

SIPCHEM

الأهلي كابيتال
NCB Capital

EVENT FLASH

Strong results on higher operating rates and margins

Sipchem reported a strong set of 3Q17 results with a net income of SR122mn, compared to a net loss of SR49.4mn in 3Q16 and a profit of SR59.8mn in 2Q17. This is significantly higher than NCBC estimates of SR75mn and compares to a consensus estimate of SR90mn. We believe the variance is due to higher than operating rates and gross margins

- Revenues stood at SR1.06bn in 3Q17, 8.3% higher than our estimate of SR984mn. This is an increase of 48.2% YoY and 15.8% QoQ. Based on our calculations, Sipchem facilities operated at 119% in 3Q17. This is higher than our estimates of 111%, 107% in 2Q17 and 84% in 3Q16. We believe the higher operating rate is due to the operational efficiency following the 3-5 weeks shutdown at CO/acetic acid and VAM facilities in 2Q17.
- Gross profit stood at SR367mn in 3Q17, significantly higher than our estimate of SR303mn. Gross margin came in at 34.5%, higher than our estimate of 30.7% and compares to 30.6% in 2Q17 and 17.9% in 3Q16. This is the highest gross margin since 2Q14. We believe the better than expected margin expansion is due to higher methanol prices and lower cost of production as a result of the higher efficiency following several shutdowns in the last 4 quarters.
- EBIT stood at SR254mn, 30.9% higher than our estimate of SR194mn due to higher revenues and gross margins. SG&A expenses came in at SR114mn as compared to our estimate of SR109mn. This reflects opex-to-sales ratio of 10.3% vs 11.5% in 2Q17.
- In 3Q17, methanol prices increased 11.0% QoQ and 34.7% YoY to US\$304 while HDPE prices remained flat QoQ and YoY at US\$1,124. Ethylene increased 6.2% QoQ and remained flat YoY at US\$1,107. VAM prices increased 13.8% QoQ and 18.6% YoY to US\$1,018. Acetic Acid prices increased 9.4% QoQ and 45.3% YoY to US\$416. EVA prices increased 9.2% YoY AND 16.7% QoQ to US\$1,575.
- We remain Overweight on Sipchem with a PT of SR16.6. Sipchem's key positives are 1) higher operational efficiency after 2Q17 shutdowns, 2) positive methanol outlook, and 3) commercial operations of the new projects. The stock is trading at a 2018E P/E of 13.5x, lower than the sector average of 13.7x.

3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	1,064	718	48.2	984	8.0	15.8
Gross income	367	128	186.3	303	21.3	30.6
Gross margin (%)	34.5%	17.9%	16.65	30.7%	3.77	3.90
Operating income	254	32	702.2	194	30.9	44.4
Net income	122	(49)	NM	75	61.4	103
EPS (SR)	0.33	(0.13)	NM	0.21	61.4	103

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

OVERWEIGHT

Target price	16.6
Current price (SR)	15.0
Upside/Downside (%)	10.8

STOCK DETAILS

52-week range H/L (SR)	20/13
Market cap (\$ mn)	1,465
Shares outstanding (mn)	367
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(4.7)	5.9	15.7
Rel. to market	1.3	11.0	(3.1)

Avg daily turnover (mn)	SR	US\$
3M	14.4	3.8
12M	14.1	3.8

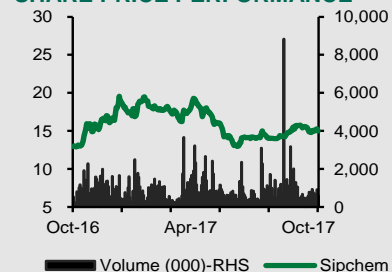
Reuters code	2310.SE
Bloomberg code	SIPCHEM AB
	www.sipchem.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	17.7	13.5
P/B (x)	1.0	1.0	0.9
EV/EBITDA (x)	10.7	8.5	7.8
Div Yield (%)	0.0	0.0	1.7

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

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

NC: Not covered. NCBC does not cover this company

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