August 2023

Saudi Basic Industries Corp (SABIC).

Results Flash Note Q2-23

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Gross margin contraction and lower associate income impacted profitability

SABIC posted a net income of SAR 1.18bn, 13.9% lower than our estimate of SAR 1.37bn and compared to market estimates of SAR 1.16bn. The deviation from our expectation was mainly due to lower gross margin and decrease in associate income. The Q/Q jump in net income is due to a one-off re-measurement gain of SAR 630mn in option rights related to joint venture agreements which positively reflects on the Q2-23 financials. Excluding the one-off gain, we believe net income came-in at SAR 550mn, down 16.7% Q/Q. Revenue came-in at SAR 37.17bn and was broadly in-line with our estimate of SAR 36.27bn. However, this was a decline of 6.3% Q/Q and 44.5% Y/Y. Gross margin came-in at 14.4% vs our estimate of 17.3% and in-line with Q1-23 of 14.3%. We remain "Overweight" on the stock with a TP of SAR 100.0/share.

- SABIC's net income increased 78.8% Q/Q but decreased 85.1% Y/Y to SAR 1.18bn in Q2-23, compared to our, and market estimates, of SAR 1.37bn and SAR 1.16bn respectively. The variance from our estimate was due to a gross margin contraction and lower associate income. The Q/Q jump in net income was due to a one-off gain related to option valuation on assets around SAR 630mn which positively impacted Q2-23 financials. Excluding the one-off gain, we believe the net income came-in at SAR 550mn, down 16.7% Q/Q.
- SABIC reported a 6.3% Q/Q decline in revenue at SAR 37.17bn, mainly due to a decline in Petrochemicals and Hadeed revenues. Agri-Nutrients' revenue increased 3% Q/Q driven by higher sales volume which increased 38% Q/Q while average sales prices declined 35% Q/Q. Petrochemicals & Specialties revenue declined 7% Q/Q due to lower sales volume (-4% Q/Q) and average sales price during the quarter. During the quarter, the average selling prices of MTBE increased 2.5% Q/Q. MEG-SABIC rose 3.2% Q/Q and Ethylene declined 3.6% Q/Q. Methanol prices fell 16.6% Q/Q, while PP and PC's average prices declined by 7.4% Q/Q and 7.5% Q/Q, respectively. Hadeed's revenues declined 6% Q/Q to SAR 3.07bn, due to lower sales volumes (-6% Q/Q) led by complex turnarounds.
- Gross profit stood at SAR 5.37bn, 14.4% below our estimate of SAR 6.28bn due to lower margins which offset the broadly in-line revenues (+2.5%). Gross margin came-in at 14.4%, in-line with the 14.3% recorded in the previous quarter and below our estimate of 17.3%. We believe the deviation is due to higher cost of sales and lower average selling prices despite lower average feedstock cost. The cost for variable feedstock with propane and butane prices declined 25.7% Q/Q and 27.9% Q/Q in Q2-23. Propane-HDPE and Propane-PP spreads expanded by 25.0% Q/Q and 18.8% Q/Q, respectively.
- Operating profit stood at SAR 1.43bn (-15.4% Q/Q); 30.4% lower than our estimate of SAR 2.05bn. This may be due to weaker than expected gross profit and lower associate income. OPEX to sales stood at 10.6% in Q2-23, as against our estimate of 11.6%, and the 10.1% recorded during the previous quarter.

AJC view and valuation: SABIC's Q2-23 earnings were weighed down by gross margin contraction and lower associate income. The recent decline in product prices is likely to impact on SABIC's revenue and margins due to its exposure to almost 50% fixed feedstock. The IMF has slightly improved its global GDP forecast for FY23E to a 3.0% growth from 2.8% projected earlier due to reduced inflation. Moreover, better-than-expected manufacturing PMI numbers from China during July indicate a slight rebound in business activity. Prices have shown some improvement over the past few weeks with MTBE, Ethylene, Methanol, PP and PC improving around +1% to 11% M/M in July. Amid this, SABIC's diverse portfolio and geographic exposure is expected to support the company. Additionally, the company will continue to benefit from synergies realized with Saudi Aramco at SAR 5.65bn as of June 2023. The company has achieved its minimum target of synergies with Saudi Aramco two years before time. The company is expected to continues its stable dividends despite current market challenges with a dividend yield of 4.4% in FY23E (DPS 3.8/share). We remain "**Overweight**" on SABIC with a TP of **SAR 100.0/share**.

Results Summary

SARmn	Q2-22	Q1-23	Q2-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	55,980	39,690	37,170	-33.6%	-6.3%	2.5%
Gross Profit	15,090	5,680	5,370	-64.4%	-5.5%	-14.4%
Gross Margin	*27.0 %*	*14.3%*	*14.4%*	-	-	-
EBIT	10,250	1,690	1,430	-86.0%	-15.4%	-30.4%
Net Profit	7,930	660	**1,180**	-85.1%	78.8%	-13.9%
EPS	2.64	0.22	0.39	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	**Overweight**
Target Price (SAR)	100.0
Upside / (Downside)*	17.6%

Source: Tadawul *prices as of 03rd August 2023

Key Financials

SARmn (unless specified)	FY20	FY21	FY22	FY23E
Revenue	116,949	174,883	198,467	159,090
Growth %	-13.6%	49.5%	13.5%	-19.9%
Net Income	67	23,066	16,530	6,032
Growth %	NM	NM	-28.3%	-63.5%
EPS	0.02	7.69	5.51	2.01

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22	FY23E
Gross Margin	19.6%	29.2%	21.5%	17.0%
Net Margin	0.1%	13.2%	8.3%	3.8%
P/E (x)	HIGH	16.2	18.7	42.2
P/B (x)	1.8	2.1	1.7	1.4
EV/EBITDA (x)	14.9	8.1	7.9	10.7
Dividend Yield	3.7%	2.6%	4.4%	4.4%

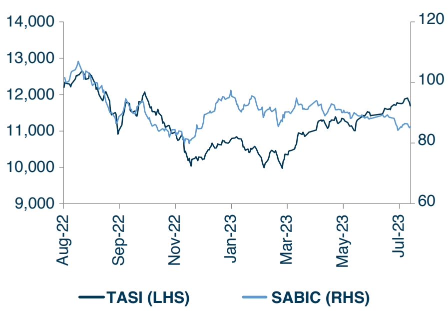
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	255.0
YTD %	-4.5
52 Week (High)/(Low)	107.4 / 79.2
Shares Outstanding (mn)	3,000.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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