

**FY18 Results Update**

Jan 29, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	122.4
Target Price (SAR)	124.1
Upside/Downside (%)	1.4%

As of January 28, 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	367.2
52 Wk High (SAR)	131.4
52 Wk Low (SAR)	103.4
Total Outstanding shares (in bn)	3.0
Free Float (%)	21.1%

**SABIC vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	6.4%	-4.9%
6m	-5.7%	-8.8%
12m	15.7%	1.3%

**Major Shareholders (%)**

Public Investment Fund	70.0%
General Organization for Social Insurance	5.7%

**Revenue (SAR bn) and Operating Profit Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 28<sup>th</sup> January 2019

**SABIC bottom-line slightly below consensus estimates for FY18**

Saudi Basic Industries Corp. (SABIC) reported SAR 21.5bn in net profit for FY18, up 16.9% Y/Y, owing to higher selling prices and increase in sales volumes. The company also benefitted from the restructuring initiative worth SAR 1.1bn. Net profit for 4Q18, however, stood at SAR 3.2bn (down -46.8% Q/Q; -12.4% Y/Y) due to significant decline in oil prices during the last quarter, resulting in lower average selling price, and decrease in results of associated and joint ventures. SABIC continues to expand its geographic boundaries by introducing innovative products. China remains an important market, while the company is also focusing on strengthening its presence in Africa. Aramco continues to negotiate with Public Investment Fund (PIF) for the acquisition of its entire 70% stake in SABIC. Going forward, lower cost of feedstock is likely to benefit SABIC during 1Q19.

- In FY18, the company's revenue totaled SAR 169.1bn, up 12.9% Y/Y, driven by higher selling price and sales volume. Agri-nutrient segment witnessed the highest growth (+39.0% Y/Y), followed by Petrochemical segment (+11.0% Y/Y). During 4Q18, petrochemical prices were lower, largely due to falling oil and polymer prices.
- During the year, gross profit grew 15.4% Y/Y to SAR 57.7bn from SAR 50.0bn in FY17, whereas gross margin for the year improved 73 bps to 34.1%. However, the gain in gross margin from the first three quarters was trimmed by higher feedstock prices in the fourth quarter, when gross margin declined -53bps Y/Y and -358bps Q/Q to 30.5%. We expect gross margin to remain stable during 2019E aided by oil price recovery and feedstock cost declines.
- EBIT grew 25.3% Y/Y to SAR 36.3bn in FY18, following gains at the revenue and gross profit levels. Consequently, EBIT margin expanded +212bps Y/Y to 21.5% in FY18, supported by improved efficiency and productivity following the ongoing restructuring program.
- Net profit increased 16.9% Y/Y due to higher operating profit; it was partially offset by higher finance expenses, minority interest and lower contribution from associates.
- The company announced a dividend of SAR 2.2 per share for its 3 billion shares; this implies a total dividend of SAR 6.6bn for 2H18.
- SABIC continues to look for new opportunities that will help the company not only strengthen its product line but also control input costs. In December 2018, SABIC signed a memorandum of understanding (MOU) with UK-based Plastic Energy Ltd to utilize innovative techniques for the chemical recycling of plastic waste into feedstock. This feedstock can be used to support SABIC's petrochemical operations in Europe. Also, SABIC is in discussions with Switzerland's Clariant AG to combine their chemical specialty business; however, it remains undecided about further increasing its 26% stake in the latter.
- By the end of 2019, SABIC aims to combine all agri-nutrient product companies under a new entity, SABIC Agri-nutrient Investments, to promote organic and inorganic growth, achieve operational synergies and enhance production efficiency. Also, SABIC's MoU with SAFCO for the latter's interests in agri-nutrients assets assure SABIC's long-term interest in Agri business.

**Valuation:** We reiterate our 'Neutral' rating on the stock and retain the stock's fair value at SAR 124.1 per share. Long-term drivers include success of large scale projects (USD20bn oil-to-chemical project, new petchem complex in Texas, and CTO & polycarbonate plants in China), and any potentially accretive acquisitions (SABIC aims to make acquisitions, primarily in the specialties and agri-nutrients sectors).

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	40.1	40.3	-0.5%	165.9	169.1	-1.9%
Gross Profit (SAR bn)	12.2	12.5	-2.2%	56.6	57.7	-1.9%
Operating Profit (SAR bn)	6.5	6.6	-1.1%	36.7	36.3	1.0%
Net Profit (SAR bn)	3.2	3.7	-12.4%	23.6	21.5	9.7%
EPS (SAR)	1.08	1.23	-12.4%	7.87	7.18	9.7%
Gross Margin (%)	30.5%	31.0%	-0.5%	34.1%	34.1%	0.0%
Operating Margin (%)	16.2%	16.3%	-0.1%	22.1%	21.5%	0.6%
Net Profit Margin (%)	8.1%	9.2%	-1.1%	14.2%	12.7%	1.5%

Source: Company Financials, FALCOM Research

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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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