

2Q 2018 Results Update

Aug 03, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	128.8
Target Price (SAR)	123.7
Upside/Downside (%)	-4.0%

As of August 1, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	386.4
52 Wk High (SAR)	131.4
52 Wk Low (SAR)	94.90
Total Outstanding shares (in bn)	3.0
Free Float (%)	21.0%

SABIC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	2.1%	2.3%
6m	19.8%	11.4%
12m	32.2%	15.3%

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 1st August 2018

Strong 2Q18 results backed by higher prices, cost improvement

Saudi Basic Industries Corp. (SABIC) reported SAR 6.7bn (+80.7% Y/Y; 21.6% Q/Q) as net profit for 2Q18. This growth was largely driven by higher average selling prices and an increase in sales volumes, as its plants boosted production by 1.5 million tons in 1H18. SABIC's strategic restructuring initiative, mentioned in our previous report, which cost the company SAR 1.1bn in the past quarter, also contributed to the positive performance in 2Q18.

- In 2Q18, the company recorded revenue of SAR 43.3bn, up 25.7% Y/Y and 3.4% Q/Q, ascribed to higher selling price and sales volume. During 2Q18, higher petrochemical prices were largely driven by a rebound in oil prices.
- During the quarter, gross profit grew 53.3% Y/Y to SAR 15.9bn (+11.6% Q/Q) from SAR 10.3bn in 2Q17. Faster growth in petrochemical prices as compared to prices of Naphtha, led gross margin improvement by 661 bps Y/Y and 270 bps Q/Q to 36.6%. This growth came in spite of a maintenance shutdown of SABIC's PP plant in the Netherlands. We foresee 90bps Y/Y improvement in gross margin during 2018E as petrochemical prices catch up with crude oil prices.
- EBIT almost doubled to SAR 10.8bn in 2Q18 (93.8% Y/Y; 21.0% Q/Q). Consequently, EBIT margin grew 879 bps Y/Y to 25.0% in 2Q18, supported by higher gross profit and improved efficiency and productivity from the ongoing restructuring program.
- Net profit increased over the quarter following higher operating profit and positive contribution from Hadeed and Ibn Rushd, both of which turned profitable. SABIC expects improved operations, going forward. The strong 2Q18 results come at a time when Aramco seeks to acquire Public Investment Fund's (PIF's) entire 70% stake in SABIC.
- On its joint venture (JV) with ExxonMobil, SABIC reiterated that it is well-placed to finance the venture at the least cost, supported by its robust financial position and strong credit rating (A+ by Fitch Ratings).
- In 2Q18, the average Brent crude price was up +11.5% Q/Q and 47.6% Y/Y, on expectations of a more balanced oil market. Recovery in oil prices triggered an upswing in the prices of most petrochemical products during the quarter. We expect petrochemical prices to remain stable over the next few quarters, given the positive demand outlook for oil in the mid-term. We expect oil prices to remain firm in the upcoming quarters, despite OPEC and Russia agreeing to increase production by around 1.0mn bpd. As oil supply is under pressure due to the continuing decline in Venezuelan production and US sanctions on Iran, we believe that the aforesaid production increase (by OPEC and Russia) is unlikely to halt the recovery in the oil market. Robust market fundamentals coupled with the ongoing restructuring initiatives, that continue to increase efficiency and productivity, would positively impact SABIC's margins and profitability over the next few quarters.

Valuation: In the light of rising crude oil prices and incorporating strong 2Q18 performance, we increase the stock's fair value to SAR123.7 per share. However, we retain our 'Neutral' rating, as the stock has recently seen a rally after the announcement of Aramco's intentions to acquire a majority stake in the company.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR bn)	43.3	34.4	25.7%	164.2	149.8	9.6%
Gross Profit (SAR bn)	15.9	10.3	53.3%	56.3	50.0	12.6%
Operating Profit (SAR bn)	10.8	5.6	93.8%	33.3	29.0	14.7%
Net Profit (SAR bn)	6.7	3.7	80.7%	24.0	18.4	30.1%
EPS (SAR)	2.2	1.2	80.7%	8.0	6.1	30.1%
Gross Margin (%)	36.7%	30.0%	6.6%	34.3%	33.4%	0.9%
Operating Margin (%)	25.0%	16.2%	8.8%	20.3%	19.4%	0.9%
Net Profit Margin (%)	15.5%	10.8%	4.7%	14.6%	12.3%	2.3%

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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