

1Q19 Results Update

June 11, 2019

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	24.2
Target Price (SAR)	27.1
Upside/Downside (%)	11.7%
<i>As of 9th June, 2019</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.9
52 Wk High (SAR)	30.1
52 Wk Low (SAR)	21.4
Total Outstanding shares (in mn)	450
Free Float (%)	82.2%

SIIG vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(8.6%)	(4.5%)
6m	(2.6%)	(18.1%)
12m	(9.9%)	(21.0%)

Major Shareholders (%)

Public Pension Agency	8.88%
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Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 9th June 2019

Lower revenues from Petrochem upset SIIG's bottom line

Saudi Industrial Investment Group (SIIG)'s net profit after zakat and tax declined 10.5% YoY to SAR 178mn in 1Q19, weighed by decline in SIIG's profit share from National Petrochemical Company (Petrochem). SIIG's profit share in Petrochem stood at SAR 89mn in 1Q19, vis-à-vis SAR 167mn in 1Q18. Petrochem's revenues for the quarter fell on account of lower prices and higher feedstock cost. Moreover, higher cost of sales in 1Q19 added to decline in quarterly profit. Nevertheless, this was partially mitigated by an increase in the company's profit share from JVs with Saudi Chevron Phillips (SCP) and Jubail Chevron Phillips (JCP) to SAR 91mn in 1Q19 from SAR 35mn in 1Q18.

In 1Q19 the prices of propylene, HDPE, LLDPE, PP, polystyrene, and styrene dropped on an annual basis as a result of decline in crude oil prices. This adversely impacted the company's performance in the first quarter. According to the OPEC's latest monthly oil market report, oil prices are expected to go up in 2019 due to an increase in world demand by 1.2 million b/d. Since SIIG primarily operates in the petrochemical sector, such a recovery would benefit the company. SIIG is also working on reducing its leverage. Its total debt has reduced from SAR 9.7bn in 1Q18 to SAR 7.4bn in 1Q19. Moreover, a high dividend yield makes the company a good investment bet.

- Revenue declined 8.6% YoY to SAR 2.0bn in 1Q19, dragged down by a fall in profit share from Petrochem. On a QoQ basis, the top line contracted 7.5% due to a drop in SIIG's profit share in Petrochem by 26.4% QoQ to SAR 89mn. However, revenue decline was partially limited by a positive performance from SIIG's JVs with JCP and SCP, which posted profit of SAR 91mn in 1Q19, compared with a loss of SAR 88mn in the previous year.
- SIIG's gross profit decreased 32.2% YoY to SAR 517mn in 1Q19, against SAR 763mn. This may be attributed to weak revenues and a 3.8% YoY rise in cost of sales. Consequently, gross margins shrank considerably to 25.6% in 1Q19 from 34.5% in 1Q18. On a QoQ basis, gross profit grew 13.7%, while gross margins improved by 4.8% to 25.6% in 1Q19 from 20.8% in 4Q18.
- Operating profit declined 28.8% YoY to SAR 454mn in 1Q19 in spite of higher income reported by associates and lower selling, general, and administrative expenses. Decline may be attributed primarily to lower gross profit. Subsequently, the operating margin contracted to 22.5% in 1Q19 from 28.8% in 1Q18. Operating profit, however, improved 165.8% on a QoQ basis owing to growth in the company's share of results from associates.
- Net income declined 10.5% YoY to SAR 178mn as lower revenue and higher cost of sales more than offset an increase in the share of results from associates. On a QoQ basis, net income surged 560.0% from SAR 27mn in 1Q18.
- The company has recommended a cash dividend of SAR 0.75 per share for 1H19, resulting in total dividend distribution of SAR 337.5mn for 450 million shares.

Valuation: We revised our target price with a fair value of SAR27.1 per share, in line with the 1Q19 performance; we retain our "Overweight" view on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	2,020	2,211	(8.6%)	8,298	8,930	(7.1%)
Gross Profit (SAR mn)	517	763	(32.2%)	2,286	2,683	(14.8%)
Operating Profit (SAR mn)	454	637	(28.8%)	1,914	2,310	(17.1%)
Net Profit (SAR mn)	178	199	(10.5%)	712	865	(17.7%)
EPS basic (SAR)	0.40	0.44	(10.5%)	1.58	1.92	(17.7%)
Gross Margin (%)	25.6%	34.5%	(8.9%)	27.5%	30.0%	(2.5%)
Operating Margin (%)	22.5%	28.8%	(6.3%)	23.1%	25.9%	(2.8%)
Net Profit Margin (%)	8.8%	9.0%	(0.2%)	8.6%	9.7%	(1.1%)

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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