

Saudi Basic Industries Corp. (SABIC)

Q3 2017

Recommendation Neutral

Fair Value (SAR) 102.00

Price as of November 1, 2017 99.46
Expected Return 2.6%

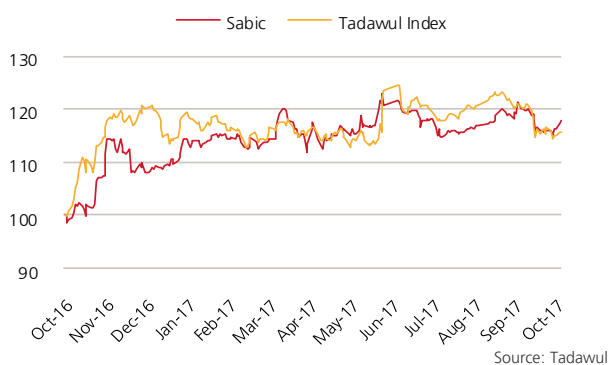
Company Data

Tadawul Symbol	2010.SE
52 Week High (SAR)	105.40
52 Week Low (SAR)	83.50
YTD Change	8.7%
3-Month Average Volume (Thousand Shares)	3,569
Market Cap. (SAR Million)	298,380
Market Cap. (USD Million)	79,568
Outstanding Shares (Million Shares)	3,000

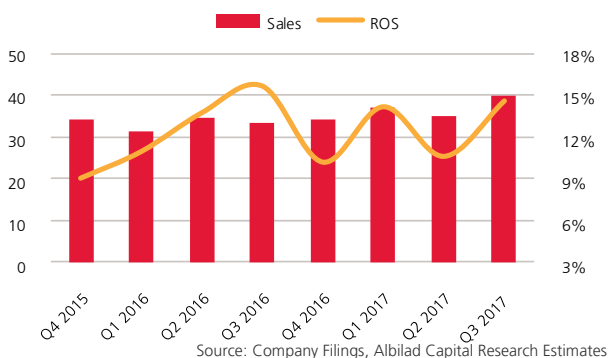
Major Shareholders (> 5%)

Public Investment Fund	70.00%
General Organization for Social Insurance	5.70%

52-week Stock Price Movement



Quarterly Sales (SAR bn) and ROS



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Saudi Basic Industries Corporation (SABIC) revealed the preliminary performance indicators for Q3 2017 reporting a net profit of SAR 5.79 billion versus SAR 5.23 billion soaring 11% YoY and 56% QoQ. Therefore, the nine-month figure soared by 12.4% to SAR 14.73 billion compared to SAR 13.1 billion in 9M 2016. Thus, The profit margin in 9M 2017 jumped to 13.2% compared to 12.4% at the same period last year.

Total revenues amounted to SAR 39.65 billion during Q3 2017 edging up 11% YoY from SAR 35.80 billion, and also 13% from SAR 35.17 billion in Q2 2017. The nine-month revenues hit SAR 111.78 billion compared with SAR 105.52 billion in 9M 2016 displaying an increase of 12.4%.

The YoY increase in bottom line was triggered by:

- Higher production rates and sales volumes.
- Lowering operational costs.
- higher average selling prices for most products boosted by higher average oil prices.

The following table depicts the changes in a set of petrochemical prices:

Average Commodity Prices (US\$/Ton)	Current price	Q3 2017	Q3 2016	YoY	Q2 2017	QoQ
Methanol (SE Asia)	364	307	236	30%	291	6%
Polypropylene (SE Asia)	1,170	1,125	1,034	9%	1,077	4%
Polyethylene - High Density (SE Asia)	1,240	1,145	1,150	(0.4%)	1,128	2%
Polyethylene - Low Density (SE Asia)	1,280	1,208	1,189	2%	1,235	(2%)
Polystyrene (SE Asia)	1,385	1,370	1,191	15%	1,261	9%
Ammonia (Middle East)	270	220	246	(10%)	344	(36%)
UREA (Middle East)	281	221	193	14%	209	6%
DAP (Morocco)	370	355	346	3%	375	(5%)

The operating profit hit SAR 8.6 billion in Q3 2017 compared to SAR 7.9 billion in Q3 2016 skyrocketing 9% and 58% QoQ. Furthermore, operating profit of the current period leapt 12% reaching SAR 22.34 billion compared with SAR 20 billion in 9M 2016, thus the operating profit margin improved to 20% compared to 19% in 9M 2016.

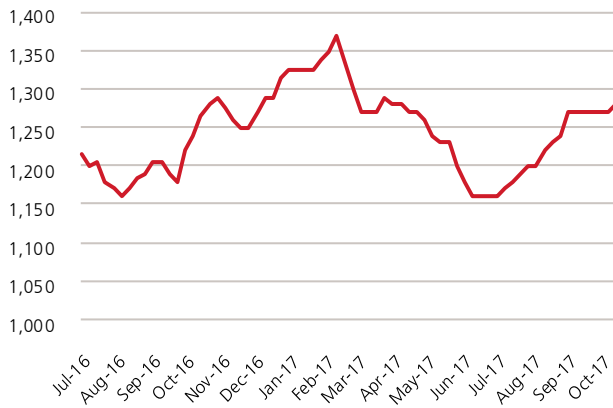
Net profit for Q3 2017 came higher than our estimate of SAR 3.97 billion and the analysts' consensus of SAR 4.08 billion, as petrochemical prices spiked in Q3 2017 fueled by improved oil prices. Among the company's strategic expansion plans is the construction of a polycarbonate plant in China which is expected to be operational by 2020. As a result, we forecast the company's operating margins to improve in Q4 2017. Therefore, we upgrade our fair value for SABIC from 95 to SAR 102 per share.

FY - Ending December	2013A	2014A	2015A	2016A
EV/EBITDA	5.46	5.85	6.74	6.69
EV/Sales	1.64	1.62	2.02	2.24
P/E	11.73	12.70	15.79	16.63
Dividend Yield	5.1%	5.6%	5.6%	4.0%
P/BV	1.90	1.84	1.83	1.82
P/Revenue	1.57	1.57	1.99	2.23
Current Ratio	3.12	3.01	2.75	2.64
Revenue Growth	0.0%	0.0%	-21.1%	-11.0%

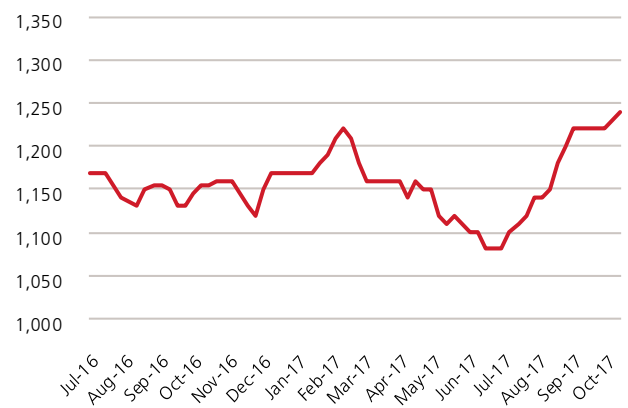
Source: Company Filings, Albilad Capital Research Estimates

Prices of Some Products

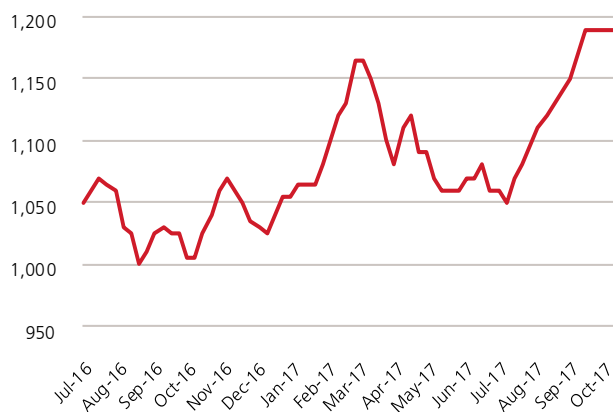
LDPE Polyethylene SE Asia Spot Price (US\$/Ton)



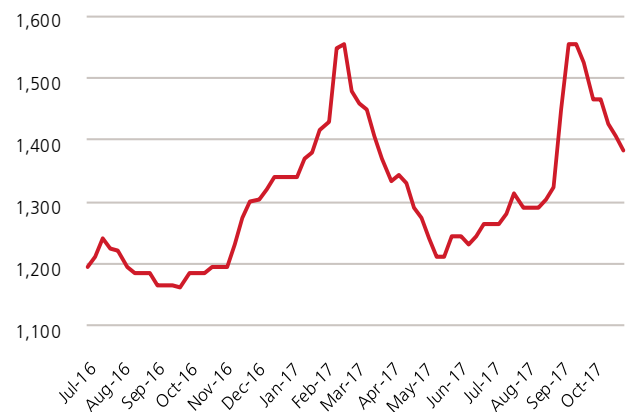
HDPE Polyethylene SE Asia Spot Price (US\$/Ton)



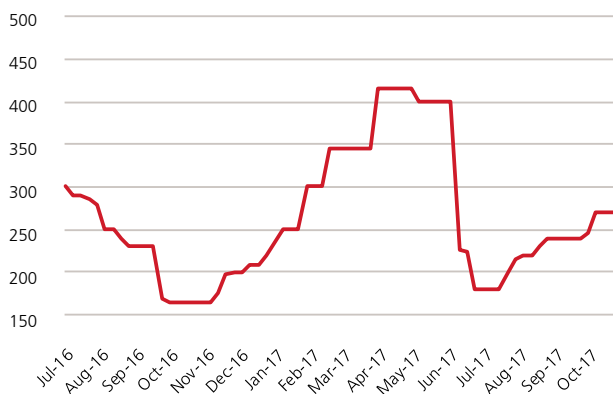
Polypropylene SE Asia Spot Price (US\$/Ton)



HIPS Polystyrene SE Asia Spot Price (US\$/Ton)



Ammonia Middle East Spot Price (US\$/Ton)



UREA Middle East Granular Spot Price (US\$/Ton)



Source: Bloomberg

Income Statement (SAR mn)	2012A	2013A	2014A	2015A	2016A
Sales	189,026	188,986	188,989	149,167	132,827
COGS	122,048	119,881	123,016	90,790	75,589
SG&A	12,222	12,275	13,480	13,788	12,664
EBITDA	54,755	56,830	52,493	44,590	44,574
EBITDA Margin	%29.0	%30.1	%27.8	%29.9	%33.6
Depreciation and amortization	13,730	14,291	14,762	15,372	16,328
Provision for impairment losses on assets	-	-	-	(781)	(1,468)
EBIT	41,026	42,539	37,731	28,437	26,778
Net interest income	(2,493)	(1,756)	(1,614)	(1,493)	(1,690)
Investment income	1,828	1,075	1,608	1,372	876
Others	483	609	920	1,202	2,085
Pre-Tax and Zakat Income	40,844	42,466	38,646	29,518	28,049
Tax and Zakat	2,500	2,300	2,100	2,100	3,000
Net Income	38,344	40,166	36,546	27,418	25,049
Minority	13,564	14,888	13,199	8,634	7,210
NAI	24,780	25,278	23,347	18,784	17,839
ROS	%13.1	%13.4	%12.4	%12.6	%13.5
Balance Sheet (SAR mn)	2012A	2013A	2014A	2015A	2016A
Cash and marketable securities	36,836	35,719	33,626	38,649	40,767
Short term investment	28,985	30,681	38,987	29,910	20,105
Account Receivables	31,542	30,116	26,000	19,376	19,790
Inventory	34,499	32,442	31,675	24,635	23,122
Others	4,433	4,066	4,129	4,492	4,724
Total ST Assets	136,295	133,025	134,417	117,062	108,507
Net Fixed Assets	143,010	137,065	136,216	140,692	144,458
Projects Under Implementation	22,430	28,370	32,655	32,466	25,550
Intangible assets	22,661	22,197	17,757	16,546	16,952
Others	13,041	16,587	18,996	21,453	21,425
Total LT Assets	201,143	204,218	205,624	211,157	208,386
Total Assets	337,438	337,243	340,041	328,219	316,893
Short term debt and CPLTD	15,904	6,089	13,907	13,306	13,227
Accounts Payable	19,604	19,504	17,617	16,515	16,360
Accrued Expenses	4,875	6,500	10,930	11,150	9,138
Others	7,960	10,545	2,202	1,633	2,386
Total ST Liabilities	48,343	42,638	44,655	42,605	41,111
Total Long Term Debt	79,532	73,947	69,176	59,279	49,101
Other Noncurrent Liabilities	13,712	14,001	15,984	16,478	16,355
Minority	50,436	50,385	48,886	47,933	47,279
Equity	145,415	156,271	161,340	161,924	163,048
Total Liabilities and Equity	337,438	337,243	340,041	328,219	316,893
Cash Flow (SAR mn)	2012A	2013A	2014A	2015A	2016A
Cash flow from Operations	49,993	59,950	53,895	53,777	39,701
Cash flow from Financing	(36,148)	(43,072)	(30,084)	(35,896)	(33,367)
Cash flow from Investing	(15,194)	(17,995)	(25,551)	(12,859)	(4,217)
Change in Cash	(1,349)	(1,117)	(1,740)	5,023	2,118

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

All the historical financial statements were prepared in accordance with SOCPA standards until releasing (IFRS) financial statements.

Albilad Capital Rating Methodology

Al-Bilad Capital 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: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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