

**1Q19 Results Update**

**May 13, 2019**

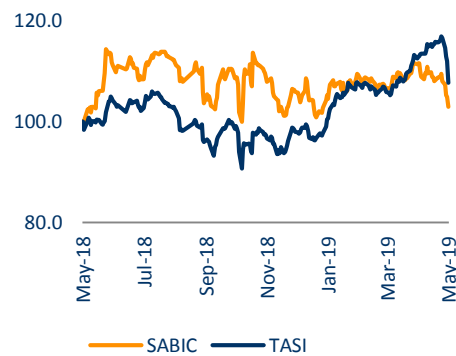
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	114.8
Target Price (SAR)	124.0
Upside/Downside (%)	8.0%

As of May 12, 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	344.4
52 Wk High (SAR)	131.4
52 Wk Low (SAR)	104.6
Total Outstanding shares (in bn)	3.0
Free Float (%)	20.9%

**SABIC vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	(7.6%)	(3.3%)
6m	(6.1%)	(16.5%)
12m	2.9%	(4.7%)

**Major Shareholders (%)**

Public Investment Fund	70.0%
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**Revenue (SAR bn) and Operating Profit Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 12<sup>th</sup> May 2019

**Lower product prices hurt SABIC in 1Q19; net profit misses consensus estimates**

Saudi Basic Industries Corp. (SABIC) reported SAR 3.4bn in net profit for 1Q19, down 38.1% YoY. This was due to lower average selling prices, despite increase in sales volumes. Net profit, however, grew 5.1% QoQ as the company managed to contain selling, administration and financial expenses. Revenue fell 10.7% YoY and 6.9% QoQ in 1Q19 primarily dragged down by poor performance of the petrochemical segment that consequently impacted the company's overall profitability.

SABIC's 1Q19 results were impacted by slowing global demand, lower average selling price, and higher inventory levels. The company, however, performed well on the operational front as it managed to limit costs and sold higher volumes over the past four quarters. The company has been in the midst of a structural transformation since the past three years. The merger of SABIC's two wholly owned subsidiaries Sadaf and Petrokemya is expected to be completed by 2H19 and might bring in more efficiency and will boost the optimization of assets. We expect the company's performance to conform to general industry trends.

- During 1Q19, SABIC's revenue fell 10.7% YoY to SAR 37.4bn due to a decline in average selling prices, even though it recorded the highest quarterly sales volume over the past four quarters. Revenue from the Agri-nutrient segment grew 5.0% to SAR 1.8bn, whereas that from the Petrochemicals segment declined 12.4% to SAR 32.3bn. Revenue from Hadeed segment remained almost unchanged at SAR 3.3bn.
- Consequently, gross profit for the quarter declined 21.6% YoY and 6.9% QoQ to SAR 11.4bn as the drop in revenues outpaced fall in the cost of sales. Gross margin for the quarter declined to 30.5% in 1Q19 from 34.7% in 1Q18, but remained in line with the figure in 4Q18.
- EBIT fell 31.2% YoY to SAR 6.2bn in 1Q19, following declines at the revenue and gross profit levels. Consequently, the EBIT margin shrank 490bps YoY and 27bps QoQ to 16.5% in 1Q19.
- Net profit slumped 38.1% YoY to SAR 3.4bn owing to the factors mentioned above. On a quarterly basis, however, net income expanded 5.2% YoY on lower selling, general and administrative expenses and a better share of results of associates and joint ventures. Net profit margin for the quarter fell to 9.1% in 1Q19 from 13.2% in 1Q18.
- In March 2019, Saudi Aramco signed a share purchase agreement to acquire its 70% stake in Saudi Basic Industries Corporation (SABIC) from the Public Investment Fund (PIF) of Saudi Arabia for SAR 259.1bn (USD 69.1bn). The completion of the transaction is subject to regulatory approvals.
- SABIC continues to look for new opportunities that will help the company not only strengthen its product line but also control input costs. During 1Q19, SABIC entered into an agreement with South Louisiana Methanol LP in the US to build a methanol plant in the US with production capacity of 1.8 million metric tons per annum. The company also partnered with Eni, an Italian oil and gas company for conversion of natural gas into synthesis gas.

**Valuation:** We reiterate our 'Neutral' rating on the stock with a fair value of SAR 124.0 per share in view of the company's recent performance.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	37.4	41.9	(10.7%)	162.5	169.1	(3.9%)
Gross Profit (SAR bn)	11.4	14.5	(21.6%)	53.9	57.6	(6.4%)
Operating Profit (SAR bn)	6.2	8.9	(31.2%)	33.4	36.3	(7.8%)
Net Profit (SAR bn)	3.4	5.5	(38.1%)	20.6	21.5	(4.1%)
EPS (SAR)	1.1	1.8	(38.1%)	6.9	7.2	(4.1%)
Gross Margin (%)	30.5%	34.7%	(4.2%)	33.2%	34.1%	(0.9%)
Operating Margin (%)	16.5%	21.4%	(4.9%)	20.6%	21.4%	(0.9%)
Net Profit Margin (%)	9.1%	13.2%	(4.0%)	12.7%	12.7%	0.0%

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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