



**What do we think?**

Stock	Rating	Price Target	Upside
APCC	Neutral	SAR43.0	+2.3%
YANSAB	Neutral	SAR42.0	-2.3%
SABIC AN	Neutral	SAR142.0	+2.2%
SABIC	Neutral	SAR90.0	+7.2%
Sipchem	Neutral	SAR41.0	+7.8%

## Saudi Petchem Sector

### Weak demand outlook to weigh sector earnings

**Oil prices are likely to remain mostly stable**, supported by healthy oil market balance (OECD inventory as a % of global demand: 7.6% as of Oct 2022), OPEC+ decision to cut output by 2mmmbpd from November, and the EU's sanction on seaborne Russian crude (starting from 5th Dec), offsetting the likely incremental supply from the US. The current future oil contracts imply prices in the range of US\$82-84/bbl, which may reduce the Naphtha prices going forward. Healthy oil prices would continue to encourage the shale producers to increase their capex and set the 2023 production targets higher going forward. However, the current debt level still remains above the 2018-19 levels for most shale companies. As per our analysis, shale companies require ~US\$53/barrel this year to meet their opex and capex needs as well as interest costs/tax obligations. Given a healthy oil price outlook, we believe that the US shale producers will aim to lower their leverage positions in the future. Hence, we believe that there will be pressure on supply for US shale producers. However, the tight liquidity in the paper market may act as a downside risk.

**Global economic slowdown to impact the demand.** According to the IMF, global economic growth will slow down from 6.0% in 2021 to 3.2% in 2022 and further to 2.7% in 2023, which we believe could be due to i) elevated inflation levels, ii) quicker and steeper policy moves by the global central banks to control inflationary pressures, iii) the continued lockdowns in China under its 'Zero COVID Policy' (likely for at least till H2 2023 in our view), and iv) trade war between the US and China. The recent manufacturing PMI data (Figure 2) also confirms the global economic slowdown, with the JPM mfg PMI crossing below 50 in Oct 2022. The last time, when we saw the PMI data below 50 was in 2019-20, the demand and petchem prices were tremendously under pressure. Historically, petchem product demand is highly correlated with global economic growth, hence the rising fears of the global recession imply a likely lower demand for petrochemical products in the future.

**Weak product spreads likely on lower product prices.** Avg. polymer prices are down by ~20-25% from their Q2 2022 avg. levels with no visible signs of any sustained rebound from current levels. The weakness in prices reflects the elevated demand concerns due to the possibility of a global economic slowdown, as well as oversupplied markets mainly for PE, PP, PC, and MEG (Figure 4). On the other hand, key feedstock prices are expected to witness a limited price correction due to firm oil prices. Overall, we expect average product spreads to decline next year (Figure 3), hereby impacting the sector's profitability.

**Revision in our estimates and TPs.** Post updating the demand outlook and latest commodity price deck, we revise our forward estimates for the companies under our coverage as well as valuation with higher DCF (cost of equity) and a higher dividend yield of 6%, which is above SAIBOR and Bond yields. We believe the higher dividend yield is acceptable in the current market conditions.



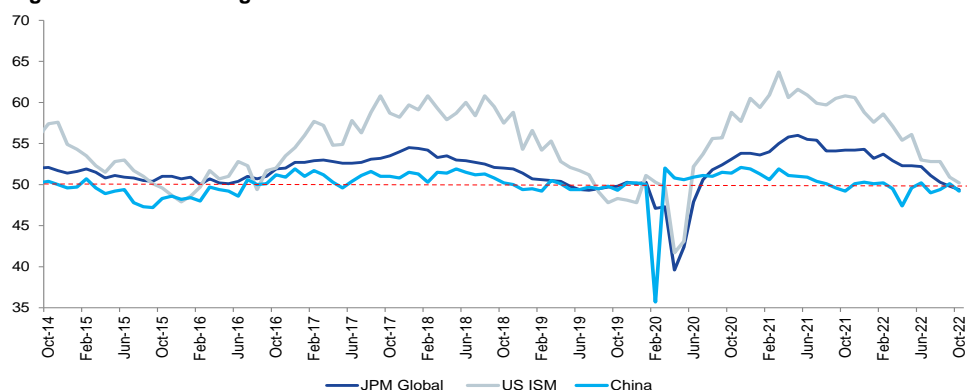
## Valuation changes

Figure 1 Changes in estimates and TP

Companies	2022e EPS	2023E EPS	2022E DPS (SAR)	2023E DPS (SAR)	2023E Div. Yield	Old rating	New rating	Old TP (SAR)	New TP (SAR)	CMP*	Upside / (downside)
APPC**	1.3	1.1	2.2	2.2	5.2%	Neutral	Neutral	52.0	43.0	42.0	2.3%
Yansab	1.0	0.7	3.0	2.1	4.9%	Neutral	Neutral	54.0	42.0	43.0	-2.3%
SABIC Agri-Nutrients	18.6	13.1	9.0	7.8	5.6%	Neutral	Neutral	185.0	142.0	139.0	2.2%
SABIC	5.9	3.5	4.8	3.3	3.9%	Neutral	Neutral	107.0	90.0	84.0	7.2%
Sipchem	5.0	2.9	3.5	2.3	6.1%	Overweight	Overweight	60.0	41.0	38.0	7.8%

Source: Bloomberg, Al Rajhi Capital. \* As of 20 November 2022. \*\* Including the PDH-PP project

Figure 2 Manufacturing PMI



Source: Bloomberg Al Rajhi Capital

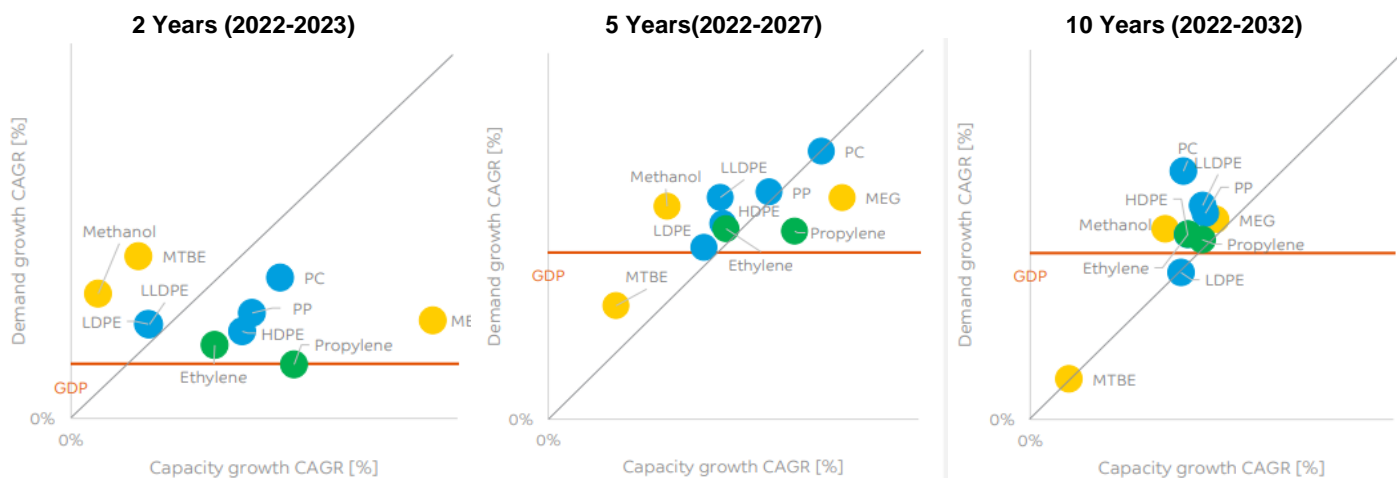
Figure 3 Product prices to remain under pressure

	2019	2020	2021	5Y Avg. price	2022E	2023E	% change over 2022e	Current spot price
<b>Average oil prices</b>								
Brent (US\$/bbl)	64	43	71	61	101	88	-13%	95
WTI (US\$/bbl)	57	39	68	56	96	82	-14%	88
<b>Feedstock prices (US\$/t)</b>								
Naphtha	525	382	649	534	787	662	-16%	683
Propane	435	398	620	491	747	606	-19%	610
Butane	441	405	606	497	740	588	-21%	610
<b>Product prices (US\$/t)</b>								
HDPE	991	886	1,178	1,107	1,179	987	-16%	1,000
LDPE	997	1,006	1,523	1,192	1,436	1,200	-16%	1,130
PP	1,082	956	1,296	1,143	1,172	954	-19%	940
Polycarbonates	2,047	1,931	3,417	2,685	2,399	2,039	-15%	1,975
MEG	689	557	813	841	677	538	-21%	571
Methanol	323	276	409	371	401	350	-13%	380
Urea	244	227	479	284	612	500	-18%	525
<b>Spreads (US\$/t)*</b>								
HDPE-Naphtha	466	504	529	574	392	325	-17%	317
PP-Propane	648	558	677	652	425	348	-18%	330

Source: Bloomberg, Al Rajhi Capital. \* Spreads may be misleading given that feedstock costs are much lesser than product revenues. Price as of 16 November 2022



**Figure 4 Supply and demand market dynamics**



Source: SABIC Investor Day 2022, Al Rajhi Capital



## SABIC Agri-Nutrients Co.

### TP revise to SAR142/sh. on lower Urea prices

**2023e earnings likely to be under pressure.** After declining 23% q-o-q in Q3 20022, SABIC AN's near-term earnings performance is expected to continue remaining under pressure, weighed down by i) lower Urea prices amid a weakening global Urea market, and softening gas prices, ii) lower sales volume due to likely plants shutdowns (SAFCO II, SAFCO IV, and Al Bayroni plants; source: 2021 board report), iii) relatively lower margins. Additionally, China's urea exports rebounded in Q3, following the government's ban in H1 2022. Further, the global Urea capacity (ex-China) is expected to increase by 5.6mt (source: Yara International) in 2023, the highest yearly additions since 2017, putting additional pressure on Urea prices, going forward.

Accordingly, we revise our 2023 Urea price forecasts downwards to US\$500/t (US\$610/t earlier). Post the recent decline in Urea prices, the urea-to-corn ratio reached declined to 83 bu/mt from above 100 bu/mt at the end of Q3; however, it is still 20% above the 2018-19 levels of ~70 bu/mt. In addition, the current Urea prices (~US\$525/t) are way above their 5Y average price of US\$284/t and we expect prices to normalize in the future. Further, natural gas prices are also expected to slow down in the future. Hence, we expect Urea prices to continue to decline in 2023 and beyond until it reaches a price floor. Overall, we expect SABIC AN's top-line and bottom-line to drop by 16% CAGR and 18% CAGR over 2022e-24e.

**Valuation and risks.** Post revision in our Urea price assumptions and estimates, we revise our TP to SAR142.0/share (SAR185/sh. earlier) based on dividend yield (SAR131/sh. based on 6% yield and SAR7.8 2023e DPS) and DCF valuation (~SAR153/sh. based on FCF, cost of equity 11.5%). We have given equal weight to dividend yield and DCF valuation methods.

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 prices as the plants closed temporarily reopen.

Figure 5 SABIC Agri-Nutrients Co. financial summary

	2020A	2021A	2022E	2023e	2024E
<b>Income Statement (SARmn)</b>					
Revenue	3,328	9,592	17,741	13,330	12,646
Gross Profit	1,665	6,507	10,615	7,787	7,418
EBITDA	1,884	6,815	10,015	7,443	7,089
Operating profit	1,308	5,815	9,160	6,561	6,192
Net income	1,294	5,229	8,832	6,219	5,896
<b>Balance Sheet (SARmn)</b>					
Cash	465	5,231	9,525	11,559	15,185
Other current assets	2,248	4,048	5,580	6,222	5,498
Fixed tangible assets	5,590	8,507	8,805	8,790	8,714
Other non-current assets	1,691	2,007	2,007	2,007	2,007
<b>Total assets</b>	<b>9,995</b>	<b>19,792</b>	<b>25,917</b>	<b>28,578</b>	<b>31,404</b>
Total debt	0	0	0	0	0
Other liabilities	1,834	2,766	3,901	3,638	3,714
Shareholders' equity	8,161	17,027	22,017	24,940	27,690
<b>Liabilities &amp; Equity</b>	<b>9,995</b>	<b>19,792</b>	<b>25,917</b>	<b>28,578</b>	<b>31,404</b>
<b>Cash flow (SARmn)</b>					
Operating activities	2,094	5,150	9,732	6,631	7,986
Investing activities	(1,297)	270	(1,153)	(866)	(822)
Financing activities	(1,085)	(1,367)	(4,284)	(3,731)	(3,537)

Source: Company data, Al Rajhi Capital. \* Based on current price as of 20 Nov 2022

	2020A	2021A	2022E	2023e	2024E
<b>Per share data (SAR)</b>					
EPS	3.11	10.98	18.55	13.06	12.39
BVPS	19.59	35.77	46.25	52.39	58.17
DPS	2.00	4.25	9.00	7.84	7.43
<b>KPIs</b>					
Gross margin	50.0%	67.8%	59.8%	58.4%	58.7%
EBITDA margin	56.6%	71.0%	56.5%	55.8%	56.1%
Operating margin	39.3%	60.6%	51.6%	49.2%	49.0%
Net margin	38.9%	54.5%	49.8%	46.7%	46.6%
ROA (%)	13.0%	26.4%	34.1%	21.8%	18.8%
ROE (%)	15.9%	30.7%	40.1%	24.9%	21.3%
D/E (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Net debt / EBITDA (x)	-0.9x	-0.9x	-1.0x	-1.6x	-2.2x
Dividend payout (%)	64.4%	38.7%	48.5%	60.0%	60.0%
Dividend yield (%)*	1.4%	3.1%	6.5%	5.6%	5.3%
<b>Valuation multiples</b>					
P/E (x) - Curr	44.7x	12.7x	7.5x	10.6x	11.2x
P/E (x) - Target	45.7x	12.9x	7.7x	10.9x	11.5x
P/BV (x) - Curr	7.1x	3.9x	3.0x	2.7x	2.4x
EV/EBITDA (x) - Curr	36.1x	10.0x	6.8x	9.1x	9.6x



## SABIC

### TP set to SAR90/sh. on weak demand outlook

**Lower product spreads on weak demand/supply dynamics.** A global slowdown in economic activities amid the continued lockdown in China and the energy crisis in Europe, and the trade war between the US and China are likely to hit the demand for most petchem products. Further, weak market dynamics (capacity growth to exceed demand growth for SABIC's key products - Ethylene, PE, PP, PC, MEG, etc.; source: SABIC Investor Day 2022 Presentation) are expected to keep the petchem prices under pressure in 2023. On the other hand, Naphtha prices, a key feedstock for SABIC, are likely to decline at a relatively lesser pace, aided by healthy oil prices, resulting in lower product spreads in the coming periods. Accordingly, we expect SABIC's earnings to drop notably with net margin narrowing by 4.0pps y-o-y in 2023. Nonetheless, SABIC's ability to control costs, coupled with the anticipated synergies through the Aramco deal, are likely to offset some of these impacts.

**2022 guidance.** i) SABIC has maintained its global economic growth forecasts at 2.5-2.8% for 2022. ii) SABIC expects margins to come under pressure in Q4.

**Lower dividend expected in 2023.** Considering the likely earnings pressure in the near to medium term, we expect SABIC to cut the DPS to SAR3.3/sh. (~95% payout) for 2023e from SAR4.75/sh (~81% payout) expected for 2022e.

**Valuation and risks.** Given the likely margin pressure amid weak product spreads and slowing down the global economy, we revise our TP to SAR90/share (SAR107/sh. earlier) based on an equal mix of DCF valuation (SAR96/sh. based on FCF, cost of equity 10.0%) and EV/EBITDA method (SAR84/sh. based on 9x multiple and 2023E EBITDA). Supply of new capacity globally, unexpected falls 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.

Figure 6 SABIC financial summary

	2020A	2021A	2022E	2023e	2024E
<b>Income Statement (SARmn)</b>					
Revenue	116,955	174,924	196,496	164,251	172,799
Gross Profit	22,820	51,565	49,213	32,242	35,368
EBITDA	20,185	48,330	38,677	26,875	29,910
Operating profit	4,478	33,383	24,706	12,764	15,658
Net income	42	23,034	17,670	10,462	12,550
<b>Balance Sheet (SARmn)</b>					
Cash	33,125	41,404	36,936	42,519	50,034
Other current assets	48,196	65,924	63,736	55,753	57,869
Fixed tangible assets	141,753	137,222	131,422	125,524	119,912
Other non-current assets	72,426	73,315	74,348	74,348	74,348
<b>Total assets</b>	<b>295,500</b>	<b>317,866</b>	<b>306,443</b>	<b>298,144</b>	<b>302,164</b>
Total debt	45,982	38,408	35,534	35,534	35,534
Other liabilities	55,264	67,947	60,160	53,700	55,413
Shareholders' equity	194,254	211,510	210,748	208,909	211,217
<b>Liabilities &amp; Equity</b>	<b>295,500</b>	<b>317,866</b>	<b>306,443</b>	<b>298,144</b>	<b>302,164</b>
<b>Cash flow (SARmn)</b>					
Operating activities	21,606	40,304	32,720	29,844	30,997
Investing activities	(13,890)	(10,050)	(13,374)	(8,213)	(8,640)
Financing activities	(9,884)	(17,789)	(23,799)	(16,050)	(14,841)

	2020A	2021A	2022E	2023e	2024E
<b>Per share data (SAR)</b>					
EPS	0.01	7.68	5.89	3.49	4.18
BVPS	64.75	70.50	70.25	69.64	70.41
DPS	3.00	4.00	4.75	3.31	3.35
<b>KPIs</b>					
Gross margin	19.5%	29.5%	25.0%	19.6%	20.5%
EBITDA margin	17.3%	27.6%	19.7%	16.4%	17.3%
Operating margin	3.8%	19.1%	12.6%	7.8%	9.1%
Net margin	0.0%	13.2%	9.0%	6.4%	7.3%
ROA (%)	0.0%	7.2%	5.8%	3.5%	4.2%
ROE (%)	0.0%	10.9%	8.4%	5.0%	5.9%
D/E (x)	0.2x	0.2x	0.2x	0.2x	0.2x
Net debt / EBITDA (x)	0.3x	-0.2x	-0.3x	-0.6x	-0.8x
Dividend payout (%)	NM	52.1%	80.6%	95.0%	80.0%
Dividend yield (%)*	3.6%	4.8%	5.7%	3.9%	4.0%
<b>Valuation multiples</b>					
P/E (x) - Curr	NM	10.9x	14.3x	24.1x	20.1x
P/E (x) - Target	NM	11.7x	15.3x	25.8x	21.5x
P/BV (x) - Curr	1.3x	1.2x	1.2x	1.2x	1.2x
EV/EBITDA (x) - Curr	13.1x	5.5x	6.8x	9.8x	8.8x

Source: Company data, Al Rajhi Capital. \* Based on current price as of 20 Nov 2022



## APCC

### Earnings to remain weak; TP revise to SAR43/sh.

**Lower margins weigh on earnings.** PP market dynamics continue to remain weak with PP capacity additions to exceed demand over the coming few years. Accordingly, we expect PP prices (down by ~7% q-o-q so far in Q4; currently trading at US\$940/t vs. US\$1,072/t in Q3 2022) to remain under pressure in the coming years. Further, we expect margins to squeeze going forward, mainly due to relatively higher propane prices compared to the historical levels. Further, APCC has shifted its focus from the Chinese market to European markets, which may generate lower netbacks due to relatively high freight and logistic costs amid the weakening European economy. Accordingly, APCC's near-term earnings performance remains under pressure with net profit declining by ~10% y-o-y in 2023e. In addition, FCF is expected to remain weak in the near term, exacerbated by lower cash flows and higher capex (PDH-PP plant in Jubail). Nonetheless, we don't think that there will any pressure on dividends and expect the company to maintain its annual DPS at SAR2.20 for 2023e, implying a dividend yield of ~5%.

**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 ~37x on our 2023E EPS, significantly above its 3Y historical avg. of 19.8x.

Based on the equal mix of income-based approach (DCF for the existing plants and NPV for the PDH-PP Jubail plant), and dividend yield (using 6% yield on 2023E DPS), we revise our TP to SAR43.0/sh. (earlier SAR52/sh.) but remain Neutral on the stock.

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.

**Figure 7 APCC financial summary**

	2020A	2021A	2022E	2023e	2024E
<b>Income Statement (SARmn)</b>					
Revenue	2,231	3,111	2,931	2,410	2,699
Gross Profit	729	1,059	550	426	592
EBITDA	809	1,087	645	560	719
Operating profit	592	865	404	305	463
Net income	596	815	326	294	474
<b>Balance Sheet (SARmn)</b>					
Cash	62	243	376	71	232
Other current assets	591	813	532	583	567
Fixed tangible assets	1,756	2,985	4,221	4,015	3,812
Other non-current assets	1,549	1,850	1,378	1,649	1,667
<b>Total assets</b>	<b>3,959</b>	<b>5,891</b>	<b>6,507</b>	<b>6,318</b>	<b>6,278</b>
Total debt	13	1,063	2,318	2,318	2,318
Other liabilities	527	872	741	826	827
Shareholders' equity	3,419	3,956	3,448	3,174	3,133
<b>Liabilities &amp; Equity</b>	<b>3,959</b>	<b>5,891</b>	<b>6,507</b>	<b>6,318</b>	<b>6,278</b>
<b>Cash flow (SARmn)</b>					
Operating activities	758	1,058	642	596	736
Investing activities	(179)	(1,181)	(1,139)	(329)	(54)
Financing activities	(565)	303	630	(572)	(520)

	2020A	2021A	2022E	2023e	2024E
<b>Per share data (SAR)</b>					
EPS	2.29	3.14	1.25	1.13	1.82
BVPS	13.15	15.22	13.26	12.21	12.05
DPS	2.16	2.16	2.20	2.20	2.00
<b>KPIs</b>					
Gross margin	32.7%	34.0%	18.8%	17.7%	21.9%
EBITDA margin	36.3%	34.9%	22.0%	23.2%	26.7%
Operating margin	26.6%	27.8%	13.8%	12.7%	17.1%
Net margin	26.7%	26.2%	11.1%	12.2%	17.6%
ROA (%)	15.0%	13.8%	5.0%	4.7%	7.6%
ROE (%)	17.4%	20.6%	9.4%	9.3%	15.1%
D/E (x)	0.0x	0.3x	0.7x	0.7x	0.7x
Net debt / EBITDA (x)	-0.1x	0.7x	3.0x	4.0x	2.9x
Dividend payout (%)	94.5%	69.0%	175.6%	194.5%	109.7%
Dividend yield (%)*	5.2%	5.2%	5.2%	5.2%	4.8%
<b>Valuation multiples</b>					
P/E (x) - Curr	18.3x	13.4x	33.5x	37.1x	23.0x
P/E (x) - Target	18.8x	13.7x	34.3x	38.0x	23.6x
P/BV (x) - Curr	3.2x	2.8x	3.2x	3.4x	3.5x
EV/EBITDA (x) - Curr	12.1x	9.0x	15.1x	17.4x	13.6x

Source: Company data, Al Rajhi Capital. \* Based on current price as of 20 Nov 2022





## Yansab

### Weak cash flows limit the dividend-paying ability

**Weak MEG and Polymer prices.** After rising ~46% y-o-y in 2021, average China MEG spot prices are down by ~36% YTD and currently trade at US\$571/t vs. our estimate of US\$678/t for 2022E (YTD average: US\$721/t). Going forward, we expect prices to continue to decline, mainly aided by a weak demand outlook and incremental MEG capacity coming on stream. Accordingly, we revise our 2023E MEG prices to US\$538/t, (US\$563/t earlier). Further, polymer product prices (PP, HDPE, and LLDPE) are also down by 5-10% q-o-q, on average, in Q4, mainly due to likely weak demand amid increased supply. Accordingly, we revise our petchem product price estimates downward to reflect the current trends, resulting in a downward revision in our estimates for Yansab.

**Earnings pressure to impact the payout.** Yansab posted its first-ever quarterly loss in Q3 2022, mainly due to weak product prices, higher shipping costs, and lower margins. Going forward, we expect Yansab's earnings performance to improve in Q4 on cost efficiencies, although it would still remain below its historical levels. For 2023e, we believe that lower product prices and weak margins would drag top-line and bottom-line by ~15% y-o-y and ~25% y-o-y. Given the likely earnings pressure at least till 2023, we expect Yansab to cut its annual dividend at SAR2.1/sh. for 2023e from SAR3.0/sh. in 2022e.

**Valuation and risks.** Despite the near-term headwinds, we remain positive on Yansab's medium-term growth prospects, given healthy earnings growth amid better efficiencies, strong cash flow generation amid limited capex requirements, and a healthy balance sheet. The stock is trading at a P/E of ~59x on our 2023E EPS, higher than its 3Y historical average of 25.3x. We value Yansab using an equal mix given to DCF (2% terminal growth and 10.8% cost of equity), and dividend yield (using ~6% required dividend yield and average 2023E DPS) based valuations. Our equal-weighted TP stands at SAR42.0/sh (earlier SAR54/share), implying "Neutral" on the stock. Upside risks relate to the higher-than-expected rise in MEG prices, and better-than-expected dividends while downside risks may be related to further fall in prices especially, MEG price, and any unplanned shutdowns.

Figure 8 Yansab financial summary

	2020A	2021A	2022E	2023e	2024E
<b>Income Statement (SARmn)</b>					
Revenue	5,035	7,408	7,064	5,994	6,876
Gross Profit	1,089	2,154	1,045	803	1,249
EBITDA	1,887	3,022	1,719	1,567	1,985
Operating profit	728	1,651	561	398	809
Net income	678	1,531	551	412	763
<b>Balance Sheet (SARmn)</b>					
Cash	20	276	660	1,222	1,440
Other current assets	5,918	7,337	6,673	6,433	6,437
Fixed tangible assets	11,078	10,128	9,117	8,093	7,082
Other non-current assets	323	366	364	329	350
<b>Total assets</b>	<b>17,340</b>	<b>18,108</b>	<b>16,814</b>	<b>16,077</b>	<b>15,308</b>
Total debt	146	146	150	150	150
Other liabilities	2,208	2,919	2,416	2,462	2,417
Shareholders' equity	14,985	15,042	14,248	13,466	12,741
<b>Liabilities &amp; Equity</b>	<b>17,340</b>	<b>18,108</b>	<b>16,814</b>	<b>16,077</b>	<b>15,308</b>
<b>Cash flow (SARmn)</b>					
Operating activities	1,865	2,632	2,178	1,900	1,871
Investing activities	(271)	(808)	(92)	(144)	(165)
Financing activities	(1,711)	(1,568)	(1,703)	(1,194)	(1,489)

	2020A	2021A	2022E	2023e	2024E
<b>Per share data (SAR)</b>					
EPS	1.20	2.72	0.98	0.73	1.36
BVPS	26.64	26.74	25.33	23.94	22.65
DPS	2.50	3.00	3.00	2.12	2.65
<b>KPIs</b>					
Gross margin	21.6%	29.1%	14.8%	13.4%	18.2%
EBITDA margin	37.5%	40.8%	24.3%	26.1%	28.9%
Operating margin	14.5%	22.3%	7.9%	6.6%	11.8%
Net margin	13.5%	20.7%	7.8%	6.9%	11.1%
ROA (%)	3.9%	8.5%	3.3%	2.6%	5.0%
ROE (%)	4.5%	10.2%	3.9%	3.1%	6.0%
D/E (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Net debt / EBITDA (x)	-1.5x	-1.2x	-2.3x	-2.8x	-2.3x
Dividend payout (%)	207.5%	110.2%	306.1%	290.0%	195.0%
Dividend yield (%)*	5.8%	7.0%	7.0%	4.9%	6.2%
<b>Valuation multiples</b>					
P/E (x) - Curr	35.7x	15.8x	43.9x	58.8x	31.7x
P/E (x) - Target	34.9x	15.4x	42.9x	57.4x	30.9x
P/BV (x) - Curr	1.6x	1.6x	1.7x	1.8x	1.9x
EV/EBITDA (x) - Curr	11.9x	7.4x	13.0x	14.3x	11.3x

Source: Company data, Al Rajhi Capital. \* Based on current price as of 20 Nov 2022



## SIPCHEM

### TP cut to SAR41/sh.; Assign Neutral rating

**Earning pressure to persist on weak product prices and higher costs.** Sipchem reported weaker-than-expected Q3 earnings, mainly due to a steep rise in production costs, increased G&A expenses, and a lower share of profit from the JVs. Going forward, we expect Sipchem's earnings continue to remain under pressure, on account of i) weak product prices (mainly Acetic Acid, VAM, and polymer) amid lower demand, ii) higher production costs and iii) weak margins. While Methanol prices (which contribute around 20% of total revenue) remain broadly stable so far in Q4, we expect a 10-13% price correction from the current level due to the economic slowdown and likely normalization of gas prices. Nonetheless, improving leverage position (gearing ratio declined to 24% at the end of Q3 2022 from 34% in 2021, aided by repayments and pre-settlement of the loans), is expected to lower financial expenses going forward and ease the earnings pressure to some extent.

**H2 2022 dividend likely to be maintained; although possibly cut in 2023.** We don't see any pressure on the dividends and expect the company to continue maintaining its semi-annual dividend of SAR1.75/sh. (100% payout) in H2 2022, taking the annual DPS to SAR3.50/sh. (~70% annual payout). However, given a likely 42% y-o-y drop in 2023E earnings, we expect Spchem to cut the DPS to SAR2.3/sh for 2023, implying a yield of ~6%.

**Valuation and risks.** We continue to remain positive on Sipchem over the medium to long term, given its strong fundamentals, production/operating efficiencies, and cost-saving measures along with strong FCF generation capabilities and comfortable debt position. We value Sipchem using an equal mix given to DCF, and dividend-based valuations. Our DCF-based TP, using 2% terminal growth and 12.3% cost of equity, is ~SAR43.5/share, while dividend yield-based TP is SAR38.5/sh, using a 6% yield on 2023E DPS. Thus, equal-weighted TP stands at SAR41/sh (earlier SAR60/share), implying a "Neutral" rating. Key upside risks include better-than-expected product prices, faster-than-expected ramping up production at IMC, and higher dividends. Major downside risks involve unexpected disruption at the company's upstream operations, which can further impact its downstream plants as well, and persistent weakness in product prices, particularly Methanol prices.

Figure 9 SIPCHEM financial summary

	2020A	2021A	2022E	2023e	2024E
<b>Income Statement (SARmn)</b>					
Revenue	5,323	9,982	10,952	8,682	9,299
Gross Profit	1,173	5,580	5,164	3,210	3,456
EBITDA	1,291	5,463	4,965	3,211	3,353
Operating profit	360	4,464	4,025	2,272	2,414
Net income	176	3,592	3,609	2,097	2,280
<b>Balance Sheet (SARmn)</b>					
Cash	2,497	2,690	4,087	3,968	4,195
Other current assets	2,476	3,255	3,422	2,949	3,109
Fixed tangible assets	13,077	12,338	12,087	12,076	12,133
Other non-current assets	5,715	6,220	6,263	6,611	7,029
<b>Total assets</b>	<b>23,765</b>	<b>24,504</b>	<b>25,859</b>	<b>25,605</b>	<b>26,465</b>
Total debt	7,473	5,539	4,422	4,422	4,422
Other liabilities	2,456	3,270	3,270	3,272	3,328
Shareholders' equity	13,836	15,696	18,168	17,911	18,715
<b>Liabilities &amp; Equity</b>	<b>23,765</b>	<b>24,504</b>	<b>25,859</b>	<b>25,605</b>	<b>26,465</b>
<b>Cash flow (SARmn)</b>					
Operating activities	1,603	4,898	5,078	3,352	2,899
Investing activities	58	(260)	(858)	(929)	(995)
Financing activities	(956)	(4,444)	(2,823)	(2,542)	(1,677)

	2020A	2021A	2022E	2023e	2024E
<b>Per share data (SAR)</b>					
EPS	0.24	4.95	4.97	2.89	3.14
BVPS	19.05	21.61	25.02	24.66	25.77
DPS	0.50	2.25	3.50	2.31	2.45
<b>KPIs</b>					
Gross margin	22.0%	55.9%	47.2%	37.0%	37.2%
EBITDA margin	24.3%	54.7%	45.3%	37.0%	36.1%
Operating margin	6.8%	44.7%	36.8%	26.2%	26.0%
Net margin	3.3%	36.0%	33.0%	24.1%	24.5%
ROA (%)	0.7%	14.7%	14.0%	8.2%	8.6%
ROE (%)	1.3%	22.9%	19.9%	11.7%	12.2%
D/E (x)	0.5x	0.4x	0.2x	0.2x	0.2x
Net debt / EBITDA (x)	3.6x	0.5x	0.0x	0.0x	-0.1x
Dividend payout (%)	206.5%	45.5%	70.4%	80.0%	78.0%
Dividend yield (%)*	1.3%	5.9%	9.2%	6.1%	6.4%
<b>Valuation multiples</b>					
P/E (x) - Curr	156.9x	7.7x	7.6x	13.2x	12.1x
P/E (x) - Target	171.4x	8.4x	8.4x	14.4x	13.2x
P/BV (x) - Curr	2.0x	1.8x	1.5x	1.5x	1.5x
EV/EBITDA (x) - Curr	20.8x	4.9x	5.4x	8.4x	8.0x

Source: Company data, Al Rajhi Capital. \* Based on current price as of 20 Nov 2022





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