



## Key themes

Drone attacks on Aramco's oil fields

Aramco cut the production by almost 50%, as a precautionary measure

Saudi petchem companies witness a 40% reduction in feedstock supply

## Companies' guidance on feedstock curtailment\*

Stock	Feedstock impact*
SABIC	49% reduction
Kayan	50% reduction
Yansab	30% reduction
Tasnee	41% reduction
Sipchem	40% reduction
APCC	40% reduction
Petrochem	40% reduction
Sadara***	16% reduction
SIIG**	Stable work / no shortage
Nama	No shortage until now

Source: Tadawul. \* On an average basis per day in our view. \*\* Other than its stake in Petrochem. \*\*\* In Sadara Chemical Co.

# Saudi Petchem Sector

## Aramco incident: Impact on Q3 earnings of Saudi Petchems

Saudi Aramco's oil processing plants at Abqaiq and Khurais were attacked leading to a temporary production suspension of 5.7mn barrels a day of crude oil (almost half of the Kingdom's output) and 2bn cubic feet of gas. Given that this could take a couple of days or more to get back to normal production, we expect this could have a near term impact on the Saudi petrochemical companies as the firms rely on Aramco's supply for their feedstock requirements. Some of the petchem companies have already announced the shortage of feedstock by 40%, on account of production suspension at Aramco fields. Consequently, we expect Saudi companies to operate at lower production rates for next few days, translating into ~5 days of production loss, which could impact production by around 5% this quarter and probably incur some additional costs. Larger companies such as SABIC may have the ability to redistribute available feedstock inventory among subsidiaries for a few days and mitigate the issue. We reduce our net earnings estimates for Q3 to factor in the lower feedstock supply as shown in figure 1. On the positive side, this could push oil prices and polymer prices as well, if the increase in cost sustains.

**Figure 1 Initial assessment of impact of Saudi Petchem companies**

	Impact on Q3 earnings (SARmn)	Q3 2019E earnings (SARmn)*	Impact on 2019E earnings	Comments
APCC	20	175	-2.7%	PP prices are down by ~5% q-o-q, although we do not see any impact of dividend.
Yansab	30	295	-2.3%	MEG prices have stabilized in last few weeks, while the half-yearly DPS is expected to maintain at SAR1.75/sh.
SAFCO	25-30	411	-1.7%	Post major shutdown in 1H, utilization is likely remain high, despite lower feedstock availability for few days.
Tasnee	20	(40)	NM	Tasnee will remain in losses in Q3.
SABIC	235	2058	-2.3%	Weak product prices amid around 49% reduction in feedstock supplies will offset the positive impact from lower feedstock prices.
Sipchem	18	226	-2.2%	Focus will remain on ramping up methanol plant capacity and its dividend policy post merger.
Kayan**	34	(168)	-4.2%	Profitability to remain under pressure

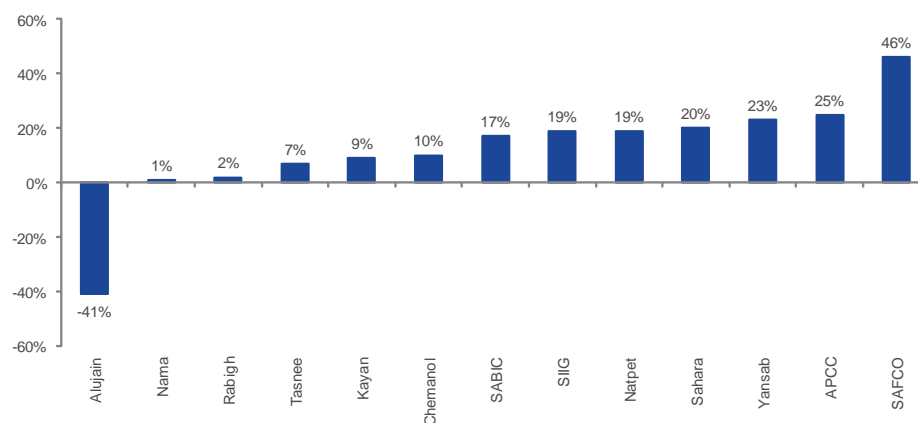
Source: Company data, Al Rajhi Capital. \* Preliminary estimates. We might revise it depending on the market dynamics and future disclosures by the companies. \*\* Not covered. NM due to profit from discontinued operations (Cristal).

**Operating leverage:** In general, based on the margins, we believe that companies that have higher margins such as Yansab, APCC and SAFCO are less impacted than companies that have low margins (Figure 2).

**Inventory level to provide some cushion:** Comparing inventories may not be accurate on a like to like basis given the complexity of the plants. However, in general companies with higher inventories may be able to sustain the impact more than companies with lower inventories (Figure 3).

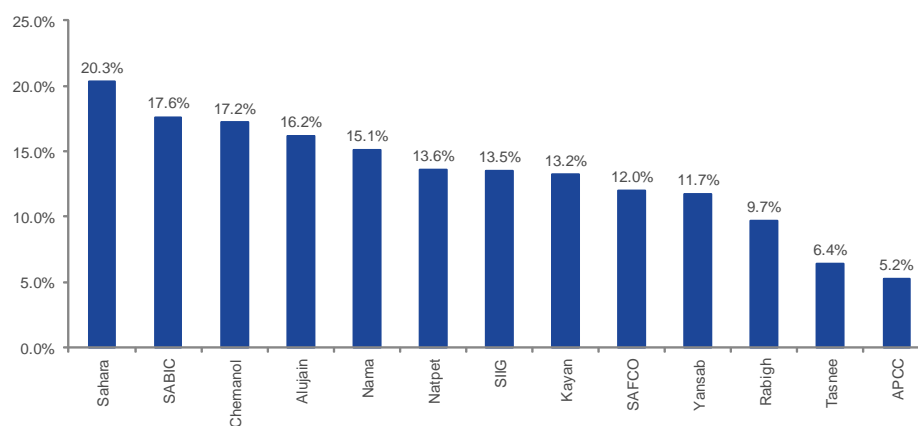


**Figure 2 Trailing 12 months operating margin (%)**



Source: Company data, Al Rajhi Capital, Bloomberg

**Figure 3 Inventory to trailing 12 months sales**



Source: Company data, Al Rajhi Capital, Bloomberg



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