

August 03, 2023

Margins Remain Flat Q/Q

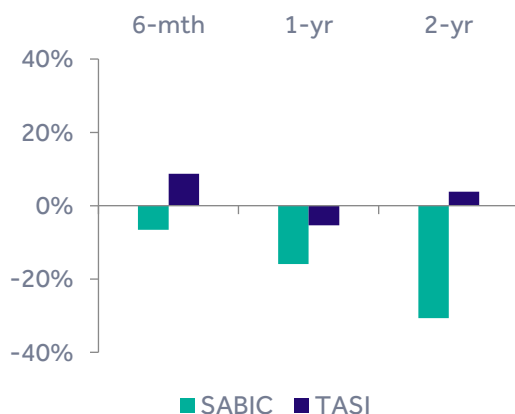
Upside to Target Price	7.7%
Expected Dividend Yield	4.1%
Expected Total Return	11.8%

Rating	Neutral
Last Price	SAR 85.40
12-mth target	SAR 92.00

Market Data	
52-week high/low	SAR 107.4/79.2
Market Cap	SAR 256,200 mln
Shares Outstanding	3,000 mln
Free-float	30.00%
12-month ADTV	1,741,195
Bloomberg Code	SABIC AB

SABIC	2Q2023	2Q2022	Y/Y	1Q2023	Q/Q	RC Estimate
Sales	37.17	55.98	(34%)	39.69	(6%)	38.03
Gross Profit	5.37	15.09	(64%)	5.68	(5%)	7.03
Gross Margins	14%	27%		14%		19%
Operating Profit	1.43	10.25	(86%)	1.69	(15%)	2.45
Net Profit	1.18	7.93	(85%)	0.66	79%	1.22

(All figures are in SAR bln)



- SABIC reported a topline of SAR 37.2 bln (down-34% Y/Y and -6% Q/Q), in-line with our SAR 38.0 bln estimate. The decline on both yearly and quarterly basis was a result of tighter monetary policies to combat inflation resulting in an economic slow-down. This has affected product demand and lowered the average selling prices of the Company's products as well as its sales volumes.
- Segment-wise, Petrochemicals & Specialties (85% of revenues) declined by -7% Q/Q, driven by lower sale volumes and product prices. Agri-Nutrients went up +3% Q/Q on the back of +38% Q/Q higher sales volumes, despite a -35% Q/Q decline in average product prices due to customer destocking and low consumption. Hadeed continued to witness a decline, down -6% Q/Q on the back of the turnaround. Lower Steel prices are attributed to a drop in demand amidst tough competition and elevated inventory levels.
- For the majority of SABIC's products, the target markets experienced a continued reduction in demand and an increase in supply. This resulted in lower average selling prices, which were largely offset by lower feedstock costs. Gross margins were flat Q/Q at 14% but significantly lower than 27% in 2Q22. We expected margins to improve in 2Q over 1Q. Gross profit and EBIT dropped moderately Q/Q to come in at SAR 5.4 bln and SAR 1.4 bln (down-5% and -15%), respectively.
- Net profit for the quarter was recorded at SAR 1.2 bln, +79% higher Q/Q but -85% lower Y/Y, matching our estimates. Moving forward, SABIC forecasts an average growth of 2.4% for global GDP for 2023 despite an uncertain global economy. SABIC maintains discipline in managing CAPEX, with an estimated 2023 spend of between USD 3.3 and 3.8 bln. We expect more stable product prices and margins in 2H2023 as compared to 1H2023. On the back of demand and price outlook, we reduce our target price slightly to SAR 92.00 but maintain a Neutral rating.

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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
For any feedback on our reports, please contact research@riyadcapital.com

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