

3Q19 Results Update

November 13, 2019

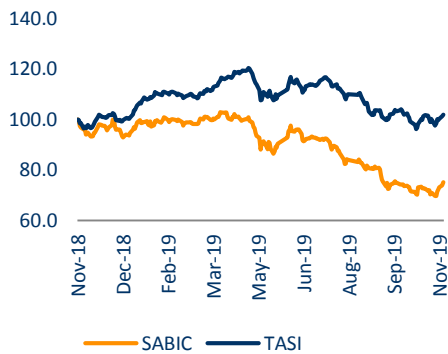
| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 92.7 |
| Target Price (SAR) | 100.0 |
| Upside/Downside (%) | 7.9% |

As of November 13th, 2019

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 278.1 |
| 52 Wk High (SAR) | 128.0 |
| 52 Wk Low (SAR) | 84.6 |
| Total Outstanding shares (in bn) | 3.0 |
| Free Float (%) | 22.3% |

SABIC vs. TASI (Rebased)



| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 5.1% | 2.1% |
| 6m | (19.7%) | (9.1%) |
| 12m | (24.9%) | (26.8%) |

Major Shareholders (%)

| | |
|------------------------|-------|
| Public Investment Fund | 70.0% |
|------------------------|-------|

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 13th November 2019

Weak set of results due to lower product prices and impairment provisions

Saudi Basic Industries Corp. (SABIC)'s net profit sharply declined 86.3% YoY and 60.6% QoQ to SAR 834.1mn primarily due to an impairment provision of SAR 1.51bn for its investment in Clariant AG. Revenue for the quarter dropped 22.9% YoY and 6.1% QoQ to SAR 33.7bn due to lower sales volumes and reduced average selling prices. Gross profit fell 36.3% YoY and 3.9% QoQ to SAR 9.6bn, even as the cost of sales fell due to lower feedstock costs. Operating profit fell 53.2% YoY and 3.6% QoQ to SAR 4.7bn even though the company managed to contain its SG&A expenses.

The company faces challenges from slowing global growth and lower average selling prices from its primary products as additional new capacities in key product lines (PE, MEG, PC) came online together during the quarter. The company aims to optimize operations and unlock value in key focus areas. To this effect, the company recently obtained all the relevant regulatory approvals to merge Saudi Petrochemical Company with Arabian Petrochemical Company. Also, the discretionary growth projects remain a priority and the joint venture with Exxon Mobil in the U.S. Gulf Coast is testimony to that. It remains to be seen how well the company's strategies cope with an economic slowdown. Thus, we maintain a neutral stance on the stock.

- Revenue fell 22.9% YoY and 6.1% QoQ to SAR 33.7bn in 3Q19 due to decline in the average selling price and a lower sales volume. Lower oil prices and new capacity coming online further pressurized petrochemical prices.
- Gross profit for the quarter declined 36.3% YoY and 3.9% QoQ to SAR 9.6bn. Consequently, the gross margin stood at 28.6% in 3Q19, compared with 34.6% in 3Q18.
- EBIT fell 53.2% YoY and 3.6% QoQ to SAR 4.7bn in 3Q19 despite decline witnessed in general, administration, selling, and distribution expenses. Consequently, the EBIT margin contracted to 13.8% in 3Q19 from 22.8% in 3Q18.
- Net profit plunged 86.3% YoY and 60.6% QoQ to SAR 834mn due to the above mentioned factors, coupled with a lower contribution from the share of results of associates and joint ventures. The net profit margin for the quarter contracted to 2.5% in 3Q19 from 14.0% in 3Q18 and 5.9% in 2Q19.
- SABIC recently signed a preliminary non-binding memorandum of understanding (MoU) with the Russian Direct Investment Fund (RDIF) and ESN Group to invest in a project to design, build, and operate a methanol plant with a capacity of up to 2 mn tons per annum in the Amur region in Russia as it seeks new investment opportunities and strengthen its position in global markets.
- In 3Q19, SABIC reassessed the carrying value of its investment in Clariant AG and recorded an impairment provision of SAR 1.51bn. SABIC is reviewing the carrying value of all of its assets as a part of its annual business plan.

Valuation: We reiterate our "Neutral" rating on the stock with a fair value of SAR 100.0 per share in view of the company's performance in 3Q19.

| | 3Q'19 | 3Q'18 | % YoY | FY19E | FY18 | % YoY |
|---------------------------|-------|-------|---------|-------|-------|---------|
| Revenues (SAR bn) | 33.7 | 43.7 | (22.9%) | 144.0 | 169.1 | (14.9%) |
| Gross Profit (SAR bn) | 9.6 | 15.1 | (36.3%) | 42.5 | 57.6 | (26.3%) |
| Operating Profit (SAR bn) | 4.7 | 10.0 | (53.2%) | 23.0 | 36.3 | (36.5%) |
| Net Profit (SAR bn) | 0.8 | 6.1 | (86.3%) | 8.5 | 21.5 | (60.5%) |
| EPS (SAR) | 0.3 | 2.0 | (86.3%) | 2.8 | 7.2 | (60.5%) |
| Gross Margin (%) | 28.6% | 34.6% | (6.0%) | 29.5% | 34.1% | (4.6%) |
| Operating Margin (%) | 13.8% | 22.8% | (9.0%) | 16.0% | 21.4% | (5.4%) |
| Net Profit Margin (%) | 2.5% | 14.0% | (11.5%) | 5.9% | 12.7% | (6.8%) |

Source: Company Financials, FALCOM Research

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ALCOM 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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