

2Q19 Results Update

September 26, 2019

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	22.7
Target Price (SAR)	26.0
Upside/Downside (%)	14.6%

As of 26th September, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.2
52 Wk High (SAR)	28.2
52 Wk Low (SAR)	20.9
Total Outstanding shares (in mn)	450
Free Float (%)	86.9%

SIIG vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	5.5%	0.1%
6m	(1.9%)	(4.1%)
12m	(5.4%)	(17.9%)

Major Shareholders (%)

Public Pension Agency	8.96%
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Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 25th September 2019

Lower selling prices and reduced profit share from JVs hurt SIIG's bottom line in 2Q19

Saudi Industrial Investment Group (SIIG)'s net profit after zakat and tax declined %36.2 YoY to SAR 205.1mn in 2Q19, impacted by the continuous decline in SIIG's profit share from National Petrochemical Company (Petrochem). SIIG's profit share in Petrochem stood at SAR 96mn in 2Q19, compared with SAR 136mn in 2Q18. Petrochem's revenue for the quarter fell as a result of lower selling prices. Moreover, the bottom line was also weighed by a decrease in the company's profit share from JVs with Saudi Chevron Phillips (SCP) and Jubail Chevron Phillips (JCP) to SAR 112mn in 2Q19 from SAR 187mn in 2Q18.

SIIG through its subsidiaries is a key producer of propylene and polypropylene (PP) in the KSA. In 2Q19, the prices of propylene and PP dropped due to decline in crude oil prices. This resulted in lower revenues for the company during the quarter. Besides, the latest monthly oil report from OPEC shows that the global oil demand is expected to decline by 60,000 bpd to 1.08 million bpd in 2020 given the global economic slowdown worries. Although the company's margins have come under pressure compared to the previous year in view of lower oil prices over the comparable period, the overall performance of the company has improved considerably over the previous quarter. The company not only managed to contain its expenses but also improved in profit share from associate companies. In addition, during a recent material feedstock shortage in KSA, SIIG managed to maintain its feedstock supplies well. Given the company's focus on debt reduction and operations management, we maintain our 'Overweight' rating on the stock.

- Revenue declined %26.3 YoY to SAR 1.7bn in 2Q19 due to lower selling prices. Revenue decreased %18.3 QoQ from SAR 2.0bn in 1Q19.
- Gross profit decreased %36.3 YoY to SAR 459.9mn in 2Q19, against SAR 722.3mn in 2Q18, due to a sharp decrease in overall revenue. Consequently, gross margin shrank to %27.9 in 2Q19 from %32.3 in 2Q18.
- Operating profit declined %40.9 YoY to SAR 435.1mn in 2Q19 despite lower selling, general, and administrative expenses. The decline is primarily attributed to lower gross profit. Subsequently, the operating margin contracted to %26.4 in 2Q19 from 32.9% in 2Q18.
- Net income declined %36.2% YoY to SAR 205.1mn as SIIG's share of profit from JVs with SCP and JCP as well as Petrochem decreased on annual basis. However, on a quarterly basis, net income increased %15.1 as share of profit from joint-ventures SCP and JCP increased to SAR 112mn in 2Q19 from SAR 91mn in 2Q18, along with increase in share of profit Petrochem.

Valuation: We revise our target price to a fair value of SAR 26.0 per share, and retain our "Overweight" view on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	1,651	2,239	(26.3%)	7,678	8,930	(14.0%)
Gross Profit (SAR mn)	460	722	(36.3%)	2,058	2,683	(23.3%)
Operating Profit (SAR mn)	435	737	(40.9%)	1,673	2,310	(27.6%)
Net Profit (SAR mn)	205	321	(36.2%)	693	865	(19.8%)
EPS basic (SAR)	0.46	0.71	(36.2%)	1.54	1.92	(19.8%)
Gross Margin (%)	27.9%	32.3%	(4.4%)	26.8%	30.0%	(3.2%)
Operating Margin (%)	26.4%	32.9%	(6.5%)	21.8%	25.9%	(4.1%)
Net Profit Margin (%)	12.4%	14.4%	(1.9%)	9.0%	9.7%	(0.7%)

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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