April 2019

Saudi International Petrochemical Co.(Sipchem)

Result Flash Note 1Q-19

SIPCHEM posted mix set of results with a net profit of SAR 114.7mn; in-line with AJC and the market consensus estimates. Despite the maintenance of two plants and weak products prices; the company delivered 6.5%Q/Q increase in sales due to improved operating efficiency and volumetric sales. Higher than expected gross margin was offset by higher than expected finance expenses, and SAR 14mn increase in other expenses for proposed merger. Going forward, we expect additional enhancement for operating rates and volumes, given high production efficiency and new methanol capacity. We reiterate our "**Overweight**" recommendation with a TP at SAR 23.50/share.

- Saudi International Petrochemical Company (SIPCHEM) posted net profit of SAR 114.7mn, as compared to SAR 40.0mn in Q4-18 and SAR 151.4mn in Q1-18. The result came in-line with AJC and market censuses profits estimates of SAR 113.1mn and SAR 117.4mn, respectively. The strong Q/Q result is primary attributed to increase in volumetric sales and gross margin after the Methanol plant energy efficiency and performance enhancement project during Q4-18. The positive deviation of Q1-19 gross profit from our estimates was offset by higher than expected finance expenses, and SAR 14mn increase in other expenses for proposed merger with SAHARA Company. Finance expense stood at SAR 84.4mn, as compared to our estimate of SAR 72.4mn and SAR 69.7mn in previous quarter.
- SIPCHEM's sales in Q1-19 stood at SAR 1,121.6mn, in-line with our estimates of SAR 1,116.4mn, above 1,052.7mn in Q4-18; supported by improved operational efficiency and capacity of IMC plant after Q4-18 maintenance for 55 days. During the quarter, average selling prices of Methanol dropped by 17.1%Q/Q and 26.0%Y/Y. Vinyl Acetate Monomer (VAM) and Acetic acid (AA) prices declined by 12.9%Q/Q and 25.8%Q/Q, respectively. LDPE average prices showed a decline of 3.3%Q/Q and 16.4%Y/Y.
- Gross profit stood at SAR 405.1mn, which came significantly above AJC estimates of SAR 358.4mn due to lower than expected production cost associated with improved IMC plant efficiency after shutdown. Gross margin expanded to 36.12% in Q1-19 against our estimate of 32.1% and 35.4% in Q1-18. We believe that the improved efficiency partially offset the impact of weak selling prices, becoming key support for gross margin going forward.
- Operating profit stood at SAR 267.4mn; where the company recorded higher OPEX at SAR 137.7mn due to increase in selling and distribution expenses, as compared to SAR 130.5mn in the previous quarter and our estimate of SAR 131.8mn in Q1-19.

AJC view: We believe that the company's top line in Q1-19 was impacted by PBT and IDC plants shutdown for 3 weeks and 41 days respectively, however; the company is expected to witness improved future performance, given high production efficiency and new methanol capacities after the IMC Plant Enhancement Project. Going forward, the company is expected to add almost 300Kt/annum of Methanol, which is expected to contribute more than SAR 300mn in FY19 revenues. Furthermore, we expect IMC plant operating rate to stabilize above 95% during FY19 due to efficiency improvement. Furthermore, Methanol prices have recovered considerably during April-19 to reach USD 300/tonne from an average price of USD 260/tonne in Jan-19 on the back of demand improvement.The additional supply is likely to further decline, given the start-up of two methanol-to olefin (MTO) plants. The company is trading at a forward PE of 13.6x based on our FY19 earnings forecasts compared to its global peer average of 13.0x. We remain '**Overweight**' on the stock with a TP to **SAR 23.50/share**.

Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**1,170.9**	**1,052.7**	**1,121.6**	-4.2%	6.5%	0.4%
Gross Profit	414.8	204.6	405.1	-2.3%	98.0%	13.0%
Gross Margin	*35.42%*	*19.43%*	*36.12%*	-	-	-
EBIT	283.6	74.0	267.4	-5.7%	261.4%	18.0%
Net Profit	151.4	40.0	114.7	-24.2%	187.5%	1.4%
EPS	0.41	0.11	0.31	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Overweight

Target Price (SAR)	**23.50**
Upside / (Downside)*	**10.5%**

Source: Tadawul *prices as of 28th of April 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	4,459	5,036	4,735
Growth %	26.9%	12.9%	-6.0%
Net Income	437.5	583.1	571.2
Growth %	915%	33.3%	-2.0%
EPS	1.19	1.59	1.56

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	32.0%	32.5%	36.6%
Net Margin	9.8%	11.6%	12.1%
P/E	14.6x	11.9x	13.6x
P/B	1.12x	1.2x	1.3x
EV/EBITDA (x)	5.33x	5.56x	5.03x
Dividend Yield	2.8%	6.0%	5.4%

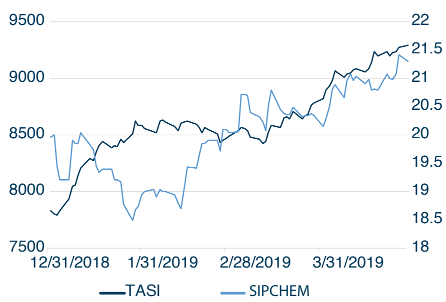
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	7.79
YTD %	**7.3%**
52 Week (High)/(Low)	23.50/18.48
Shares Outstanding (mn)	366.67

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer