

PETROCHEM

NEUTRAL

CURRENT PRICE SAR27.4

UPSIDE +12.6%

TARGET PRICE SAR30.8

EVENT FLASH

Operating rates and lower zakat support earnings

Petrochem reported a better than expected set of Q3 18 results with a net income of SAR307mn, increasing 55.8% yoy and 6.6% qoq. This is higher than the NCBC and consensus estimates of SAR267mn and SAR244mn, respectively. We believe the better than expected results are driven by higher operating rates and lower Zakat. We expect that operating rates reached 116% vs our estimates of 109%.

- Revenues came-in at SAR2.30bn, growing 30.9% YoY (+2.6% QoQ) and coming 5.9% higher than our estimates. This is the highest level since inception. Based on our calculations, we believe the facilities operated at 116%, higher than our estimates and Q2 18 of 109% and compared to Q3 17 levels of 97%. We believe Petrochem's ability to increase efficiency and thereby sustain high operating rates over the last four quarters is a key highlight of the results.
- Gross margins stood at 32.0%, coming in-line with our estimates. This is compared to Q3 17 of 31.5% and Q2 18 of 33.0%. The decline in margins is mainly due to lower PP-naphtha spread which declined 4.6% yoy and 3.4% QoQ.
- Operating income stood at SR569mn, 8.7% higher than our estimates. We believe the higher variance on the EBIT line is due to opex efficiencies, with opex-to-sales standing at 7.3% in Q3 18 vs 8.4% in Q3 17 and our estimates at 7.7%.
- The deviation increased at the net income level to 14.8%, mainly driven by lower than expected zakat expense. We believe zakat expense came-in at SAR58mn, significantly lower than our estimates of SAR65mn.
- In Q3 18, PP prices remained flat qoq (+16.1% yoy) to US\$1,240, while HDPE prices declined 3.8% qoq (+15.8% yoy) to US\$1,302. PS prices declined 2.4% qoq (+11.4% yoy) to US\$1,501. PP-naphtha spread declined 3.4% qoq and 4.6% yoy to US\$573.
- We are Neutral on Petrochem, with a PT of SAR30.8. We believe the sustainable improvement in operating rates and higher dividends (SAR0.75 in 2018f vs SAR0.5 in 2017) are the key catalysts for the stock. Petrochem trades at a 2019f PE of 13.1x, higher than the peer group average of 12.3x.

Q3 18 Results Summary

SARmn	Q3 18	Q3 17	% yoy	Q3 18f	%var^	% qoq
Revenues	2,297	1,755	30.9	2,169	5.9	2.6
Gross income	736	552	33.3	690	6.6	(0.4)
Gross margin (%)	32.0%	31.5%	0.59	31.8%	0.22	(0.97)
EBIT	569	404	40.8	523	8.7	(0.7)
EBIT Margin (%)	24.8%	23.0%	1.76	24.1%	0.65	(0.81)
Net income	307	197	55.8	267	14.8	6.6
Net margin (%)	13.4%	11.2%	2.14	12.3%	1.04	0.50
EPS (SAR)	0.64	0.41	55.8	0.56	14.8	6.6

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts



STOCK DETAILS

M52-week range H/L (SAR)	31/16
Market cap (\$mn)	3,501
Shares outstanding (mn)	480
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	(0.4)	(6.7)	53.7
Rel. to market	0.9	0.1	40.7

Avg daily turnover (mn)	SAR	US\$
3m	8.7	2.3
12m	9.2	2.5

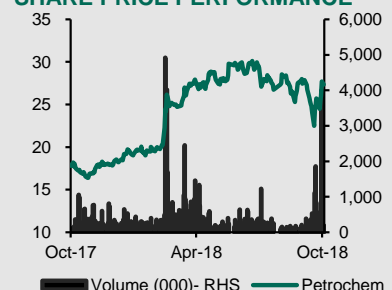
Reuters code	2002.SE
Bloomberg code	PETROCH AB
	www.petrochem.com.sa

VALUATION MULTIPLES

	17a	18f	19f
PE (x)	14.8	11.4	13.1
PB (x)	1.9	1.7	1.6
EV/EBITDA (x)	8.7	7.4	8.3
Div Yield (%)	1.8	2.7	2.7

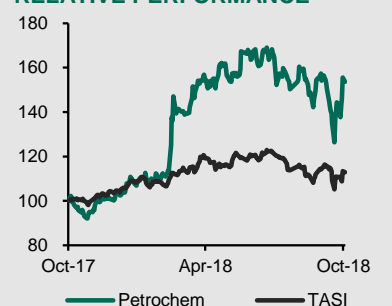
Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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