

Rating **Neutral**
 12- Month Target Price **SAR 16.00**

SAHARA PETROCHEMICAL COMPANY

4Q2017 First Look

Expected Total Return

Price as on Mar-4, 2018	SAR 16.2
Upside to Target Price	-1.2%
Expected Dividend Yield	6.2%
Expected Total Return	4.9%

Market Data

52 Week H/L	SAR 16.9/12.2
Market Capitalization	SAR 7,112 mln
Shares Outstanding	439 mln
Free Float	91.5%
12-Month ADTV ('000)	1,447.3
Bloomberg Code	SPC AB

1-Year Price Performance



Source: Bloomberg

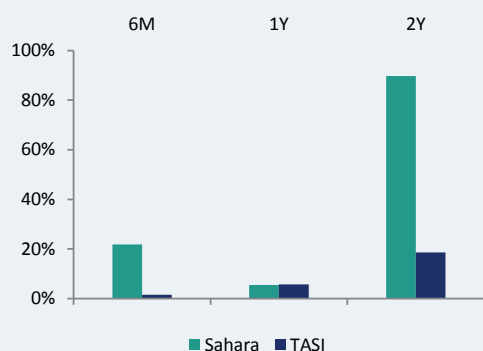


Fig in SAR mln	RC. Est	Actuals
Net Income	130	95
EPS (SAR)	0.22	0.30

Under Par 4Q

Sahara Petrochemical Company (Sahara) announced subdued set of earnings numbers with 4Q2017 significantly below our estimates as well as consensus. EPS declined by -43% Q/Q and -41% Y/Y to SAR 0.22, lower than our estimate of SAR 0.30 and street's SAR 0.32. Earnings decline is expected to be due to lower margins from Alwaha, as propane prices rally led to falling spreads as well as increased losses from SAAC. We maintain our 2018-19 estimates and target price for now. We raise our DPS forecasts to SAR 1.00, offers dividend yield of 6.2%. The stock is trading at 2018E P/E of 14.7x, higher than TASI's 13.6x and Advanced's 14.1x. At present, we do not see any significant reasons to go bullish on the stock and thus maintain our Neutral rating.

Jump in feedstock prices

4Q witnessed an increase in PP prices by just +7% Q/Q on the back of a rally in oil prices as Brent ended the quarter with an increase of +18% Q/Q and +20% Y/Y. However the oil rally drove up prices for propane much higher to USD 590/ton in 4Q, a rise of +36% Q/Q and +50% Y/Y. This outpaced PP's prices and left little scope to improve PP producer's cash margins (Advanced also reported weaker results in 4Q). We expect Alwaha to have witnessed similar margin stress scenario in 4Q2017 owing to lower spreads and increased the negative impact on earnings.

Despite challenges, decent 2017

Despite the increase in feedstock prices, Sahara's other associates (TSOC, SAMAPCO) delivered a decent performance. A trace of this is seen in TSOC's earnings which rose during the year due to the rise in prices and volumes from Saudi Ethylene and Polyethylene Company. Alwaha's revenue is expected to have also increased in 2017, despite the scheduled shutdowns it witnessed during 1H2017, as it recorded high utilization rates in 3Q at 118%. Some negative impact on earnings in 2017 was driven by SAAC's losses due to the decline in the value of the assets of the polymer absorption plant of Saudi Acrylic Company (75% owned by the Saudi Acrylic Acid Company in partnership with the German company Ivonk). However, Sahara's profits increased by +3% Y/Y in 2017 to reach SAR 445 million. Net profit of SAR 95 million in 4Q2017 decreased by -43% Q/Q and -41% Y/Y versus our estimate of SAR 130 million and street's SAR 141 million respectively.

Maintain Neutral

We reiterate our long-term view on consistent earnings growth to be driven by improvement from associates. The stock price rise was close to the index over the last 12-months, with Sahara increasing by +5.5% versus TASI's +5.7%. As the stock is trading in the vicinity of our SAR 16.00 target price, we maintain a Neutral rating. However, we await detailed financials to revisit our assumptions.

Key Financial Figures (SAR Mln)

FY Dec31	2016A	2017E	2018E
Revenue	NA	NA	NA
EBITDA*	NA	NA	NA
Net Profit	416	445*	482
EPS (SAR)	0.95	1.01*	1.10
DPS (SAR)	0.75	1.00	1.00
BVPS (SAR)	14.27	14.58	14.87

*Preliminary financial data

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	NA	NA	NA
ROAE	7%	7%	7%
P/E	17.1x	16.0x	14.7x
P/B	1.1x	1.1x	1.1x
EV/EBITDA	NA	NA	NA
EV/Sales	NA	NA	NA

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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