Saudi Industrial Investment Group

Materials| SIIG| 2250

INTELLIGENT INVESTMENT IDEAS

3Q 2018 Results Update

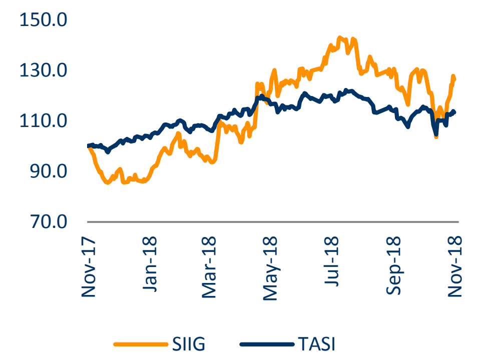
November 02, 2018

Recommendation	**Overweight**
Previous Recommendation	Overweight
Current Price (SAR)	26.6
Target Price (SAR)	30.5
Upside/Downside (%)	14.7%

As of 1st November, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	12.0
52 Wk High (SAR)	30.1
52 Wk Low (SAR)	18.6
Total Outstanding shares (in mn)	450
Free Float (%)	83.5%

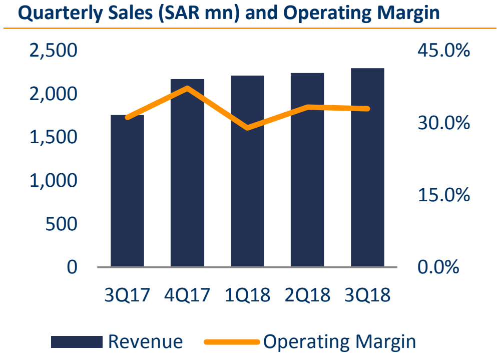
SIIG vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	(2.7%)	(0.8%)
6m	4.4%	7.8%
12m	26.4%	13.0%

Major Shareholders (%)	
Public Pension Agency	12.0%
General Org. for Social Insurance	5.8%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 1st November 2018

Higher sales and profit growth in JVs drive increase in net profit

SIIG's net profit increased 40.8% YoY to SAR319 mn in 3Q18, led by revenue growth and an increase in SIIG's share of profit from joint ventures Saudi Chevron Phillips (SCP) and Jubail Chevron Phillips (JCP). Higher share of profit from JVs during the quarter was driven by the higher sales prices of products sold by SCP and JCP. Additionally, National Petrochemical Company (Petrochem), another subsidiary, contributed SAR157 mn to SIIG's bottom line. Net profit, however, declined 0.8% sequentially, as share of result of associate companies SCP and JCP dropped 6.1%, weighed by higher feedstock cost. High depreciation expenses and a rise of 10.2% in zakat also contributed to the losses. The net profit margin came in at 13.9% (+1.0% YoY and -0.5% QoQ) in 3Q18. Furthermore, the board of directors announced the distribution of a cash dividend amounting to SAR0.75 per share for H2 2018.

In 3Q18, petrochemical prices increased annually on account of a rise in oil prices. This boosted the revenue of SIIG, which through its subsidiaries produces propylene and polypropylene (PP) in Saudi Arabia. Going forward, we expect an uptrend in demand for these products, especially as energy consumption is expected to rise by the end of the year, according to the US Energy Information Administration. Additionally, a rise in demand for oil products would boost prices, which would help fuel the top line. These factors, coupled with improving operational efficiency and a low debt to equity, place SIIG in a good position to capitalize on growth opportunities. Moreover, a high FCF and dividend yield make the company a good investment bet. Based on these factors, we maintain our "Overweight" rating on the stock.

- Revenue improved 30.9% YoY to SAR 2.3bn in 3Q18, supported by an increase in product prices. Revenues increased 2.6% on a quarterly basis from SAR 2.2bn in 2Q18.
- Gross profit rose 34.5% YoY to SAR 742mn as revenue growth more than offset an increase in cost of sales. Gross margins improved to 32.3% in 3Q18 from 31.5% in 3Q17. Sequentially, gross profit increased 2.8%.
- Operating profit surged 38.4% YoY to SAR 755mn in 3Q18. Growth was primarily ascribed to an increase in share of profit from JVs during the quarter and the absence of accumulated loss from Petrochemical Conversion Co. (PCC) amounting to SAR 12.4mn in 3Q17. Consequently, the operating margin improved to 32.9% in 3Q18 from 31.1% in 3Q17. On a quarterly basis, operating profit increased marginally 1.4% to SAR 755mn, impacted by decline in share of result from associates, which dropped 6.1% vis-à-vis 2Q18.
- Net income advanced 40.8% YoY to SAR 319mn as SIIG's share of profit from JVs with SCP and JCP as well as Petrochem increased. Growth was supported by higher other income, which surged 72.3% YoY in 3Q18.
- SIIG has recommended a cash dividend of SAR 0.75 per share, amounting to SAR 337.5mn for 2H2018.

Valuation: We revised our target price with a fair value of SAR30.5 per share, in-line with the 3Q18 performance and retain our "Overweight" view on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,297	1,755	30.9%	8,661	7,364	17.6%
Gross Profit (SAR mn)	742	552	34.5%	2,815	2,264	24.4%
Operating Profit (SAR mn)	755	546	38.4%	2,731	2,170	25.9%
Net Profit (SAR mn)	319	226	40.8%	1,207	1,004	20.2%
EPS basic (SAR)	0.71	0.50	40.8%	2.68	2.23	20.2%
Gross Margin (%)	32.3%	31.5%	0.9%	32.5%	30.7%	1.8%
Operating Margin (%)	32.9%	31.1%	1.8%	31.5%	29.5%	2.1%
Net Profit Margin (%)	13.9%	12.9%	1.0%	13.9%	13.6%	0.3%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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