



Initiation Coverage

February 26, 2018

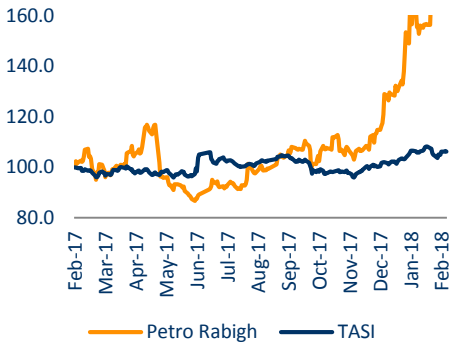
Recommendation	Neutral
Current Price (SAR)	23.2
Target Price (SAR)	21.8
Upside/Downside (%)	(6.1%)

As of February 22, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	20.3
52 Wk High (SAR)	24.0
52 Wk Low (SAR)	11.0
Total Outstanding shares (in mn)	876.0
Free Float (%)	21.7%

Petro Rabigh Vs TASI (Rebased)*

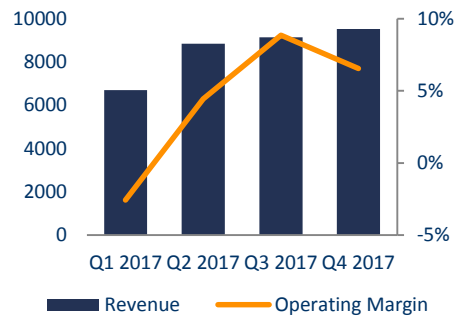


Price Performance (%)	Absolute	Relative
1m	13.1%	13.5%
6m	85.7%	81.6%
12m	84.5%	78.4%

Major Shareholders (%)

Sumitomo Chemical	37.5%
ARAMCO	37.5%

Quarterly Sales (SAR mn) and Operating Margin



Source: Company Financials, FALCOM Research; Data as of 22nd February 2018

In FY 2017, Petro Rabigh Co. revenue grew by 36% YoY to SAR 34bn driven by higher petrochemical prices and increased sales volume. Gross profit increased by 143% YoY to SAR 2.7bn as compared to SAR 1.1bn in 2016. Net income also expanded impressively from SAR 35mn in FY16 to SAR 1.4bn in 2017. The improved performance was primarily led by improved operational efficiency, higher refining margins and improved product prices.

Phase II project, in which the company's capacity and production will expand substantially, provides the company with significant near to medium term revenue visibility. However, with the recent run-up in share price, which has brought it close to the highest level in two years, there is little valuation comfort for investors due to which we recommend a wait and watch policy so as to ascertain that street expectations are being translated into actual performance. Keeping all the factors in mind, we recommend neutral rating with a target price of SAR 21.8.

Strong FY 2017 results on improved price realisation and operational efficiency:

In FY 2017, net income increased to SAR 1.4bn as compared to SAR 35mn in FY 2016 as the company was able to realise higher margins for its petrochemical and refining products. The increase in margins was driven by increased revenue supported by operational improvements, despite periodic plant shutdowns. This bodes well for the future and one can expect further top and bottom-line improvement once phase II project becomes fully operational.

Petro Rabigh Phase II project is well on track:

Some units in Rabigh's Phase II project have commenced operations in 2017 and more units are expected to start production in the coming year. With the capacity expansion proceeding smoothly and incremental capacity expected to come online during the second half of 2018, we expect 2019 to witness the full impact of the company's elevated financial and operational performance.

Share price run-up leaves little headroom for negative surprise:

The recent run-up in Rabigh's share price indicates that the street has already factored in most of the positive news in the company's valuation. As a reflection of analyst optimism, the share price is almost at its two year high. While the handsome price appreciation in the recent past is an indicator of the investment community's confidence that the company has reached an inflection point, it also leaves sparse headroom for earnings disappointment. Any negative surprise could result in strong price correction in the stock and possible rating downgrade.

Weak Saudi economy could scupper the company's well laid plans:

Fiscal consolidation and subsidy reforms in Saudi Arabia have resulted in below expectation economic growth and weakened consumer sentiment. Whilst the measures will be beneficial in the long run and the government is providing cash transfers to augment the lifestyle of lower and middle income Saudis, any prolongment of the soft economic growth could affect the company negatively and impact its financial performance.

Valuation: We valued Petro Rabigh using the DCF Approach to arrive at a fair value of SAR 21.8 per share. We considered WACC at 5.9%, with a terminal growth rate of 2.0%.

	2017	2018E	2019E	2020E
Revenues (SAR bn)	34.2	38.8	48.8	47.1
Operating Profit (SAR bn)	1.6	1.2	3.0	1.8
EPS (SAR)	1.6	1.1	3.2	1.9
Operating Margin (%)	4.8%	3.0%	6.2%	4.0%
D/E (x)	4.1	3.7	2.9	2.5
RoE (%)	14.1%	9.0%	21.9%	11.9%
P/E (x)	14.1	19.7	6.7	11.3
Price/BV (x)	2.0	1.8	1.5	1.3
EV/EBITDA (x)	14.6	15.1	9.6	11.6

Source: Company Financials, FALCOM Research



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Valuation Summary**Explanation of valuation methodology and assumptions**

We valued Petro Rabigh using the DCF Approach to arrive at a fair value of SAR 21.8 per share. We considered WACC at 5.9% with a terminal growth rate of 2.0%. In relative terms, Rabigh is trading at 1yr forward P/E multiple of 16.4x, at a premium of 19.5% to its sector peers and 19.1% to the Tadawul All Share Index.

SAR Mn	FY 2017	FY 2018E	FY 2019E	FY 2020E	FY 2021E	
EBIT	1,653	1,168	3,010	1,780	1,832	
Taxes	(93)	(63)	(184)	(110)	(112)	
Depreciation, amortization and impairment	2,441	2,538	2,682	2,794	2,879	
Changes in working capital	(1,041)	3,092	478	129	(13)	
Net capital expenditure	(2,603)	(3,546)	(3,727)	(2,889)	(2,183)	
Free Cash Flow to firm	358	3,188	2,259	1,704	2,404	
<i>Discount Factor</i>		1.0	0.9	0.8	0.8	
PV of free cash flow to firm		3,035	2,031	1,447	1,927	
Net Present Value (A)					8,440	
PV Terminal Value (B)					50,392	
Assumed Terminal Growth Rate					2.0%	
Discount Rate					5.9%	
Enterprise Value (A+B)	58,831	WACC Assumptions				
Total Cash	1,245	Risk free rate				2.9%
Total Debt	41,002	Equity Risk Premium				8.8%
Minority Interest	-	Beta				1.1x
Equity Value in SAR mn	19,074	Cost of equity				12.4%
Number of shares in mn	876	Post tax cost of debt				3.6%
Target Price in SAR per share	21.77	Weight of equity in capital structure				26.0%
CMP in SAR as on February 22nd, 2018	23.18	Weight of debt in capital structure				74.0%
Upside/(Downside) to current market price	(6.1%)	WACC				5.9%

Source: Company Financials, FALCOM Research Estimates

Risks**Upside Risks:**

- Better-than-expected operational performance of Rabigh Phase II plant could lead to more than expected profit and revenue expansion.
- Better-than-expected margins from refined products could positively impact the company.

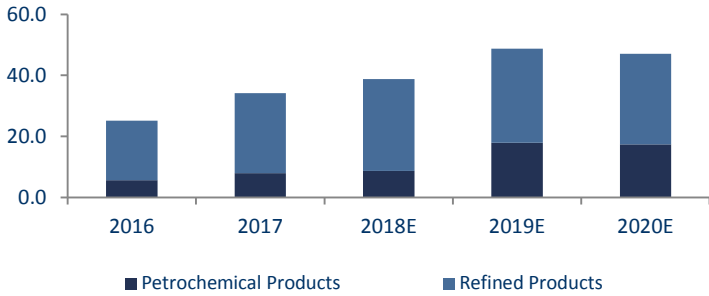
Downside Risks

- The proposed rights issue has been lingering for a while, with no visibility on when it will be done, the issuance remains a downside risk.
- Operational issues might crop up at the company's newly commissioned ethane cracker.
- Weaker than expected global or regional economy will negatively impact the company's product prices.

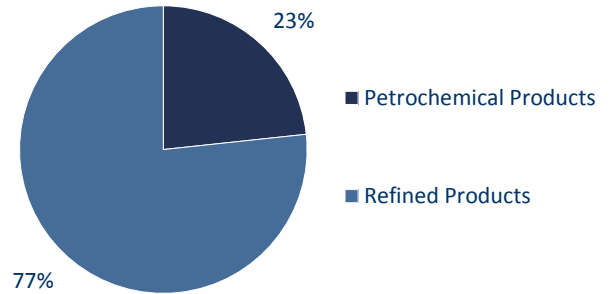


Key Charts

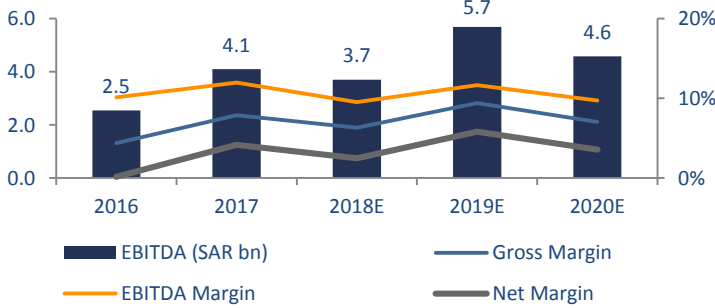
Revenue (SAR bn)



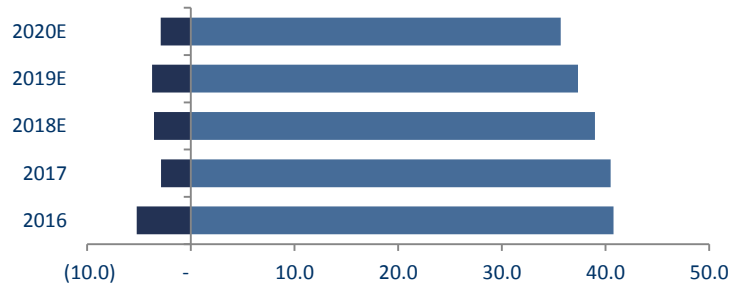
Revenue Split (2017)



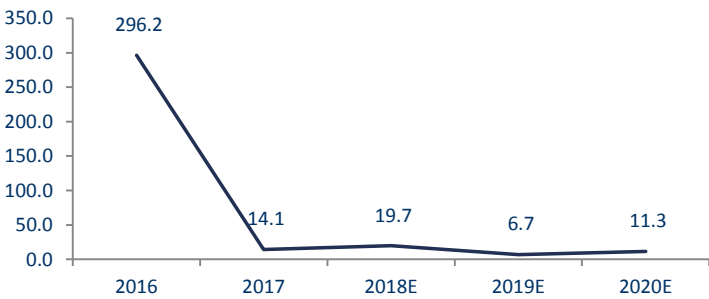
EBITDA & Margins



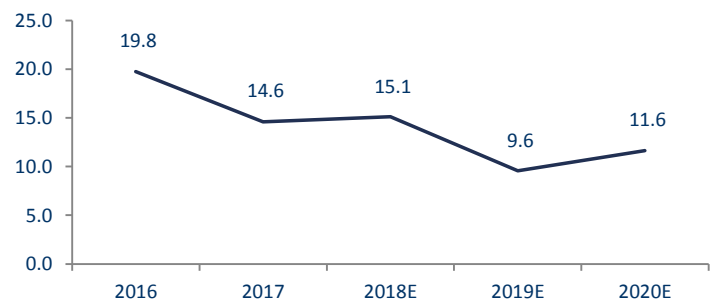
CAPEX and Debt



Price to Earnings



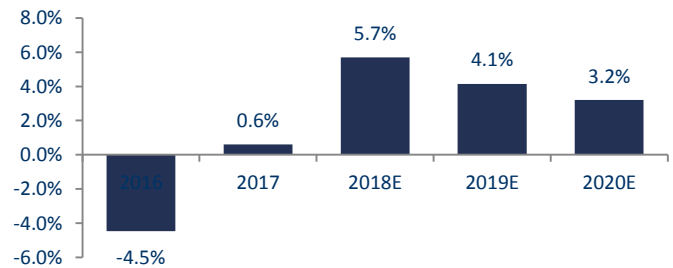
EV/EBITDA



Debt/Equity



Free Cash Flow Yield



Source: FALCOM Research Estimates



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Summary Financials

P&L (SAR mn)	2017	2018E	2019E	2020E
Sales	34,211	38,837	48,793	47,087
Gross Profit	2,696	2,446	4,597	3,319
EBITDA	4,094	3,706	5,692	4,574
EBIT	1,653	1,168	3,010	1,780
Earnings from Associates	-	-	-	-
Net Interest	(188)	(135)	7	15
Other	51	-	-	-
PBT	1,516	1,033	3,017	1,795
Minorities	-	-	-	-
Zakat	93	63	184	110
Net Income	1,423	970	2,833	1,685
EPS	1.6	1.1	3.2	1.9
DPS	-	0.3	0.8	0.5

BS (SAR mn)	2017	2018E	2019E	2020E
Cash	1,245	2,548	2,457	2,105
Current Assets	11,502	9,935	11,899	11,636
Fixed Assets	43,971	44,992	46,048	46,155
Intangibles	124	112	100	88
Investments in associates and JVs	16	16	16	16
Total Assets	61,675	62,420	65,337	64,816
Current Liabilities	10,167	11,692	14,134	14,000
Short Term Debt	3,707	3,700	3,550	3,400
Long Term Debt	37,294	35,794	34,294	32,794
Shareholders Equities	10,086	10,813	12,938	14,201
Total Liabilities	61,675	62,420	65,337	64,816

CF (SAR mn)	2017	2018E	2019E	2020E
Operating Cash Flow	4,134	3,507	5,515	4,479
Working Capital Changes	(1,041)	3,092	478	129
Cash Flow from Operating Activities	3,093	6,599	5,993	4,609
Capex	(2,603)	(3,546)	(3,727)	(2,889)
Cash Flow from Investing Activities	(2,758)	(3,546)	(3,727)	(2,889)
Changes in Debt	(471)	(1,508)	(1,650)	(1,650)
Dividends	(0)	(242)	(708)	(421)
Cash Flow from Financing Activities	(471)	(1,750)	(2,358)	(2,071)

Source: Bloomberg, Company Financials, FALCOM Research

Growth	2017	2018E	2019E	2020E
Revenue	36.0%	13.5%	25.6%	(3.5%)
EBITDA	61.0%	(9.5%)	53.6%	(19.6%)
Operating profit	NM	(29.3%)	157.7%	(40.9%)
PBT	NM	(31.8%)	192.1%	(40.5%)
Net Income	NM	(31.8%)	192.1%	(40.5%)

Ratios (%)	2017	2018E	2019E	2020E
Gross Margin	7.9%	6.3%	9.4%	7.0%
EBITDA Margin	12.0%	9.5%	11.7%	9.7%
EBIT Margin	4.8%	3.0%	6.2%	3.8%
Net Margin	4.2%	2.5%	5.8%	3.6%
ROE	14.1%	9.0%	21.9%	11.9%
ROCE	3.5%	2.5%	6.3%	3.8%
ROA	2.3%	1.6%	4.3%	2.6%
Debt/Equity	4.1x	3.7x	2.9x	2.5x
Net Debt/EBITDA	9.7x	10.0x	6.2x	7.5x
FCF Yield	0.6%	5.7%	4.1%	3.2%
Dividend Yield	0.0%	1.3%	3.7%	2.2%

Valuation	2017	2018E	2019E	2020E
PE	14.1x	19.7x	6.7x	11.3x
PB	2.0x	1.8x	1.5x	1.3x
EV/EBITDA	14.6x	15.1x	9.6x	11.6x
EV/EBIT	36.2x	48.0x	18.1x	29.9x
EV/Sales	1.7x	1.4x	1.1x	1.1x

Peer Valuations	12M Fwd PE	12m Fwd EV/EBITDA
Alexandria Mineral Oils	8.7x	6.5x
Total Maroc	18.8x	12.1x
Qatar Fuel	NA	NA
Rabigh Refining and Petrochemical	16.4x	13.8x
Sector Median	13.8x	9.3x
TASI	13.8x	11.6x



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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