Petrochemical Sector – 1Q 2021

Strong recovery is reflected in a solid increase in revenue

Sector Weighting:
NEUTRAL
Petrochemical 1Q 2021

Sector Outlook

Just before the pandemic, the chemical industry was facing market challenges, and COVID-19 has accelerated all these issues, rendering 2020 a particularly challenging year for the chemical industry and companies in general and many refineries and petrochemical plants in the Gulf experienced delays due to the country's diverse local problems caused by the pandemic. The industry in the GCC is closely related to economic activity, demand and supply headwinds, feedstock price swings, and growth in end-user industries, so it was only normal that COVID-19 and the overall economic situation had negative consequences for the regional market. It is worth noting that the success of the GCC's chemical industry is also closely related to global market trends such as global overcapacity, price risk, and trade instability is still putting pressure on the global market. Despite global oil demand falling by an astounding 8% in 2020 and dramatic OPEC+ cuts, Middle Eastern energy producers relied on increased petrochemicals supply to offset a grim forecast for peak oil usage that has spooked crude markets. Road transport fuels accounted for 60% of oil production in the last decade. Producers have no alternative but to concentrate on petrochemicals even before the coronavirus pandemic, as the industry accounts for 60% of global oil production due to increasing plastics use. Economic, political, environmental, and social problems that directly affect the industry's growth and success are expected to play a significant role in shaping its future as it heads into 2021. As vaccines are carried out during 2021, economies are projected to rebound at a healthier rate. Global chemical production volume is projected to increase by 3.9% in 2021, after a decrease of 2.6% in 2020, which was the highest decline in the last 40 years. After a 6% recession in 2020, the GCC countries will see a moderate economic rebound from 2021 to 2023, with actual GDP growth of 2.4%, which will be reflected in the GCC's chemical industry will have a slower growth in 2021 attributed to a moderate economic rebound from 2021 to 2023, with actual GDP growth of 2.4%, and the industry's high-capacity usage levels.

Despite the uncertainties and threats, there is cautious optimism about trade in 2021, as economies rebound and foreign trading strengthen. Global retail trade is projected to rebound by 7%, but this will still be below the pre-crisis trend. Chemical trade in the GCC is forecasted to rise by up to 9.7% in volume in 2021, compared to a 20% decrease in 2020. Sales are also expected to increase to the range of USD 62 billion, representing an 18% improvement over 2020. However, this is still way less than the pre-pandemic average of USD 80 billion produced by GCC producers since 2011. Understanding which end-user consumer industry dynamics are transient and which are structural would be crucial in coping with sales generation in 2021, as recovery will undoubtedly be inconsistent across end-markets and geographies. Chemical industries will need to keep an eye on the end-markets developments in the coming years, concentrate on potential growth prospects, and derive more value from their current reserves, and many businesses will be forced to make risky decisions.

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1) With High Petchem Prices, SABIC to Witness Higher Earnings
SABIC, which is majority-owned by Saudi Aramco, posted a net profit of 4.86 billion riyals in the 1Q21, reversing a loss in the previous quarter, and expected to see additional profit growth in 2021 due to the recent increase in petrochemical costs. However, downside uncertainties include the global supply of new capacity, an unexpected drop in oil and petchem commodity costs, and unplanned plant shutdowns. Higher-than-expected spreads, a faster-than-expected profitable operational start of its future growth programs, and a rebound in global demand are all potential upside threats.

2) Petrochemical Sector to Rebound in 2021 Supported by Saudi Government
The building industry is among the end-users of the petrochemical product is expected to rebound by the end of 1H2021, while the automobile and household equipment will not recover until the end of H2 2021. Meanwhile, it will only be operating at pre-crisis stages at the end of 2023. The petrochemical sector, after being hit hard during the pandemic in Saudi Arabia is expected to rebound in 2021 even stronger than global peers, supported by the Saudi government's easing of restrictive measures and because some of the lost demand is offset by a surge in demand from food packaging and hygiene sectors. Although the Saudi petrochemical industry will benefit from global recovery, it will also benefit from increased consolidation in the form of domestic mergers and acquisitions, reflected in November 2020 when SABIC (Saudi Basic Industries Corporation) sold its agri-nutrients division to SAFCO, Adding to it the government support to raise non-oil exports to 50% in line with Saudi Vision 2030, as well as fast access to foreign financing, which is critical for one of the most capital-intensive industries.

3) Saudi Petrochemical Earnings Increased as sales and prices rose.
Global polypropylene use is increasing due to rising packaging demand, aided by the rise of online shopping since the pandemic. In the car industry, demand for the commodity is increasing as more metal parts are replaced in the search for lighter electric vehicles. Saudi Arabia, which is now one of the world's largest producers of petrochemicals and fertilizers, has increased its investment in the industry as it diversifies its economy away from crude oil revenues. Saudi petrochemical firms posted a rise in 1Q21 profits as main commodity prices increased in response to improving global demand, Reflected in SABIC Agri-Nutrients declared financial performance for the first quarter of 2021, as the company recorded a 39% increase in net profit to SR423 million ($112.7 million) on revenue of SR1.51 billion.

4) Saudi Arabia Energy Sector is Set to be Driven by Petrochemical Sector
Saudi Aramco, the country's state-owned oil corporation, purchased 70% of Saudi Basic Industries in 2020, one of the country's petrochemical giants, for $69 billion. Saudi Arabia's ambitious developments in the petrochemicals industry are part of the country's 2030 vision strategy, which seeks to diversify the country's economy away from its reliance on the upstream sector. In the coming years, petrochemical ventures are set to accelerate the start-up of new projects across the energy sector value chain in Saudi Arabia, accounting for around 61% of all projects, dominated by new construction projects accounting for 84%, while extension projects account for the remainder.
The Saudi Aramco Total Refining and Petrochemical Company's Al Jubail Ethylene Plant, with a capacity of 1.5 mtpa, is a big project among the kingdom's upcoming petrochemical plants. In the industrial city of Jubail, the $1.6 billion plant supplies feedstock to other petchem and specialty firms.

5) Sabic Agri-Nutrients Distribute 2020 Dividends
The shareholders of SABIC Agri-Nutrients Company, formerly known as the Saudi Arabian Fertilizer Company (SAFCO), agreed a cash dividend payout of SAR 892.7 million for the full year 2020. For the first half 1H20, Shareholders leaned to 10% of the capital as dividends or SAR 1 per share, totaling SAR 416.66 million, also recommended for the 2H20 dividends for SAR 476.03 million distributed as of 25 April.

6) To Realize Saudi Vision 2030 Circular Economy Objective Sabic and SIRC Join Together

SABIC, a global leader in diversified chemicals, has signed an MoU with Saudi Investment Recycling Company (SIRC), a wholly-owned subsidiary of Saudi Public Investment Fund (PIF), to assist SIRC in establishing the first chemical recycling project to allow the use of recycled plastic feedstock. A feasibility report on constructing a chemical recycling plant in the Kingdom to turn Mixed Plastic Waste (MPW) into pyrolysis oil was also proposed in the MoU. SIRC will source, process, sort, and supply the feedstock for the chemical recycling facility from urban solid waste, as per the MoU. In addition to work development, SIRC and SABIC will evaluate the project feasibility report and potential partnership. SIRC, which is operated by the Public Investment Fund (PIF), intends to use mixed plastic waste obtained from Materials Recovery Facilities as feedstock for Pyrolysis oil conversion. The MoU is part of SABIC's TRUCIRCLE program, which includes certified circular products manufactured from difficult-to-recycle plastic waste as feedstock; certified organic products made from second-generation bio-based feedstock; mechanically recyclable materials to increase recyclability and end-use properties; and design for recyclability for products with improved recyclability characteristics. Packaging, electrical and electronics, shipping, manufacturing, and healthcare/medical devices are among the end markets covered.

7) Saudi Arabia Launches a $1.3 Trillion Investment Push Led by Aramco and SABIC in the Private Sector

To help wean the economy off its dependence on oil exports, which still account for more than half of the state's revenue and grow new industries to help generate employment for millions of Saudis, the Gulf Arab state's private sector has been mobilized. Saudi Arabia's crown prince stated that Aramco and SABIC will lead investments in the local private sector totaling 5 trillion riyals (Around $1.3 trillion) by 2030. 60% of the 5 trillion-riyal investment will be made by Aramco and Saudi Basic Industries Corp (SABIC). Crown Prince Mohammed bin Salman also stated that this is part of a 12-trillion-riyal investment program (The new Shareek program) that will be completed by 2030 seeks to help the private sector generate hundreds of thousands of new jobs and increase the private sector's contribution to GDP by up to 65%. There are also 3 trillion riyals from the Public Investment Fund and 4 trillion riyals from a recent Saudi investment plan, with 2 trillion riyals coming from foreign investment.
The crown prince announced that the government intends to sell its company stock in the coming years. "Money will be recycled, shares won't be held indefinitely. PIF is working on a fund called "Invest in Saudi" with other regional sovereign wealth funds, targeting 500 billion to 1 trillion riyals. The fund is supporting domestic programs such as the Red Sea's flagship tourism scheme.

8) Petrochemical Industry to Adhere to Multiple Repairing Method to Enhance Production Effectiveness

There is no denying that the Petrochemical sector is living in strange, turbulent days, and they've arrived just when the industry is facing a downturn. Demand has already begun to decrease, while the surplus is eroding margins and value. The economic chaos that the dual shock brought by the pandemic and decrease in demand served to exacerbate the problems even further. In addition to the dual shock witnessed during 2020, the global ban on the use of plastics is also one of the main reasons at stake. The environmental and oceanic damage caused by plastics is well known, and more and more countries and companies are reducing their use of these petrochemical materials. Under the New Plastics Economic Global Commitment, 250 organizations jointly responsible for 20% of all plastic packaging manufactured worldwide have pledged to reduce waste and emissions.
However, not all petrochemicals would be affected; others, such as ethylene and propylene, are expected to expand and have a high utilization rate. Meanwhile, shutdowns and maintenance operations, on the other hand, could limit current output, making it difficult to maintain the level of production necessary to meet demand, causing market fluctuations in base chemicals.

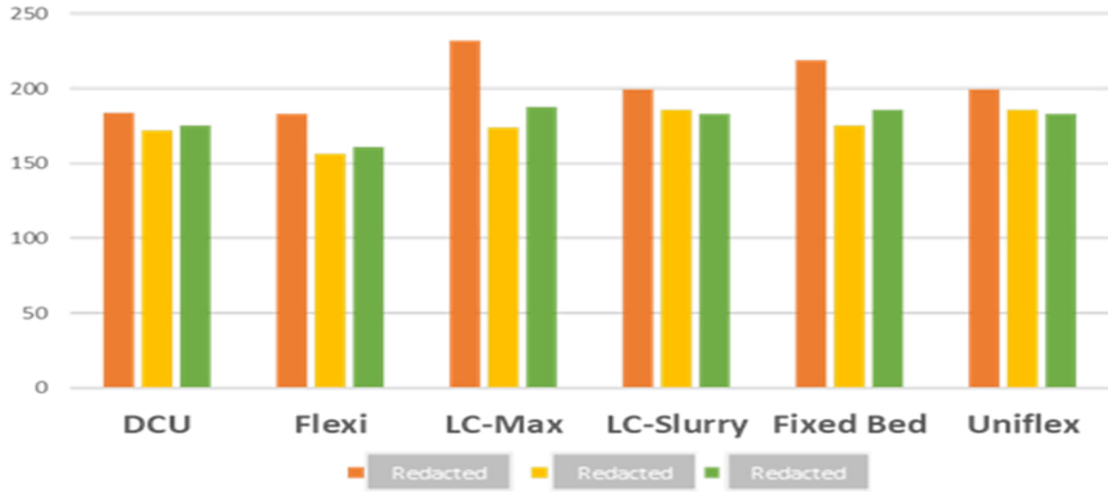
This means that reducing downtime is vital, plants and refineries that go over their scheduled maintenance times, or worse, are forced into unplanned downtime, will suffer significant production and profit losses. Turnaround administrators and repair planners must be able to schedule and control maintenance tasks and forecast time and money. Repair methods must also be of high quality, dependable, and cost-effective.
The SIFCO Process is a compact plating technique for improving, repairing, and refurbishing specific areas of fabricated parts. To produce a strongly adherent and thick metal deposit, the process employs basic electrochemical concepts. It is also crucial that selective electroplating repairs are carried out by qualified technicians. The plating method can be controlled by technicians and based on the deposit solution, it can have desirable characteristics such as hardness and corrosion, ensuring that repairs are customized to each case.

9) Marketing and Distribution Agreement Between Aramco and SABIC
Aramco and SABIC have declared their intention to hand over marketing and distribution of several Aramco petrochemicals and polymers products to SABIC and offtake and resale some SABIC products to Aramco Trading Company (ATC). Allowing SABIC to concentrate on petrochemicals, while ATC will concentrate on fuel products. The commercial elements of liquid bulk marine transportation facilities (including additives and feedstock) will be unified under ATC, while responsibility for solid goods shipping and consumer product distribution will be consolidated under SABIC. Aramco and SABIC will continue to evaluate opportunities for more multinational promotion and distribution transitions through the Aramco group's product-producing businesses. The reforms would help sustain competition by increasing operating efficiencies, strengthening both companies' identities and their joint product and service offerings. Improved product selection and distribution, ordering and points of sale, supply chain, delivery reliability, and after-market facilities and solutions would all support customers. SABIC will take over global distribution and distribution of Aramco's petrochemicals and polymers products, as well as those of its joint partnerships and affiliates, with an initial emphasis on PRefChem, Pengerang Petrochemical Company Sdn. Bhd.; SADARA, Sadara Chemical Company; and S-Oil Corporation, S-Oil Corporation, South Korea.

10) SABIC Turning to a New Bio-Based Compound Aiming to Reduce Carbon Footprint
SABIC has introduced a new bio-based compound, providing consumers with a new long-term solution for challenging applications in electrical/electronics, healthcare, and other primary industries. As compared to the incumbent product, this new flame-retardant, carbon fiber-reinforced compound has a lower carbon/energy footprint while maintaining the same properties. SABIC aims to invest in cutting-edge research and development aimed at maximizing product sustainability while maintaining efficiency and durability. As opposed to the fossil-based incumbent substance, the new compound can reduce carbon footprint by up to 17%. Thin-wall parts, such as housings for consumer electronics, and dimensionally stable products, such as surgical instruments, are potential applications for this injection molding tool. ISCC certifies any part of the supply chain, from raw materials to finished products, to ensure compliance with regional and global regulations. The success of the first bio-based compound could step up research activities to provide completely new ways to serve consumers while still protecting the environment.

11)Oil to Chemicals a New Investment Opportunity to Ease Petrochemicals Industry Transformation from Fuel
Over the next 5-6 years, more than 12 companies have pledged more than $315 billion to repurpose their reserves to manufacture more petrochemicals than transportation fuels by refining revamps and new refinery foundations. It is expected that another $300 billion or more be announced in the next five years as refiners and chemical producers reassess their positions now to better understand the long-term prospects.

The push to shift from refined fuels to petrochemicals processing is well underway, and the arguments for downstream incorporation into intermediates, rather than gasoline/diesel/jet, have become increasingly compelling. The technologies for this 'oil-to-chemicals' conversion exist, but the best combinations of feeds, conversion methods, and catalysts must be understood to maximize returns.
In terms of technology, there are numerous opportunities today to increase unit operations' versatility by accepting a wider range of, and heavier, feedstocks and driving toward more petrochemicals processing, especially in olefins. This study alerts the existing industry to what additional R&D activities are needed in the short term to comply strategically with changing market trends.

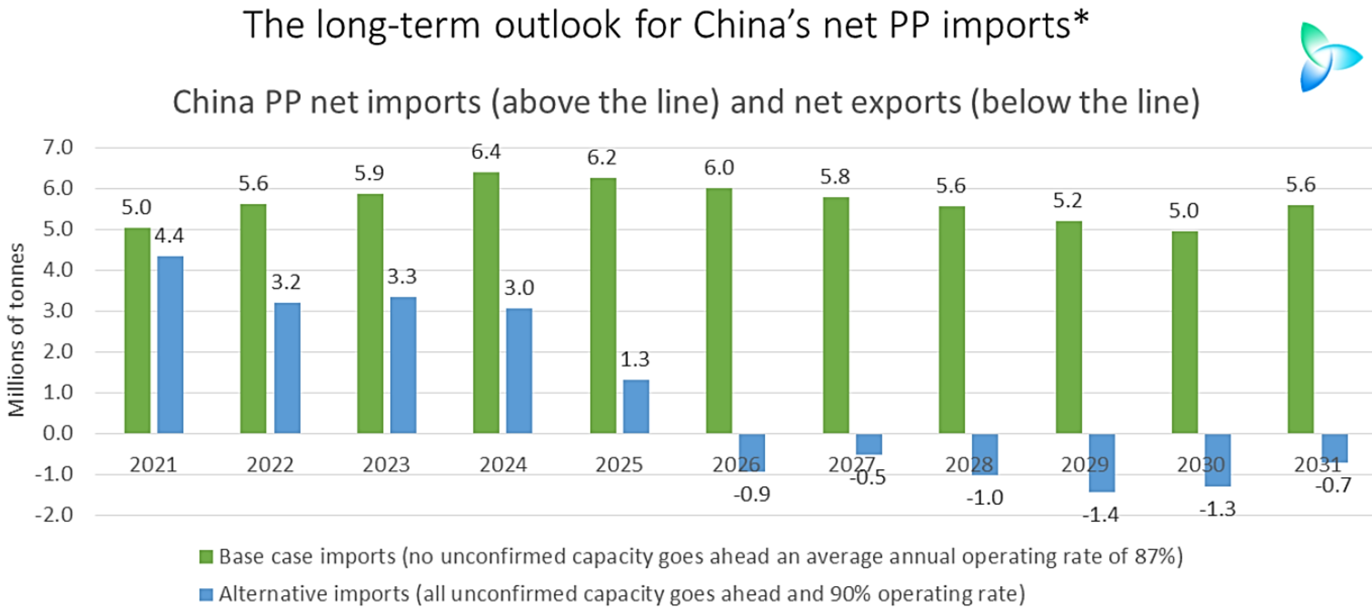


Source: Refining & Petrochemicals
Notes: Comparison of various heavy oil technologies applied to o-t-c conversion routes.

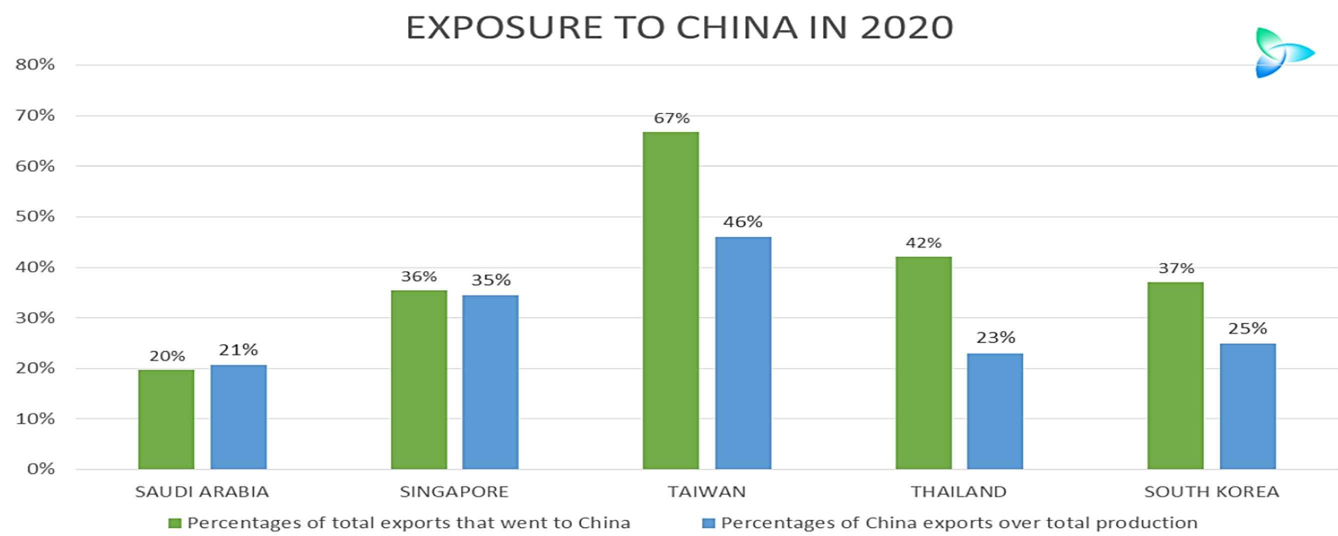
Global Sector Outlook

1) China PP Self-Sufficiency, Opportunity for Petrochemical Customers

Historically, the petrochemical sector tends to go on the opposite side of the economy, that is why last March, the market predicted doom and gloom. When the world economy almost imploded, it seemed reasonable to anticipate a drop in demand. During the pandemic, the demand skyrocketed, particularly for food packaging and hygiene applications. Added to the increase in White goods purchases, consumer electronics, and carpets, demand for durable goods manufactured from PP soared through the roof. Major supply-chain delays started in March of last year and are still ongoing. Anything from petrochemicals to wooden pallets, tin barrels, semiconductors, and shipping containers are in short supply and expected to last until the end of 2021. However, beyond coping with the current uncertainty, there is an opening for big petrochemical commodity customers, emerging from China's capacity for even greater self-sufficiency.



Source: I.C.I.S.
Notes: 2020 Imports at 6.6m Tonnes
Both scenarios assume 6% demand growth this year and an average 4% annual growth in 2021-2031

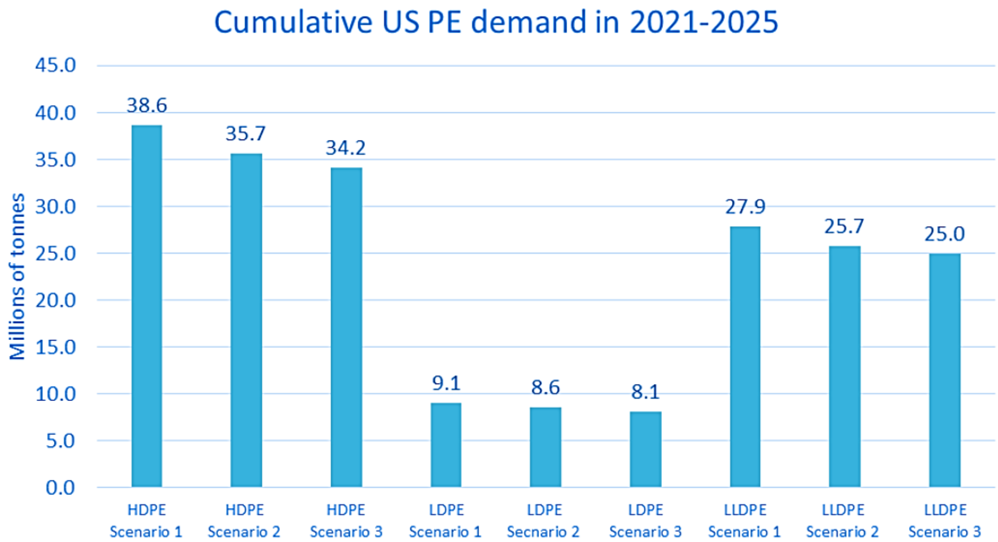


Source: I.C.I.S.

For raw-material expense, economic value-addition, and geopolitical factors, China is expected to press hard for PP self-sufficiency. China's latest propane dehydrogenation-based PP plants on the coast were primarily designed to support the export market, to take advantage of global long propane markets, and their potential to exchange propane in terms of feedstock.

2) Post-Pandemic Petrochemical Demand Uncertainties in the Future

It is uncertain whether post-pandemic petrochemical and polymer demand in developing markets plus China would be higher, the same, or lower than during the pandemic. The demand for takeaway food containers has increased polymer use significantly. People will be wary about eating out for a long time, so demand for takeaway food is unlikely to decrease for a long time.



- ***Scenario 1 – 2021-2025 demand growth averages 5%:*** Major infrastructure spending bill passes Congress, boosts HDPE pipe demand. Pandemic-related demand remains strong
- ***Scenario 2 – demand growth averages 2%:*** Moderate spending bill passes Congress. Pandemic-related demand declines in some end-use markets
- ***Scenario 3 – demand growth averages 1%:*** No spending bill gets through Congress and/or pandemic-related demand sees a sharp decline as growth returns to pre-pandemic levels

Source: I.C.I.S.

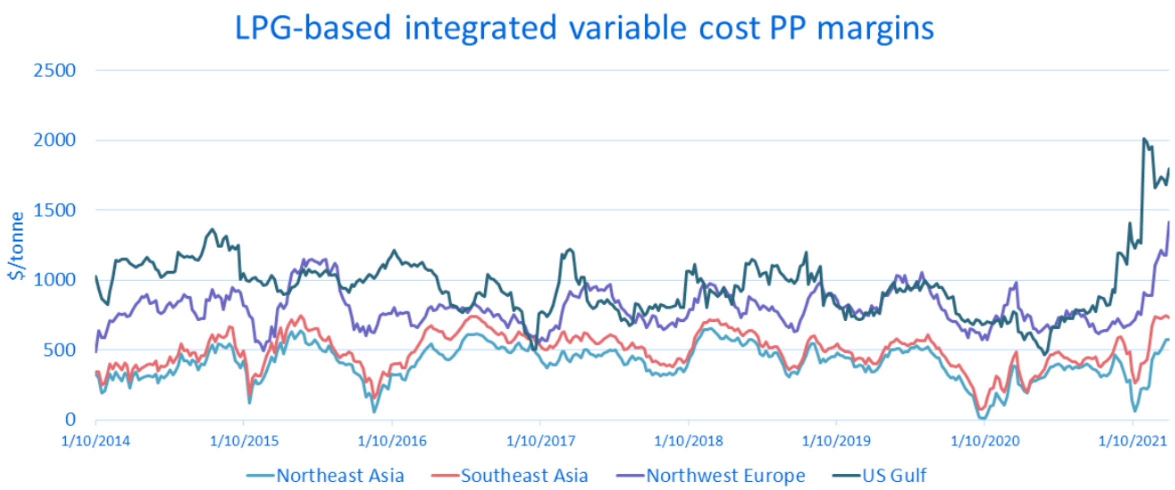
Face masks made of polypropylene (PP) non-woven grades and hand sanitizer bottles made of high-density polyethylene (HDPE) blow molding grades can be used in even larger quantities for a long time. Customers at coffee shops for example, are reportedly demanding plastic cups rather than re-usable cups due to worries of infection. This is yet another micro-demand pattern that has the potential to last for a long time. It may also be a passing pattern. Since cup lids are made of polystyrene (PS), this pattern has been good for PS demand. Paper and PE coating grades are used to make the cups themselves. Last year, booming exports boosted China's petrochemicals market, but will this cycle be positive, neutral, or negative for overall global demand in the future? There are numerous other complexities. Such complexities involve the result of the loop out of demand for some of the items we wanted after the pandemic and back into all the petrochemicals use associated with travel and working from home.

3) Petrochemicals Supply Problems and Trade Flows

The environmental backlash will get more intense at some point. Nevertheless, it is expected that for at least a few years, most people will have more urgent worries than worried about where their discarded face masks will end up. It is believed that some PP end-use markets will continue to fail. In certain countries, auto sales will remain low due to decreased work and leisure travel, as well as people deferring purchases of new traditional cars as they wait for hybrid vehicles to become more affordable. However, consumption is not expected to decrease any soon, as increased hygiene demands and a much higher appetite for internet purchases are here to stay for a while longer. Face masks, for example, made of non-woven PP grades will almost certainly be in high demand for a long time, as offices, public houses, and public transportation all need mask use. Many people seem to be taking sanitation even more seriously now than they were before the pandemic. The lack of PP demand in the auto sector was more than accounted for last year by increases in other end-use sectors, automobiles account for just 4% of overall global demand in 2020, down from 10% in 2019. Meanwhile, as total production increased, the amount of PP used in packaging increased to 34% from 30%.

4) Long-Term Shifts in Demand Patterns Push Margin to Record High

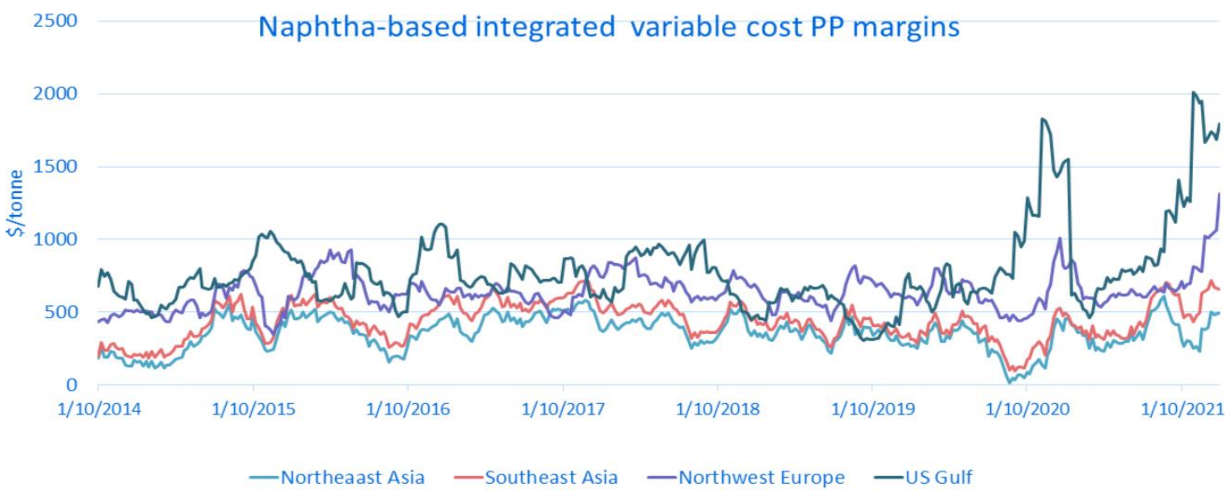
The problem in the future is expected to be in supply rather than in demand. As China pushes closer to self-sufficiency and away from becoming the world's largest importer, new Chinese supply will become the dominant force in the industry. The main question will be for the big exporters to China such as South Korea, Singapore, Taiwan, the United Arab Emirates, and Saudi Arabia, what to do for the missing export quantities?



Source: I.C.I.S.

5) Extraordinary Tight Supply Also Boosts Profitability

The short supply is due in part to the winter storms in the United States, which forced the closure of around 80% of the country's production at one point. Low inventories in Europe at the end of last year is another explanation for decreased supply, as manufacturers tended to export rather than sell domestically due to stronger netbacks. Turnarounds that have been postponed until this year are now projected to tighten the European economy ever further.



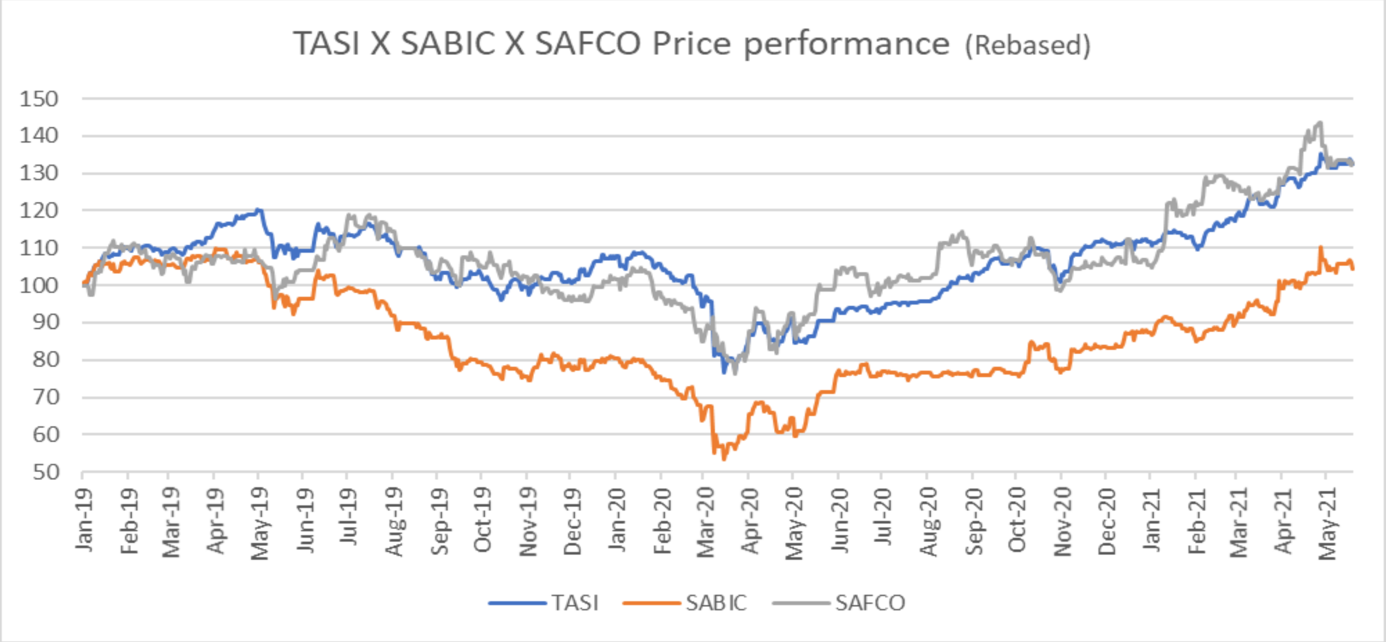
Source: I.C.I.S.

Petrochemical rating summary

	Local currency	Target price	CMP	Potential change (%)	Rating
SABIC	SAR	125	121.6	2.80%	HOLD
SAFCO	SAR	109	101	7.92%	HOLD

FABS estimate & Co Data

Petrochemical stock performance



Source: Bloomberg, FABS

Market Data & Recommendation

	SABIC	SAFCO
Recommendation		
Current Price	837.00	837.00
Target Price	862.00	862.00
Upside/Downside (%)	3.0%	3.0%
Stock Information		
Market Cap (AED/mm)	363,600.00	48,365.20
Paid Up Capital (USD)	30,000.00	4,760.35
52 Week High	128.20	111.40
52 Week Low	81.20	73.50
3M Avg. daily value	177,457,200	33,347,730
Financial Ratios		
Dividend Yield (12month)	2.48	1.97
Dividend Payout	13468.01	68.91
Price-Earning Ratio	60.92	31.16
Price-to-Book Ratio	2.12	2.12
Book Value	57.14	24.76
Return-on Equity	3.53	14.63
Earning Per Share	1.99	3.26
Beta	1.06	0.86
Stock Performance		
5 Days	1.17%	-0.20%
1 Months	1.17%	-5.93%
3 Months	18.82%	2.73%
6 Months	25.73%	26.68%
1 Year	47.80%	32.81%
Month to Date (MTD%)	-2.26%	-3.24%
Quarter to Date (QTD%)	3.24%	3.25%
Year to Date (YTD%)	19.53%	26.05%

Source: Bloomberg, FABS

1Q21 First Look: SABIC

Strong growth in Revenue supporting Bottom line.

CMP(SAR):121.6
Potential upside (%): +2.8%

12-m target price:	Stock rating:
SAR125.0	**HOLD**

1Q21 results beats our estimates

Saudi Basic Industries Corporation (SABIC) reported a Net Profit of SAR4,862 mm in 1Q21, up from a Net Loss of SAR1,046 mm in 1Q20. The Company performed higher than our estimate and beat our expectations by 8.6%. This was mainly due to strong recovery in the top-line and robust margins.

P&L Highlights

SABIC reported a significant increase in Net Profit of SAR4,862 mm in 1Q21, as compared to a Net Loss of SAR1,046 mm in 1Q20. The Group recovered by 3.6x in 1Q21, compared to the previous quarter. Revenue increased by 24.3% YOY to SAR37,531 mm in 1Q21, up from SAR30,193 mm in 1Q20. This was mainly due to increase in product prices and oil demand recovery. The Cost of sales increased by 3.4% YOY to SAR26,357 mm in 1Q21, up from SAR25,486 mm in 1Q20. The favourable support to the Revenue increased the Gross Profit significantly to SAR11,174 mm in 1Q21, up from SAR4,707 mm in 1Q20. The Selling and Administrative Expenses decreased by 12.1% YOY SAR4,189 mm in 1Q21, down from SAR4,766 mm in 1Q20. This was mainly due to the Group's cost optimization initiatives that improved the margins significantly. The Group generated Income from Investments and Others of SAR106 mm in 1Q21, as compared to a loss of SAR363 mm in 1Q20. The Net Finance Charges decreased by 75.9% to SAR76.437 mm in 1Q21, compared to SAR318 mm in 1Q20. Resultantly, the Profit Before Tax increased significantly to SAR7,014 bn in 1Q21, compared to a Loss of SAR740 mm in 1Q20. Due to the favourable changes in the above mentioned line items, the Net Profit strongly recovered in 1Q21 to SAR4.86 bn from a Net Loss in the previous quarter.

Balance Sheet Highlights

Total assets decreased by 3% YOY to SAR298.1 bn in 1Q21 from SAR300.4 bn in 1Q20. Total liabilities decreased by 0.74% YOY to SAR98.23 bn in 1Q21 from SAR101.23 bn in 1Q20 mainly due to decrease in borrowings by the Group. Total Debt to Equity ratio stood at 0.21x in 1Q21 compared to 0.24x in 1Q20.

Target price and recommendation

We maintain a HOLD rating on SABIC with a target price of SAR128. Saudi Basic Industries Corporation (SABIC) is a Saudi Joint Stock Company. The Group is 70% owned by Saudi Aramco, balance 30% is owned by private sector. SABIC Agri-Nutrients (formally SAFCO) acquired 100% share capital of the Agri-Nutrients business segment from SABIC. The Group operates through three Strategic Business Units (SBUs) and Hadeed (100% owned manufacturing business segment). The segments include Petro-chemicals & Specialities, Agri-nutrients and Hadeed. Around 87% of the Total Revenue is contributed by the Petro-chemicals & Specialities segment, followed by Hadeed and Agri-nutrients. The Group's top-line increased by 24% YOY to SAR37,531 mm in 1Q21, up from SAR30,193 mm in 1Q20. This was mainly driven by increase in average sales prices by 28% YOY and 22% QOQ, offsetting the 4% YOY decrease in volumes sold. Furthermore, strong margins, recovery in oil price & demand (the Brent Crude oil prices increased by 39% QOQ) and controlled supply of main products together supported the strong performance. The Group generates around 23% of Total Revenue from Europe, 22% from Asia, 17% from KSA, 16% from China and 14% from Others. The Petrochemicals segment increased by 26.1% YOY to SAR32.7 bn in 1Q21, up from SAR25.96 bn in 1Q20. This was driven by higher prices in Chemicals due to controlled supply and favourable oil prices. The Revenue from the Agri-nutrients segment increased by 24% YOY to SAR1.823 bn in 1Q21, up from SAR1.47 bn in 1Q20. This was driven by increase in urea prices (43% YOY) due to limited supply and improvement in demand. The segment reported high demand from USA, Europe, India at the end of the quarter. Lastly, Hadeed was positively impacted by 43% YOY increase in product prices, despite the 19% fall in the volume sold. The Group's Cost of Sale increased by 3.4% YOY to SAR26.4 bn in 1Q21, compared to SAR25.7 bn in 1Q20. It was driven by the increase in feedstock prices in 1Q21. The Gross Profit Margin surged to 30% in 1Q21, up from 16% in 1Q20. Resultantly, the Group recorded EBITDA of SAR10.39 bn in 1Q21 driven by higher product prices partially offset by a decrease in sales volumes and a surge in feedstock prices. The EBITDA margin stood at 28% in 1Q21. The Net Profit reported a solid growth to SAR4.862 bn in 1Q21, compared to a Net loss in 1Q20. Subsequently, the Net Profit Margin improved to 13% in 1Q21, compared to negative 3% in1Q20. Improvement in the global outlook, strategic supply-demand balance, increase in oil prices resulted in the strong recovery and higher margins for 1Q21. The Net Cash from Operating activity increased significantly by 60.4% YOY to SAR7.07 bn in 1Q21, from SAR4.408 bn in 1Q20. Resultantly, the Free Cash flow stood at a robust position of SAR4.7 bn in 1Q20, up from SAR1.41 bn in 1Q20, strengthening the Group's liquidity. The Net cash used in Investing activity reduced by 63.6% YOY to negative SAR2.27 bn. Total assets decreased by 3% YOY to SAR298.1 bn in 1Q21 from SAR300.4 bn in 1Q20. The main assets comprise of Plant, Property and Equipment attributed to the Petro-chemical segment, largely based in KSA. Total liabilities decreased by 0.74% YOY to SAR98.23 bn in 1Q21 from SAR101.23 bn in 1Q20. This was mainly because the Group reduced the Long-term debt and Lease Liabilities. The main segment of SABIC signed a direct marketing agreement with SADARA in 1Q21 to market and sell additional polymers. This generated SAR156 mm in synergies and is targeted to reach SAR1.5-1.8 bn in 2025. The Group is expected to realize additional value due to optimization in supply chain costs. The deal with Saudi Aramco will allow the expansion of product portfolio leading to new capabilities. As per the Group, the global market share is expected to increase in the Petro-chemical segment and SABIC will be the extension of the chemical of Saudi Aramco. Furthermore, in 1Q21, the Group was termed as second most valuable brand in its industry, signalling ambitious plans in the future. SABIC's Agri-nutrients segment was acquired by SABIC-Agri Nutrients (previously known as SAFCO), in line with the Group's strategy to divest non-core businesses and focus on the core chemicals business. The deal has strengthened SABIC's position and ambition to be the National Champion & Global Leader in Agri-Nutrients industry, realize operational synergies, and achieve accelerated market growth. The Group has investments driving the sustainability in chemical industry and took several initiatives during 1Q21. The outlook for 2021 is positive given similar level of margins sustained, tight supply of the key products to balance the prices and healthy oil prices. The Group has a A+/A1 credit rating by three rating agencies. The Company is trading at a P/B of 2.12X against peer's P/B of 1.96X. We maintain our HOLD rating.

SABIC – Relative valuation

As last CMP	**2017**	**2018**	**2019**	**2020**	**2021F**
PE (x)	19.71	16.88	69.94	6050.00	18.67
P/BV (x)	2.21	2.10	2.03	2.17	1.85
Dividend yield	3.5%	3.6%	3.6%	2.5%	3.6%

FABS estimate & Co Data

SABIC – P&L

SAR mm	1Q20	4Q20	1Q21	1Q21F	Var	YOY ch	QOQ ch	2020	2021F	YOY ch
Sales	30,193	32,848	37,531	36,133	3.9%	24.3%	14.3%	116,949	149,695	28.0%
Direct costs	-25,486	-24,729	-26,357	-25,835	2.0%	3.4%	6.6%	-94,078	-104,787	11.4%
Gross profit	**4,707**	**8,119**	**11,174**	**10,298**	**8.5%**	**NM**	**37.6%**	**22,871**	**44,909**	**96.4%**
SG&A Expenses	-4,766	-4,424	-4,189	-4,257	-1.6%	-12.1%	-5.3%	-18,297	-21,798	19.1%
Operating profit/loss	**-59**	**3,695**	**6,985**	**6,041**	**15.6%**	**NM**	**89.0%**	**4,574**	**23,110**	**NM**
Investment & other income	-363	328	106	295	-63.9%	NM	-67.5%	-5	0	NM
Net financial charges	-318	-576	-76	-83	-7.9%	-75.9%	-86.7%	-1,292	-80	-93.8%
Profit before NCI & Zakat	**-740**	**3,446**	**7,014**	**6,253**	**12.2%**	**NM**	**NM**	**3,277**	**23,030**	**NM**
Zakat & income tax	-233	-650	-900	-925	-2.7%	NM	38.5%	-2,021	-2,695	33.3%
Profit/Loss after zakat & income tax	**-973**	**2,796**	**6,115**	**5,328**	**14.8%**	**NM**	**NM**	**1,256**	**20,335**	**NM**
Minority Interest	-73	-573	-1,252	-850	47.3%	NM	NM	-1,189	-626	-47.4%
Net Profit/loss attributable	**-1,046**	**2,223**	**4,862**	**4,478**	**8.6%**	**NM**	**NM**	**67**	**19,709**	**NM**

FABS estimate & Co Data

SABIC - Margins

SAR Mn	1Q20	4Q20	1Q21	YOY ch	QOQ ch	2020	2021F	YOY ch
Gross margin	15.6%	24.7%	29.8%	1418.34	506	19.6%	30.0%	1044.34
OPM	-0.2%	11.2%	18.6%	1880.75	736	3.9%	15.4%	1152.72
Net margin	-3.5%	6.8%	13.0%	1641.99	618.73	0.1%	13.2%	1310.91

FABS estimate & Co Data

1Q21 First Look: SABIC Agri-Nutrients Company

Increase in gross profit offset increase in expenses

CMP (SAR): 101.0
Potential upside (%): +7.92%

12-m target price:	Stock rating:
SAR109.0	**HOLD**

1Q21 Net profit beats our estimate

SABIC Agri-Nutrient reported an increase by 39.2% YOY in Net profit to SAR423 mm in 1Q21 from SAR304 mm in 1Q20, beating our estimate by 11%. The advance in the Net profit was mainly attributed to a significant increase in Sales.

P&L highlights

SABIC Agri-Nutrient Sales significantly increased to SAR1,506 mm in 1Q21 compared to SAR728 mm in 1Q20. Whereas the Direct costs significantly increased to SAR862 mm in 1Q21. Resultantly, Gross Profit has increased by 75.2% YOY to SAR645 mm in 1Q21 from SAR368 mm in 1Q20, with GPM equal to 42.8% in 1Q21. The operating profit has increased by 80.3% YOY to SAR502 mm from SAR278 mm in 1Q20, with Operating profit margin equal to 33.3% from 38.2% in 1Q20. The Selling and distribution expenses have increased to SAR102 mm in 1Q21, G&A expenses have increased by 39.7% YOY to SAR41 mm from SAR29 mm in 1Q20. Investment and Other income decreased by 83.9% YOY to SAR6 mm in 1Q21. Additionally, Zakat expense has significantly increased to SAR47 mm compared to SAR8 mm in 1Q20. Moreover, NCI stood at SAR28 mm in 1Q21.

Balance sheet highlights

Total assets significantly increased by 58.9% YOY to SAR15.59 bn from SAR9.81 bn in 1Q20. Total liabilities increased by 19.8% YOY to SAR2.72 bn in 1Q21 compared to SAR2.27 bn in 1Q20. Further, total equity increased by 70.7% YOY to SAR12.87 bn from SAR7.53 bn in 1Q20.

Target price and recommendation

We maintain our HOLD rating on SABIC Agri-Nutrients Co with a Target price of SAR109. SABIC Agri-Nutrients Company, previously known as SAFCO, approved the 'Fusion' deal agreed in December 2019. On 18th November 2020, SAFCO was renamed as SABIC Agri-Nutrients Company. Furthermore, on 4th January 2021, the Group increased its share capital from SAR4.16 bn to SAR4.76 bn because of the acquisition deal of SANIC (SABIC Agri-Nutrients Investment Company) from the parent company SABIC. The Group holds 50% indirect controlling equity interest in National Chemical Fertilizers Company - Ibn Al Baytar, indirect 50% controlling equity interest in Al Jubail Fertiliser Company and 33% equity interest upon the acquisition deal in Gulf Petrochemical Industries Company. The business model of all the four subsidiaries relates to agri-nutrients. Following the additional shares issued, SABIC Agri-nutrients shares are 50.1% owned by SABIC (previously 42.99%), 7.74% by General Organization for Social Insurance, and the general public's balance. The Group business model pertains to manufacturing, production, conversion, and marketing and trading all types of agri-nutrient products within and outside KSA. The Company operates via two Strategic Business Units (SBU)- Petrochemicals and Agri-Nutrients. The Agri-Nutrients segment contributes around 85.3% of the Total Revenue. The Group sells all its products mainly to the Parent Company. The Group recorded a significant increase in the top-line on a YOY basis to SAR1.506 bn in 1Q21, compared to SAR728 mm in 1Q20. This was mainly driven by increase in the average sales price of the key products and strong demand in 1Q21. Corresponding to it, the Cost of sales also increased to SAR862 mm in 1Q21, up from SAR360 mm in 1Q20. The Gross Profit surged by 75.2% YOY to SAR645 in 1Q21, compared to SAR368 mm in 1Q20. The increase in the Costs offset the increase in the Revenue, pushing down the Gross Profit Margin to 42.8% in 1Q21, from 50.5% in 1Q20. The Operating Profit increase by 80.3% YOY to SAR502 mm in 1Q21, compared to SAR278 mm in 1Q20. However, the Operating profit margin declined to 33.3% in 1Q21, down from 38.2% in 1Q20, signalling an increase in Costs for the Group. The Group noted factors such as shutdowns and turnarounds that affected the supply chains, leading to increased fixed costs. This resulted in the contraction of the margins. The Net Profit increased to 39.25% YOY SAR423 mm in 1Q21, up from SAR304 mm in 1Q20. The main drivers were an increase in product prices due to tight supply by the Group, favorable oil prices and improvement in the macroeconomic outlook. The Free Cash Flow reduced by 22% YOY to SAR331 mm in 1Q21, compared to SAR426 mm in 1Q20. This was mainly due to an increase in the Group CAPEX, in line with the increase in its strategic operations. The Cash from Operations increased robustly by 34% YOY to SAR631 mm in 1Q21, up from SAR471 mm in 1Q20. This solid liquidity position is driven by the increase in the top-line and favourable Working capital adjustments. The significant increase in Trade Receivables is mainly attributable to sales to the Parent company, SABIC. The Group uses short-term loan (tawarruq) to finance its working capital needs. The Group recorded a significant increase in the Cash from Investing activity to SAR1.2 bn in 1Q21, up from SAR72.8 mm in 1Q20. This was due to the Short-term investments in Bank Deposits. The short-term loan acquired by the Group for its Working capital needs supported the Cash from Financing. The Debt to Equity ratio improved by approximately 900 bps to 0.21x in 1Q21. The Group has increased its Capex significantly in 1Q21, compared to 1Q20, mainly pertaining to the Agri-Nutrients segment. Subsequently, the Total Assets increased by 59% YOY to SAR15.6 bn in 1Q21, up from SAR9.8 bn in 1Q20. This is in line with the Group's strategy to maximize production to capture new markets and diversify its key products. Furthermore, the Group plans to diversify its sources of income via mergers and acquisitions with key companies, investments to improve its supply chain, and market share. The Group has undertaken several steps and is closer to its vision of the Global Leader in Agri-Nutrients by 2025. On March 4, 2021, the Board of Directors approved to distribute dividends worth SAR400 mm for FY20. The EPS improved to SAR0.89 in 1Q21, up from SAR0.73 in 1Q20, due to the strong performance in 1Q21. The Company trades at P/B of 4.05x against peer's average of 1.96X. We maintain our HOLD rating on this stock.

SABIC Agri-Nutrients– Relative valuation

As last CMP	2017	2018	2019	2020	2021F
PE (x)	47.49	24.03	28.31	32.22	35.79
P/BV (x)	6.09	5.28	5.22	5.12	5.63
Dividend yield	1.7%	2.5%	3.0%	2.0%	2.5%

FABS estimate & Co Data

SABIC Agri-Nutrients – P&L

SAR Mn	1Q20	4Q20	1Q21	1Q21F	Var.	YOY ch	QOQ ch	2020	2021F	YOY ch
Sales	728	768	1,506	1,306	15.3%	NM	96.1%	3,328	3,396	2.1%
Direct costs	-360	-411	-862	-748	15.1%	NM	NM	-1,662	-1,701	2.3%
Gross profit	**368**	**358**	**645**	**558**	**15.6%**	**75.2%**	**80.2%**	**1,665**	**1,695**	**1.8%**
G & A Expense	-29	-144	-41	-37	11.8%	39.7%	-71.7%	-237	-248	4.4%
Selling & distr exp	-60	68	-102	-88	16.7%	69.2%	-249.5%	-120	-119	-0.8%
Operating profit	**278**	**282**	**502**	**434**	**15.7%**	**80.3%**	**78.1%**	**1,308**	**1,328**	**1.5%**
Investment & other income	39	-4	6	16	-61.9%	-83.9%	NM	74	84	12.9%
Financial charges	-6	-8	-11	-12	-7.0%	97.1%	35.3%	-28	-12	-56.6%
Profit before NCI	**311**	**269**	**497**	**438**	**13.5%**	**59.6%**	**84.5%**	**1,354**	**1,400**	**3.3%**
NCI	0	0	-28	0	NA	NA	NA	0	0	NA
Profit before zakat	**311**	**269**	**469**	**438**	**7.2%**	**50.7%**	**74.3%**	**1,354**	**1,400**	**3.3%**
Zakat	8	36	47	57	-18.4%	NM	30.6%	60	60	1.0%
Profit attributable	**304**	**234**	**423**	**381**	**11.0%**	**39.2%**	**80.9%**	**1,294**	**1,339**	**3.5%**

FABS estimate & Co Data

SABIC Agri-Nutrients - Margins

SAR Mn	1Q20	4Q20	1Q21	YOY ch	QOQ ch	2020	2021F	YOY ch
Gross margin	50.5%	46.6%	42.8%	-771	-377	50.0%	49.9%	-14
OPM	38.2%	36.7%	33.3%	-490	-336	39.3%	39.1%	-21
Net margin	41.7%	30.4%	28.1%	-1361	-235	38.9%	39.4%	53

FABS estimate & Co Data

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FAB Securities Awards:

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Best Brokerage House in UAE
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Best Research House
in UAE 2016 and 2020
by "IFA"

Best New Mobile Application
in UAE 2016
by "IFA"

Best Equity Finance Company
in UAE 2016
by "IFA"