

**2Q19 Results Update**

**August 07, 2019**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	104.4
Target Price (SAR)	109.0
Upside/Downside (%)	4.4%
<i>As of August 07, 2019</i>	

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	313.2
52 Wk High (SAR)	130.4
52 Wk Low (SAR)	100.4
Total Outstanding shares (in bn)	3.0
Free Float (%)	21.8%

**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 7<sup>th</sup> August 2019

**Quarterly profits shrink to a 10-year low, misses lowest consensus estimate**

Saudi Basic Industries Corp. (SABIC)'s net profit declined to SAR 2.1bn, down 68.4% YoY and 37.9% QoQ, due to lower selling prices, sales volume contraction, and decrease in share of results of associates and joint ventures. Revenue for the quarter plunged to SAR 35.9bn, down 17.1% YoY and 4.0% QoQ, the lowest since 2Q17, due to low demand for plastics and chemicals. Cost of sales remained high, and thereby lowered the gross profit for the quarter to SAR 10.0bn. The company managed to contain its selling, general, and administrative expenses; however, this could not prevent the continued decline in the bottom line.

SABIC's financial performance continues to suffer due to the slowing global demand and lower average selling price for its primary products such as ethylene glycol (down 41% YoY) and polycarbonate (down 30% YoY). Moreover, significant expansion to the supply capacity has further pressurized the prices and margins for its key products. Although we do not expect the company to post substantial recovery in the second half of the year, we believe that the company's fundamentals remain robust and its long-term growth story remains intact. Thus, we maintain a neutral stance on the stock.

- During 2Q19, SABIC's revenue fell 17.1% YoY and 4.0% QoQ to SAR 35.9bn due to a decline in average selling price and lower sales volume. Revenue from all the business segments including petrochemicals, agri-nutrients, and Metals, fell sharply by 17.8%, 15.0%, and 10.4%, respectively, on an annual basis.
- Consequently, gross profit for the quarter declined 37.7% YoY and 11.0% QoQ to SAR 10.0bn, as the decline in cost of sales was offset by the drop in revenues. Gross margin stood at 28.0% in 2Q19 compared with 30.1% in 1Q19 and 37.2% in 2Q18.
- EBIT fell 55.4% YoY and 21.5% QoQ to SAR 4.8bn in 2Q19, due to the above-mentioned factors, even though the company managed to contain its operating expenses. Consequently, the EBIT margin fell to 13.5% in 2Q19 from 16.5% and 25.0% in 1Q19 and 2Q18, respectively.
- Net profit slumped 68.4% YoY and 37.9% QoQ to SAR 2.1bn. The fall was worsened by the lower contribution from the share of results of associates and joint ventures. Net profit margin for the quarter fell to 5.9% in 2Q19 from 9.1% in 1Q19 and 15.5% in 2Q18.
- In July 2019, SABIC informed about its suspension of talks with Clariant AG on their high-performance plastics venture after the Swiss Company's Chief Executive Officer Ernesto Occhiello quit unexpectedly. SABIC cited unfavorable market conditions for halting the talks and expects to resume once the market conditions improve.
- Saudi Aramco is in the process of buying a majority stake (Public Investment Fund's stake) in SABIC from the Kingdom's sovereign wealth fund for USD69.1bn. The deal is under regulatory processes, and is expected to be closed by the year end or first quarter of 2020.

**Valuation:** We reiterate our 'Neutral' rating on the stock with a fair value of SAR 109.0 per share in view of the company's performance in 2Q19.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	35.9	43.3	(17.1%)	150.3	169.1	(11.1%)
Gross Profit (SAR bn)	10.0	16.1	(37.7%)	47.3	57.6	(17.8%)
Operating Profit (SAR bn)	4.8	10.8	(55.4%)	27.1	36.3	(25.4%)
Net Profit (SAR bn)	2.1	6.7	(68.4%)	11.6	21.5	(46.3%)
EPS (SAR)	0.7	2.2	(68.4%)	3.9	7.2	(46.3%)
Gross Margin (%)	28.0%	37.2%	(9.2%)	31.5%	34.1%	(2.6%)
Operating Margin (%)	13.5%	25.0%	(11.6%)	18.0%	21.4%	(3.4%)
Net Profit Margin (%)	5.9%	15.5%	(9.6%)	7.7%	12.7%	(5.0%)

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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