

1Q21 Results Update

June 8, 2021

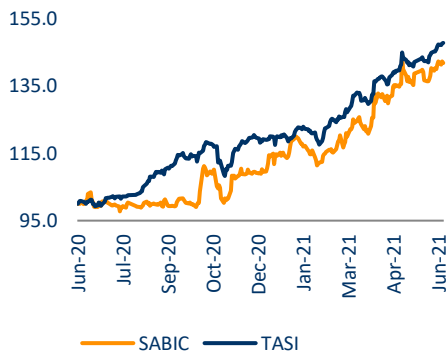
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	125.6
Target Price (SAR)	124.0
Upside/Downside (%)	(1.3%)

As of June 8, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	376.8
52-Wk High (SAR)	128.2
52-Wk Low (SAR)	86.1
Total Outstanding shares (in bn)	3.0
Free Float (%)	30.0%

SABIC vs. TASI (Rebased)

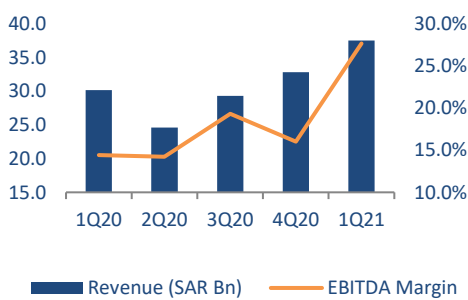


Price Performance (%)	Absolute	Relative
1m	3.8%	(0.5%)
6m	30.2%	5.8%
12m	41.8%	(5.9%)

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 June 8, 2021

Robust demand for petrochemical products boosts bottom line in 1Q21

Saudi Basic Industries Corp. (SABIC) reported a 24.3% YoY increase in revenue to SAR 37.5bn in 1Q21, supported by a 28.0% YoY increase in the average selling prices of petrochemical products during the quarter. Gross profit soared 137.4% YoY to SAR 11.2bn, while gross profit margin widened 1,418 bps YoY to 29.8%. Lower SG&A expenses resulted in an operating profit of SAR 7.0bn, while operating margin improved 1,881 bps YoY to 18.6%. Reduced net financial costs in 1Q21 led SABIC to record a net profit of SAR 4.9bn and resulted in a 1,642 bps YoY increase in net margin to 13.0% during the quarter.

SABIC's performance further improved in 1Q21 as compared to the previous quarters due to robust demand and tight supply of petrochemicals. The rise in top line in 1Q21 was primarily driven by growth in revenue from the Petrochemicals (26.1% YoY to SAR 32.7bn) and Agri-Nutrients (24.0% YoY to SAR 1.8bn) segments on higher prices of petrochemical products and urea due to strong demand. However, we believe petrochemical prices would stabilize in the near term on addition of further supply in the coming quarters. SABIC reported an improvement in debt-to-equity ratio to 0.21x during the quarter, from 0.24x in 1Q20, on reduction in total debt. The company is seeking the spin-off of its Specialty Chemicals segment through an IPO and has hired several local and foreign investment banks for the same. This is expected to further improve the company's capital structure and strengthen the balance sheet. SABIC has generated SAR 156.0mn through synergies since the merger with Aramco in June 2020, and is expected to realize synergies worth SAR 5.6–6.8bn annually by 2025 from the merger. We expect the company to record an improvement in sales volume in FY21 as against FY20, on improving demand amid an uptick in global economic activity. However, unexpected shutdown of plants for maintenance and increasing feedstock costs may create challenges for the company in the near term. Moreover, expectations of additional waves of COVID-19 cases at several oil-importing countries may hamper the demand for petrochemicals and create headwinds for the sector. In view of the countervailing factors mentioned above, we maintain a "Neutral" rating on the stock.

- Revenue advanced 24.3% YoY to SAR 37.5bn in 1Q21 due to higher average selling prices in the quarter; sales volumes declined 4% YoY in 1Q21. Revenue increased 14.3% QoQ in 1Q21 from SAR 32.8bn in 4Q20 on higher selling prices of products.
- Gross profit surged 137.4% YoY to SAR 11.2bn as the rise in top line offset the 3.4% YoY increase in cost of sales to SAR 26.4bn. Consequently, gross profit margin expanded to 29.8% in 1Q21 from 15.6% in 1Q20.
- An increase in profit contribution from joint ventures, coupled with a dip in total SG&A expenses, led SABIC to report an operating profit to SAR 7.0bn in 1Q21 vis-à-vis an operating loss of SAR 0.1bn in 1Q20. Subsequently, EBIT margin improved to 18.6% from (0.2%) in 1Q20.
- Lower net financial costs and higher profit share from associates offset higher zakat and tax charges and resulted in a net profit of SAR 4.9bn in 1Q21 against a net loss of SAR 1.0bn in 1Q20. Consequently, net margin increased to 13.0% from (3.5%) in 1Q20.
- On April 13, SABIC's shareholders approved the Board's recommendation of a SAR 1.5 per share cash dividend for 2H20, equivalent to SAR 4.5bn (15% of SABIC's share capital).
- On April 29, SABIC announced that it had received sales and marketing rights from Saudi Aramco for 5.4mn tons (MT) of chemicals and polymer products. This is expected to result in addition of 0.9MT of new products to SABIC's sales and marketing portfolio.
- On April 29, SABIC signed a deal with Sadara Chemical Co. to market 1.7MT of its products.

Valuation: We revise our target price upward to a fair value of SAR 124.0 per share and maintain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR bn)	37.5	30.2	24.3%	160.3	116.9	37.0%
Gross Profit (SAR bn)	11.2	4.7	137.4%	44.9	22.9	96.2%
Operating Profit (SAR bn)	7.0	(0.1)	NM	27.4	4.6	499.5%
Net Profit (SAR bn)	4.9	(1.0)	NM	19.2	0.1	28,609.8%
EPS (SAR)	1.62	(0.35)	NM	6.40	0.02	28,609.8%
Gross Margin (%)	29.8%	15.6%	14.2%	28.0%	19.6%	8.4%
Operating Margin (%)	18.6%	(0.2%)	18.8%	17.1%	3.9%	13.2%
Net Profit Margin (%)	13.0%	(3.5%)	16.4%	12.0%	0.1%	11.9%

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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