

FY19 Results Update

February 17, 2020

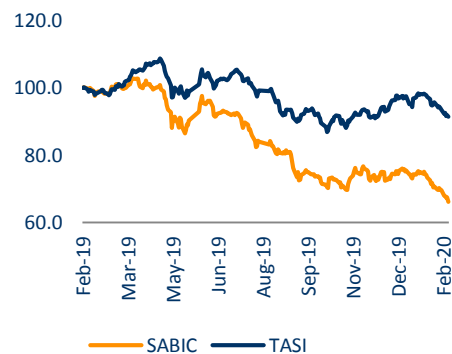
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	81.0
Target Price (SAR)	88.0
Upside/Downside (%)	8.6%

As of February 17th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	243.0
52 Wk High (SAR)	128.0
52 Wk Low (SAR)	80.0
Total Outstanding shares (in bn)	3.0
Free Float (%)	22.3%

SABIC vs. TASI (Rebased)

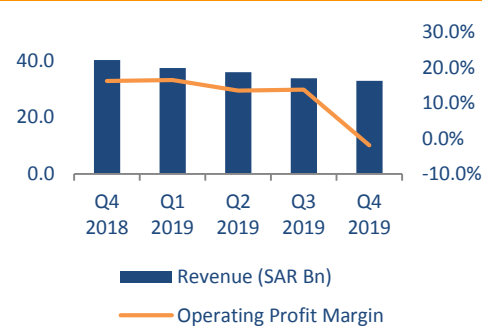


Price Performance (%)	Absolute	Relative
1m	(11.7%)	(4.9%)
6m	(21.3%)	(13.3%)
12m	(33.8%)	(25.2%)

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 17th February 2020

SABIC FY19 net profit slumps on lower petrochemicals prices, emergency provisions

Saudi Basic Industries Corp. (SABIC)'s net profit plunged by 73.8% YoY to SAR 5.6bn from SAR 21.5bn in FY18 due to lower prices for petrochemical products and allocations for emergency provisions. Revenue for the year declined 17.4% YoY to SAR 139.7bn while cost of sales dropped by a mere 6.4% YoY to SAR 104.2bn. Even though SABIC managed to curb its selling, general and administrative expenses, losses from the results of associates and joint ventures exacerbated the drop-in net profit. Net margin for FY19 was 4.0% compared to 12.7% a year ago.

SABIC, the second largest listed company in KSA, posted an unusual loss in the final quarter of FY19 due to low petrochemical prices, even as Brent prices recovered. Weak economic growth in 2019, coupled with additional new supply of the company's key product lines (PE, MEG, PC), subdued product prices, thus impacting revenues and margins. We expect these factors to continue to affect the company's earnings in 2020. Meanwhile, SABIC entered into a share purchase agreement with Saudi Arabian Fertilizer Co. (SAFCO) to improve its competitiveness. It also managed to improve its brand value through innovation and reduced its operating expenses. In view of these countervailing factors, we maintain a 'Neutral' rating on the stock.

- Revenue fell 17.4% YoY to SAR 139.7bn due to a decline in the average selling price of petrochemical products attributable to overall economic conditions and addition of capacities.
- Gross profit for the year declined 38.6% YoY to SAR 35.5bn as the average cost of sales remained high. Consequently, gross margin shrank to 24.4% in FY19, compared with 34.2% a year ago.
- EBIT slumped by 58.7% YoY to SAR 15.0bn in FY19, despite lower general, administration, selling, and distribution expenses. Consequently, the EBIT margin contracted to 10.7% in FY19 from 21.5% in FY18.
- Net profit plunged 73.8% YoY to SAR 5.6bn in view of the mentioned factors and the impairment provision created to support restructuring of an associate. Thus, net profit margin for the year contracted to 4.0% in FY19 from 12.7% FY18.
- SABIC's Board recommended a 22% cash dividend for 2H19, at SAR 2.2 per share, amounting to SAR 6.6bn. The annual dividend stood at SAR 4.4 per share.
- On December 25, 2019, SAFCO and SABIC signed a share purchase agreement of SAR 4.59bn, under which SAFCO acquires 100% of SABIC Agri-Nutrients Investment Co. (SANIC). The acquisition would be affected by increasing SAFCO's capital and issuing new shares to SANIC's shareholders.
- On December 31, 2019, SABIC decided to liquidate three of its subsidiaries as part of its transformation plan. The decision includes SABIC Industrial Catalysts Co., Saudi Carbon Fiber Co., and Saudi Japanese Acrylonitrile Co.

Valuation: We reiterate our "Neutral" rating on the stock with a revised fair value of SAR 88.0 per share in view of the company's performance in FY19 and outlook for FY20.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	32.8	40.1	(18.2%)	146.3	139.7	4.7%
Gross Profit (SAR bn)	4.6	12.2	(62.3%)	42.3	35.5	19.1%
Operating Profit (SAR bn)	(0.6)	6.5	NM	22.3	15.0	48.6%
Net Profit (SAR bn)	(0.7)	3.2	NM	11.6	5.6	105.9%
EPS (SAR)	(0.2)	1.1	NM	3.9	1.9	105.9%
Gross Margin (%)	14.1%	30.5%	(16.5%)	28.9%	25.4%	3.5%
Operating Margin (%)	(1.9%)	16.2%	NM	15.2%	10.7%	4.5%
Net Profit Margin (%)	(2.2%)	8.1%	NM	7.9%	4.0%	3.9%

Source: Company Financials, FALCOM Research

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ALCOM 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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