

March 11, 2018

Rating
12- Month Target Price

Neutral
SAR 21.00

Expected Total Return

Price as on Mar-08, 2018	SAR 20.29
Upside to Target Price	3.5%
Expected Dividend Yield	4.9%
Expected Total Return	8.4%

Market Data

52 Week H/L	SAR 22.7/18.2
Market Capitalization	SAR 9,130 mln
Shares Outstanding	450.0 mln
Free Float	82.9%
12-Month ADTV (000's)	556.6
Bloomberg Code	SIIG AB

1-Year Price Performance



Source: Bloomberg

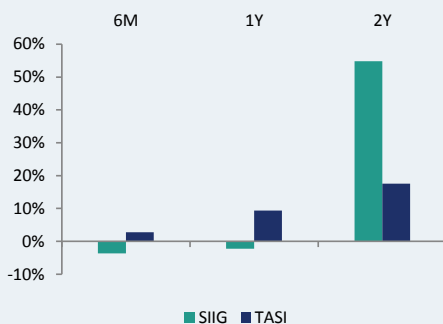


Fig in SAR mln	RC. Est	Actuals
Revenue	1,792	3,850
EBIT	352	975
Net Income	210	398
EPS (SAR)	0.47	0.88

SAUDI INDUSTRIAL INVESTMENT GROUP (SIIG)

4Q2017 First Look

Earnings Massively Outperform

Saudi Industrial Investment Group (SIIG) reported earnings beat in 4Q with EPS increasing by +76% Q/Q and more than 20x what it reported in 4Q2016. Net profit reached SAR 398 million, beyond our estimates and consensus at SAR 210 million and SAR 226 million respectively. Revenue came in at an unexpectedly high level of SAR 3.85 billion, increasing by +231% Y/Y and more than double Q/Q. However, gross margins shrunk on a quarterly basis due to a significant jump in COGS. For the year, net profit crossed SAR 1 billion (EPS SAR 2.23), versus SAR 83 million in 2016. SIIG's valuations look attractive with 2018E P/E of 8.7x, cheaper than TASI's 13.7x and Petrochem's 10.9x. However, we expect SIIG's 1Q2018 earnings to be impacted as it is scheduled to have major shutdowns in SCP for 33 days and JCP for 51 days. For the time being, we maintain our Neutral recommendation and target price of SAR 21.00.

Highlights in 4Q

Factors driving the deviation of earnings versus expectations are i) Petrochem also reported an earnings beat in 4Q, posting SAR 391 million versus average consensus expectations of SAR 197 million, increasing by +99% Q/Q and +408% Y/Y, which led to increase in SIIG's share for the year to SAR 444 million ii) Increase in SIIG's share from both SCP and JCP as they performed well both during the quarter and the year on better selling prices iii) SIIG selling its share in Petrochemical Conversion Company (PCC) for SAR 31 million.

Revenue boost

SIIG registered impressive revenues of SAR 3.85 billion increasing by +231% Y/Y and more than double Q/Q and far beyond any forecasts. We see this significant increase in revenue to be material when few changes are reported in operating rates or movement in inventory. In addition, rise in product prices are also mostly in single digits (e.g. polystyrene rising by +2% Q/Q). There may be a change in reporting method or recognition method; we await details.

Margins shrink on propane rally

Gross profit increased by +43% Q/Q to reach SAR 789 million in 4Q. On a quarterly basis, gross profit didn't see the same jump as revenues due to the rise in cost of goods sold from SAR 1.2 billion last quarter to SAR 3.1 billion this quarter. We attribute the rise in COGS to growing feedstock prices during the quarter, causing gross margins to decline from 13% last quarter to 10% in 4Q. Propane jumped by +36% Q/Q and +50% Y/Y and ethylene trended up by +1% Q/Q and +29% Y/Y. Net profit of SAR 398 million increased significantly by +76% Q/Q and a multiple of that reported in 4Q2016.

Maintain Neutral

We are cautiously optimistic on the Company despite robust earnings in 2017 and on the outperformance of its associates (SCP and JCP) and its subsidiary Petrochem. We intend to revisit estimates after the full financials are available. For the time being, we maintain our Neutral recommendation and target price of SAR 21.00.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	6,065	9,045	7,750
EBITDA	1,826	3,152	3,176
Net Profit	499	1,004	1,044
EPS (SAR)	1.11	2.23	2.32
DPS (SAR)	0.50	0.50	1.00
BVPS (SAR)	29.99	30.94	31.94

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	6%	5%	6%
ROAE	4%	6%	6%
P/E	18.8x	9.1x	8.7x
P/B	0.7x	0.7x	0.6x
EV/EBITDA	13.8x	7.3x	7.2x
EV/Sales	4.1x	2.6x	3.0x

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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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