

November 05, 2017

Rating **Neutral**
12- Month Target Price **SAR 21.00**

SAUDI INDUSTRIAL INVESTMENT GROUP (SIIG)
3Q2017 First Look

A Comeback Quarter for Associates

Saudi Industrial Investment Group (SIIG) reported slight earnings beat in 3Q after a bleak set of numbers in the last quarter. Earnings beat our estimates by +9% but street came in-line, however revenue came vice-versa, in-line for RC but missed street by +7%. EPS of SAR 0.50 in this quarter turned to profit from LPS of SAR (0.31) in 3Q2016 as a result of SOCPA to IFRS conversion and almost +223% Q/Q, beat our SAR 0.46 estimate though in-line with street's SAR 0.49. We tweaked our 2017-19 numbers with modest changes, but maintain target price at SAR 21.00 and revise rating to Neutral due to minimal upside; as SAR 21.00 target achieved in less than 3 months from our 2Q2017 FL report. SIIG's valuations with 2018E P/E of 11.0x is cheaper than TASI's 13.9x and Petrochem's 11.8x, but a discount is warranted due to impending earnings volatility from associates; need to ease further amid less clarity on its 2018 earnings.

Key factors in 3Q2017

Factors driving the deviation are i) Petrochem reported an earnings beat with SAR 197 million versus consensus of SAR 173 million ii) SCP re-emerges from a loss of SAR (18) million in 2Q to SAR 77 million in this quarter iii) margins assumed to have seen a sharp jump from associates; while Petrochem saw a 800 bps expansion, taking SIIG margins to 31%, up by 16.7% in this quarter and iv) on a Q/Q basis, stable basic chemical (PP&PE) prices, rally in styrene by +8% and less volatility in benzene by -3% and cyclohexane by -1%, drove stability in topline for associates and Petrochem.

Revenue came in-line with estimates

Revenue of SAR 1,755 million grew by +10% Y/Y but remained flat Q/Q. In 3Q, most basic chemicals stood stable amid a rally in Polystyrene, which led to decent top line growth. Revenue deviated lower by -3% from our estimate of SAR 1,795 million.

Margins improve significantly

SIIG managed to improve its margins on a Q/Q basis with 750 bps expansion to 32% in 3Q2017 as Petrochem recorded higher margins after it emerged from a shutdown in 2Q. Gross profit of SAR 552 million came in-line with our estimate of SAR 527 million, declined by -1% Y/Y but grew by +31% Q/Q. Operating profit of SAR 548 million were up by +225% Y/Y and grew by +115% Q/Q, as Petrochem recorded high utilization in excess of 95% during the quarter with margins of 31%, increased 1,670 bps from 2Q.

SCP delivers this time; earnings beat estimates

With robust performance from associates, share of associate income from SCP stood at SAR 77 million (+45% Y/Y) and loss of SAR (5.3) million in 2Q2017, while JCP reported SAR 80 million in 3Q2017 (+23% Y/Y and +248% Q/Q). SIIG has earlier achieved a net profit of SAR 163 Million in 3Q2016 while adopting SOCPA, while reported loss of SAR (141) million adopting IFRS. Earnings of SAR 226 million (share of Petrochem: 44% in 3Q17 vs 59% in 3Q2016) beat estimates of SAR 208 million, with margins at 13% in 2Q2017, up by 890 bps from 2Q.

Maintain TP at SAR 21; revise to Neutral

We revise our 2017-19 estimates but maintain TP at SAR 21.00; revising to Neutral from Buy as target price achieved in 3 months, with returns of +14% versus TASI's -2%.

Expected Total Return

Price as on Nov-02, 2017	SAR 21.99
Upside to Target Price	(4.5%)
Expected Dividend Yield	4.5%
Expected Total Return	0.0%

Market Data

52 Week H/L	SAR 23.5/12.6
Market Capitalization	SAR 9,895 mln
Enterprise Value	SAR 23,703 mln
Shares Outstanding	450.0 mln
Free Float	80.4%
12-Month ADTV (000's)	553.5
Bloomberg Code	SIIG AB

1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC. Est	Actuals
Revenue	1,795	1,755
Gross Profit	527	552
EBIT	538	548
Net Income	208	226
EPS (SAR)	0.46	0.50

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,065	6,996	7,052
EBITDA	1,826	3,152	3,176
Net Profit	486	876	901
EPS (SAR)	1.08	1.95	2.00
DPS (SAR)	0.50	1.00	1.00
BVPS (SAR)	29.99	30.94	31.94

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	6%	5%	6%
ROAE	4%	6%	6%
P/E	20.4x	11.3x	11.0x
P/B	0.7x	0.7x	0.7x
EV/EBITDA	13.0x	7.5x	7.5x
EV/Sales	3.9x	3.4x	3.4x

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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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