

2Q21 Results Update

September 27, 2021

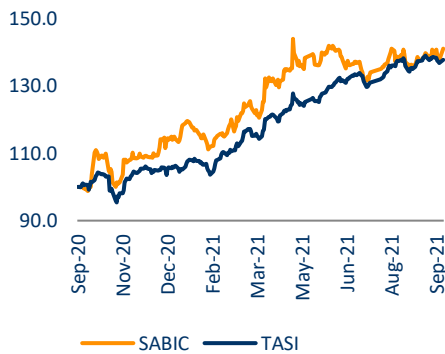
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	125.2
Target Price (SAR)	124.0
Upside/Downside (%)	(1.0%)

As of September 26, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	375.6
52-Wk High (SAR)	127.8
52-Wk Low (SAR)	87.7
Total Outstanding shares (in bn)	3.0
Free Float (%)	30.0%

SABIC vs. TASI (Rebased)

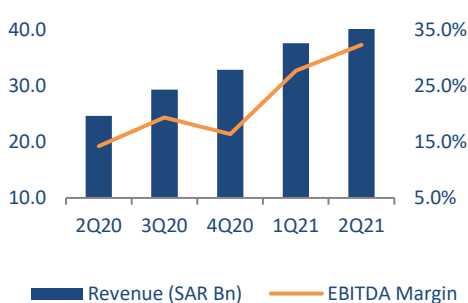


Price Performance (%)	Absolute	Relative
1m	4.0%	2.0%
6m	17.0%	(3.5%)
12m	41.0%	3.3%

Major Shareholders (%)

Aramco Chemical	70.0%
General Organization for Social Insurance	7.64%

Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 26, 2021

Higher top line, share of results of JV and associates boost bottom line in 2Q21

Saudi Basic Industries Corp. (SABIC)'s revenue rose 72.3% YoY to SAR 42.4bn in 2Q21, supported by higher average selling prices of key products during the quarter. Meanwhile, the top line increased 45.9% YoY to SAR 79.9bn in 1H21 on growth in revenue from Petrochemicals (47.5% YoY to SAR 69.1bn) and Agri-Nutrients (29.3% YoY to SAR 4.3bn) segments. Gross profit soared 284.4% YoY to SAR 13.8bn in 2Q21, while gross profit margin widened 1,794 bps YoY to 32.5%. A higher share of results from associates resulted in net profit of SAR 7.6bn while net margin expanded 2,705 bps YoY to 18.0% during 2Q21. SABIC's performance improved in 2Q21 from the previous year due to continued momentum in demand for petrochemicals and other commodity products. Steady demand for petrochemical and fertilizer products translated into higher prices for these commodities and led the company to record an increase in revenue in the Petrochemicals and Agri-Nutrients segments. However, compared to 1Q21, prices of several petrochemicals (monoethylene glycol, methanol, polypropylene) stabilized across North America, China, and other Asian markets due to the resumption and addition of production plants in these regions. SABIC's debt-to-equity ratio improved to 0.21x during the quarter from 0.23x in 2Q20 on lower total debt. SABIC has realized synergy worth USD 230mn (SAR 862.7mn) since the merger with Aramco in June 2020 till 2Q21, and is expected to realize total synergy equivalent to USD 1.5–1.8bn (SAR 5.6–6.8bn) by 2025 from the merger. The management expects the company to record higher sales volume and value in FY21 as against FY20, on steady petrochemical demand, but anticipates moderation in margins. Moreover, increasing oil and feedstock costs, easing supply constraints, and additions in global production capacity may pose challenges for the company in the near term. In view of the countervailing factors mentioned above, we maintain a "Neutral" rating on the stock.

- Revenue advanced 72.3% YoY to SAR 42.4bn in 2Q21 due to higher average selling prices in the quarter; sales volumes remained flat YoY in 2Q21. Revenue increased 13.0% QoQ in 2Q21 from SAR 37.5bn in 1Q21 on higher sales volume and prices of products.
- Gross profit surged 284.4% YoY to SAR 13.8bn as the rise in the top line offset the 36.1% YoY increase in cost of sales to SAR 28.6bn. Consequently, gross profit margin expanded to 32.5% in 2Q21 from 14.6% in 2Q20.
- A sharp rise in profit contribution from JVs offset the increase in total SG&A expense, which led to SABIC reporting an operating profit to SAR 10.1bn in 2Q21 vis-à-vis an operating loss of SAR 1.3bn in 2Q20. Subsequently, EBIT margin widened to 23.7% from (5.1%) in 2Q20.
- A higher profit share from associates and other income offset the increase in finance cost and total zakat and tax charges, and resulted in a net profit of SAR 7.6bn in 2Q21 against a net loss of SAR 2.2bn in 2Q20. Consequently, net margin expanded to 18.0% from (9.0%) in 2Q20.
- On June 22, SABIC's Board recommended a cash dividend of SAR 1.75 per share for 1H21, equivalent to SAR 5.25bn (17.5% of SABIC's share capital).
- On September 19, SABIC announced that it began commissioning activities of a JV project with Exxon Mobil in the US Gulf Coast. The project includes setting up of an ethylene production unit with a capacity of 1.8 million tons per annum, which will feed two polyethylene units and a monoethylene glycol unit. The project is expected to have a positive impact on SABIC's financials after completion.

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

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR bn)	42.4	24.6	72.3%	159.7	116.9	36.6%
Gross Profit (SAR bn)	13.8	3.6	284.4%	43.1	22.9	88.6%
Operating Profit (SAR bn)	10.1	(1.3)	NM	27.3	4.6	497.4%
Net Profit (SAR bn)	7.6	(2.2)	NM	20.2	0.1	30,091.8%
EPS (SAR)	2.55	(0.74)	NM	6.73	0.02	30,091.8%
Gross Margin (%)	32.5%	14.6%	17.9%	27.0%	19.6%	7.4%
Operating Margin (%)	23.7%	(5.1%)	28.8%	17.1%	3.9%	13.2%
Net Profit Margin (%)	18.0%	(9.0%)	27.1%	12.6%	0.1%	12.6%

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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