

# Saudi Industrial Investment Group (SIIG)

Target Price: SAR 31.7

Upside: 9.1%

Recommendation	Hold
Bloomberg Ticker	SIIG:AB
Current Market Price (SAR)	29.10
52wk High / Low (SAR)	41.5 / 28.6
12m Average Vol. (mn)	1.63
Mkt.Cap. (SAR bn)	13.1
Shares Outstanding (mn)	450
Free Float (%)	81.4%
3m Avg Daily Turnover (SAR mn)	72.8
6m Average Daily Turnover (SAR mn)	54.1
PE 2022e (x)	12.8x
EV/EBITDA 2022e (x)	8.7x
Dividend Yield '22e (%)	2.6%

Price Performance:	
1 month (%)	-12.0%
3 months (%)	-15.5%
12 months (%)	-23.6%

Source: Refinitiv, as of 26<sup>th</sup> May 2022

Price -Volume Performance



Source: Refinitiv

- SIIG is witnessing rising prices for its key products and higher sales volume
- The ongoing Russia-Ukraine crisis is leading to supply chain disruption triggering the prices higher
- Revival in demand coupled with higher end product prices augurs well for the petrochemical producers
- Target price revised on the backdrop of rising product prices and improved demand and rerated the stock to Hold

Saudi Industrial Investment Group's (SIIG) operating profit in 1Q 2022 beat our expectations on the back of better-than-expected product prices and improved demand for petrochemical products. Overall, the Saudi petrochemical market is poised to witness another successful year after reaching its highs in 2021. The current uptrend in the petrochemical prices is driven by the rising prices of crude oil, which is triggered by the ongoing war between Russia and Ukraine. Owing to the sanctions imposed, Russia shut nearly 1 mb/d output in April, reducing the world oil supply by 710 kb/d to 98.1 mb/d. In March, global oil inventories declined further by 45 mb and are currently lower by 1.2 billion barrels since June 2020. Crude prices in April fell to trade in a narrow range of USD 10/bbl above USD 100/bbl. However, the sixth round of EU sanctions on Russia pushed the prices higher in early May. Russia's isolation is deepening further as EU and G7 nations are mulling over imposing stiffer sanctions that will ultimately stop oil imports from Russia. If this materializes, the isolation of Russia will trigger the reorientation of trade flows which is already advancing and will coerce Russian oil companies to shut in more wells. Nevertheless, a steady rise in output elsewhere, along with slower demand growth mainly from China resulting from an extended period of lockdowns, is expected to offset the supply deficit in the near term.

World oil demand is expected to rise in the short term amid the US start of travelling over their holiday season and recovery in air travel. For 2022, demand is expected to increase by 1.8 mb/d on average to 99.4 mb/d. Petrochemical prices appear to reflect the volatility of crude oil prices. We expect petrochemical prices to remain at current levels through 2022. We have stated the movement in SIIG's key petrochemical product prices, HDPE and Polypropylene and the crude oil price, in a chart (please refer to bottom of the report).

**1Q22 earning synopsis:** During 1Q22, the company benefitted from higher product prices compared to 1Q21 resulting in a sharp increase in the share of profits of jointly managed projects of SIIG. Among various products, it is likely that the higher prices of the main products like HDPE and Polypropylene contributed to higher profits. While product prices increased, the rise in market prices of propane also appeared to have caused a proportionate increase in Saudi Aramco propane feedstock prices. This limited the benefits from a rise in product prices and possibly limited the benefit to profit margins. General and administrative expenses and zakat also declined and contributed to PAT. SIIG reported an operating profit of SAR 372 mn, down 23.1% YoY (+36.6% QoQ, 16.7% ahead of our estimate) and 23.1% ahead of Bloomberg consensus. In April 2022, SIIG announced acquisition of remaining 50% shares of National Petrochemical Company (Petrochem), and henceforth, the results of Petrochem will be consolidated with SIIG.

**Valuation and risk:** Post 1Q22 earnings, we revise upwards our bottom-line estimate on SIIG for FY22 by ~34%, on the backdrop of improved demand, the Russia-Ukraine crisis and disruption in the supply chain caused due to the war increasing the product prices. We expect the prices and demand to stay at current levels in the near term, underpinned by improved economic activity and the supply disruption caused by the sanction imposed on Russia and the resulting ban on Russian commodities. The FY22 EPS estimate is at SAR 2.27 vs SAR 1.69 earlier. Considering the merger and better than expected 1Q22 earnings, our new target price for SIIG is SAR 31.7 per share. The new target price is lower than our earlier target price of SAR 38.1, considering the lower multiples Saudi petrochemical companies are currently trading at, compared to time at which we published our earlier TP (January 5, 2022). The lower multiples are likely due to expectations of only moderate increase in profit margins due to rise in feedstock prices, despite higher product prices. The acquisition of balance shares of Petrochem has also been accounted for. At current market price of SIIG (as of May 26, 2022), our new target price implies an upside of 9.1% over the current market price. Hence, we give this stock a Hold rating. Currently, the stock trades at 12.8x P/E and 8.7x EV/EBITDA, based on our FY22 estimates. The downside risks to our valuation include weaker than expected economic activities and consumer demand due to an increase in the number of COVID cases and the resulting deaths, a decline in product prices, higher than estimated raw material prices, and unplanned maintenance shutdowns. Key upside risks to our valuation include a rise in key product prices (due to worsening of Russia Ukraine war), improved demand, and higher utilization levels.

**Change in fundamentals:** i) Until 2Q21, Petrochem, a subsidiary of the group, used to consolidate Saudi Polymers Company (SPCO) and Gulf Polymers Distribution Company FZCO (GPDC) under the judgement that it had control over both the entities. However, during 3Q21, Petrochem reassessed this judgement considering the contractual arrangements between the shareholders and concluded that Petrochem exercised only 'joint control' according to the requirements of IFRS 10, 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements'. Consequently, Petrochem, since 3Q21, started accounting for the investments in SPCO and GPDC as investments in joint ventures using the equity method in the condensed interim financial statements of Petrochem. As a result, revenue from contracts with customers and gross profit ceased to be shown on the financials of Petrochem. Accordingly, SIIG also started reporting similarly (considering SIIG held 50% of Petrochem and Petrochem results were included in SIIG results). ii) On April 10, 2022, a non-binding agreement on a proposed merger between SIIG and Petrochem (subsidiary) was approved, which was signed back in September 2021, thus concluding the transaction involving acquisition of balance 50% shares of Petrochem by SIIG through shares. This will result in an increased share capital of SIIG to SAR 7,548 mn as of December 2022 from SAR 4,500 mn in 1Q22. This will also lead to a dilution of EPS in FY22 to SAR 2.27 against SAR 2.38 (had the merger not taken place). The number of outstanding shares will increase from 450.0 mn in 1Q22 to 754.8 mn in the coming quarter. We observe that the market has already accounted for the transaction, and it is reflecting in the share price.

#### Financial and valuation summary

Year (SAR mn)	FY20	FY21	FY22e	FY23e	FY24e
Share of net profit of joint ventures (equity method)	254	1,906	1,803	1,815	1,724
EBITDA	202	1,838	1,733	1,743	1,651
Operating profit	201	1,837	1,733	1,743	1,650
Net income	207	1,818	1,714	1,723	1,632
EPS	0.20	2.53	2.27	2.28	2.16
P/E (x)	129.88	12.32	12.82	12.75	13.46
EV/EBITDA (x)	75.36	8.85	8.72	8.67	9.16
Dividend yield	1.7%	2.6%	2.6%	2.6%	1.7%

Source: Company Reports, U Capital Research

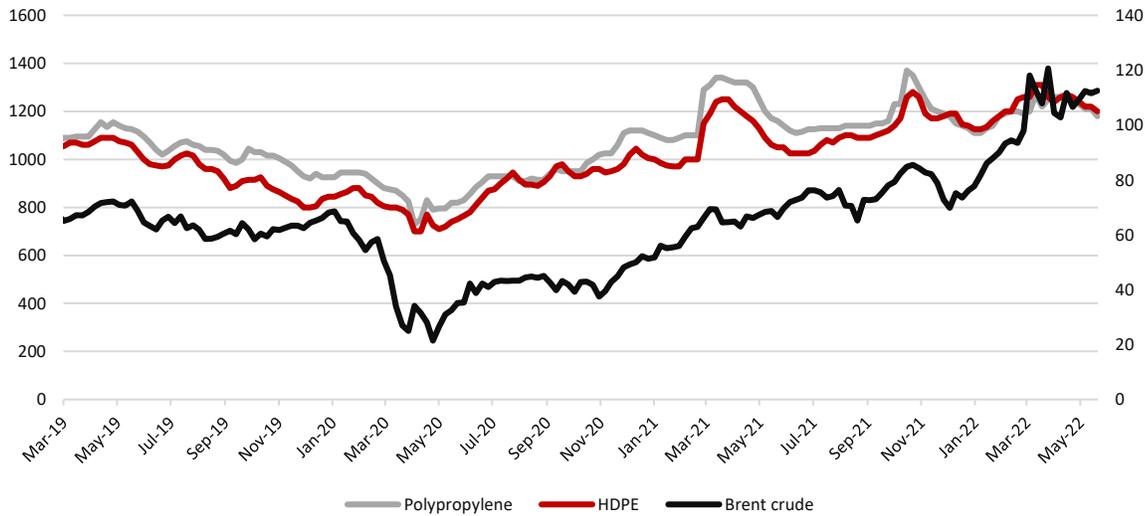
P/E and EV/EBITDA from 2022 onwards calculated on price of 25/05/2022

## Key Financials

(SAR mn)	FY20	FY21	FY22e	FY23e	FY24e
<b>Income Statement</b>					
Share of net profit of joint ventures (equity method)	254	1,906	1,803	1,815	1,724
General and administrative expenses	(52)	(69)	(71)	(72)	(74)
<b>Operating profit</b>	<b>201</b>	<b>1,837</b>	<b>1,733</b>	<b>1,743</b>	<b>1,650</b>
Finance costs	(0)	(0)	(2)	(2)	(2)
Finance income	20	10	10	10	10
Other income - net	0	1	1	1	1
<b>Profit before zakat</b>	<b>221</b>	<b>1,847</b>	<b>1,742</b>	<b>1,751</b>	<b>1,659</b>
Zakat expense	(14)	(30)	(28)	(28)	(27)
<b>Profit for the year</b>	<b>207</b>	<b>1,818</b>	<b>1,714</b>	<b>1,723</b>	<b>1,632</b>
<b>Balance Sheet</b>					
Cash and cash equivalents	1,166	1,814	1,160	505	38
Short-term Murabaha deposits	0	497	497	497	497
Due from related parties	609	1,260	1,260	1,260	1,260
Prepayments and other current assets	7	4	4	4	4
Property and equipment	2	2	2	2	2
Investments in joint ventures	9,378	8,730	10,533	12,348	14,072
<b>Total assets</b>	<b>11,166</b>	<b>12,311</b>	<b>13,461</b>	<b>14,620</b>	<b>15,877</b>
Accrued and other liabilities	32	35	35	35	35
Zakat	419	363	363	363	363
Employee benefit obligations	19	20	22	24	26
Share capital	4,500	4,500	7,548	7,548	7,548
Statutory reserve	906	1,020	1,191	1,364	1,527
Retained earnings	1,005	1,809	4,302	5,286	6,378
Non-controlling interests	4,060	4,565	0	0	0
<b>Total equity</b>	<b>10,472</b>	<b>11,893</b>	<b>13,041</b>	<b>14,198</b>	<b>15,453</b>
<b>Total liabilities &amp; equity</b>	<b>11,166</b>	<b>12,311</b>	<b>13,461</b>	<b>14,620</b>	<b>15,877</b>
<b>Cash Flow Statement</b>					
Cash from operating activities	100	219	(87)	(88)	(89)
Cash from investing activities	93	1,058	(1)	(1)	(1)
Cash from financing activities	(344)	(628)	(566)	(566)	(377)
Net changes in cash	(151)	648	(654)	(655)	(467)
Cash at the end of the period	1,166	1,814	1,160	505	38
<b>Key Ratios</b>					
Current ratio	2.6	9.0	7.3	5.7	4.5
Average return on equity	1.4%	16.5%	16.8%	12.7%	11.0%
Average return on assets	1.8%	15.5%	13.3%	12.3%	10.7%
Debt/Equity (x)	0.00x	0.00x	0.00x	0.00x	0.00x
P/E	129.88x	12.32x	12.82x	12.75x	13.46x
EV/EBITDA	75.36x	8.85x	8.72x	8.67x	9.16x
EPS (SR)	0.20	2.53	2.27	2.28	2.16
Dividend payout ratio	245.5%	29.7%	33.0%	32.8%	23.1%
Dividend yield (%)	1.7%	2.6%	2.6%	2.6%	1.7%
Net debt (SR 'million)	(1166)	(2311)	(1657)	(1002)	(535)
Net debt/ EBITDA	5.77	1.26	0.96	0.57	0.32
ROCE	1.9%	15.4%	13.3%	12.3%	10.7%

Source: Company financials, U Capital Research

**SIIG's key product price vs Brent crude price (USD)**



Source: Bloomberg

**SIIG's investment in joint ventures accounted for using equity method**

Name of the entity	Country of incorporation	Ownership interest
Saudi Chevron Phillips Company (SCP)	KSA	50%
Jubail Chevron Phillips Company (JCP)	KSA	50%
Aromatics Distribution Company FZCO (ADCO)	UAE	50%
Saudi Polymers Company (SPCO)	KSA	65%
Gulf Polymers Distribution Company FZCO (GPDC)	UAE	65%

Source: Company financials

## Disclaimer

### Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%



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