

November 01, 2017

Rating **Neutral**
12- Month Target Price **SAR 16.00**

PETRO RABIGH
3Q2017 First Look

Expected Total Return

Price as on Oct-31, 2017	SAR 14.33
Upside to Target Price	11.7%
Expected Dividend Yield	0.0%
Expected Total Return	11.7%

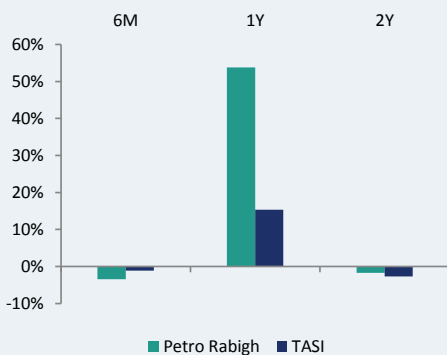
Market Data

52 Week H/L	SAR 15.10/8.90
Market Capitalization	SAR 12,553 mln
Shares Outstanding	876 mln
Free Float	21.69%
12-Month ADTV	2,875,048
Bloomberg Code	PETRO AB

1-Year Price Performance



Source: Bloomberg



Record Gross Margins

Petro Rabigh (PR) posted a positive surprise with a net income of SAR 706 million (EPS SAR 0.81), more than doubling its bottom line Q/Q and reversing a loss posted last year. PR has managed to grow its net profits on the back of gross margins exceeding 12%, a record high. At first look, refinery margins have widened considerably while petrochemical products have also fetched a higher price. At the same time, management points to better operational performance leading to higher production and volumetric sales across both segments. The stock has well rewarded our SAR 16.00 target price conviction, which we had instated in 1Q2016 and is now just 12% off. We recommend a Neutral at this point.

Revenues at multi-quarter highs

We are happy with the sequential revenue growth at PR since the beginning of this year. Top line has increased +43% Y/Y and +3% Q/Q to SAR 9.1 billion, close to our SAR 8.9 billion forecast. We expect continued rise in operational performance has benefitted the Company with volumetric growth at both the refinery and the petrochemical segment. Brent prices averaged USD 53/bbl in 3Q, up +11% Y/Y while naphtha and propane prices have increased by 12% Q/Q and +2% Q/Q respectively in the quarter. Polyethylene has also increased by +2% Q/Q.

Gross margins reach beyond 12%

Petro Rabigh has been a beneficiary of expanding refining margins this quarter. Hurricane Harvey, which battered Texas in late August, has resulted in a sharp rise in refinery margins in the US. However, gross margins at 12.1% for PR were unanticipated given the previous high of 8.7% in good times. Petrochemical margins have risen sector-wide, which would have positively impacted the Company. Resultantly, a gross profit of SAR 1.1 billion, versus SAR 25 million in 3Q2016 and SAR 635 million in 2Q2017, marks the first time that it has crossed the SAR 1 billion mark.

Operating expense grows

Operating expenses have surged to SAR 292 million and are up +24% Y/Y and +21% Q/Q and beyond our expectations. Higher variable expenses on increased volume sales may have contributed to this. Financial charges have been steadily rising this year, which we expect has persisted in 3Q as well. Operating profit has risen to SAR 810 million, double that of 2Q.

Net income touches SAR 706 mln

Net income has more than doubled Q/Q to SAR 706 million and reverses a loss of SAR (217) million last year. PR announced the scheduled shutdown of its VGO unit for 32 days beginning October 4th, which will have a financial impact in 4Q. The stock has performed in line with our expectations and is nearing our SAR 16.00 target price, which we had installed in 1Q2016, recommend Neutral. Contribution from Petro Rabigh II is an upcoming positive trigger.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	25,146	31,405	32,975
EBITDA	2,468	3,201	3,269
Net Profit	37	757	810
EPS (SAR)	0.04	0.86	0.92
DPS (SAR)	-	-	0.25

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	9.55	10.40	11.05
ROAE	0.4%	8.3%	8.4%
ROAA	0.1%	2.5%	2.7%
EV/EBITDA	11.9x	8.5x	7.5x
P/E	341.1x	16.5x	15.4x

3Q2017E (SAR mln)	RC Est.	Actuals
Revenue	8,932	9,141
Gross Profit	268	1,102
Net Income	(20)	706
EPS (SAR)	(0.02)	0.81

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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

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