

Saudi Basic Industries Corp. (SABIC) - 3Q23 Results Review

Analyst: Neetika Gupta

Previous Recommendation: Hold

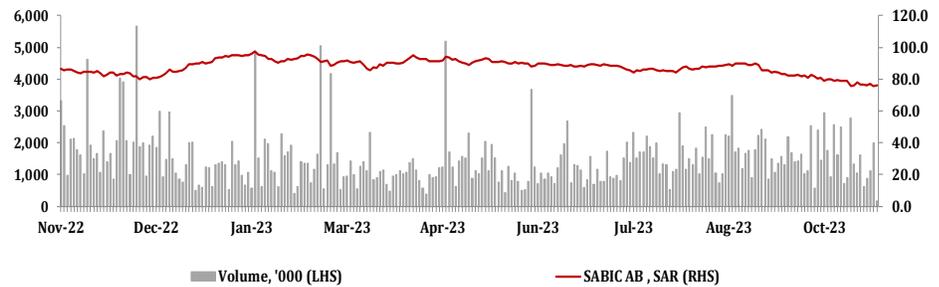
Target Price (SAR): 91.20

Previous Reco. & Date: TP: SAR 91.2 per share; Hold on 03-August-2023

Upside / (Downside): 19.5%

Date: 02-11-2023

Bloomberg Ticker	SABIC AB
Current Market Price (SAR)	76.300
52wk High / Low (SAR)	97.4/75.3
12m Average Vol. (000)	1,499.6
Mkt. Cap. (USD/SAR mn)	228,900/228,900
Shares Outstanding (mn)	3,000.0
Free Float (%)	30%
3m Avg Daily Turnover (000)	1,33,725.1
6m Avg Daily Turnover (000)	1,25,188.9
P/E'23e (x)	51.0x
EV/EBITDA'23e (x)	14.8x
Dividend Yield '23e (%)	1.4%
Price Perf. (1m/3m) (%)	-7%/ -10.7%



Revenue declines 23% YoY, largely in-line with U-Capital estimates.

The company's Q3'23 revenue was reported at SAR 35,980mn (-23% YoY), largely in-line with our estimate. This discrepancy is likely due to lower-than-expected selling prices resulting from a stagnation in global demand for chemicals.

Gross and Operating profits decline substantially.

The company's gross profit stood at SAR 6,340mn (-36% YoY), although still ahead of our estimate. The operating profit of SAR 1,680mn (-54% YoY). The YoY decline was mainly due to decrease in topline on a YoY basis and higher-than-expected operating expenses.

Net Profit decrease significantly, missing estimates.

The net loss for Q3'23 stood at SAR 2,880mn, missing our estimated profit of SAR 1,117m despite the beat on operating profit. This significant decline was due to decrease in share in the results of joint ventures and associated companies and recording an impairment charge in certain capital assets. Also, it is worth noting that there are non-cash losses as a result of the Public Investment Fund's acquisition of SABIC's entire stake in the Saudi Iron and Steel Company (Hadeed), which was previously announced, amounting to SAR 2.93 bn.

Maintain target price.

We anticipate that the petrochemical industry will continue to face challenges throughout the remainder of 2023e and into the first half of 2024e. This is due to global economic concerns, including the potential for a recession, higher interest rates for longer period, slow recovery in China, and the ongoing conflict in West Asia. Consequently, we expect stability in the sector beyond the first half of 2024e and anticipate favourable pricing driven by stable demand-supply dynamics. However, considering the demanding valuations the stock is trading at, we maintain our target price at SAR 91.20 per share and maintaining our 'Hold' rating for the stock.

Valuation.

Sabic is trading at 2023e P/E of 51x compared to the historical average 1-year forward P/E of 27.5x. Additionally, the stock is valued at EV/EBITDA multiple of 14.8x, based on our FY23 estimate, compared to the historical average of 9.5x.

Income Statement												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Sales/Revenue	46,868	42,981	39,693	37,167	35,980	39,073	-23%	-3%	-8%	1,55,486	1,12,840	-27%
Gross Profit (Loss)	9,843	1,571	5,873	5,373	6,340	5,649	-36%	18%	12%	39,871	17,586	-56%
Operating Profit (Loss)	3,648	507	1,688	1,433	1,680	1,495	-54%	17%	12%	23,369	4,801	-79%
Net Profit attributable to shareh	1,836	293	657	1,178	(2,880)	1,117	-257%	-344%	-358%	16,237	(1,045)	-106%
Balance Sheet												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Shareholders' Equity	1,82,880	1,86,050	1,86,981	1,76,780	1,73,900	1,77,897	-5%	-2%	-2%	1,82,880	1,73,900	-5%
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	3Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Gross Margin	21%	4%	15%	14%	18%	14%						
Operating Profit Margin	8%	1%	4%	4%	5%	4%						
Net Profit Margin	4%	1%	2%	3%	-8%	3%						
Return on Equity (RoE)	4%	1%	1%	3%	-7%	3%						

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report, please [click here](#).

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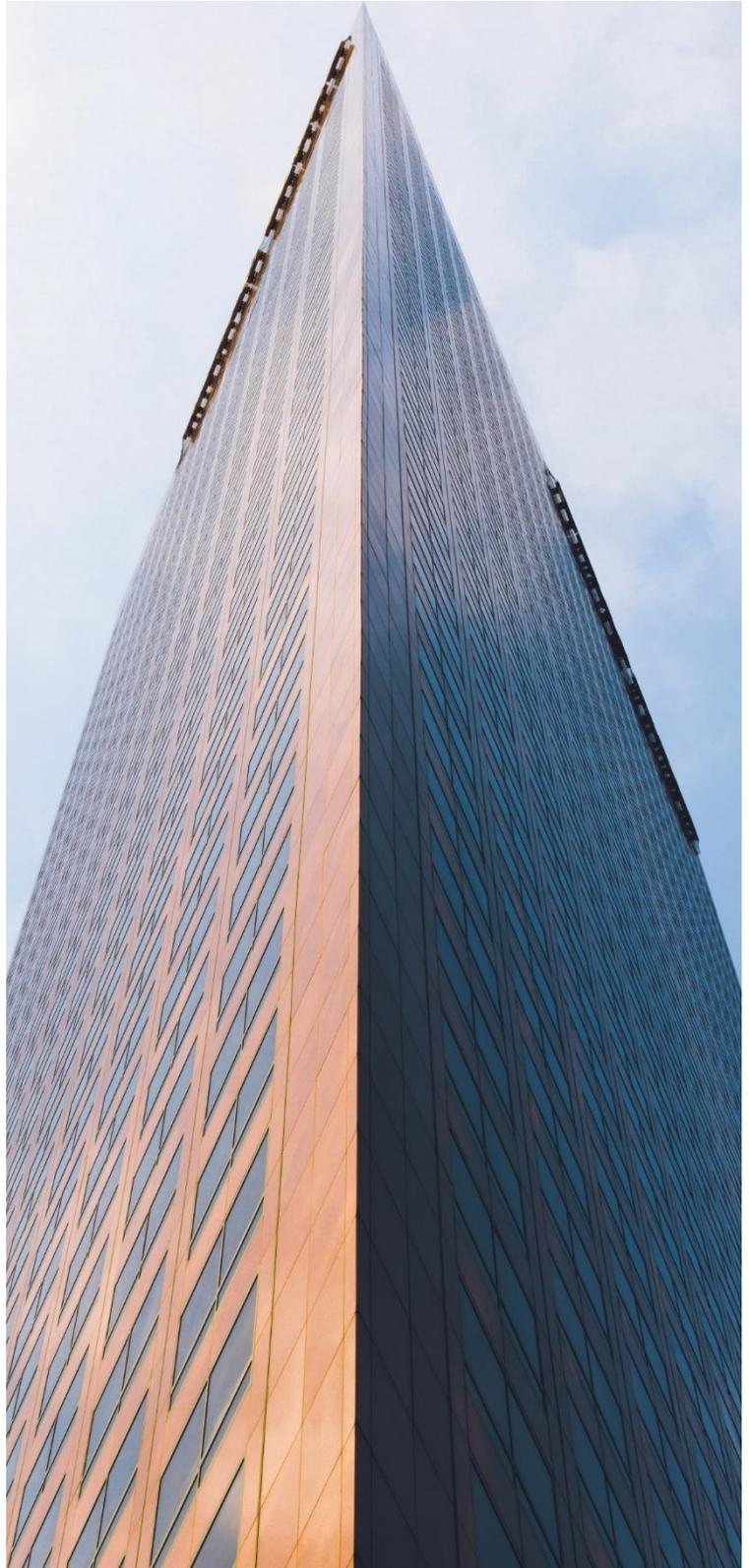
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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