



EVENT FLASH

Strong growth on cost efficiencies

SABIC reported a strong set of results with a net income of SR5.8bn, growing 10.7% YoY and 56.1% QoQ. The results came in significantly higher than the NCBC and consensus estimates of SR4.0bn and SR4.3bn, respectively. This is the highest net income since 2Q15. We believe the stronger than expected results are driven by 1) higher operating rates in petrochemicals and metals segments, 2) lower cost of production and 3) lower opex.

- Revenues increased 10.8% YoY and 12.7% QoQ to SR39.7bn, recording the highest sales since 2Q15. This is 6.3% higher than the NCBC estimates of SR37.3bn. We believe the higher than expected top-line is due to an improvement in operating rates in the petrochemical and metals segments. Based on our calculations, we estimate the operating rates at the petrochemical segment reached 96%, higher than our estimates of 90% and the last 6 quarters average of 92%. Moreover, we expect the operating rates at the metal segment reached 80% compared to 69% in 2Q17 and our estimate of 70%. We believe SABIC managed to increase its operating rates to benefit from the supply shortage following to hurricane Harvey in the US.
- Gross income stood at SR14.1bn, up 6.7% YoY and 36.3% QoQ. This is significantly higher than our estimates. Gross margin stood at 35.6%, compared to 29.4% in 2Q17, 36.9% in 3Q16 and our estimates of 31.7%. We believe the margin expansion is driven by higher product prices and the impact of the cost control initiative.
- EBIT stood at SR8.6bn in 3Q17, up 8.9% YoY and 57.6% QoQ. This is significantly higher than our estimate of SR6.1bn due to 1) higher than expected sales, 2) gross margin expansion and 3) lower than expected Opex. SG&A expenses stood at SR5.5bn in 3Q17, lower than our estimate of SR5.7bn but higher than SR4.9bn in 2Q17.
- In 3Q17, PP prices increased 6.6% QoQ (+6.5% YoY) to US\$1,068, while HDPE prices remained flat QoQ and YoY at US\$1,124. EG prices increased 18.8% QoQ and 40.0% YoY to US\$882. PP-propane spread increased 20.1% QoQ (down 2.1% YoY) to US\$685.
- We are Neutral on SABIC with a PT of SR98.4. Strong balance sheet and higher oil prices are the key positives. The stock is trading at a 2018E P/E of 15.2x, higher than the peer average of 13.9x, offering a limited upside.

3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	39,650	35,800	10.8	37,288	6.3	12.7
Gross income	14,110	13,220	6.7	11,811	19.5	36.3
Gross margin (%)	35.6%	36.9%	(1.34)	31.7%	3.91	6.16
Operating income	8,560	7,860	8.9	6,143	39.3	57.6
Net income	5,790	5,230	10.7	3,980	45.5	56.1

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price	98.4
Current price (SR)	99.3
Upside/Downside (%)	(0.9)

STOCK DETAILS

52-week range H/L (SR)	105/83
Market cap (\$ mn)	79,464
Shares outstanding (mn)	3,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.4)	(0.7)	16.1
Rel. to market	1.1	2.3	(1.1)

Avg daily turnover (mn)	SR	US\$
3M	349.4	93.2
12M	354.5	94.5

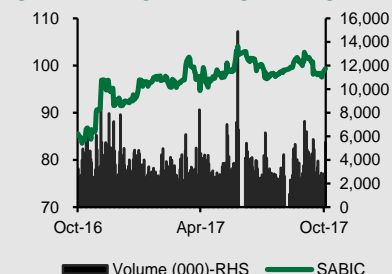
Reuters code	2010.SE
Bloomberg code	SABIC AB
	www.sabic.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	16.7	15.3	15.2
P/B (x)	1.9	1.8	1.8
EV/EBITDA (x)	7.9	7.7	7.7
Div Yield (%)	4.0	5.0	5.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

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