



SIPCHEM posted a strong set of results with a net profit of SAR 317.7mn; beating AJC and the market consensus estimates of SAR 92.0mn and SAR 117.8mn, respectively. Non-operating income contributed towards the deviation from estimates, as normalized earnings are expected to stand in the range of SAR170-180mn. Gross margin expanded to the highest level in six quarters at 33.7% vs. 16.2% in Q3-20. Methanol prices have increased considerably to reach USD 310/tonne, as the US market continues to face a significantly tighter supply due to storm that shut most of the chemical production in Texas. However, we expect Methanol prices to stabilize in the near term. We maintain **"Neutral"** recommendation on the stock with a revised TP of **SAR 19.70/share**.

- Sahara International Petrochemical Co. (SIPCHEM) posted net profit of SAR 317.7mn; above our estimate of SAR 92.0mn and the market consensus estimates of SAR 117.8mn. The overall strong result is primary attributed to i) an increase in volumetric sales for most of the products, along with the pick-up in demand and economic recovery ii) improved averaged selling prices for most of the products. However, the major deviation from our estimates is mainly ascribed to non-operating effect following our expectation of a minority interest adjustment and higher-than-expected other income.
- SIPCHEM's reported strong revenue for Q4-20 at SAR 1,606.7mn, in-line with our estimates of SAR 1,590mn, supported by improved product prices and a robust increase in demand. AlWaha's contribution to SIPCHEM's top line in Q4-20 is estimated at SAR 389mn, with a utilization rate of 118%, above 115% recorded in Q4-19. The contribution from joint venture and associates (TSOC, SAMAPCO, SAAC) stood at SAR 51.2mn, as compared to recorded losses of SAR -23.0mn during Q3-20.
- During the quarter, average selling prices of Methanol improved by 35.6%Q/Q and 9.0%Y/Y. Vinyl Acetate Monomer (VAM) and Acetic acid (AA) prices increased by 22.1%Q/Q and 32.8%Q/Q, respectively. PP and LDPE average prices jump 12.4%Q/Q and 22.5%Q/Q, respectively.
- Gross profit stood at SAR 540.9mn, which came above AJC estimates of SAR 472.2mn due to higher than expected gross margin, along with relatively lower average cost of methane feedstock prices. Gross margin expanded to 33.7% in Q4-20 against our estimate of 29.7% and 16.2% in Q3-20. Propane feedstock average prices increased by 15.1%Q/Q to USD 418/MT, resulting in Propane-PP spreads increase of 3.0%Q/Q, and a decline of 9.3%Y/Y.
- Operating profit stood at SAR 299.0mn; where the company recorded 15.1% total OPEX to sales (stood at SAR 241.9mn), as compared to our estimate of 14.6% and 14.9% in the previous quarter due to higher expenses associated with the year end strong sales.

**AJC view:** We believe that the company's performance in Q4-20 was partially supported by improved methanol prices and high sales contribution from methanol downstream plants due to global pick-up in demand. Methanol prices have increased considerably in Q1-21 to reach USD 310/tonne from its bottom price of USD 150/tonne in 2Q-20. The uncertainty and difficulty in passing on the record high global feedstock costs further downstream coupled with the buyers' plans to cut production further kept the tight supply sentiment. In the US, the market continues to face a significantly tighter supply picture following the winter storm that shut most of the chemical production in Texas in late February. We expect methanol prices to stabilize in the near term, as capacity additions and improved utilization rate in the US would boost global supply. Sipchem's sales volumes are expected to continue its recovery with the pick-up in the global economic activities as coronavirus vaccines continue to be rolled out across the globe. The contribution from joint venture and associates is expected to stand at SAR 246.2mn in FY21 from a loss of SAR 33.8mn during FY20. Sipchem Co. is expected to post a net profit of SAR 811.4mn for FY21, as compared to a net profit of SAR 175.9mn in FY20. The company is trading at a forward PE of 18.9x based on our FY21 earnings forecasts. We are **'Neutral'** on the stock with a TP of **SAR 19.7/share**.

## Results Summary

SARmn	Q4-FY19	Q3-FY20	Q4-FY20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
<b>Revenue</b>	<b>1,506.7</b>	<b>1,361.9</b>	<b>1,606.7</b>	6.6%	18.0%	1.0%
Gross Profit	380.0	220.3	540.9	42.3%	145.5%	7.1%
Gross Margin	25.2%	16.2%	33.7%	-	-	-
EBIT	141.4	17.7	299.0	111.4%	15.9x	25.0%
Net Profit	(137.1)	10.0	317.7	NM	30.8x	2.45x
EPS	(0.21)	0.01	0.43	-	-	-

Source: Company Reports, Aljazira Capital

## Neutral

Target Price (SAR) 19.70

Upside / (Downside)\* -6.6%

Source: Tadawul \*prices as of 16<sup>th</sup> of March 2021

## Key Financials

SARmn (unless specified)	FY18	FY19	FY20	FY21E
Revenue	5,036	5,440	5,323	7,558
Growth %	12.9%	8.0%	-2.1%	42.0%
Net Income	583.1	299.5	176.0	811.4
Growth %	33.3%	48.6%	-41.2%	361.4%
EPS	1.59	0.41	0.24	1.11

Source: Company reports, Aljazira Capital

## Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	32.5%	30.1%	21.6%	32.7%
Net Margin	11.6%	5.5%	3.3%	10.7%
P/E (x)	11.9	43.82	61.16	18.98
P/B (x)	1.2	0.98	0.83	1.12
EV/EBITDA (x)	5.56	7.74	10.82	7.76
Dividend Yield	6.0%	3.4%	2.9%	3.6%

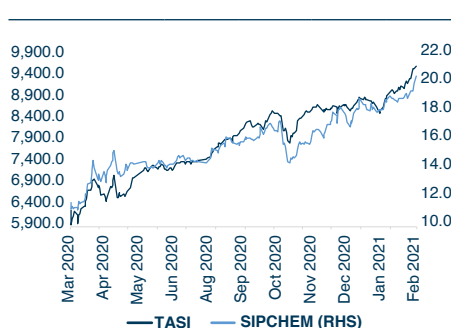
Source: Company reports, Aljazira Capital

## Key Market Data

Market Cap (bn)	15.23
YTD %	21.5%
52 Week (High)/(Low)	21.20/11.04
Shares Outstanding (mn)	733.33

Source: Company reports, Aljazira Capital

## Price Performance



Source: Tadawul, Aljazira Capital

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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.

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