

Rating **Buy**
 12- Month Target Price **SAR 24.00**

Expected Total Return

Price as on Oct-22, 2018	SAR 19.50
Upside to Target Price	23.1%
Expected Dividend Yield	3.1%
Expected Total Return	26.2%

Market Data

52 Week H/L	SAR 24.30/13.80
Market Capitalization	SAR 7,187 mln
Shares Outstanding	366.7 mln
Free Float	89.0%
12-Month ADTV (000's)	1,050.3
Bloomberg Code	SIPCHEM AB

1-Year Price Performance



Source: Bloomberg

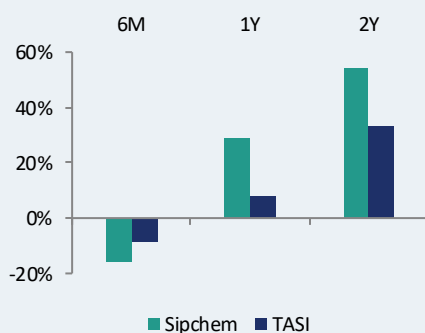


Fig in SAR mln	RC. Est	Actuals
Revenue	1,393	1,338
EBIT	351	328
Net Income	176	180
EPS (SAR)	0.48	0.49

SAUDI INTERNATIONAL PETROCHEMICAL COMPANY (SIPCHEM)

3Q2018 First Look

Earnings Inline with Forecast

Saudi International Petrochemical Company (Sipchem) reported its 3Q2018 results that matched our expectations and beat market consensus. Net income was reported at SAR 180 million (EPS SAR 0.49) as compared to our forecast of SAR 176 million (EPS SAR 0.48) and street's estimate of SAR 159 million. Revenues of SAR 1.34 billion was slightly lower than our forecast of SAR 1.39 billion. Margins improved Y/Y but shrank Q/Q as a result of slightly lower average selling prices and a planned shutdown in one of their plants. We reaffirm our target price at SAR 24.00 and upgrade to Buy rating.

Revenues up +26% Y/Y

Sipchem managed to register revenues of SAR 1.34 billion in 3Q2018, increasing +26% Y/Y but decreasing -9% Q/Q, which was close to our forecast of SAR 1.39 billion. Lower average selling prices coupled with a planned shutdown in their methanol plant (ongoing, began 16 September) impacted the company's sales. Methanol prices were flat on a Q/Q basis but increased +31% Y/Y while VAM prices increased +4% Q/Q and +27% Y/Y. Given the product portfolio of the company, we expect the decrease in average selling prices was caused by company discounts to counter the rapid depreciation in the Chinese Yuan that occurred during the quarter.

Gross margin recedes Q/Q

Gross profit rose +28% Y/Y but fell -14% Q/Q to settle at SAR 470 million. Gross margins marginally increased to 35% from 34% last year but fell from 37% in the preceding quarter. We believe gross margins will reach historical highs beginning in 2019 as the Company finalizes their energy efficiency and performance enhancement project for their methanol plant next month. Sipchem began a periodic scheduled turnaround for their methanol plant on 16 September that will last five weeks and which they will utilize to finalize the project.

Operating profit declines -20% Q/Q

Sipchem reported an operating profit of SAR 328 million as opposed to our estimate of SAR 351 million; rising by +29% Y/Y but declining by -20% Q/Q. Consequently, operating margins deteriorated by 300bps over the preceding quarter to settle at 25%. Operating expenses for the quarter amounted to SAR 142 million versus SAR 135 million in the previous quarter and SAR 113 million last year.

We upgrade to Buy

Net income was reported at SAR 180 million (+48% Y/Y, -15% Q/Q), in line with our estimate of SAR 176 million but surpassing market consensus of SAR 159 million. We expect methanol prices to stay firm until the end of the year, which will help soften the impact on the company's earnings from the five-week plant shutdown. Sipchem is currently trading at a 2018E P/E of 13.6x which is close to TASI's forward PE of 14.2x. We revise our rating to a buy and maintain our target price at SAR 24.00.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	4,459	4,882	5,625
EBITDA	1,720	1,925	2,071
Net Profit	437	528	547
EPS (SAR)	1.19	1.44	1.49
DPS (SAR)	0.50	0.60	0.60

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	2.7%	3.2%	3.1%
ROAE	7.7%	9.1%	9.3%
P/E	16.5x	13.6x	13.2x
P/B	1.3x	1.24x	1.22x
EV/EBITDA	7.5x	6.7x	6.3x

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

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