Saudi Basic Industries Corp

Basic Materials | SABIC AB | 2010.SE

1Q 2018 Results Update

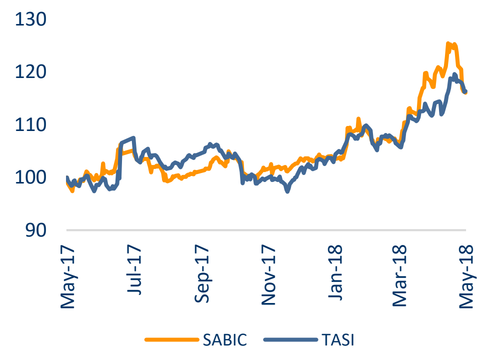
May 7, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	114.1
Target Price (SAR)	112.2
Upside/Downside (%)	-1.5%

As of May 7, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	342.2
52 Wk High (SAR)	123.8
52 Wk Low (SAR)	94.75
Total Outstanding shares (in bn)	3.0
Free Float (%)	21.0%

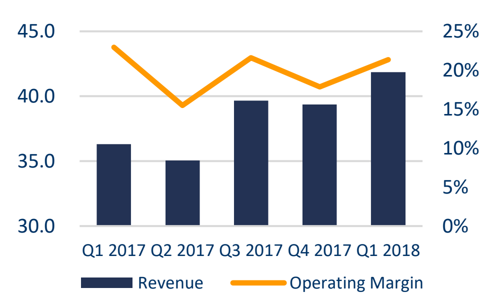
SABIC Vs TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(0.9%)	(4.8%)
6m	14.4%	(2.2%)
12m	16.1%	(0.2%)

Major Shareholders (%)	%
Public Investment Fund	70.0%
General Organization for Social Insurance	5.7%
Saudi British Bank	0.2%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 7th May 2018

1Q18 net income boosted by higher product prices

Saudi Basic Industries Corp. (SABIC) reported results in line with market consensus for 1Q18, with net income at SAR5.5bn, up 5.2% Y/Y and 5.5% Q/Q. The increase in net income came largely on the back of buoyant revenue. The growth in net income was despite the company incurring restructuring costs of SAR1.1bn in the quarter.

- In 1Q18, the company recorded revenue of SAR41.9bn, up 15.3% Y/Y and 6.3% Q/Q. Revenue was boosted by higher selling price and sales volume. As expected, the recent run-up in crude prices had positive impact on the Petrochemical prices. However, the growth in product prices was less than the expansion in the cost of crude.
- In the quarter, gross profit stood at SAR14.2bn, up 5.0% Y/Y and 19.8% Q/Q. Gross margin contracted 323 bps to 34.0%. Y/Y. The decrease in gross margin was mainly due to the time lag in passing the increase in raw material costs to consumers. We foresee the coming quarters to see increase in gross margins as petchem prices catch up with crude prices.
- EBIT stood at SAR8.9bn in 1Q18, up 7.3% Y/Y and 27.0% Q/Q. EBIT Margin decreased 160bps Y/Y as decrease in gross margin outweighed increased productivity from its ongoing restructuring program.
- Net profit increased over the quarter on the back of increased operating profit and positive contribution from Hadeed and Ibn Rushd, both of which turned profitable.
- SABIC is focused on the continued implementation of its restructuring plan. The benefits of the restructuring are becoming visible now as the increased productivity and cost efficiencies begin to kick in. While the headline numbers were in line with what the market expected, margins came in higher than street expectation and can be directly attributed to the focus on cost and productivity rationalization, helped by turnaround in Ibn-Rushed and Hadeed performance.
- On 2 May 2018, SABIC and ExxonMobil agreed to set up a new joint venture to advance development of the Gulf Coast Growth Ventures project, a 1.8 million tonne ethane cracker currently planned for construction in San Patricio County, Texas. The project's estimated cost is USD7.3bn (SAR 27bn) and SABIC's share is 50%. The cost will be financed from the company' internal sources and other funding. The project is expected to launch in 1H2022 and includes a 1.8 million ton ethylene unit which will feed a monoethylene glycol unit and two polyethylene units. The project is reaffirmation of SABIC's stated objective of geographical diversification which will stabilize earnings and provide access to competitive feedstock.
- OPEC's strict adherence to production controls and escalating geopolitical situation have resulted in significant increase in crude oil prices. The oil price trend provides more headroom to KSA government to decelerate the pace of its fiscal reforms to lessen the impact on its ordinary citizens. Stronger market fundamentals along with ongoing restructuring which continues to incrementally increase efficiency and productivity will positively impact the company's margins and profitability.

Valuation: In the light of rising crude oil prices and also incorporating strong 1Q18 performance, we have revised our fair value slightly upwards to SAR112.2 per share, while we retain our 'Neutral' rating on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	%YoY
Revenues (SAR bn)	41.9	36.3	15.3	160.1	150.4	6.5
Gross Profit (SAR bn)	14.2	13.5	5.0	52.6	50.3	4.5
Operating Profit (SAR bn)	8.9	8.3	7.3	33.4	29.4	13.6
Net Profit (SAR bn)	5.5	5.2	5.2	23.5	18.4	27.9
EPS (SAR)	1.8	1.7	5.2	7.84	6.13	27.9
Gross Margin (%)	34.0%	37.3%	(3.3)	32.8%	33.4%	(0.6)
Operating Margin (%)	21.4%	23.0%	(1.6)	20.8%	19.5%	1.3
Net Profit Margin (%)	13.2%	14.4%	(1.2)	14.7%	12.2%	2.5

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 ≥ 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 ≥ 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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