

KSA PETROCHEMICAL SECTOR



POSITIVE OUTLOOK ON STRONG OIL PRICES

We maintain our positive outlook on the Saudi Petrochemical sector driven by strong oil prices, China environmental regulations and expanding spreads. Prices are estimated to grow by an average of 16% YoY and spreads to expand 9.8% YoY in 2018E, leading the sector to report a growth of 25.7% YoY. We upgrade Advanced to OW (PT: SR58.9) and downgrade Sipchem to Neutral (PT:SR27.1). We remain OW on SIIG and Yansab, while other ratings remain unchanged.

This is an extract of our published report, the full version of which can be found on the alahlicapital.com website.

- **Positive outlook on oil price improvement:** We remain positive on the sector mainly due to higher oil prices which increased 22.5% YTD, reaching its highest level since 2014 at US\$75. Therefore, petrochemicals product prices are expected to increase 4-28% YoY in 2018E. Further increase in oil prices is expected to support the sector. We expect the petrochemical's sector net income to increase 25.7% YoY in 2018E to SR33.3bn, driven by strong growth in Kayan, Yansab and SAFCO.
- **Higher spreads in 2018E, normalization to start in 2019E:** In 1Q18, the PP-naphtha spread increased 15.8% YoY to US\$638. This compares to the 8-year average of US\$571. However, we expect spreads to gradually normalize, starting from 2019E. In 2018E, we expect PP-propane and PP-naphtha spreads to expand 9.8% YoY and 13.4% YoY to US\$656 and US\$645, respectively.
- **China pollution and potential trade dispute to support prices:** China is tightening its regulations to reduce pollution. This has impacted inefficient facilities mainly in the coal, fertilizers and TiO₂ sectors and reduced the usage of recycled plastics. Moreover, China will impose a 25% tariff on 44 chemicals imported from the US. Consequently, demand for imported petrochemical products increased and pushed prices higher. These factors are expected to continue supporting prices going forward.
- **Upgrade Advanced to OW and downgrading Sipchem to Neutral:** We upgrade Advanced to Overweight (PT:SR58.9) supported by higher operating efficiency following to the shutdown in 1Q18, expanding spreads and sustainable dividend policy. We downgrade Sipchem to Neutral (PT:SR27.5) as we believe the current valuation (2018E P/E:14.3x) reflects all the positives. We remain Overweight on Yansab and SIIG while maintaining the other ratings unchanged.

Valuation summary

	Rating	PT (SR)	Current price	Upside/Downside (%)	Mcap (\$mn)	Implied P/E (x) 2018	P/E (x) 2018E	P/E (x) 2019E	Stock perf YTD (%)
Petrochem	Neutral	29.8	27.8	7.3%	3,558	13.4	12.5	14.9	50.0%
SIIG	O/W	30.4	26.0	16.9%	3,124	13.3	11.4	9.6	38.3%
Sipchem	Neutral	27.1	24.1	12.8%	2,354	16.1	14.3	15.0	37.9%
Yansab	O/W	80.2	69.8	15.0%	10,470	16.0	13.9	11.5	18.6%
SABIC	Neutral	125.6	122.3	2.6%	97,856	16.8	16.4	16.3	20.0%
Advanced	O/W	58.9	51.0	15.7%	2,674	15.0	13.0	12.5	11.0%
Tasnee	Neutral	20.7	21.4	(3.4)%	3,817	12.8	13.3	15.4	34.9%
Sahara	Neutral	19.3	18.7	2.9%	2,192	16.9	16.4	15.4	13.6%
Kayan	Neutral	16.3	14.8	10.6%	5,908	16.6	15.0	17.0	38.3%
SAFCO	Neutral	61.2	66.8	(8.3)%	7,422	17.0	18.5	15.9	6.7%

Source: NCBC Research estimates. All prices as of April 24, 2018
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered, UR: Under Review

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UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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