

### 1Q19 Results Update

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	17.9
Target Price (SAR)	19.0
Upside/Downside (%)	6.4%

As of May 19, 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	15.6
52-Wk High (SAR)	29.8
52-Wk Low (SAR)	17.5
Total Outstanding Shares (in mn)	876
Free Float (%)	21.9%

#### Petro Rabigh vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(9.7%)	(2.1%)
6m	(10.1%)	(19.4%)
12m	(25.5%)	(29.3%)

#### 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 May 19, 2019

#### Upswing in refined products division lifts earnings for Rabigh in 1Q19

Petro Rabigh's 1Q19 revenues declined 14.5% YoY to SAR 8.4bn, primarily on lower petrochemicals prices that offset the rise in sales volume. However, gross profit improved 5.9% YoY, aided by a sharp drop in cost of sales. Operating profit increased 20.7% YoY to SAR 478.3mn, led by operating level profit contribution from the refined products division that had recorded losses last year. Consequently, operating margins improved to 5.7% in 1Q19 from 4.0% a year ago. However, a sharp rise in financial charges during the quarter resulted in a drop of 13.3% YoY in the net profit to SAR 257mn.

The company swung to operating profit at the refining products division on an annual basis, but the refining margins may find it tough to recover further. However, the sharp rise in debt and the consequent rise in financial charges during the quarter remain a concern and may impact the company's future profitability. Investments towards completion of the Rabigh Phase 2 are expected to continue which is likely to come online by the end of 2019. The company may record some losses initially from Phase 2 as the plant production may not start in full swing initially. The company is also planning to postpone the maintenance of Rabigh petro Phase 1 to 2020 which will add to the full production cost of Phase 2 in 2020. We maintain our "Neutral" view on the stock.

- Petro Rabigh's revenue fell 14.5% YoY to SAR 8.4bn, mainly due to lower petrochemical prices over the comparable period that offset the improvement in product quantities sold. Revenue from refined products stood at SAR 6.5bn (lower 13.5% YoY), while that from petrochemicals was SAR 1.9bn (down 17.8% YoY).
- Gross profit grew 5.9% YoY to SAR 818mn. As a result, the gross profit margin improved to 9.7% in 1Q19 from 7.8% in 1Q18.
- Selling, general and administrative expenses declined 9.5% to SAR 357mn in 1Q19, mirroring the decline in revenues.
- Operating income (including other income) rose 20.7% YoY to SAR 478.3mn as the refined products division swung to an operating profit of SAR 1.7mn compared to a loss of SAR 66.1mn last year. Thus, the operating margin improved to 5.7% during the quarter as against 4.0% in 1Q18, following the gain at the gross margin level. On a quarterly basis, the company recovered from a reported operating loss of SAR 66mn in 4Q18 on contained cost of sales.
- Net income declined 13.3% YoY to SAR 257mn as the upturn at the operational level was overrun by the steep financial charges that increased 116.6% YoY to SAR 223mn. Eventually, the company's net margin remained flat at 3.0% compared to 1Q18.
- In comparison to 4Q18, the results were also impacted by the adoption of IFRS 16 and revision of useful lives of property plant and equipment.

**Valuation:** Our target price remains unchanged at the fair value of SAR 19.0 per share. We maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	8,428	9,856	(14.5%)	45,362	40,998	10.6%
Gross Profit (SAR mn)	818	772	5.9%	3,460	2,315	49.5%
EBITDA (SAR mn)	1,024	994	3.1%	4,539	3,361	35.1%
Net Profit (SAR mn)	257	296	(13.3%)	1,205	669	80.2%
EPS Basic (SAR)	0.3	0.3	(13.8%)	1.4	0.8	80.2%
Gross Margin (%)	9.7%	7.8%	1.9%	7.6%	5.6%	2.0%
EBITDA Margin (%)	12.2%	10.1%	2.1%	10.0%	8.2%	1.8%
Net Profit Margin (%)	3.0%	3.0%	0.0%	2.7%	1.6%	1.0%

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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