

3Q20 Results Update

December 29, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	96.4
Target Price (SAR)	90.0
Upside/Downside (%)	(6.6%)

As of November 19, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	289.2
52-Wk High (SAR)	100.0
52-Wk Low (SAR)	61.9
Total Outstanding shares (in bn)	3.0
Free Float (%)	29.9%

SABIC vs. TASI (Rebased)

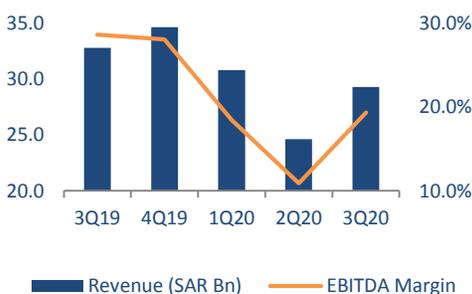


Price Performance (%)	Absolute	Relative
1m	(0.6%)	(1.0%)
6m	17.6%	(4.2%)
12m	2.3%	(4.3%)

Major Shareholders (%)

Aramco Chemical	70.0%
-----------------	-------

Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 19, 2020

SABIC swings to profit in 3Q20 on the back of reversal of an impairment provision

Saudi Basic Industries Corp. (SABIC) recorded a net profit of SAR 1.1bn in 3Q20 compared with a net profit of SAR 0.7bn in 3Q19. Revenue for the quarter declined 10.7% YoY to SAR 29.3bn due to lower average selling prices of petrochemical products compared with those in 3Q19. The company reported a 44.5% YoY decline in operating profit to SAR 2.1bn, as a drop in income contribution from integral joint ventures offset the drop in SG&A expenses. However, a reduction in financial costs, zakat charges, and minority interest expenses supported the bottom line. Consequently, net profit margin improved to 3.7% compared with the 2.2% achieved in 3Q19 and (9.0%) in 2Q20.

SABIC recorded a 10.7% YoY and 18.9% YoY decline in its 2Q20 and 9M20 top line, respectively. The decline in top line came amid lower revenue across all three segments, primarily in its Petrochemicals and Specialties segment (down 11.4% YoY and 19.3% YoY during 3Q20 and 9M20, respectively). However, SABIC recorded a turnaround in the bottom line during 3Q20, after reporting two successive quarters of net losses. The improvement in bottom line was driven by higher average petrochemical prices during the quarter as against 2Q20. Furthermore, the EIA forecasts demand for oil and petrochemicals may have bottomed out and is likely to improve gradually in 2021. The company remains strong fundamentally, with a debt-to-equity ratio of 0.25x in 3Q20 and stable cash flows. However, slow demand recovery amid signs of a second wave of COVID-19 cases, unexpected plant shutdowns, and possibilities of additional lockdown announcements remain key headwinds for SABIC. In view of the countervailing factors mentioned, we maintain a "Neutral" rating on the stock.

- Revenue fell 10.7% YoY to SAR 29.3bn in 3Q20 due to lower average selling prices amid an increase in sales volumes. However, revenue rose 19.0% QoQ from SAR 24.6bn in 2Q20 due to higher average selling prices and volumes versus the previous quarter.
- Gross profit declined 18.3% YoY to SAR 6.5bn as the drop in revenue offset the 8.3% YoY fall in cost of sales to SAR 22.8bn. Thus, gross profit margin narrowed to 22.3% in 3Q20 against 24.3% in 3Q19.
- The reduced share from integral joint ventures counterbalanced the marginal dip in SG&A expenses, resulting in a 44.5% YoY decline in operating profit to SAR 2.1bn in 3Q20. Subsequently, operating margin shrank to 7.2% in 3Q20 compared with 11.5% in 3Q19.
- Reduction in financial costs, coupled with lower zakat charges and minority interest charges, led the company to report a 47.7% YoY rise in net income (attributable to equity holders) to SAR 1.1bn. The increase in net profit was partly supported by a reversal of impairment provisions worth SAR 0.7bn in 3Q20. Net profit margin expanded to 3.7% in 3Q20 against 2.2% in 3Q19.
- The company reported an EPS of SAR 0.36 per share in 3Q20, which is higher than the SAR 0.25 per share recorded in 3Q19 and SAR (0.74) per share in 2Q20.
- On October 18, SABIC announced plans to re-scope its Crude Oil to Chemicals project with Saudi Aramco and integrate recent development programs of advancing crude to chemicals technologies with its existing facilities.

Valuation: We reiterate our "Neutral" rating on the stock with a revised target value of SAR 90.0 per share.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	29.3	32.8	(10.7%)	114.5	139.7	(18.0%)
Gross Profit (SAR bn)	6.5	8.0	(18.3%)	22.4	35.5	(36.8%)
Operating Profit (SAR bn)	2.1	3.8	(44.5%)	3.3	14.8	(77.9%)
Net Profit (SAR bn)	1.1	0.7	47.7%	0.1	5.6	(98.7%)
EPS (SAR)	0.36	0.25	47.7%	0.02	1.85	(98.7%)
Gross Margin (%)	22.3%	24.3%	(2.1%)	19.6%	25.4%	(5.8%)
Operating Margin (%)	7.2%	11.5%	(4.4%)	2.9%	10.6%	(7.8%)
Net Profit Margin (%)	3.7%	2.2%	1.5%	0.1%	4.0%	(3.9%)

Source: Company Financials, FALCOM Research

3Q20 Results Update

December 29, 2020

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.