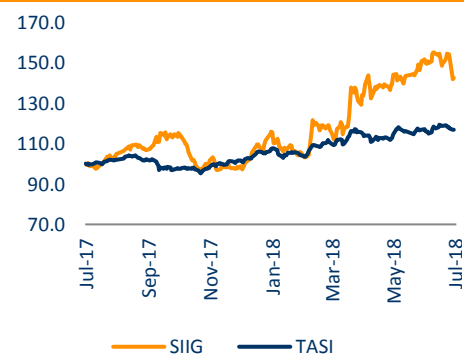


2Q 2018 Results Update
July 31, 2018

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	27.1
Target Price (SAR)	30.8
Upside/Downside (%)	13.5%
<i>As of 31st July, 2018</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.2
52 Wk High (SAR)	30.1
52 Wk Low (SAR)	18.6
Total Outstanding shares (in mn)	450
Free Float (%)	82.9%

SIIG vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(5.5%)	(5.4%)
6m	22.8%	13.9%
12m	42.5%	25.8%

Major Shareholders (%)

Public Pension Agency	10.7%
General Org. for Social Insurance	5.8%

Quarterly Sales (SAR mn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 31st July 2018

Higher profit from Petrochem and JVs drives net profit growth

SIIG's net profit more than quadrupled from SAR 70mn in 2Q17 to SAR 321mn in 2Q18, primarily due to an increase in SIIG's share of profit from its joint ventures, Saudi Chevron Phillips (SCP) and Jubail Chevron Phillips (JCP), and an increase in SIIG's share of profit from National Petrochemical Company (Petrochem). Higher profit from JVs in 2Q18 is attributable to scheduled suspension of operations at SCP during 2Q17. For 1H18, SIIG's net profit grew 37% YoY to SAR 520mn, due to growth in profits from Petrochem and lower general and administrative expenses, along with the impact of SAR 28mn loss booked in 1H17 from Petrochemical Conversion Company (PCC), a business which has now been sold by the company, and thus no such losses were reported in 1H18. In spite of lower profit from JVs on a semi-annual basis, SIIG reported a 60.9% YoY increase in gross profit for 1H18, due to higher gross profits from Petrochem.

SIIG through its subsidiaries is a key producer of propylene and polypropylene (PP) in Saudi Arabia. An increase in propylene and PP prices, led by an increase in oil prices, and growing demand from China and the Indian subcontinent, has resulted in positive revenue growth for the company. As per the Chemical Economics Handbook (IHS), demand for PP will increase 25% from current levels by 2022. Additionally, a healthy balance sheet and high FCF yield make the stock a good investment bet. The JCP and SCP plants have resumed operations, after their scheduled maintenance in 1Q18, and are expected to push net profit upwards for remaining period in the year. Based on these factors we maintain our 'Overweight' rating on the stock.

- Revenue increased by 28% YoY to SAR 2.2bn in 2Q18, due to growth in income from Petrochem resulting from higher petrochemical prices.
- Gross profit rose 72% YoY to SAR 722mn and gross margin improved from 24.0% in 2Q17 to 32.3% in 2Q18, as growth in petrochemical prices outpaced the feedstock price increase.
- Operating profit almost doubled, increasing 192% YoY to SAR 745mn in 2Q18. This growth is mainly due to the increase in profit from JV operations, resulting from scheduled maintenance closures at SCP in 2Q17. Consequently, operating margin improved from 14.5% in 2Q17 to 33.3% in 2Q18.
- Profit after tax increased by 166% YoY to SAR 586mn, as SIIG's share of profit from Petrochem increased from SAR 66mn in 2Q17 to SAR 136mn in 2Q18, along with increase in share of profit from joint-ventures SCP and JCP. These growths were partially offset by higher finance expenses and taxes, and lower other income.
- Net income increased by 358% YoY to SAR 321mn, as profit attributable to minority interests increased by 76% YoY from SAR 150mn in 2Q17 to SAR 265mn in 2Q18, in addition to the above mentioned reasons.
- Operations at JCP and SCP plants have re-started in March 2018 after the completion of scheduled maintenance work. We expect operational efficiencies to increase and drive SIIG's bottom line in 2018.

Valuation: We maintain our target price at SAR 30.8per share, and retain our 'Overweight' view on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,239	1,754	27.7%	8,661	7,364	17.6%
Gross Profit (SAR mn)	722	421	71.6%	2,598	2,264	14.8%
Operating Profit (SAR mn)	745	255	192.2%	2,341	2,170	7.9%
Net Profit (SAR mn)	321	70	357.5%	1,028	1,004	2.4%
EPS basic (SAR)	0.71	0.16	357.5%	2.28	2.23	2.4%
Gross Margin (%)	32.3%	24.0%	8.3%	30.0%	30.7%	-0.7%
Operating Margin (%)	33.3%	14.5%	18.7%	27.0%	29.5%	-2.4%
Net Profit Margin (%)	14.4%	4.0%	10.3%	11.9%	13.6%	-1.8%

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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