



SIPCHEM's net profit surged 52.2% Y/Y to SAR 1,263mn in Q2-22, above our and consensus estimate of SAR 1,036mn and SAR 958mn, respectively. The variance from our estimate is primarily due to higher-than-expected top line, relatively lower negative impact of plant maintenance and higher contribution from joint venture and associates. Gross margin contracted to 52.6% vs. 57.4% in Q1-22, and against our estimate of 56.5%. Vinyl Acetate Monomer (VAM) average prices jumped 11.4% Q/Q to reach USD 2,383/tonne in Q2-22, on account of tight supply and strong downstream demand. Sipcchem is expected to deliver a strong performance in FY22 with 7.9% growth in net income to SAR 3.9bn. We maintain our TP of SAR 56.5/share and "Overweight" recommendation.

- Sahara International Petrochemical Co. (SIPCHEM) posted net profit of SAR 1,263mn, an increase of 52.2% Y/Y and 17.1% Q/Q. The net income growth was driven by strong top line performance and higher contribution from joint venture and associates, partly offset by decline in gross margin. Lower finance charges also supported the net income owing to repayment of debt. The major deviation from our estimate was due to higher-than-expected top line, relatively lower negative impact of plant maintenance. We expect income from JVs and associates (TSOC, SAMAPCO, SAAC) to stand at SAR 124mn as compared to SAR 116mn recorded during Q1-22, and our estimates of SAR 107mn.
- SIPCHEM's revenue jumped to SAR 3,193mn in Q2-22 (+35.1% Y/Y, 32.5% Q/Q), exceeding our estimate of SAR 2,473mn. The Q/Q growth in revenue was ascribed to higher sales volumes, despite a fall in prices of some products and plant shutdown. Separately, it seems that the company has made some accounting modifications to revenue and OPEX, which will be clarified once detailed financials are available. During the quarter, average selling prices of Methanol dropped 3.4% Q/Q. Vinyl Acetate Monomer (VAM) and Acetic acid (AA) average prices increased by 11.4% Q/Q and 1.3% Q/Q, respectively. EVA average prices increased by 20% Q/Q and 16% Y/Y.
- Gross profit stood at SAR 1,679mn (+21.4% Q/Q), above AJC's estimate of SAR 1,398mn due to higher-than-expected top line. Gross margin contracted to 52.6% in Q2-22 against our estimate of 56.5% and 57.4% in Q1-22. Propane feedstock average prices increased by 5.4% Q/Q to USD 847/MT, while PP declined 1.0%. Thus, Propane-PP spreads fell 9.0% Q/Q. Operating profit rose 19.3% Q/Q and 20.1% Y/Y to SAR 1,370mn. The company recorded OPEX of SAR 310mn, as compared to our estimate of SAR 241mn and SAR235mn in Q1-22.

**AJC view and valuation:** SIPCHEM posted strong set of results in Q2-22 with healthy growth in top line as well as bottom line. However, the company's margins contracted on both annual and sequential basis, which could be due to some accounting modifications to revenue and OPEX. We expect operating rates to improve in H2-22 after maintenance shutdowns in H1-22. Furthermore, despite the recent decrease, feedstock prices are still at high level. Thus, SIPCHEM with large portion feedstock cost being fixed and positive outlook for some of its products like VAM, continues to hold competitive advantage. Additionally, with Russia planning to cut natural gas supply to Europe will continue to pose challenges for European petrochemical producers and thus providing opportunity to Saudi producers such as SIPCHEM. The company's healthy cash balance and recently reduced debt level (current gearing ratio at 26% down from 34% in FY21) underline the balance sheet strength. The repayment of debt has also helped SIPCHEM lowering finance expenses. The company is trading at TTM PE of 7.3x versus a forward PE of 12.5x based on our FY23 earnings forecasts. The stock is expected earn FY22E dividend yield of 7.0%. We maintain our TP of SAR 56.5/share and "Overweight" recommendation on the stock.

## Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,363	2,410	3,193	35.1%	32.5%	29.1%
Gross Profit	1,478	1,383	1,679	13.7%	21.4%	20.2%
Gross Margin	62.5%	57.4%	52.6%	-	-	-
EBIT	1,140	1,148	1,370	20.1%	19.3%	18.4%
Net Profit	830	1,079	1,263	52.2%	17.1%	22.0%
EPS	1.13	1.47	1.72	-	-	-

Source: Company Reports, Aljazira Capital

## Overweight

Target Price (SAR)	56.5
Upside / (Downside)*	21.9%

Source: Tadawul \*prices as of 26<sup>th</sup> of July 2022

## Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	5,323	9,982	9,749	8,441
Growth %	-2.1%	87.5%	-2.3%	-13.4%
Net Income	175.9	3,592	3,875	2,717
Growth %	-41.3%	NM	7.9%	-29.9%
EPS	0.24	4.90	5.28	3.70

Source: Company reports, Aljazira Capital

## Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	22.0%	55.9%	54.2%	48.1%
Net Margin	3.3%	36.0%	39.8%	32.2%
P/E (x)	72.1	8.6	8.7	12.5
P/B (x)	1.0	2.1	2.0	1.8
EV/EBITDA (x)	10.8	5.9	6.2	7.2
Dividend Yield	2.9%	5.3%	7.0%	4.0%

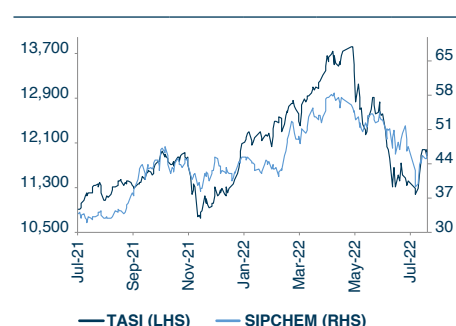
Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap (bn)	34.0
YTD %	10.4%
52 Week (High)/(Low)	60.0/31.9
Shares Outstanding (mn)	733.33

Source: Company reports, Aljazira Capital

## Price Performance



Source: Company reports, Aljazira Capital

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RATING  
TERMINOLOGY

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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