

1Q 2018 Results Update

June 11, 2018

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	27.1
Target Price (SAR)	30.8
Upside/Downside (%)	13.7%

As of June 10, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.2
52 Wk High (SAR)	28.55
52 Wk Low (SAR)	18.44
Total Outstanding shares (in mn)	450
Free Float (%)	82.9%

SIIG vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(1.3%)	(4.0%)
6m	44.1%	28.0%
12m	39.9%	27.0%

Major Shareholders (%)

Public Pension Agency	10.7%
General Org. for Social Insurance	5.8%

Quarterly Sales (SAR mn) and Operating Margin

 Source: Bloomberg, Company Financials, FALCOM Research; Data as of 10th June 2018

1Q18 operating margins impacted by scheduled maintenance work at JV's

SIIG's net profit declined 36% YoY to SAR 199mn during 1Q18, primarily due to increased income attributable to minority interests, in addition to lower profit from its joint ventures, Saudi Chevron Phillips (SCP) and Jubail Chevron Phillips (JCP), and higher selling and marketing, and financing expenses. Lower profit from JVs is attributable to scheduled suspension of operations at the two facilities for maintenance. Revenue increased by 31% YoY to SAR 2.2bn due to growth in revenue from SIIG's subsidiary, National Petrochemical Company (Petrochem).

SIIG through its subsidiaries is a key producer of propylene and polypropylene (PP) in Saudi Arabia. An increase in propylene and PP prices led by increasing oil prices and growing demand from China and the Indian subcontinent has resulted in a positive revenue growth for the company. As per the Chemical Economics Handbook (HIS), the demand for PP will increase 25% by 2022 from the current levels. Additionally, a healthy balance sheet and high FCF yield make the stock a good investment bet. The JCP and SCP plants have restarted operations, after the scheduled maintenance in 1Q18, and are expected to push net profit up during the remaining quarters of the year. Based on these factors we maintain our 'Overweight' rating on the stock.

- Revenue increased by 31% YoY to SAR 2.2bn as a result of growth in income from Petrochem, in line with increased petrochemical prices year-on-year.
- Gross profit rose by 52% YoY to SAR 763mn and gross margin improved by 471bps to 34.5% as YoY growth in petrochemical prices outpaced the feedstock price increase.
- Operating profit, however, increased only by 8% YoY to SAR 639mn due to low lower income from JVs (SAR 37mn in 1Q18 vs. SAR 261mn in 1Q17). Operations remained closed for maintenance for 51 days at JCP and 33 days at SCP during 1Q18. Furthermore, the selling and marketing expense increased by 6% YoY to SAR 161mn. This was partially offset by a SAR 21mn loss from sale of joint operations in 1Q17 as SIIG did not reported any such losses in 1Q18. Consequently, the operating margin declined by 621bps to 28.9%.
- Profit after tax increased by 9% YoY to SAR 513mn as SIIG's share of profit in its subsidiary, Petrochem, increased from SAR 84mn in 1Q17 to SAR 167mn in 1Q18. This was partially offset by lower profit from JVs, and higher selling and marketing, and financing expenses.
- Net income declined by 36% YoY to SAR 199mn, due to an increase in profit attributable to minority interests, in addition to the above mentioned reasons.
- Operations at JCP and SCP plants have re-started in March 2018 after the completion of scheduled maintenance work. We expect operational efficiencies to increase and drive SIIG's bottom line in 2018.
- SIIG declared a SAR 0.50 per share dividend for FY17 and plans to distribute a similar amount for 1H18.

Valuation: We maintain our target price at SAR 30.8per share, and retain our 'Overweight' view on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,211	1,685	31.2%	8,661	7,364	17.6%
Gross Profit (SAR mn)	763	502	51.9%	2,512	2,264	11.0%
Operating Profit (SAR mn)	639	592	8.0%	2,254	2,170	3.9%
Net Profit (SAR mn)	199	310	-35.7%	987	1,004	-1.7%
EPS basic (SAR)	0.44	0.69	-35.7%	2.19	2.23	-1.7%
Gross Margin (%)	34.5%	29.8%	4.7%	29.0%	30.7%	-1.7%
Operating Margin (%)	28.9%	35.1%	-6.2%	26.0%	29.5%	-3.4%
Net Profit Margin (%)	9.0%	18.4%	-9.4%	11.4%	13.6%	-2.2%

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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