

2Q19 Results Update

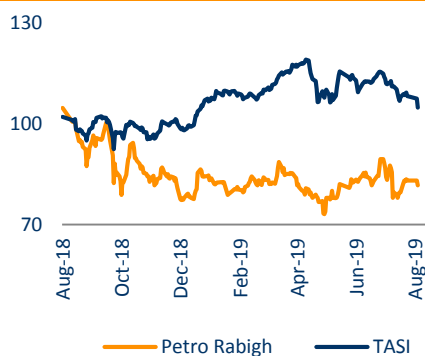
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	20.00
Target Price (SAR)	18.4
Upside/Downside (%)	(7.6%)

As of August 27, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	17.5
52-Wk High (SAR)	24.4
52-Wk Low (SAR)	17.3
Total Outstanding Shares (in mn)	876
Free Float (%)	24.2%

Petro Rabigh vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(6.8%)	(0.2%)
6m	2.6%	4.8%
12m	(18.4%)	(23.1%)

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 August 27th, 2019

Deeper losses in Refined Product segment hurt Rabigh's earnings in 2Q19

Petro Rabigh slipped to a net loss of SAR308.5mn in 2Q19 from a net income of SAR235mn in 2Q18, as operating losses in the Refined Products segment widened to SAR501.2mn from SAR234.6mn last year. Furthermore, decline in profits in the Petrochemical segment aggravated the overall loss at the company level. Results were also impacted by the adoption of IFRS 16 and revision of useful lives of property, plant and equipment. Petro Rabigh's revenues fell 15.9% YoY to SAR9.0bn in 2Q19, with revenue from the petrochemical segment declining to SAR2.0bn from SAR2.7bn due to lower petrochemical prices over the comparable period.

The Refining Products segment plunged to an operating loss in 1H19, wiping out the operating profit recorded in 1Q19. The sharp decline in operating margins for refined and petrochemical products and rising financial charges remained a concern, even though the company managed to contain its SG&A expenses. On the other hand, the commencement of production at Petro Rabigh phase II facility is expected to facilitate the company to produce a new range of high value petrochemical products within Saudi Arabia which is expected to be value accretive going forward. In view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Petro Rabigh's revenue fell 15.9% YoY to SAR9.0bn, mainly due to lower revenues from the Petrochemical and Refined Products segments over the comparable period. Revenue from Refined Products stood at SAR7.0bn (2Q18: SAR8.1bn), while that from petrochemicals totaled SAR2.0bn (2Q18: SAR2.7bn).
- Gross profit declined 56.2% YoY and 64.5% QoQ to SAR291mn in 2Q19. As a result, gross profit margin slipped to 3.2% in 2Q19 from 6.2% in 2Q18.
- Selling, general and administrative expenses declined 5.8% YoY and 3.1% QoQ to SAR346mn in 2Q19, in line with the fall in revenues.
- Operating loss (including other income) stood at SAR30.2mn vis-à-vis an operating income of SAR333.1mn a year earlier as the Refined Products segment recorded an operating loss of SAR501.2mn compared to SAR234.6mn last year. Thus, operating margin turned negative at (0.3%) compared to 3.1% 2Q18. On quarterly basis, the company slipped from a reported operating profit of SAR478mn in 1Q19.
- Net loss for the period was SAR308.5mn vis-à-vis net profit of SAR234.5mn and SAR256.8mn for 2Q18 and 1Q19, respectively, due to the reasons mentioned above. Eventually, the company's net loss margin was 3.4% against a net profit margin of 2.2% in 2Q18 and 3.0% in 1Q19.
- In July 2019, Petro Rabigh launched the creditors reliability test (CRT) for Petro Rabigh phase II, which was expected to start production from August 1, 2019. The financial costs of CRT have already been factored in the budget allocated for phase II.

Valuation: We revise our target price to a fair value of SAR18.4 per share. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	9,032	10,743	(15.9%)	35,856	40,998	(12.5%)
Gross Profit (SAR mn)	291	664	(56.2%)	2,342	2,315	1.2%
EBITDA (SAR mn)	509	903	(43.6%)	3,183	3,361	(5.3%)
Net Profit (SAR mn)	(308)	235	NM	228	669	(65.8%)
EPS Basic (SAR)	(0.4)	0.3	NM	0.3	0.8	(65.8%)
Gross Margin (%)	3.2%	6.2%	(3.0%)	6.5%	5.6%	0.9%
EBITDA Margin (%)	5.6%	8.4%	(2.8%)	8.9%	8.2%	0.7%
Net Profit Margin (%)	(3.4%)	2.2%	(5.6%)	0.6%	1.6%	(1.0%)

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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