

Saudi Basic Industries Corp

Petrochemicals – Industrial

SABIC AB: Saudi Arabia

11 August 2022

الراجحي المالية
Al Rajhi Capital



US\$83.04bn Market cap
21% Free float
US\$70.08mn Avg. daily volume

Target price **107.00** +3.1% over current
Current price **103.80** as at 11/08/2022

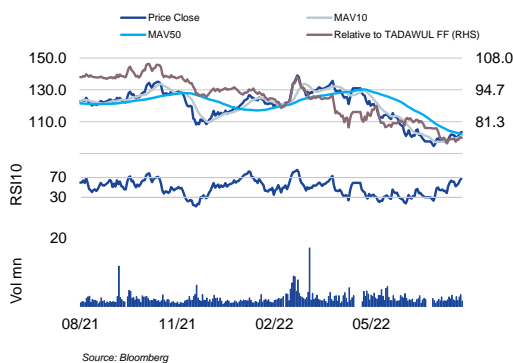
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARbn)	2021	2022e	2023e
Revenue	174.9	202.0	183.9
Revenue growth	49.6%	15.5%	-9.0%
Gross profit	51.6	56.0	48.0
Gross margin	29.5%	27.7%	26.1%
EBITDA	48.3	46.9	41.3
EBITDA margin	27.6%	23.2%	22.5%
Net profit	23.0	25.6	21.4
Net margin	13.2%	12.7%	11.6%
EPS	7.7	8.5	7.1
DPS	4.0	4.8	4.3
Payout ratio	52%	56%	60%
EV/EBITDA	6.3x	6.5x	7.4x
P/E	13.5x	12.2x	14.6x

Source: Company data, Al Rajhi Capital.

SABIC

Q2: Earnings largely in line; TP reduce to SAR107/sh on weak prices

SABIC reported robust Q2 results with both top-line (6.3% y-o-y) and bottom-line (+22.6% y-o-y) coming largely in line with our estimates. The Agri-Nutrients segment was the best performing segment (+14% q-o-q growth in EBITDA; +SAR0.4bn), followed by Hadeed (+38%; +SAR0.2bn), offsetting weak Petrochemicals and Specialties segment performance (-1%; -SAR0.1bn). SABIC earlier indicated that there were in-transit Urea shipments at the end March, which we think could have been recognized in Q2, leading to a 39% q-o-q rise in Agri-Nutrients sales volume, and thereby helping the company to post record earnings since Q3 2011.

Going forward, SABIC indicated a cautious outlook for H2 2022, primarily due to fears of slowing down the global economy amid the lockdown in China and persistent supply chain issues. Average polymer prices are currently trending southwards, down by 13-18% q-o-q, primarily due to likely lower demand and increased supply. Further, MEG, MTBE, and Methanol prices are also down by 12-15% q-o-q in Q3 so far. On the other hand, feedstock prices, despite the recent decline, are still at relatively high levels, indicating weak product spreads and thereby earnings in the near term. Nonetheless, the company's ability to control costs, coupled with the anticipated synergies through the Aramco deal, are likely to offset these impacts to some extent. Despite likely earnings pressure in H2 2022, we expect the company to increase the annual DPS to SAR4.75/sh. (~56% payout) from SAR4/sh. (~52% payout), aided by robust cash flow generation and controlled capex. Considering likely margin pressure in the near-term and challenging market dynamics, we revise our TP to SAR107/sh. (SAR135/sh. earlier) with a Neutral rating on the stock.

Figure 1 Q2 2022 results summary

(SAR bn)	Q2 2022	Q1 2022	Q2 2021	Q2 2020	ARC Est.	Cons Est.	q-o-q	y-o-y	% ch vs 2020	vs ARC	vs Cons
Revenue	56.0	52.6	42.4	24.6	57.3	53.3	6.3%	32.0%	127.4%	-2.3%	5.0%
Gross Profit	16.6	14.7	13.7	3.5	16.6	NA	12.7%	21.3%	376.7%	-0.3%	NM
G. margin	29.6%	27.9%	32.2%	14.1%	29.0%	NA					
Op. profit	9.8	9.3	10.1	(1.3)	10.4	NA	5.2%	-2.5%	NM	-5.7%	NM
Op. margin	17.5%	17.7%	23.7%	-5.1%	18.1%	NA					
Net profit	7.9	6.5	7.6	(2.2)	7.6	5.9	22.6%	3.8%	NM	4.3%	33.8%
Net margin	14.2%	12.3%	18.0%	-9.0%	13.3%	11.1%					

Source: Company data, Al Rajhi Capital

Q2 results: SABIC reported a record quarterly revenue of ~SAR56bn (+6.3% q-o-q) in Q2, largely in line with our estimate of ~SAR57bn (consensus: ~SAR53bn). The sequential growth was primarily driven by a 3% q-o-q rise in average product prices and a 3% q-o-q increase in sales volume (mainly Agri-Nutrients). Gross profits came in line with our estimates with the corresponding margin improving by 1.7pps to 29.6% (slightly better than our estimate), despite increased feedstock costs. However, selling and distribution costs could have been higher than our estimate, primarily due to increased freight costs, resulting in slightly lower than expected operating profits. The company has witnessed an improvement in the share of results of JVs and associates. This, along with likely lower non-operating expenses, helped the company to post the highest quarterly earnings since Q3 2011. Overall, net profit was reported at SAR7.9bn, largely in line with our estimate of SAR7.6bn (consensus: SAR5.9bn).

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SABIC yields \$727mn synergies to date. Post its merger with Aramco, SABIC has yielded synergies worth SAR2.73bn (US\$727mn) from June 2020 to Q2 2022. The company has generated a synergy worth US\$225mn in Q2 2022 compared to US\$89mn in Q1 2022.

2022 guidance

- SABIC has revised its global economic growth forecasts to 2.5-2.8%, lower than the earlier expectation of 3.2-3.6% for 2022.
- SABIC expects margins to come under pressure, due to a slowdown in economic activities amid the lockdown in China, and relatively high energy prices due to ongoing supply chain issues.

Valuation. Given the likely margin pressure amid weak product spreads and slowing down the global economy, we revise our TP to SAR107/share (SAR135/sh. earlier) based on an equal mix of DCF valuation (SAR108/sh. based on FCF, cost of equity 11.0%) and dividend yield (SAR106/sh. based on 4.5% required yield and 2022E DPS).

Risks. Supply of new capacity globally, unexpected fall in oil price and petchem product prices, and unplanned plant shutdowns are key downside risks. Key upside risks include higher-than-expected spreads, faster-than-expected successful commercial launch of its future expansion projects, and recovery in global demand.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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