

Petrochemicals

Oct 03, 2019

Table 1: 3Q2019 Estimates (SAR mln, except per share data)

Company	Revenue			EBIT			EBIT Margins		Net Income			Net Margins		EPS (SAR)	
	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	3Q2018	3Q2019E
Petrochemicals															
Petrochem	2,297	1,420	(38%)	569	270	(53%)	25%	19%	307	149	(51%)	13%	10%	0.64	0.31
SABIC	43,711	32,997	(25%)	9,955	4,917	(51%)	23%	15%	6,098	2,196	(64%)	14%	7%	2.03	0.73
SAFCO	1,009	976	(3%)	481	376	(22%)	48%	39%	522	440	(16%)	52%	45%	1.25	1.06
Tasnee	2,901	658	(77%)	682	88	(87%)	24%	13%	259	(12)	-	9%	(2%)	0.39	(0.02)
Yansab	2,110	1,572	(25%)	711	280	(61%)	34%	18%	729	279	(62%)	35%	18%	1.30	0.50
Sipchem	1,338	1,523	14%	328	305	(7%)	25%	20%	180	205	14%	13%	13%	0.49	0.28
Advanced	745	647	(13%)	191	170	(11%)	26%	26%	202	165	(18%)	27%	26%	1.03	0.76
Saudi Kayan	3,376	2,211	(35%)	762	77	(90%)	23%	3%	472	(223)	-	14%	(10%)	0.31	(0.15)
Group Total	57,487	42,004	(27%)	13,679	6,483	(53%)			8,769	3,199	(64%)				

Source: Riyadh Capital, Company Reports

- Petchem prices continued to be subdued in 3Q19 as the US-China trade war escalated during the quarter with the US stating it will raise existing tariffs on \$250 bln worth of Chinese imports from 25% to 30% in October as well as introducing new tariffs of 15% on additional \$300 bln worth of Chinese imports which took effect on Sep 1, although some have been delayed until December. As a result, the Yuan depreciated above the critical USD/CNH 7.00 level which affected appetite for Petchem imports. Moreover, Saudi Petchem companies announced shortages of feedstock supply ranging from 30%-50% following Aramco supply disruption on Sep 14th which is likely to have an impact on their bottomline this quarter.
- PE and PP prices weakened further in 3Q19 as inventories remain high and buyers maintained a cautious stance. MEG prices stabilized as producers struggle with tight margins and inventories in the main China port dropped to its lowest level since January. Methanol prices drastically declined on the back of weak downstream demand and oversupply. Urea prices managed to hold ground as another Indian tender is expected before year end.

Banks

Table 2: 3Q2019 Estimates (SAR mln)

Company	Net Comm Income			Net Income			Net Advances			Deposits		
	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	Y/Y
Banks												
BSF	1,261	1,289	2%	945	798	(16%)	123,704	125,155	1%	146,694	141,560	(4%)
SABB	1,414	1,595	13%	1,068	478	(55%)	112,128	157,706	41%	129,328	193,991	50%
ANB	1,323	1,455	10%	730	898	23%	120,489	119,812	(1%)	130,830	133,447	2%
Samba	1,589	1,588	(0%)	1,258	902	(28%)	114,703	115,163	0%	169,623	168,605	(1%)
Al Rajhi	3,379	4,059	20%	2,516	2,675	6%	234,427	239,186	2%	288,836	301,834	4%
Albilad	547	681	25%	237	311	31%	49,738	55,073	11%	54,574	62,215	14%
Alinma	987	1,071	8%	637	703	10%	82,971	89,992	8%	89,868	93,912	4%
Group Total	10,500	11,738	12%	7,391	6,765	(8%)	838,161	902,087	8%	1,009,753	1,095,564	8%

Source: Riyadh Capital, Company Reports

- 3M SAIBOR witnessed a further drop in 3Q19, falling by almost 36 bps Q/Q, to end the quarter at 2.36%. This resulted as the quarter saw two reductions in repo and reverse repo rates by SAMA, 25 bps each, after similar actions by the Federal Reserve.
- Our forecast shows that NSCI would be flat Q/Q, but higher Y/Y by +12% for our coverage universe, as we believe that SAIBOR's fall will hit most notably starting next quarter.
- Net income, however, is expected to drop by -8% Y/Y, weighed down by generally higher provisioning across our universe, not to mention SABB's negative contribution as it is still sustaining merger related expenses. On the other hand, we see some banks growing in profits, such as Albilad with +31% Y/Y increase.

Table 3: 3Q2019 Estimates (SAR mln, except per share data)

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	Y/Y	3Q2018	3Q2019E	3Q2018	3Q2019E
Cement															
Yamama	108	183	69%	23%	46%	(39)	67	-	(46)	65	-	(43%)	36%	(0.23)	0.32
Saudi	240	328	37%	47%	48%	81	118	46%	75	109	45%	32%	33%	0.49	0.71
Qassim	74	175	135%	13%	47%	3	75	-	6	76	-	8%	43%	0.06	0.85
Southern	196	293	49%	9%	42%	5	110	-	5	104	-	3%	35%	0.04	0.74
Yanbu	153	208	36%	16%	31%	12	48	287%	13	45	241%	9%	22%	0.08	0.29
Group Total	771	1,186	54%			63	417	563%	54	399	644%				
Telecoms															
STC	13,333	13,726	3%	59%	60%	3,236	3,500	8%	2,723	3,042	12%	20%	22%	1.32	1.52
Mobily	2,976	3,404	14%	59%	58%	108	298	176%	(31)	69	-	(1%)	2%	(0.04)	0.09
Zain	1,952	2,077	6%	68%	75%	268	406	51%	48	156	225%	2%	8%	0.08	0.27
Group Total	18,261	19,207	5%			3,612	4,204	16%	2,740	3,267	19%				
Food and Retail															
Almarai	3,371	3,421	1%	43%	42%	755	729	(3%)	635	579	(9%)	20%	17%	0.67	0.58
Jarir	1,932	2,203	14%	18%	17%	285	327	15%	288	313	9%	15%	14%	2.40	2.61

Source: Riyadh Capital, Company Reports

- **Cement:** As 3Q2018 was one of the worst quarters in recent times, the Y/Y change in revenues and net income appears unusually large. Profitability continues to benefit from better prices versus the last year while higher exports are helping companies such as Saudi Cement.
- **Telecoms:** We expect an improvement in the sector's results due to positive regulatory changes in addition to the new technological innovation, and higher prices of packages.
- **Food and Retail:** Jarir's growth is likely to be driven by the back to school season with an expected +9% rise in net income while Almarai's slight rise in revenues is unlikely to flow to the bottom-line due to higher operating costs.

Disclaimer

■ 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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