

### 3Q19 Results Update

December 12, 2019

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	20.9
Target Price (SAR)	25.0
Upside/Downside (%)	19.5%

As of 12<sup>th</sup> December, 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	9.4
52 Wk High (SAR)	28.2
52 Wk Low (SAR)	19.8
Total Outstanding shares (in mn)	450
Free Float (%)	86.9%

#### SIIG vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(4.9%)	(8.8%)
6m	(14.4%)	(9.5%)
12m	(17.8%)	(21.0%)

#### 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 12<sup>th</sup> December, 2019

#### SIIG's bottom line contracts on reduced product prices and lower profit share from JVs

Saudi Industrial Investment Group (SIIG)'s net profit attributable to shareholders declined 49.7% YoY to SAR 160.3mn in 3Q19, impacted by lower revenues and a reduced profit share from joint ventures (JVs) and associates. SIIG's share of profit of the projects managed jointly (SCP, JCP) plummeted to SAR 83mn in 3Q19 from SAR 177mn in 3Q18. Similarly, its share of profit from Petrochem nosedived to SAR 83mn from SAR 157mn over the same period. Revenue fell 14.8% YoY to SAR 2.0bn in 3Q19 on lower selling prices over the comparable period.

SIIG, through its subsidiaries, is a key producer of propylene and polypropylene (PP) in KSA. Thus, the company's performance largely depends on the movement in oil prices. In 3Q19, the decline in product prices were the main reason behind lower revenues, with the reduction in contribution from JVs and associates further hurting the bottom line. The latest monthly oil report from OPEC shows global oil demand would grow by 1.08 million barrels per day (mbpd) in 2020 to 100.88 mbpd, whereas supply will increase by 2.20 mbpd to 71.3 mbpd. The company's performance may have come under pressure due to factors beyond its control; however, operationally, SIIG managed to control its operating expenses and cut down its financing charges. Nonetheless, the sharp decline in the company's share prices offer an attractive upside potential. We maintain our "Overweight" rating on the stock.

- Revenue declined 14.8% YoY to SAR 2.0bn in 3Q19, but increased 18.6% QoQ from SAR 1.7bn in 2Q19.
- Gross profit decreased 33.8% YoY to SAR 491.2mn in 3Q19 as against SAR 742.5mn in 3Q18 due to a sharp fall in overall revenue. Consequently, the gross margin shrank to 25.1% in 3Q19 from 32.3% in 3Q18.
- Operating profit slipped 45.3% YoY to SAR 410.0mn in 3Q19 despite lower selling, general, and administrative expenses. The decline is primarily attributed to lower gross profit. Subsequently, the operating margin contracted to 20.9% in 3Q19 from 32.6% in 3Q18.
- Net income dropped 49.7% YoY to SAR 160.3mn as SIIG's share of profit from JVs with SCP and JCP as well as Petrochem decreased annually. On a sequential basis, net income contracted 21.9% due to the reduced share of profit from JVs and associates, lower other income, and higher provision for income taxes.
- Saudi Chevron Phillips, the company in which SIIG has 50% holdings, started a planned periodic maintenance shutdown (including catalyst replacement) on November 15, 2019, which will last for 26 days. The relevant financial impact is expected to show in 4Q19.

**Valuation:** We revise our target price to a fair value of SAR 25.0 per share and retain our "Overweight" view on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	1,958	2,297	(14.8%)	7,397	8,930	(17.2%)
Gross Profit (SAR mn)	491	742	(33.8%)	1,886	2,683	(29.7%)
Operating Profit (SAR mn)	410	749	(45.3%)	1,571	2,310	(32.0%)
Net Profit (SAR mn)	160	319	(49.7%)	610	865	(29.5%)
EPS Basic (SAR)	0.36	0.71	(49.7%)	1.36	1.92	(29.5%)
Gross Margin (%)	25.1%	32.3%	(7.2%)	25.5%	30.0%	(4.5%)
Operating Margin (%)	20.9%	32.6%	(11.7%)	21.2%	25.9%	(4.6%)
Net Profit Margin (%)	8.2%	13.9%	(5.7%)	8.2%	9.7%	(1.4%)

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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