

**2Q20 Results Update**

**September 15, 2020**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	88.9
Target Price (SAR)	83.0
Upside/Downside (%)	(6.6%)

As of August 30, 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	266.7
52-Wk High (SAR)	101.8
52-Wk Low (SAR)	61.9
Total Outstanding shares (in bn)	3.0
Free Float (%)	29.8%

**SABIC vs. TASI (Rebased)**

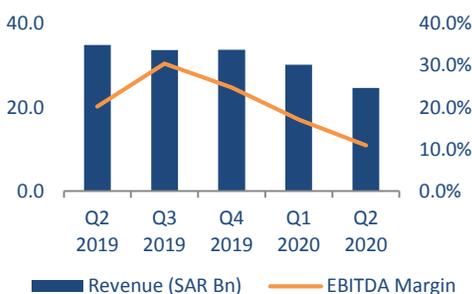


Price Performance (%)	Absolute	Relative
1m	0.0%	(7.0%)
6m	13.0%	8.3%
12m	(11.0%)	(10.6%)

**Major Shareholders (%)**

Aramco Chemical Co.	70.0%
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**Revenue (SAR bn) and EBITDA Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 30, 2020

**Margins continue to decline in 2Q20 due to lower petrochemical prices and sales volumes**

Saudi Basic Industries Corp. (SABIC) recorded a net loss of SAR 2.2bn in 2Q20 compared with the net profit of SAR 2.0bn in 2Q19. Revenue for the quarter declined 29.5% YoY to SAR 24.6bn due to decline in average selling prices of petrochemical products and decreased sales volume. The company reported an operating loss of SAR 1.3bn, down from SAR 4.0bn in 2Q19 on account of a drop in income contribution from integral joint ventures. Net losses were further weighed down by an impairment provision of SAR 1.2bn during the quarter, subsequently resulting in a net loss margin of (9.0%) compared with the net profit margin of 5.8% in 2Q19.

SABIC's woes continued in 2Q20, as a sharp decline in petrochemical prices coupled with the challenging supply-demand scenario weighed on the bottom line. The COVID-19 crisis and ensuing economic uncertainty had an overall impact on demand in the Saudi petrochemical sector in 2Q20. However, some green shoots appeared in the latter half of 2Q20 in the form of slight recovery in oil and petrochemical prices. Although IEA expects a gradual pick-up in oil demand during 2H20, recovery to pre-COVID levels is not anticipated. This is likely to have an adverse effect on the company's YoY performance. However, the company maintained strong balance sheet fundamentals with a debt-to-equity ratio of 0.23x in 2Q20. Moreover, SABIC is also expected to benefit from synergies with Aramco's acquisition of the company. In view of the countervailing factors mentioned above, we maintain a Neutral rating on the stock.

- Revenue fell 29.5% YoY to SAR 24.6bn in 2Q20 due to decline in the average selling price of petrochemical products and sales volume. This could be primarily attributed to subdued demand on account of the COVID-19 pandemic and the associated economic uncertainty.
- Cost of sales declined 19.8% YoY to SAR 21.1bn on account of lower feedstock costs. Irrespective of this, the gross profit plunged 59.3% YoY to SAR 3.5bn, as decline in revenue offset the reduction in cost of sales. Consequently, the gross profit margin narrowed to 14.1% in 2Q20 against 24.5% in 2Q19.
- The company reported an operating loss of SAR 1.3bn in 2Q20 against an operating profit of SAR 4.0bn in 2Q19 despite a 3.2% YoY reduction in SG&A expenses to SAR 4.8bn. Subsequently, the operating loss margin stood at (5.1%) in 2Q20, contracting from an operating profit margin of 11.5% in 2Q19.
- SABIC reported a net loss of SAR 2.2bn in the quarter against the net profit of SAR 2.0bn in 2Q19. This was partly due to impairment provisions amounting to SAR 1.2bn in 2Q20. The net loss margin shrunk to (9.0%) in the quarter against the net profit margin of 5.8% in 2Q19.
- In June 2020, Saudi Aramco announced the completion of a 70.0% stake acquisition worth SAR 259.1bn in SABIC from Public Investment Fund.
- Following the acquisition by Saudi Aramco, SABIC deconsolidated four of its ventures and changed accounting treatment after reassessing the control of the ventures under Saudi Aramco. The company restated its net income for FY19 and 1Q20 downward by SAR 365.0mn and SAR 97.0mn, respectively.
- SABIC's Board of Directors recommended a SAR 1.5 per share cash dividend to its 3.0 billion shareholders for 1H20, amounting to SAR 4.5bn.

**Valuation:** We reiterate our "Neutral" rating on the stock with a revised target fair value of SAR 83.0 per share.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR bn)	24.6	34.9	(29.5%)	117.5	139.7	(15.9%)
Gross Profit (SAR bn)	3.5	8.5	(59.3%)	23.5	35.5	(33.8%)
Operating Profit (SAR bn)	(1.3)	4.0	(131.3%)	4.7	14.8	(68.3%)
Net Profit (SAR bn)	(2.2)	2.0	(209.6%)	1.9	5.6	(65.6%)
EPS (SAR)	(0.74)	0.68	(209.6%)	0.64	1.85	(65.6%)
Gross Margin (%)	14.1%	24.5%	(10.4%)	20.0%	25.4%	(5.4%)
Operating Margin (%)	(5.1%)	11.5%	(16.6%)	4.0%	10.6%	(6.6%)
Net Profit Margin (%)	(9.0%)	5.8%	(14.9%)	1.6%	4.0%	(2.4%)

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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