

### 3Q19 Results Update

November 11, 2019

#### Recommendation Neutral

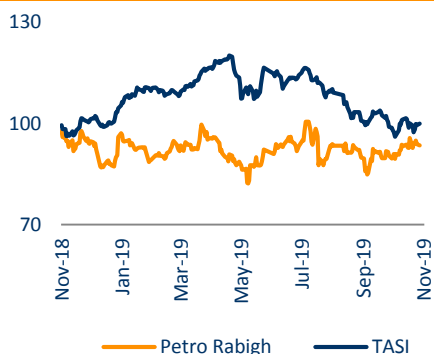
Previous Recommendation	Neutral
Current Price (SAR)	20.5
Target Price (SAR)	18.8
Upside/Downside (%)	(8.7%)

As of November 11<sup>th</sup>, 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	18.0
52-Wk High (SAR)	22.2
52-Wk Low (SAR)	17.3
Total Outstanding Shares (in mn)	876
Free Float (%)	24.4%

#### Petro Rabigh vs. TASI (Rebased)

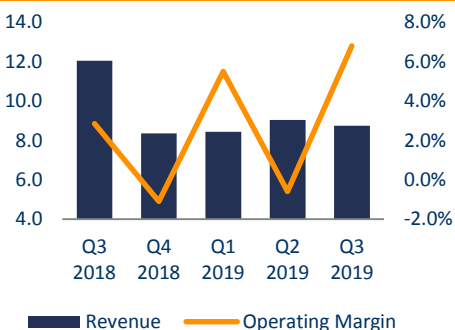


Price Performance (%)	Absolute	Relative
1m	2.4%	3.4%
6m	6.2%	19.2%
12m	(6.2%)	(6.3%)

#### 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 November 11<sup>th</sup>, 2019

#### Lower cost of sales lead to rise in Rabigh's 3Q19 earnings

Petro Rabigh's net profit jumped 61.9% YoY to SAR 394.2mn in 3Q19 against SAR 243.4mn in 3Q18, as the Refined Products segment swung to operating profits of SAR 391.1mn from operating losses of SAR 314.4mn last year. This helped contain overall losses at the company level even as the operating profits from the Petrochemical segment declined. Petro Rabigh's revenues fell 27.4% YoY to SAR 8.7bn in 3Q19, with revenue from the Petrochemical segment declining to SAR 1.8bn from SAR 2.6bn due to lower petrochemical prices over the comparable period.

The Refining Products segment recovered from an operating loss in 3Q19 on improved operating performance. The profit from the Petrochemical segment, however, continued to decline. Though the company managed to reduce its financial charges in 3Q19, they still remain considerably above the last fiscal's average level, adding to the concern. On the other hand, the company stands to benefit from the successful completion of the reliability test at the Petro Rabigh Phase 2 facility, as it reaffirms the consistent production of high-quality products without suspending operations. In view of these factors, we maintain our "Neutral" rating on the stock.

- Petro Rabigh's revenue fell 27.4% YoY to SAR 8.7bn, mainly due to lower revenues from the Petrochemical and Refined Products segments over the comparable period. Revenue from Refined Products stood at SAR 6.9bn (3Q18: SAR 9.4bn), while that from Petrochemicals totaled SAR 1.8bn (3Q18: SAR 2.6bn).
- Gross profit grew 43.3% YoY and 199.5% QoQ to SAR 870.6mn in 3Q19. As a result, the gross profit margin doubled to 10.0% in 3Q19 from 5.0% in 3Q18.
- Selling, general, and administrative expense rose 4.1% YoY to SAR 274.6mn in 3Q19, while it declined 20.6% QoQ.
- Operating income (including other income) increased to SAR 623.2mn vis-à-vis operating income of SAR 352.6mn a year earlier, as the Refined Products segment recorded an operating profit of SAR 391.1mn compared to an operating loss of SAR 314.4mn last year.
- Net income for the period was SAR 394.2mn vis-à-vis net profit of SAR 243.4mn and net loss of SAR 308.5mn for 3Q18 and 2Q19, respectively, due to the reasons mentioned above. Eventually, the company's net income margin climbed to 4.5% against a net profit margin of 2.0% in 3Q18 and a net loss margin of 3.4% in 2Q19.
- The company informed that it has successfully passed the reliability test for utilities of Phase 2 of the Petro Rabigh Phase 2 project, which started on August 1 and lasted until October 30, 2019, with an average initial production level of 99%. The Phase 2 expansion will add 15 chemical plants, which will help the firm process an additional 30 mn cubic feet a year of ethane and 3 mn tons a year of naphtha.

**Valuation:** We revise our target price to a fair value of SAR 18.8 per share and retain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	8,742	12,041	-27.4%	35,856	40,998	(12.5%)
Gross Profit (SAR mn)	871	607	43.3%	2,346	2,315	1.3%
EBITDA (SAR mn)	1,156	949	21.8%	3,187	3,361	(5.2%)
Net Profit (SAR mn)	394	243	61.9%	232	669	(65.3%)
EPS Basic (SAR)	0.4	0.3	61.9%	0.3	0.8	(65.3%)
Gross Margin (%)	10.0%	5.0%	4.9%	6.5%	5.6%	0.9%
EBITDA Margin (%)	13.2%	7.9%	5.3%	8.9%	8.2%	0.7%
Net Profit Margin (%)	4.5%	2.0%	2.5%	0.6%	1.6%	(1.0%)

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.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.