

2Q 2018 Results Update

August 13, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	24.7
Target Price (SAR)	23.7
Upside/Downside (%)	-4.0%

As of August 12th 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	21.6
52 Wk High (SAR)	31.8
52 Wk Low (SAR)	12.4
Total Outstanding shares (in mn)	876
Free Float (%)	21.7%

Petro Rabigh vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(8.7%)	(6.9%)
6m	16.2%	5.8%
12m	94.9%	80.6%

Major Shareholders (%)

Sumitomo Chemical Co.	37.5%
The Saudi Arabian Oil Company	37.5%

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 12th 2018

Sales growth offset by low refining margin; net income declines 26% YoY

Petro Rabigh's 2Q18 revenue grew 21% YoY and 9% QoQ to SAR 10.7bn. However, net profit declined 26% YoY and 21% QoQ to SAR 235mn, mainly due to lower refined products margins. Revenue growth was ascribed to higher petrochemical prices and sales volume. However, lower refining margins more than offset this growth, leading gross margins to shrink from 7.2% in 2Q17 to 6.2% in 2Q18, while gross profit grew 5% YoY to SAR 664mn. During the quarter, Petro Rabigh announced a 5% cash dividend (SAR 0.5 per share) for fiscal year 2017, amounting to SAR 438mn.

On 28-Mar-18, Petro Rabigh announced that the financial impact Rabigh Phase II project, which was initially expected to start operations in 1Q18, will not be reflected on the company's financial statements until both phases I and II are operationally integrated within Petro Rabigh Industrial Complex. The company is yet to announce any subsequent developments on the projects. We expect revenues to grow at a CAGR of 8.0% till 2021E, given the rise in petrochemical and refined products prices. Operating efficiencies and margin improvement to be realized once Rabigh Phase I and II are operational. However, profitability might be impacted by the company's high level of debt. Therefore, we maintain our 'Neutral' view on the stock.

- Rabigh's top line soared 21.5% YoY and 9% QoQ to SAR 10.7bn, due to higher petrochemical prices and growth in volumes, along with higher prices for refined products. Revenue from refined products stood at SAR 8.1bn (+19% YoY), while revenue from petrochemicals was SAR 2.7bn (+30% YoY).
- Gross profit, increased only 4.6% YoY to SAR 664mn due to lower refining margins; gross profit declined 14% QoQ. As a result, gross margin declined 99bps YoY and 165bps QoQ to 6.2%.
- Rabigh's selling and marketing expenses grew almost five fold (466.7% YoY) to SAR 139mn in 2Q18. Revenues were previously recognized net of certain selling and marketing expenses. As a result of adoption of IFRS 15, revenue and selling and marketing expenses were increased by SAR 122mn for 2Q18.
- Operating income for 2Q18 declined 24.3% YoY and 21.3% QoQ to SAR 297mn, primarily as a result of higher selling and marketing expense as discussed above and lower gross margin. Additionally, general and administrative expenses grew 4.7% YoY to SAR 228mn. Consequently, operating margins declined 167bps YoY and 106bps QoQ to 2.8% in 2Q18.
- Net income for 2Q18 declined 25.7% YoY and 20.8% QoQ to SAR 235mn, in-line with lower operating income, along with offsetting of higher 'other income' by an increase in zakat and income tax expenses.
- We expect margins to improve slightly over 2H18 and 2019 with expected additions of Aromatics and Ethylene Propylene Rubber (EPR), as part of Rabigh II, to the existing petrochemical production capacity.

Valuation: We maintain our target price at SAR 23.7 per share. The stock underperformed TASI by 6.9% in the past one month after outperforming for a considerable period of time since past one-year. We maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	10,743	8,844	21.5%	44,529	34,211	30.2%
Gross Profit (SAR mn)	664	635	4.6%	3,651	2,696	35.4%
EBITDA (SAR mn)	903	999	-9.6%	4,756	4,094	16.2%
Net Profit (SAR mn)	235	316	(25.7%)	1,937	1,423	36.2%
EPS basic (SAR)	0.3	0.4	(25.7%)	2.2	1.6	36.2%
Gross Margin (%)	6.2%	7.2%	-1.0%	8.2%	7.9%	0.3%
EBITDA Margin (%)	8.4%	11.3%	-2.9%	10.7%	12.0%	(1.3%)
Net Profit Margin (%)	2.2%	3.6%	-1.4%	4.4%	4.2%	0.2%

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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