

3Q 2018 Results Update

November 21, 2018

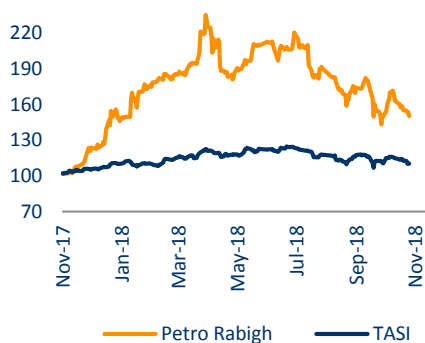
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	20.2
Target Price (SAR)	19.8
Upside/Downside (%)	-2.0%

As of November 20th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	17.7
52 Wk High (SAR)	31.8
52 Wk Low (SAR)	13.1
Total Outstanding shares (in mn)	876
Free Float (%)	21.7%

Petro Rabigh vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(1.9%)	(0.1%)
6m	(18.7%)	(12.3%)
12m	50.4%	40.1%

Major Shareholders (%)

Sumitomo Chemical Co.	37.5%
The Saudi Arabian Oil Company	37.5%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 20th 2018

Bottom line shrinks 65.5% YoY on lower refining margins

Petro Rabigh's 3Q18 revenue grew 31.7% YoY and 12.1% QoQ to SAR 12.0bn. However, net profit declined 65.5% YoY (+3.8% QoQ) to SAR 243mn, mainly due to lower refined products margins. Revenue growth was ascribed to higher petrochemical prices and sales volume. However, lower refining margins more than offset this growth, leading gross margins to shrink from 12.1% in 3Q17 to 5.0% in 3Q18; gross profit declined 44.9% YoY and 8.5% QoQ to SAR 607mn. General and administrative expenses declined 26.0% YoY to SAR 202mn, while selling and marketing expenses tripled from SAR 20mn in 3Q17 to SAR 62mn in 3Q18. Consequently, operating profit (excluding other income) declined 57.6% YoY to SAR 344mn.

Petro Rabigh recently appointed Mr. Nasser D. Al-Mahasher as the CEO of the company and re-appointed Mr. Abdulaziz M. Al-Judaimi as the Chairman of board of directors, while Mr. Noriaki Takeshita was named as the Vice Chairman. We expect revenue growth to continue in coming years, led by the rise in petrochemicals and refined products' prices. However, profitability may be impacted by the company's high level of debt and shrinking refining margins. Additionally, delays in the integration of Rabigh Phase I and Phase II projects (which was initially expected to start operations in 1Q18) within the Petro Rabigh Industrial Complex, are likely to prevent the company from reporting margin improvements. Therefore, we maintain our 'Neutral' view on the stock.

- Petro Rabigh's revenue jumped 31.7% YoY and 12.1% QoQ to SAR 12.0bn, mainly due to higher petrochemical prices and growth in volumes. Revenue from refined products stood at SAR 9.4bn (+34.7% YoY), while revenue from petrochemicals was SAR 2.6bn (+22.1% YoY).
- Gross profit declined 44.9% YoY and 8.5% QoQ to SAR 607mn due to lower refining margins. As a result, gross margin dropped from 12.1% in 3Q17 to 5.0% in 3Q18.
- Selling and marketing expenses tripled (+217.0% YoY) to SAR 62mn in 3Q18, while general and administrative expenses declined 26.0% YoY to SAR 202mn.
- Operating income (excluding other income) declined 57.6% YoY to SAR 344mn, due to lower gross margin and higher selling and marketing expense, partially offset by lower general and administrative expenses. Consequently, operating margin shrank from 8.9% in 3Q17 to 2.9% in 3Q18.
- Net income declined 65.5% YoY to SAR 235mn, mostly in-line with lower operating income, as higher finance charges were offset by a decline in zakat expenses, whereas, growth in finance income was offset by a drop in other income.
- We expect revenue growth to continue in-line with higher petrochemical prices; however, shrinking refining margins are expected to impact profit growth. Delays in integration of Rabigh Phase I and Phase II projects within the Petro Rabigh Industrial Complex are expected to impact the company's performance in the current financial year.

Valuation: We revise our target price down slightly with a fair value of SAR 19.8 per share, in-line with weak 3Q18 results. We maintain our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	12,041	9,141	31.7%	45,260	34,211	32.3%
Gross Profit (SAR mn)	607	1,102	-44.9%	3,110	2,696	15.4%
EBITDA (SAR mn)	949	1,422	-33.3%	4,196	4,094	2.5%
Net Profit (SAR mn)	243	706	-65.5%	1,375	1,423	-3.4%
EPS basic (SAR)	0.3	0.8	-65.5%	1.6	1.6	-3.4%
Gross Margin (%)	5.0%	12.1%	-7.0%	6.9%	7.9%	-1.0%
EBITDA Margin (%)	7.9%	15.6%	-7.7%	9.3%	12.0%	-2.7%
Net Profit Margin (%)	2.0%	7.7%	-5.7%	3.0%	4.2%	-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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