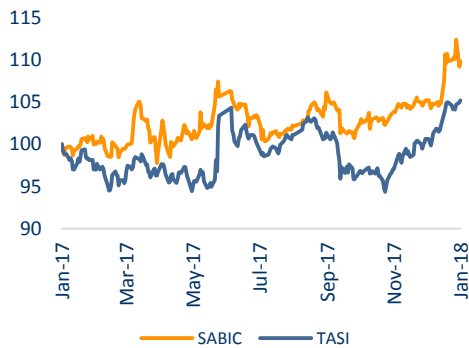


4Q 2017 Results Update
January 29, 2018

Recommendation	Neutral
Current Price (SAR)	106.4
Target Price (SAR)	107.4
Upside/Downside (%)	0.9%

As of January 29, 2018
Key Data (Source: Bloomberg)

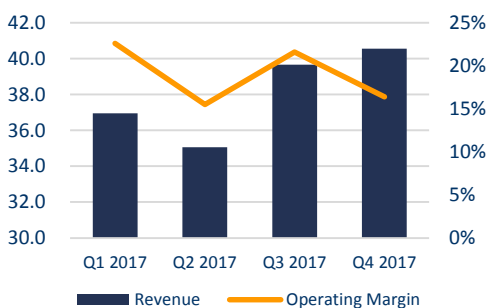
Market Cap (SAR bn)	320.4
52 Wk High (SAR)	109.0
52 Wk Low (SAR)	94.25
Total Outstanding shares (in bn)	3.0
Free Float (%)	24.1%

SABIC Vs TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	4.4%	(0.1)%
6m	6.3%	1.0%
12m	9.8%	4.6%

Major Shareholders (%)

Public Investment Fund	70.0%
General Organization for Social Insurance	5.7%
Saudi British Bank	0.2%

Quarterly Sales (SAR mn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 29th January 2018

Planned turnarounds and impairments drag earnings lower

SABIC reported weak results for 4Q17, with net income at SAR3.7bn, down 18.6% YoY and 36.6% QoQ. We believe the poor performance is attributable to three key factors: lower utilization levels impacted by planned turnarounds at facilities; impairments totaling SAR486mn in Hadeed and Ibn Sina; and higher production costs due to lower spreads in propane/butane.

- Revenues stood at SAR40.6bn in 4Q17, up 8.2% compared with SAR37.5bn in 4Q16 (up 4.2% compared to SAR39.7bn in 3Q17). Despite being the highest revenue recorded by the company since 2Q15, it is lower than our estimate. We believe the variance is primarily due to a drop in production volumes as periodic maintenance was carried out at some of the facilities which brought down utilization levels.
- Gross profit stood at SAR12.6bn in 4Q17, up 13.7% from SAR11.1bn in 4Q16 (down 10.1% from SAR14.1bn in 3Q17). Gross margin stood at 31.1% in 4Q17 vis-à-vis 29.6% in 4Q16, 35.6% in 3Q17 and our estimate of 31.9%. This explains that much of the variance was derived from the top line itself.
- EBIT stood at SAR6.7bn in 4Q17, up 8.0% compared with SAR6.2bn in 4Q16 (down 23.6% compared to SAR8.6bn in 3Q17). Impairments at Hadeed and Ibn Sina are believed to be the primary factor behind the variance. Slowdown in construction sector resulted in an impairment of SAR350mn in Hadeed. SABIC's share in Ibn Sina impairment was SAR136mn.
- Net profit stood at SAR3.7bn in 4Q17, down 18.6% compared with SAR4.5bn in 4Q16 (down 36.6% compared to SAR5.8bn in 3Q17).
- Revenues grew 13.2% to SAR150.4bn in FY17 from SAR143.0bn in FY16. Gross profit increased 6.5% to SAR50.3bn for FY17 from SAR47.2bn for FY16. Operating profit for the year was SAR29.4bn compared with SAR25.9bn in 2016, up 13.5%. Net profit for FY17 was SAR18.4bn, up 4.5% compared with SAR17.6bn for 2016.
- SABIC has agreed to acquire ~25% stake in Clariant AG, making it the largest shareholder. The deal is believed to be valued at SAR9.4bn based on the traded market capitalization and is likely to be financed through debt syndicated from foreign banks. This will increase SABIC's debt to ~SAR69.0bn. The acquisition is part of SABIC's long-term growth strategy of product differentiation and creating value for customers. However, we believe the deal would have limited impact on SABIC's net profits.
- SABIC signed a memorandum of understanding (MoU) with oil giant Saudi Aramco to develop a crude oil into chemicals complex (COTC). The plant, which is scheduled to begin operations in 2025, is estimated to cost SAR75.0bn. It is expected to process 400,000 barrels per day of crude oil, which will produce approximately 9mn tons of chemicals and base oils annually.
- We believe the macroeconomic environment would be conducive in 2018, considering the uptick in construction activity aided by government spending and stability in demand globally that would lead to higher oil prices. Furthermore, the company's utilization and efficiency levels are likely to improve, positively impacting its margins and top-line growth.

Valuation: We are 'neutral' on SABIC with a fair value of SAR107.4 per share.

	4Q'17	4Q'16	% YoY	FY17	FY16	%YoY
Revenues (SAR bn)	40.6	37.5	8.2	150.4	143.0	5.2
Gross Profit (SAR bn)	12.6	11.1	13.7	50.3	47.2	6.5
Operating Profit (SAR bn)	6.7	6.2	8.0	29.4	25.9	13.5
Net Profit (SAR bn)	3.7	4.5	(18.6)	18.4	17.6	4.5
EPS (SAR)	1.22	1.50	(18.6)	6.13	5.87	4.4
Gross Margin (%)	31.1%	29.6%	1.50	33.4%	33.0%	1.2
Operating Margin (%)	16.4%	16.4%	(0.2)	19.5%	18.1%	8.0
Net Profit Margin (%)	9.0%	12.0%	(24.8)	12.2%	12.3%	(0.6)

Source: Company Financials, FALCOM Research

4Q 2017 Results Update

January 29, 2018

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

The information in this report was compiled in good faith 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 be consistent with 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, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, investment, legal, tax 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.

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.