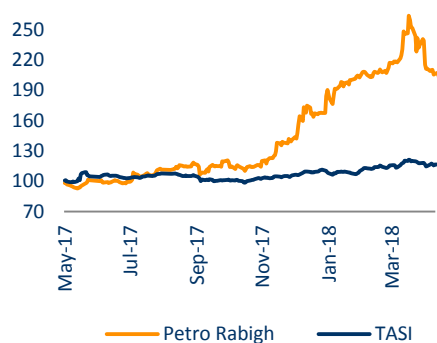


1Q 2018 Results Update
June 7, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	26.4
Target Price (SAR)	24.8
Upside/Downside (%)	-6.0%

As of June 6th 2018
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	23.1
52 Wk High (SAR)	31.8
52 Wk Low (SAR)	11.0
Total Outstanding shares (in mn)	876
Free Float (%)	24.9%

Petro Rabigh vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(7.0%)	(4.5%)
6m	85.4%	71.0%
12m	112.6%	96.0%

Major Shareholders (%)

Sumitomo Chemical Co.	37.5%
The Saudi Arabian Oil Company	37.5%

Quarterly Sales (SAR bn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 6th June 2018

Improved volumes drove the performance for Q1 2018

Rabigh Refining and Petrochemical Co (Rabigh) recorded robust growth in Q1 2018 with a net profit of SAR 296.1 mn compared to a loss of SAR 239.7mn in Q1 2017 due to increased sales. Rabigh reported revenue worth SAR 9.9bn, a 47.1% YoY increase, driven by higher sales volume due to improved plant operations and stable production. However, the Q1 2017 performance was impacted by the shutdown of the air separation unit (ASU), which hit production at all plants. The higher volumes also led to a significant jump in the company's margins.

Phase II of the expansion project is expected to be fully operational in H1 2018, which would help boost sales volumes and margins significantly. Based on these developments, we expect significant growth in revenue and operating margins for the next two years. Despite the expectation of above-average revenue growth and profitability, Rabigh might be negatively affected by its high level of debt. We therefore reiterate our neutral view on the stock.

- Rabigh's top line increased by 47.1% YoY and 3.5% QoQ because of the higher volumes produced and sold during the quarter. Production volumes were higher as there were no major shutdowns at the plants.
- Gross profit jumped over tenfold with the stable production and higher efficiency. The figure increased to SAR 772.1 mn in Q1 2018 vis-à-vis SAR 65.1 million in Q1 2017. However it declined by 13.7% QoQ because of the lower refinery profits.
- Rabigh reported an operating profit of SAR 377.6 mn for Q1 2018 compared to a loss of SAR 172.7 million for Q1 2017. The operating profit growth was driven by higher revenue and gross margins, which was partially offset by higher selling, general and admin costs.
- Rabigh reported a net profit of SAR 296.1 million due to a higher operating profit and lower financial charges. It reported financial charges worth SAR 103.0 mn, a 6.9% YoY and 14.7% QoQ decline. As the company's debt remained stable during the quarter, compared with the past few quarters, we believe the higher capitalization of interest expenses have resulted in lower finance charges in Q1 2018.
- The company's operating cash flow improved significantly to SAR 1,577 mn in Q1 2018 from a negative SAR 0.5 mn. This was mainly because of higher net income and higher accounts payable for Q1 2018. Operating cash flow dropped by 20.4% QoQ because of lower net income for Q1 2018.
- Phase II of the expansion project is expected to be fully operational in FY2018. This improved production capacity is expected to drive revenue for the next two years. Margins might slightly improve in FY2018 and FY2019 with the expected additions (aromatics and ethylene propylene rubber) to the portfolio of petrochemical products.

Valuation: We revised our target price upward with a fair value of SAR 24.8 per share, considering expectations of improved earnings, going forward. We maintain our 'Neutral' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	9,856.3	6,702.2	47.1%	44,528.6	34,211.0	30.2%
Gross Profit (SAR mn)	772.1	65.1	1,085.3%	3,650.9	2,696.0	35.4%
EBITDA (SAR mn)	994.0	431.9	130.1%	4,756.2	4,094.0	16.2%
Net Profit (SAR mn)	296.1	(239.7)	-	1,937.4	1,423.0	36.2%
EPS basic (SAR)	0.3	(0.3)	-	2.2	1.6	36.5%
Gross Margin (%)	7.8%	1.0%	6.9%	8.2%	7.9%	0.3%
EBITDA Margin (%)	10.1%	6.1%	3.6%	10.7%	12.0%	(1.3%)
Net Profit Margin (%)	3.0%	(3.6%)	6.6%	4.4%	4.2%	0.2%

Source: Company Financials, FALCOM Research

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.

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