

1Q20 Results Update

May 28, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	82.0
Target Price (SAR)	75.0
Upside/Downside (%)	(8.5%)
<i>As of May 20th, 2020</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	246.0
52 Wk High (SAR)	120.8
52 Wk Low (SAR)	61.9
Total Outstanding shares (in bn)	3.0
Free Float (%)	29.8%

SABIC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	2.4%	(2.0%)
6m	(15.1%)	(1.6%)
12m	(31.0%)	(11.3%)

Major Shareholders (%)

Public Investment Fund	70.0%
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Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 20th May 2020

SABIC swings to losses in 1Q20 on lower selling prices and impairment provisions

Saudi Basic Industries Corp. (SABIC) swung to a net loss of SAR 948.9mn compared with the net profit of SAR 3.4bn a year ago. Revenue for the quarter declined 17.5% YoY to SAR 30.8bn due to low average selling prices of petrochemical products. The company's operating income contracted sharply at 92.3% YoY to SAR 476mn due to expected high average cost of sales and increased operating. Net losses were exacerbated by high financial expenses and addition to impairment provisions in certain capital and financial assets worth SAR 1.1 bn. Loss margin for the quarter stood at 3.1% compared with the net profit margin of 9.1% in 1Q19.

SABIC's problems continued in 2020 amid abysmally low petrochemical prices following Russia's refusal to comply with OPEC cuts and the oil price war that ensued. The COVID-19 crisis, which has brought the global economy to a standstill leading to sharp contraction in demand, worsened the situation. Despite IEA's expected pick up in oil prices during the second half of the year, the overall demand for oil is expected to contract for the entire year. This is likely to have an adverse impact on the company's YoY performance. The company's interest coverage ratio for the quarter too slipped to 1.24x compared with 19.1x a year ago. However, SABIC's liquidity position remains stable with a quick ratio of 1.72x the debt to equity also stands at 0.24x. Therefore, despite the short-term headwinds caused by external factors beyond the management's control, the company remains stable and would perform well once market conditions improve. In view of the above factors, we maintain a Neutral rating on the stock.

- Revenue fell 17.5% YoY to SAR 30.8bn owing to decline in the average selling price of petrochemical products, which was attributable to overall decline in demand for the products and economic uncertainty. Sales were down 6.1% on a quarterly basis.
- Gross profit for the quarter slumped 49.2% YoY to SAR 5.7bn as average cost of sales remained high. Consequently, the gross margin shrank to 18.6% in 1Q20 compared with 30.1% in 1Q19 and 14.1% in 4Q19.
- EBIT slipped 92.3% YoY to SAR 476mn in 1Q20 due to increased general, administration, selling, and distribution expenses. Consequently, the EBIT margin contracted to 1.5% in 1Q20 from 16.5% in 1Q19.
- SABIC swung to a net loss of SAR 949mn against a net profit of SAR 3.4bn in 1Q20. The company recorded increased financing expenses and an impairment amounting to SAR 1.1bn, which includes impairment provision of SAR 713mn for the ULTEM™ polymers plant in Cartagena, Spain.
- In March 2020, SABIC increased its stake in Clariant AG, a Switzerland-based producer of specialty chemicals, to 31.5%.
- SABIC shareholders approved 22% dividend amounting to SAR 6.6bn for 2H19 for its three billion shareholders.
- Nusaned Investment, owned by SABIC and SCHMID Group, successfully closed their joint venture transaction that focuses on manufacturing and technology development in the field of Vanadium Redox Flow Batteries (VRFB).

Valuation: We reiterate our "Neutral" rating on the stock with a revised target fair value of SAR 75.0 per share.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	30.8	37.4	(17.5%)	114.3	139.7	(18.2%)
Gross Profit (SAR bn)	5.7	11.3	(49.2%)	25.1	35.5	(29.3%)
Operating Profit (SAR bn)	0.5	6.2	(92.3%)	11.4	15.0	(23.8%)
Net Profit (SAR bn)	(0.9)	3.4	NM	4.1	5.6	(27.8%)
EPS (SAR)	(0.3)	1.1	NM	1.4	1.9	(27.8%)
Gross Margin (%)	18.6%	30.1%	(11.6%)	22.0%	25.4%	(3.4%)
Operating Margin (%)	1.5%	16.5%	(14.9%)	10.0%	10.7%	(0.7%)
Net Profit Margin (%)	(3.1%)	9.1%	NM	3.6%	4.0%	(0.5%)

Source: Company Financials, FALCOM Research

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ALCOM 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 $\geq 10\%$.

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 $\geq 10\%$.

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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