.5
Net margin	0.1%	13.2%	12.0%
EPS	0.0	7.7	8.5
DPS	3.0	4.0	5.0
Payout ratio	NM	52%	59%
EV/EBITDA	20.5x	8.6x	8.0x
P/E	NM	17.8x	16.1x

**Q4 2021 results:** The company reported a record quarterly revenue of SAR51.3bn (+17.3% q-o-q) in Q4, beating our estimate (SAR47.7bn) and consensus (SAR46.6bn) estimates. The sequential growth was primarily aided by a 10% q-o-q rise in sales volume (better-than-expected) and a 7% q-o-q increase in average product prices. However, increased feedstock costs (Naphtha, Propane, and Butane) on rising oil prices, coupled with higher operating leverage, impacted the gross and operating margins sequentially; both are mostly in line with our estimate. During the quarter, the company recorded an impairment (non-recurring) worth SAR0.76bn against the certain capital assets, and also charged SAR0.59bn non-cash financial charges for re-measurement of derivatives equity instrument for forward-looking contracts related to certain JVs, resulting in an 11.8% decline in net profit, missing our and consensus estimates. Overall, net profit was reported at SAR4.9bn, below our estimate of SAR5.6bn (consensus: SAR5.8bn). If we were to adjust the non-recurring expenses, then the net profit would have been largely on-line with our estimate.

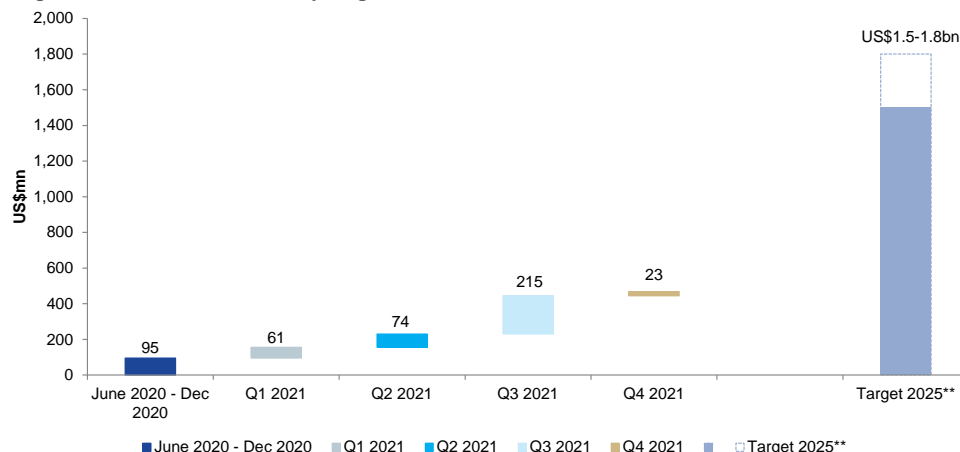
Figure 5 SABIC Q4 2021 results

(SAR mn)	Q4 2021	Q4 2020	Y-o-Y	Q3 2021	Q-o-Q	ARC est	vs ARC
Revenue	51.3	32.8	56.2%	43.7	17.3%	47.7	7.4%
Gross profit	14.1	8.1	73.7%	12.3	14.9%	13.3	6.4%
Gross margin	27.5%	24.8%		28.1%		27.8%	
Operating profit	8.6	3.8	127.7%	7.7	12.1%	7.9	9.2%
Operating margin	16.8%	11.5%		17.6%		16.6%	
Net profit	4.9	2.3	119.1%	5.6	-11.8%	5.6	-12.0%
Net margin	9.6%	6.9%		12.8%		11.7%	
EPS	1.65	0.74	122.6%	1.86	-11.5%	1.87	-11.7%

Source: Company data, Al Rajhi Capital

**SABIC achieved US\$468mn cumulative synergies through its collaboration with Aramco.** SABIC earlier indicated that its collaboration with Saudi Aramco should yield annual synergies of US\$1.5-1.8bn by 2025. As of Dec 2021, the company already achieved total annual combined synergies worth US\$468mn (US\$373mn synergies during 2021). For 2022, the company expects US\$550mn annual synergies, as indicated on the Q3 earnings call.

Figure 6 SABIC cumulative synergies realization\*



Source: Company data, Al Rajhi Capital. \* Our calculations are based on the disclosed data. \*\* Target is on an annual basis.

As per the company, around 80% of the synergies will be generated through i) procurement, ii), sales, and marketing (inked a marketing deal with SADARA, FREP, and S-Oil to market



and sell products starting from 1 July 2021; started marketing Aramco's share of petrochemical products in Petro Rabigh from 1 October), iii) supply chain, iv) stream integration, v) feedstock optimization (SABIC has started receiving the required feedstock in Europe from Aramco Trading Company), and vi) and maintenance business areas.

**SABIC's Gulf Coast JV with ExxonMobil started.** In early Jan 2022, the company announced the launch of commercial operations at its JV petrochemical complex (1.8mtpa ethane stream cracker) with ExxonMobil in San Patricio, Texas. This project helps the company in diversifying the feedstock sources as well as expanding its presence in North America. The company expects the relevant financial impact from Q1 2022.

**Valuation and risks:** Better product spreads along with improved efficiencies are likely to push EBITDA to ~SAR52bn in 2022 from ~SAR48bn in 2021. Further, SABIC may even increase its annual dividend payout (SAR5.0 in 2022 vs. SAR4.0 in 2021), aided by higher cash flows and controlled capex. Despite the ability to pay even higher (EPS of SAR8.5/share expected for 2022E), we believe, the company may increase dividends in only a phased manner. Overall, we raise our TP to SAR135/share (earlier SAR120/share) based on DCF valuation model but remain Neutral on SABIC.

Supply of new capacity globally, unexpected fall in oil price and petchem product prices, and unplanned plant shutdowns are key downside risks. Key upside risks include higher-than-expected spreads, faster than expected successful commercial launch of its future expansion projects, and recovery in global demand.



## APCC

### Maintain TP at SAR90/sh.

(SARmn)	2020	2021	2022E
Revenue	2,231	3,111	3,992
Y-o-Y	-14.0%	39.4%	28.3%
Gross profit	729	1,059	1,094
Gross margin	32.7%	34.0%	27.4%
Net profit	596	815	877
Y-o-Y	-21.6%	36.9%	7.5%
Net margin	26.7%	26.2%	22.0%
EPS (SAR)	2.8	3.8	4.0
DPS (SAR)	2.6	2.6	2.6
Payout ratio	94.5%	69.0%	64.2%
P/E (Curr)	29.1x	21.2x	19.8x
P/E (Target)	32.7x	23.9x	22.2x

**Q4 results:** APCC reported Q4 revenues at SAR905mn (up by 12.4% q-o-q), slightly higher than our estimate of SAR840mn, primarily driven by better-than-expected PP sales volume and sales mix. However, increased Propane prices and higher other COGS (mainly due to the incremental SAR48mn costs related to supply chain issues) lowered the gross margin by 5.8pps to 27.7% (vs. our expectation of 28.6%). This, along with higher-than-expected SG&A costs, pushed the operating profit ~5% below our estimate. The company's Korean JV, SK Advanced posted a loss of ~SAR26mn vs ~SAR5mn equity loss recorded last quarter, leading to a further miss at the net profit level. Overall, net profit came in at SAR161, missing our estimate of SAR179mn.

Figure 7 APCC Q4 2021 results

(SAR mn)	Q4 2021	Q4 2020	Y-o-Y	Q3 2021	Q-o-Q	ARC est	vs ARC
<b>Revenue</b>	<b>905</b>	<b>632</b>	<b>43.1%</b>	<b>805</b>	<b>12.4%</b>	<b>840</b>	<b>7.8%</b>
Gross profit	251	217	15.6%	270	-7.0%	240	4.6%
Gross margin	27.7%	34.4%		33.5%		28.6%	
Operating profit	189	174	8.3%	231	-18.2%	198	-4.6%
Operating margin	20.9%	27.6%		28.7%		23.6%	
<b>Net profit</b>	<b>161</b>	<b>180</b>	<b>-10.4%</b>	<b>218</b>	<b>-26.1%</b>	<b>179</b>	<b>-9.9%</b>
Net margin	17.8%	28.4%		27.1%		21.3%	
<b>EPS</b>	<b>0.75</b>	<b>0.83</b>	<b>-10.1%</b>	<b>1.01</b>	<b>-25.7%</b>	<b>0.83</b>	<b>-9.5%</b>

Source: Company data, Al Rajhi Capital

**APCC inks a deal with SATORP to extend annual propylene supply to 120,000 MT until 2025.** APCC signed an amendment with Saudi Aramco Total Refining and Petrochemical Co. (SATORP) for the extension of annual propylene supply to 120kmt (with a range of +/- 10%; earlier agreed supply: 100kmt) and contract duration from 1 Dec 2021 to 31 Dec 2025. We view this announcement as positive as the increased availability of outsourced propylene will help the company boost its sales volume. As per our initial calculations, we expect the increased supply of outsourced propylene from SATORP may improve APCC's top-line and bottom-line by ~3% and ~2%, respectively for 2022.

Figure 8 APCC's historical supply agreements with SATORP

Date	Annual supply agreement (mtpa)
Jun-12	50,000
Aug-13	80,000
Dec-17	100,000
Dec-21	120,000

Source: Company data, Al Rajhi Capital.

### APCC announces the board's recommendations of capital increase via bonus share, and buyback plans

Advanced petrochemical company (APCC) recently announced two material developments (capital increase via bonus shares and share repurchase plan). We believe that both these announcements are positive for the stock, as this implies the company's confidence in its existing operations and future expansion projects and also its commitment to shareholders. However, these are subject to the approval of the competent authorities as well as the company's EGM.

APCC board recommends 20.1% capital by way of issuing bonus shares. To support the current asset base and future expansions, APCC's board of directors recommended a 20.1% capital increase by issuing one bonus share for every five shares held. Post bonus share issuance, the share capital will increase from SAR2.2bn (216.5mn shares) to SAR2.6bn



(260mn shares). The company will capitalize SAR174mn from retained earnings and SAR261mn from statutory reserve to increase the capital increase.

**APPC announces repurchase plan for employee shares incentive program.** APPC announced the board of director's recommendation to buy back a maximum of 1.5mn shares (worth SAR108mn at the current price) and retain them for the Employee Shares Incentive Program, probably as the current stock price (limited gain seen last year compared to other petchem stocks) is not reflecting its actual fair value. This share repurchase program will be funded through internal resources (cash and cash equivalents as of Q3 2021: SAR312.5mn), which we believe is sufficient and manageable. The announced buyback plan would also act as a support to its stock price going forward. However, this might cap its dividend-paying abilities (2022E DPS: SAR2.6).

**Valuation and risks:** We continue to remain positive on the company's medium to long-term growth prospects, due to i) strong utilization rates, ii) consistent operating performance, iii) FCF generation ability, iv) healthy balance sheet, and v) excellent management quality. The stock is currently trading at a P/E of 19.8x on our 2022E EPS despite the massive expansion (3Y historical avg. of 17.9x).

We value the existing plants using a 4% historical dividend yield on DPS of SAR2.6 for 2022. 2021 results assure management commitment that dividends will remain untouched despite the projects. To this, we add our estimated value of the new PDH-PP KSA plant ([SAR15/sh based on our NPV analysis](#)) and the recently announced project (SAR10/sh) to arrive with a TP of SAR90/sh. We believe that the stock deserves to trade at a premium to its peers, given the superior performance. Currently, the market is only partially pricing in the two massive projects which are in pipeline but we are expected to start commercial production only after 3 years. We believe that only as we move closer to commercial production, the stock will reach SAR90/share which is our target price. However, in the medium term, the stock may track the PP-propane spreads or price the stock at ~4% dividend yield. We believe that the dividend yield-based valuation approach is ideal to value the fundamentally strong dividend-paying companies like APPC amid the current market dynamics.

The key upside trigger might be attributed to sustained improvement in spreads while further weakness in product spreads, a dividend cut, and/or any unplanned shutdown may act as the downside triggers.





## Yansab

### Q4 earnings slightly lower; Maintain TP at SAR75/sh.

(SARmn)	2020	2021	2022E
Revenue	5,035	7,408	8,985
Y-o-Y	-17.0%	47.1%	21.3%
Gross profit	1,089	2,154	2,097
Gross margin	21.6%	29.1%	23.3%
Net profit	678	1,531	1,406
Y-o-Y	-37.8%	126.0%	-8.2%
Net margin	13.5%	20.7%	15.6%
EPS (SAR)	1.2	2.7	2.5
DPS (SAR)	2.5	3.0	3.0
Payout ratio	207.5%	110.2%	120.0%
P/E (Curr)	60.8x	26.9x	29.3x
P/E (Target)	62.3x	27.6x	30.0x

Figure 9 YANSAB Q4 2021 results

(SAR mn)	Q4 2021	Q4 2020	Y-o-Y	Q3 2021	Q-o-Q	ARC est	vs ARC
Revenue	1,922	1,379	39.4%	1,780	8.0%	2,023	-5.0%
Gross profit	507	475	6.7%	344	47.6%	531	-4.6%
Gross margin	26.4%	34.5%		19.3%		26.3%	
Operating profit	382	371	2.9%	215	77.4%	394	-3.0%
Operating margin	19.9%	26.9%		12.1%		19.5%	
Net profit	335	333	0.7%	180	86.3%	355	-5.6%
Net margin	17.4%	24.1%		10.1%		17.5%	
EPS	0.59	0.59	-0.2%	0.32	84.6%	0.63	-6.4%

Source: Company data, Al Rajhi Capital

**MEG prices are likely to remain mostly stable.** After rising ~46% y-o-y in 2021, average China MEG spot prices are down by ~6% so far in Q1 2022 and currently trades at US\$844/t vs. our estimate of US\$850/t (earlier: US\$865/t) for 2022E. Going forward, we expect prices are likely to remain mostly stable, mainly aided by increased upstream costs amid the current energy restriction in China, offsetting a likely increase in new supply in 2022.

**DPS is likely to be around SAR3/sh. for 2022.** Previously, the investment thesis for Yansab was a possible increase in DPS from SAR3 in 2021, depending on how the company would like to preserve its capital (averaged 166% payout in the last three years) and how key product prices move. However, considering the current prices and 4Q earnings, we don't expect DPS to go more than SAR3 for 2022 as well.

**Valuation and risks:** Overall, we remain positive on Yansab's medium-term growth prospects, given a healthy earnings growth amid better market dynamics, strong cash flow generation amid limited capex requirements, and a healthy balance sheet. The stock is trading at a P/E of 29.3x our 2022E EPS, higher than its 3Y historical average of 24.1x. Based on a 4% required yield and our 2022E DPS of ~SAR3, we maintain our TP at SAR75.0/sh, implying a Neutral rating on the stock. We believe that the dividend yield-based valuation approach is the most preferred for such stocks which are primarily held for dividends. Upside risks relate to higher than expected rise in MEG prices, better-than-expected dividends while downside risks may be related to further fall in product price especially, MEG price, and any unplanned shutdowns.





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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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