

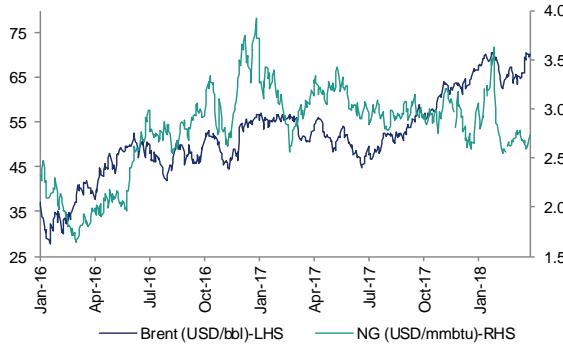
April 03, 2018

SAUDI ARABIAN PETROCHEMICALS 1Q2018 Preview

Less Pressure on Spreads

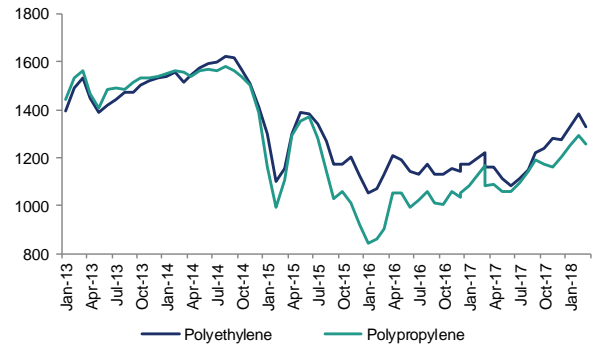
First quarter proved to be a good one for oil markets with average price of Brent rising +9% Q/Q and +23% Y/Y as continuation of the agreement between Russia and OPEC on extending cuts helped. Brent prices were seen trading between USD 63/bbl and USD 71/bbl, higher than 4Q2017. Most key feedstock prices such as ethylene and propylene mimicked this trend and experienced a rise. Unlike the previous quarter, when feedstock outpaced final products prices, most basic petrochemical prices increased more than feedstock prices on a yearly basis but almost at par Q/Q. In 1Q2018, most petrochemical prices (average) followed the oil uptrend, with PP rising by +8% Q/Q and +15% Y/Y and PE up by +8% Q/Q and +14% Y/Y. S&P global petrochemical index increased by +3% Q/Q and +30% Y/Y during 1Q2018.

Exhibit 1: Oil and Natural Gas Price Trends



Source: Bloomberg

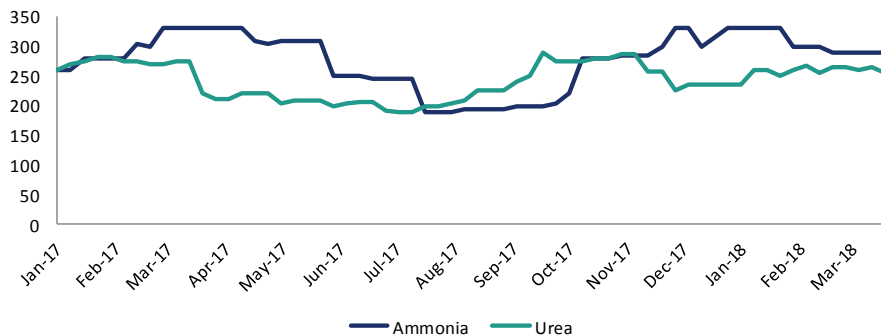
Exhibit 2: Key Polymers Price Trends (Monthly)-USD/MT



Source: Bloomberg

Most NGL's have decreased due to the decline in demand for heating oil as the winter season ends, with the natural gas index declining by -2% Q/Q and -9% Y/Y. Contract prices for key NGL's (propane and butane) set by Aramco, showed similar trends in 1Q2018 on a quarterly basis. Average prices decreased for propane from USD 580/tons to USD 480/ton (down -17% Q/Q) but increased by +33% Y/Y leaving more scope to improve PP producers' cash margins. Also, butane contract prices decreased from USD 590/tons to USD 465/ton. Ethylene prices rose up by +5% Q/Q and +27% Y/Y and propylene by +6% Q/Q and +21% Y/Y.

Exhibit 3: Ammonia and Urea Prices



Source: Bloomberg

We expect stable to rising spreads generally for petchem producers based on a greater rise in product prices. We expect polypropylene (PP) producers to see less pressure on their margins (Sahara and Advanced), and PE producers (most petrochemicals especially SABIC, Petrochem, Yansab and Kayan) to see some respite as spreads continues to improve. Polypropylene (PP) is

up by +8% Q/Q and +15% Y/Y and Polyethylene (PE) has increased, up by +8% Q/Q and +14% Y/Y. Most petrochemical prices have moved up, MEG rose by +12% Q/Q and +15% Y/Y and methanol by +12% Q/Q and +7% Y/Y. A close look at a few diversified chemicals suggest sharp rally, with VAM up by +8% Q/Q and +39% Y/Y, while Urea decreased by -3% Q/Q and -4% Y/Y while ammonia saw decent growth by +9% Q/Q and +5% Y/Y.

Higher revenue, shutdowns for SIIG and Advanced

1Q2018 forecasts for petrochemical stocks under our coverage are mentioned in Table 1. Revenues of our coverage universe are expected to increase by +14% Y/Y as major shutdowns are limited to SIIG and Advanced. We expect Sipchem to post better numbers as VAM and Methanol prices continue to increase, while Sahara to see some relief as pressure on spreads is expected to decline. Yansab would improve as PE and MEG spreads are expanding. As for SAFCO, it will see a major recovery in revenues compared to the last quarter as it completed its major shutdown. Advanced and SIIG will likely witness subdued earnings due to major shutdowns in 1Q, which will lead to falling operating rates. Earnings are expected to increase by +11% Y/Y in 1Q, which will cause net margins to rise from 15% last year to 17% in 1Q2018. SABIC earnings are expected to increase on a quarterly basis as associate income rises. We are in the process of issuing a report on SAFCO, where we will be updating our estimates and target price.

Table 1: 1Q2018 Estimates (SAR mln, except per share data)

Company	Revenue			EBIT Margins		Net Income			Net Margins		EPS	
	1Q2017	1Q2018E	Y/Y	1Q2017	1Q2018E	1Q2017	1Q2018E	Y/Y	1Q2017	1Q2018E	1Q2017	1Q2018E
Petrochem	1,685	2,061	22%	21%	26%	168	292	74%	10%	14%	0.35	0.61
SABIC	36,954	42,991	16%	23%	20%	5,234	5,619	7%	14%	13%	1.74	1.87
SAFCO	846	885	5%	47%	45%	423	415	-2%	50%	47%	1.27	1.00
SIIG	1,685	1,264	-25%	35%	24%	310	211	-32%	18%	17%	0.69	0.47
Sahara*	NM	NM	NM	NM	NM	96	116	21%	NM	NM	0.22	0.26
Yansab	1,758	2,232	27%	35%	36%	608	783	29%	35%	35%	1.08	1.39
Sipchem	1,199	1,246	4%	19%	21%	92	172	87%	8%	14%	0.25	0.47
Advanced	526	549	4%	22%	23%	124	133	7%	24%	24%	0.76	0.81
Saudi Kayan	2,667	2,827	6%	21%	24%	265	416	57%	10%	15%	0.18	0.28
Group Total	47,320	54,055	14%	24%	22%	7,320	8,157	11%	15%	17%		

Source: Riyadh Capital, Company Reports

Valuations are become richer

Our coverage universe trades at a median 2018E P/E of 16.3x, higher than TASI's P/E of 14.4x. We are downgrading Yansab, Sipchem, Advanced and Saudi Kayan to a Neutral as they have reached their target price. We revised our target for SIIG to SAR 25.00 from SAR 21.00 and upgrade to a Buy. Petrochem target price is also revised to SAR 23.00 from SAR 21.00 but we continue with a Neutral rating.

Table 2: Ratings and Valuations

Company	TASI Code	CMP (SAR)	Mcap (SAR Mln)	12M TP (SAR)	Rating	Dividend Yield	P / E		P/B	
							2017	2018E	2017	2018E
Petrochem	2002	24.76	11,885	23.00	Neutral	-	13.5x	10.1x	1.2x	1.2x
SABIC	2010	115.60	346,800	98.00	Neutral	4.8%	18.9x	16.4x	1.6x	1.6x
SAFCO	2020	68.00	22,667	65.00	Neutral	2.9%	32.2x	20.6x	3.3x	3.3x
SIIG	2250	21.70	9,765	25.00	Buy	4.6%	120.6x	9.7x	0.7x	0.7x
Sahara	2260	17.56	7,705	16.00	Neutral	5.7%	17.4x	16.1x	1.2x	1.2x
Yansab	2290	72.00	40,500	71.00	Neutral	5.6%	17.1x	21.6x	2.4x	2.4x
Sipchem	2310	21.34	7,825	21.00	Neutral	3.5%	17.9x	18.7x	1.3x	1.3x
Advanced	2330	49.20	8,069	48.00	Neutral	5.7%	12.2x	9.3x	3.1x	3.1x
Saudi Kayan	2350	13.58	20,370	13.00	Neutral	-	30.2x	NA	1.5x	1.4x
Group Average							17.9x	16.3x	1.5x	1.4x

Source: Riyadh Capital

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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