

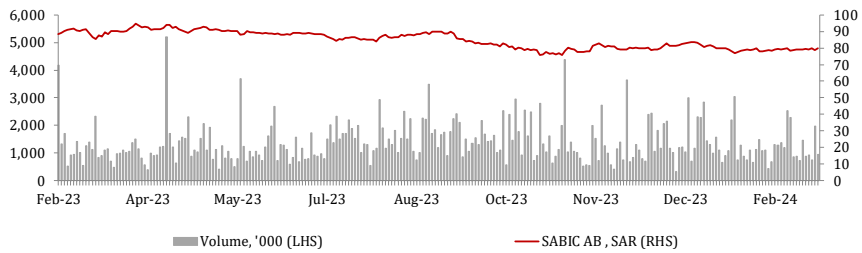
## Saudi Basic Industries Corp. (SABIC) - 4Q23 Results Review

Analyst: Neetika Gupta

**Previous Recommendation:** Hold **Target Price (SAR):** 91.20  
**Previous Reco. & Date:** TP: SAR 91.2 per share; Hold on 06-July-2023 **Upside / (Downside):** 14.1%

**Date:** 28-02-2024

Bloomberg Ticker	SABIC AB
Current Market Price (SAR)	79.9
52wk High / Low (SAR)	95/75.3
12m Average Vol. (000)	1,435.4
Mkt. Cap. (USD/SAR mn)	64,719/239,700
Shares Outstanding (mn)	3,000.0
Free Float (%)	30%
3m Avg Daily Turnover (000)	1,07,555.9
6m Avg Daily Turnover (000)	1,16,889.4
P/E'24e (x)	26.8x
EV/EBITDA'24e (x)	9.3x
Dividend Yield '24e (%)	2.8%
Price Perf. (1m/3m) (%)	0.9%/1.1%



### Revenue declines 3% QoQ in 4Q23, in-line with U-Capital estimates

In 4Q23, SABIC reported revenue of SAR 35.03bn (-11% YoY and -3% QoQ) aligning with Bloomberg consensus of SAR 34.6bn and the U-Capital estimate of SAR 35.7bn. SABIC has reclassified certain prior period figures to align with the current period presentation. Hadeed's earnings are disclosed separately as results from discontinued operations in the annual consolidated financial statements, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". For FY23, revenue amounted to SAR 141.54bn, indicating a significant 23% YoY decline. This notable decrease is primarily attributed to reduced average selling prices and quantities sold, which were affected by sluggish global demand for petrochemicals during the reporting period, along with increased global supply capacities.

### Operating profit decline substantially in 4Q23

In 4Q23, SABIC experienced an operating loss of SAR 1.36bn (-367% YoY and -181% QoQ), significantly below both the Bloomberg consensus operating profit of SAR 3.1bn and the U-Capital estimated operating profit of SAR 2.23bn. This substantial decline in 4Q23 was attributed to several factors: decrease in profit margins for major products, reduction in earnings from integral joint ventures and associated companies, and a non-recurring item totalling SAR 3.47bn. This non-recurring item stemmed from impairment charges and write-offs of certain capital and financial assets, as well as provisions for the restructuring program in Europe and constructive obligations. For FY23, operating income stood at SAR 3.72bn, marking an 84% decline compared to the previous year due to a lower topline resulting from reduced average selling prices and quantities sold along with a lower contribution from integral joint ventures and associates and write-off in 4Q23.

### Net Profit decrease significantly for 4Q23 – below Bloomberg consensus and U-Capital estimate

The net loss for 4Q23 amounted to SAR 1.7bn (-697% YoY) compared to a loss of SAR 2.87 billion in 3Q23. This figure fell short of both the Bloomberg consensus net profit of SAR 0.6bn and the U-Capital estimate net profit of SAR 1.15bn. The significant deviation from our estimate was due to lower-than-expected operating margins (-4% vs expected 6%) and higher-than-anticipated losses from the entire stake sale in the Saudi Iron and Steel Company (Hadeed). For FY23, SABIC incurred a net loss of SAR 2.7bn, contrasting with a profit of SAR 16.5bn in FY22. This decrease can be attributed to a decline in profit margins for major products, driven by lower average selling prices, a reduced share of results from joint ventures and associates, and a non-recurring item along with losses from the stake sale of Hadeed. Net income from continuing operations for FY23 amounted to SAR 1.3 billion, reflecting a 92% decline compared to FY22.

### Maintain target price

We anticipate that the petrochemical industry will continue to face challenges until the first half of 2024 amid global economic concerns, including the potential for a recession, prolonged periods of higher interest rates, slow recovery in China, and ongoing conflicts in West Asia and the Red Sea region. Despite these ongoing challenges, SABIC continues its investment phase with significant investments in China (a mega petrochemical complex), the launch of commercial production of PC at SSTPC, the awarding of EPC for the largest on-purpose single train MTBE plant, and the expansion of its specialty's footprint in Asia. Additionally, SABIC aims to optimize its portfolio and focus on its core business of chemicals, thus divesting the Saudi Iron & Steel Company (Hadeed) from its portfolio in 2023. Considering the major investments to boost production and revenues, along with expected stability post the first half of 2024, SABIC is well-positioned to witness long-term growth. However, despite these investments and the expectation of stability post the first half of 2024, we maintain our **Hold** rating on the stock amid the current challenges faced by the group.

### Valuation

SABIC is trading at 2024e P/E of 26.8x compared to the historical average 1-year forward P/E of 38.8x. Additionally, the stock is valued at EV/EBITDA multiple of 9.3x, based on the FY24 estimate, compared to the historical average of 10.2x.

Income Statement												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales/Revenue	38,883	39,693	37,167	35,975	35,030	35,711	-11%	-3%	-2%	1,83,080	1,41,540	-23%
Operating Profit (Loss)	510	1,688	1,433	1,681	(1,360)	2,231	-367%	-181%	-161%	22,910	3,720	-84%
Net Profit/(Loss)	290	657	1,178	(2,876)	(1,730)	1,154	-697%	NM	-250%	16,530	(2,770)	-117%
Net Income from continuing operations	350	657	1,178	536	(1,480)	1,154	-523%	-376%	-228%	15,790	1,300	-92%
Balance Sheet												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholders' Equity	1,86,050	1,86,981	1,76,781	1,73,901	1,67,430	1,88,642	-10%	-4%	-11%	1,86,046	1,67,430	-10%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Operating Profit Margin	1%	4%	4%	5%	-4%	6%				13%	3%	
Net Profit Margin	1%	2%	3%	-8%	-5%	3%				9%	-2%	
Net Income from continuing operations		2%	3%	1%	-4%	3%				9%	1%	
Return on Equity (RoE)	1%	1%	3%	-7%	-4%	2%				9%	-2%	

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


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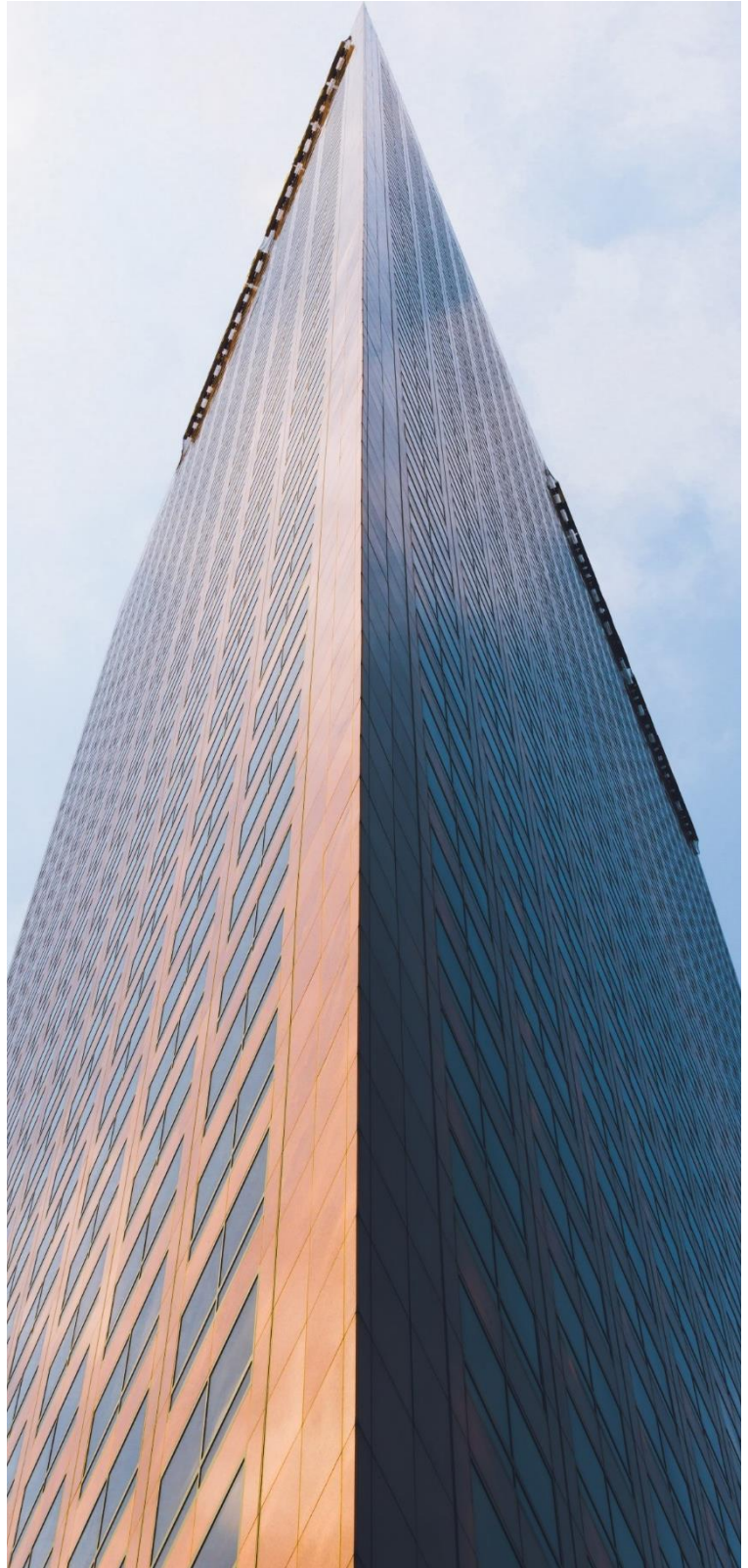
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## Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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