

FY18 Results Update

April 02, 2019

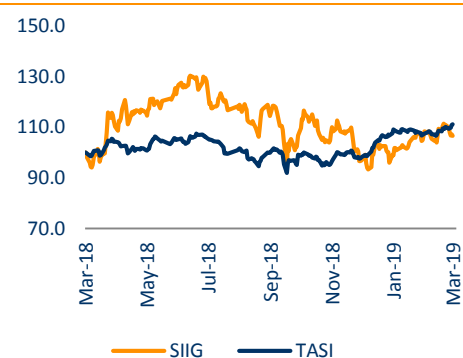
Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	24.7
Target Price (SAR)	28.4
Upside/Downside (%)	15.0%

As of 2nd April, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	11.1
52 Wk High (SAR)	30.1
52 Wk Low (SAR)	21.4
Total Outstanding shares (in mn)	450
Free Float (%)	82.2%

SIIG vs. TASI (Rebased)

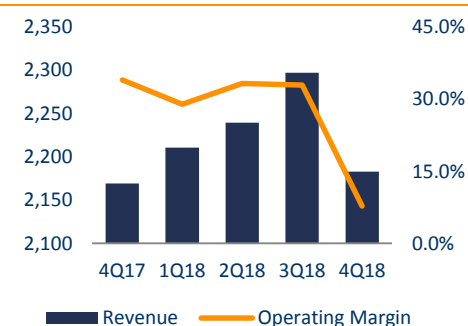


Price Performance (%)	Absolute	Relative
1m	(2.6%)	(7.3%)
6m	(10.9%)	(22.1%)
12m	9.9%	(4.1%)

Major Shareholders (%)

Public Pension Agency	12.0%
General Org. for Social Insurance	5.8%

Quarterly Sales (SAR mn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 2nd April 2019

Lower profit share from JVs on scheduled maintenance weigh down annual profit

Saudi Industrial Investment Group (SIIG)'s bottom line shrank 13.9% YoY to SAR 865mn in FY18, well below consensus estimates, due to lower profit share from JVs with Saudi Chevron Phillips (SCP) and Jubail Chevron Phillips (JCP), which were shut down for periodic maintenance during the year. A higher profit share from National Petrochemical Company that rose to SAR 582mn, vis-à-vis SAR 444mn in FY17, failed to lift the overall results for the year. In 4Q18, net profit plunged 93.2% YoY to SAR 27mn, owing to a huge decline in the company's product prices. Besides, higher cost of sales, an increase in depreciation, and a rise in finance expenses dragged down profits during the quarter.

During 4Q18, the prices of propylene, HDPE, LLDPE, PP, polystyrene, and styrene dropped on an annual and quarterly basis as a result of a fall in crude oil prices. This adversely impacted the company's performance in the final quarter. Since then, the oil prices have managed to recover to USD 68.5 per barrel in 1Q19 from a low of around USD 50 per barrel at the end of FY18. Since SIIG primarily deals in the petrochemical sector, such a recovery would benefit the company that is already working towards reducing its leverage and improving operational efficiency. Moreover, a high dividend yield and an attractive valuation make the company a good investment bet.

- Revenue advanced 21.3% YoY to SAR 8.9bn in FY18, supported by an increase in product prices. In 4Q18, revenues increased marginally (+0.7%) on an annual basis and fell 5.0% on a quarterly basis to SAR 2.17bn, weighed by slowdown in product prices.
- Gross profit rose 18.5% YoY to SAR 2.7bn in spite of higher cost of sales. Gross margins, however, declined marginally to 30.0% in FY18 from 30.7% in FY17. In 4Q2018, Gross profit declined an annual basis to SAR 455mn, dragged down by a significant increase in cost of sales.
- Operating profit grew 6.5% YoY to SAR 2.3bn in FY18 in spite of lower income reported by associates and higher selling, general, and administrative expenses. Growth was primarily ascribed to an increase in gross profit and the absence of impairment loss amounting to SAR 41mn in FY17. The operating margin, however, shrank to 25.9% in FY18 from 29.5% in FY17. During the quarter, operating profit dropped 76.8% YoY and 77.4% QoQ to SAR 171mn, impacted by decline in the company's share of results from associates.
- Net income declined 13.9% YoY to SAR 865mn as higher financial expense, zakat, and share of minority interest more than offset an increase in other non-operating income. Net income declined 93.2% annually and 91.5% quarterly to SAR 27mn in 4Q18.
- The company has recommended a cash dividend of SAR 0.75 per share for 2H18. This took the annual dividend to SAR 1.25 per share for FY18, implying a total dividend of SAR 563mn.
- SIIG's inventory turnover improved to 64 days in FY18 from 78 days in FY17.

Valuation: We revised our target price with a fair value of SAR28.4 per share, in-line with the 4Q18 performance and retain our "Overweight" view on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	2,183	2,169	0.7%	8,618	8,930	(3.5%)
Gross Profit (SAR mn)	455	788	(42.3%)	2,589	2,683	(3.5%)
Operating Profit (SAR mn)	171	737	(76.8%)	2,106	2,310	(8.8%)
Net Profit (SAR mn)	27	398	(93.2%)	723	865	(16.4%)
EPS basic (SAR)	0.06	0.88	(93.2%)	1.61	1.92	(16.4%)
Gross Margin (%)	20.8%	36.3%	(15.5%)	30.0%	30.0%	0.0%
Operating Margin (%)	7.8%	34.0%	(26.1%)	24.4%	25.9%	(1.4%)
Net Profit Margin (%)	1.2%	18.3%	(17.1%)	8.4%	9.7%	(1.3%)

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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