

**3Q 2018 Results Update**

**Nov 12, 2018**

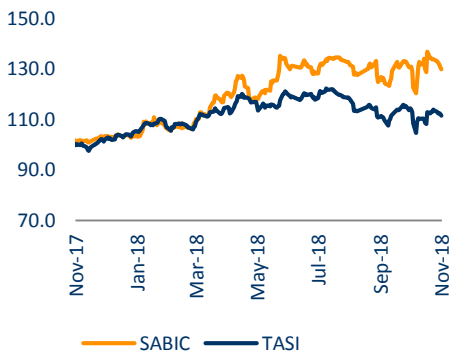
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	123.8
Target Price (SAR)	124.0
Upside/Downside (%)	0.2%

As of November 12, 2018

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	371.4
52 Wk High (SAR)	131.4
52 Wk Low (SAR)	98.4
Total Outstanding shares (in bn)	3.0
Free Float (%)	21.1%

**SABIC vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	0.8%	-1.7%
6m	-8.9%	-12.3%
12m	-22.0%	-11.6%

**Major Shareholders (%)**

Public Investment Fund	70.0%
General Organization for Social Insurance	5.7%

**Revenue (SAR bn) and Operating Profit Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 12<sup>th</sup> November 2018

**SABIC recorded mixed 3Q18 performance**

Saudi Basic Industries Corp. (SABIC) reported SAR 6.1bn (+5.4% Y/Y; -8.9% Q/Q) as net profit for 3Q18. This growth can be ascribed to higher average selling prices, an increase in sales volumes and impact of cost cutting measures. Sequentially, the net profit declined due to higher cost of sales driven by increase in feedstock prices. During the quarter, SABIC implemented strategic restructuring initiative (costing SAR 1.1bn), which is expected to contribute positive performance in upcoming quarters. The company seeks investment opportunities in Africa to sustain its sales growth while its business outlook in Asia and China remains optimistic in spite of high crude prices. Aramco's plan to acquire Public Investment Fund's (PIF's) entire 70% stake in SABIC is still ongoing.

- In 3Q18, the company recorded revenue of SAR 43.3bn, up 13.0% Y/Y and 1.0% Q/Q, ascribed to higher selling price and sales volume. Agri-nutrient segment witnessed the highest growth (+47.7% Y/Y) followed by petrochemical segment (+13.0% Y/Y). During 3Q18, higher petrochemical prices were largely driven by rising oil and polymer prices.
- During the quarter, gross profit grew 9.7% Y/Y to SAR 14.9bn (-6.1% Q/Q) from SAR 13.6bn in 3Q17. Higher feedstock prices led to gross margin decline by 100bps Y/Y and 260bps Q/Q to 34.1%. We foresee 90bps Y/Y improvement in gross margin during 2018E as petrochemical prices catch up with crude oil prices.
- EBIT grew 17.1% Y/Y to SAR 9.9bn in 3Q18 (-8.0% Q/Q) aided by lower SG&A expenses. Consequently, EBIT margin grew 80bps Y/Y to 22.8% in 3Q18, supported by higher gross profit and improved efficiency and productivity from the ongoing restructuring program.
- Net profit increased 5.4% Y/Y due to higher operating profit which was partially offset by higher finance expenses and minority interest.
- In October 2018, a wholly owned subsidiary of SABIC issued a 5-year and 10-year USD1bn bond each, carrying a coupon rate of 4.0% and 4.5% respectively. The proceeds have been used for refinancing recently maturing debt, which may lower finance expenses going forward.
- Brent crude price gained 13.5% in last 12 months on expectations of a more balanced oil market. Recovery in oil prices triggered an upswing in the prices of most petrochemical products. We expect petrochemical prices to remain stable over the next few quarters, given the positive demand outlook for oil in the mid-term.
- SABIC plans to integrate all assets and equity held in various companies producing agri-nutrient products under a new company named SABIC Agri-nutrient Investments by end 2019. We believe the move will help accelerate organic and inorganic growth, achieve operational synergies and increase overall production efficiency. Further, SABIC signed a MoU with SAFCO on acquisition of latter's investments in agri-nutrients assets which assures us of a long term investor in its Agri business.

**Valuation:** We re-iterate our 'Neutral' rating on the stock and retain the stock's fair value at SAR124.0 per share. Long term drivers include success of large scale projects (USD20bn Oil-to-Chemical project, new petchem complex in Texas, CTO & Polycarbonate plants in China), and any potentially accretive acquisitions (SABIC aims to make acquisitions, primarily in the specialties and agri-nutrients sectors).

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR bn)	43.7	38.7	13.0%	171.5	149.8	14.5%
Gross Profit (SAR bn)	14.9	13.6	9.7%	58.6	50.0	17.2%
Operating Profit (SAR bn)	10.0	8.5	17.1%	38.0	29.0	31.0%
Net Profit (SAR bn)	6.1	5.8	5.4%	24.8	18.4	34.7%
EPS (SAR)	2.0	1.9	5.4%	8.3	6.1	34.7%
Gross Margin (%)	34.1%	35.1%	-1.0%	34.2%	33.4%	0.8%
Operating Margin (%)	22.8%	22.0%	0.8%	22.2%	19.4%	2.8%
Net Profit Margin (%)	14.0%	15.0%	-1.0%	14.5%	12.3%	2.2%

Source: Company Financials, FALCOM Research

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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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