

Saudi Industrial Investment Group (SIIG) - 2Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:

Hold

Previous Reco. & Date:

TP: SAR 20.2 per share; Hold on 11-May-2023

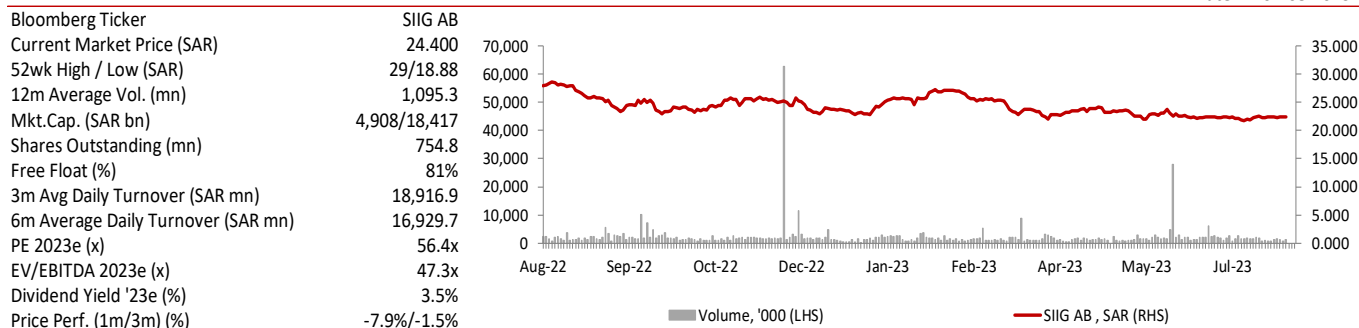
Fair Value (SAR):

UR

Upside / (Downside):

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Date: 02-08-2023



Operating profit and Net income improved 150% QoQ but fell short of our estimates.

The company's operating profit for Q2'23 was SAR 119 million, which fell below our estimated SAR 217 million. This shortfall is likely attributable to lower-than-expected selling prices and volumes. Similarly, net income stood at SAR 120 million, below our projected SAR 200 million, primarily due to lower-than-expected operating income. However, both operating and net income showed significant improvement of 150% QoQ due to better volumes compared to the low base of Q1'23. The first quarter was negatively impacted by unscheduled turnaround maintenance for Saudi Polymer Company.

Target Price under review

We expect that the petrochemical sector will continue to experience pricing pressure in the near term, as the global economy remains under stress due to recessionary fears and ongoing global conflicts. However, we believe the stock is likely to benefit from favourable demand visibility for its key end-market applications and anticipate stability in petrochemical product prices from FY-24e. At present, the stock is under review, and we will update our estimates and investment case accordingly.

Valuation.

SIIG is currently trading at a 2023e P/E ratio of 56.4x, indicating a 126% premium when compared to the historical average 1-year forward P/E of 25x. Furthermore, the stock is valued at an EV/EBITDA multiple of 47.3x, based on our FY23 estimate, which represents a 125% premium compared to the historical average of 21x.

Income Statement											
(SAR mn)	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Sales/Revenue	-	-	-	-	-	-	-	-	-	-	-
Gross Profit (Loss)	-	-	-	-	-	-	-	-	-	-	-
Operating Profit (Loss)	58	(308)	(237)	119	217	-60%	150%	-45%	672	(118)	-118%
Net Profit attributable to shareholders	55	(296)	(242)	120	200	-58%	150%	-40%	519	(122)	-124%
Balance Sheet											
(SAR mn)	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Shareholders' Equity	11,548	10,687	10,445	10,566	10,645	-7%	-1%	-1%	11,396	10,566	-7%
Key Ratios											
	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Gross Margin	-	-	-	-	-	-	-	-	-	-	-
Operating Profit Margin	-	-	-	-	-	-	-	-	-	-	-
Net Profit Margin	-	-	-	-	-	-	-	-	-	-	-
Return on Equity (RoE)	2%	-11%	-9%	5%	8%	-	-	-	-	-	-

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report on the sector, please [click here](#).

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%