

FY20 Results Update

March 01, 2021

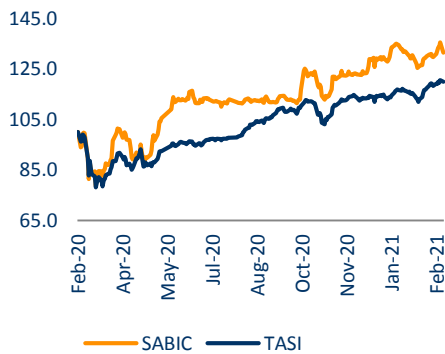
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	103.4
Target Price (SAR)	102.0
Upside/Downside (%)	(1.4%)

As of February 28, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	310.2
52-Wk High (SAR)	108.6
52-Wk Low (SAR)	61.9
Total Outstanding shares (in bn)	3.0
Free Float (%)	30.0%

SABIC vs. TASI (Rebased)

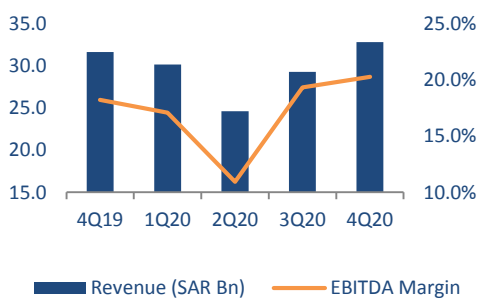


Price Performance (%)	Absolute	Relative
1m	0.8%	(3.1%)
6m	17.1%	1.8%
12m	31.4%	11.5%

Major Shareholders (%)

Aramco Chemical	70.0%
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Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of February 28, 2021

Bottom line contracts in FY20, but rises sharply in 4Q20 on growing demand for key products

Saudi Basic Industries Corp. (SABIC) reported a 99.2% YoY drop in net income to SAR 41.9mn in FY20. However, it managed to record a net profit of SAR 2.2bn in 4Q20 against a net loss of SAR 0.9bn in 4Q19 due to improving demand for the company's products. Revenue fell 13.6% YoY in FY20 to SAR 117.0bn, while cost of sales dropped 11.2% YoY to SAR 94.1bn. Increased net financial costs and impairment provisions in certain capital and financial assets, further weighed on SABIC's net income resulting in contraction in net margin to 0.04% from 3.84% in FY19.

SABIC's performance was stable in 4Q20 compared to the previous quarters due to healthy demand and tight supply of petrochemicals. The rise in bottom line in 4Q20 was primarily driven by a 6.7% YoY increase in revenue from the Petrochemicals and Specialties segment to SAR 29.0bn. SABIC maintained robust fundamentals in FY20, with a debt-to-equity ratio of 0.24x and net-debt-to-EBITDA ratio of 0.64x. The company is expected to benefit from synergies arising from the Aramco merger, which it estimates would be in the range of SAR 5.6–6.8bn annually by 2025. EIA forecasts demand for oil and petrochemicals to rise gradually in FY21 as economic activity across the globe continues to improve during the year. However, rising oil inventories in 2H21, as the OPEC eases curbs on supply, could limit upward pressure on petrochemical prices and hurt SABIC's bottom line. Furthermore, new variants of the COVID-19 virus and unexpected plant shutdowns also remain key headwinds for the company. In view of the countervailing factors mentioned above, we maintain a "Neutral" rating on the stock.

- Revenue fell 13.6% YoY to SAR 117.0bn in FY20 due to lower average selling prices in the year amid marginally higher sales volumes. However, revenue rose 3.7% YoY to SAR 32.8bn in 4Q20 on higher sales volumes in the quarter vis-à-vis 4Q19.
- Gross profit declined 22.4% YoY to SAR 22.8bn as the drop in revenue offset the 11.2% YoY fall in cost of sales to SAR 94.1bn. Consequently, gross profit margin narrowed to 19.5% in FY20 from 21.7% in FY19.
- Decrease in profit contribution from integral joint ventures offset the slight dip in SG&A expenses and resulted in a 61.1% YoY drop in operating profit to SAR 4.5bn in FY20. Subsequently, EBIT margin shrank to 3.8% from 8.5% in FY19.
- Increased net financial costs and impairment provisions in certain capital and financial assets offset the improvement in zakat charges; as a result, SABIC registered a 99.2% YoY plunge in net income to SAR 41.9mn. Net profit margin contracted to 0.0% from 3.8% in FY19.
- SABIC reported a net profit of SAR 2.2bn in 4Q20 against a net loss of SAR 0.9bn in 4Q19, owing to higher sales volume and reversal of impairment provisions in certain capital assets.
- On December 16, SABIC's Board recommended a cash dividend of SAR 1.5 per share for 2H20, equivalent to SAR 4.5bn or 15% of the company's share capital.
- On January 4, SABIC Agri-Nutrients Co. completed the purchase of 100% stake in SABIC Agri-Nutrients Investment Co. from SABIC. In exchange, SABIC received 59.37mn new shares in SABIC Agri-Nutrients and its stake in the latter increased to 50.1% from 42.99%.
- On January 18, as per a recent Reuters report, SABIC hired NCB and several other foreign investment banks to advise on the IPO of its specialty chemicals unit.

Valuation: We revise our target price upward to a fair value of SAR 102.0 per share and maintain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR bn)	32.8	31.7	3.7%	134.3	117.0	14.8%
Gross Profit (SAR bn)	8.1	3.5	133.5%	32.9	22.8	44.2%
Operating Profit (SAR bn)	3.7	(1.4)	NM	13.5	4.5	200.5%
Net Profit (SAR bn)	2.2	(0.9)	NM	8.5	0.0	20274.4%
EPS (SAR)	0.74	(0.30)	NM	2.85	0.01	20274.4%
Gross Margin (%)	24.7%	11.0%	13.7%	24.5%	19.5%	5.0%
Operating Margin (%)	11.2%	(4.5%)	NM	10.0%	3.8%	6.2%
Net Profit Margin (%)	6.8%	(2.8%)	NM	6.4%	0.0%	6.3%

Source: Company Financials, FALCOM Research

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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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