

Saudi Industrial Investment Group (SIIG)

Target Price: SAR 20.2

Downside: 4.9%

Recommendation	Hold
Bloomberg Ticker	SIIG:AB
Current Market Price (SAR)	21.20
52wk High / Low (SAR)	38.3 / 19.3
12m Average Vol. (mn)	1.6
Mkt.Cap. (SAR bn)	16.0
Shares Outstanding (mn)	755
Free Float (%)	81.4%
3m Avg Daily Turnover (SAR mn)	34.1
6m Average Daily Turnover (SAR mn)	39.9
PE 2023e (x)	14.6x
EV/EBITDA 2023e (x)	11.5x
Dividend Yield '23e (%)	7.1%

Price Performance:	
1 month (%)	5.2%
3 months (%)	-9.0%
12 months (%)	-32.6%

Source: Refinitiv, as of 22nd Dec. 2022

Price -Volume Performance



Source: Refinitiv

Valuation method	SAR	Percentage from CMP	Weights
DCF	20.0	-5%	80%
EV/EBITDA	13.3	-37%	10%
PE	27.9	32%	10%
Target price	20.2	-4.9%	

Source: U Capital Research

December 25, 2022

Ayisha Zia

Head of Research

a.zia@u-capital.net

+968 24949036

- Global exposure with a presence in the Middle East, Asia, and Europe/Africa
- Diversified portfolio to reduce exposure to petrochemical cycles volatility
- The larger and more diverse investor base
- Consistently rewards its shareholders through dividends
- We retain our previous Hold rating on the stock

Net profit for SIIG decreased by 73.0% YoY (-80.6% QoQ) to SAR 55.0 mn in 3Q22. The decline in net profit resulted from lower profit share from jointly managed projects due to lower selling prices and higher feedstock costs. The sequential decline in net profit was led by a decrease in SIIG's share of profit of the jointly managed projects resulting from lower selling prices and volumes.

SIIG's net profit during 9M22 decreased by 43.4% YoY to SAR 574.1 mn compared to SAR 1,014.5 mn during 9M21. Apart from the decline in SIIG's share of profit from jointly managed projects, net profit was also affected by an increase in zakat and general and admin expenses.

Corporate Events:

New Strategy: On September 20th, SIIG announced a new strategy to diversify its current portfolio by forming a strategic partnership with international companies and new sectors based on sustainability and advanced technologies in line with the Kingdom's Vision 2030.

Scheduled Maintenance at Saudi Polymer Company (SPCO): SIIG announced the scheduled turnaround maintenance of its joint venture project SPCO from October 1st 2022, and is estimated to last 58 days. The financial impact of the maintenance will appear in the fourth quarter.

Dividend: SIIG's board of directors approved a cash dividend of SAR 0.75 per share (7.5% of par value per share) for 2H22, amounting to SAR 1.5 per share for 2022.

Valuation and risk:

Post 3Q22 earnings, we revised downward our bottom-line estimate upward on SIIG for FY22 by 28.4% due to unfavourable product price dynamics amid recessionary fears and lower utilization from the SPCO plant due to scheduled turnaround maintenance. The scheduled maintenance will have a significant financial impact in 4Q22. After adjusting the bottom line and accounting for changes in valuation, we arrive at our revised target price of SAR 20.2 per share as compared to SAR 24.9 per share. We retain our previous **Hold** rating on the stock. The performance in 4Q22 is expected to lower due to uncertain global demand owing to weak macroeconomic expectations and tightening monetary policy. Currently, the stock trades at 14.6x P/E and 11.5x EV/EBITDA, based on our FY23 estimates. The downside risks to our valuation include weaker-than-expected economic activities and consumer demand owing to the slowing in overall economic activities. Key upside risks to our valuation include a rise in product price, lower feedstock cost, improved demand, and higher utilization levels.

Valuation:

Discounted Cash Flow Method

	FY22	FY23	FY24	Terminal Value
Pegged on	December 22, 2022			
Time period index	0.02	1.02	2.03	2.03
Free cash flow				
PAT	683	1,098	1,261	
Interest (1-tax rate)	0.00	0.00	0.00	
D&A	0.84	0.87	0.91	
Capex	(0.91)	(0.95)	(0.99)	
Free cash flow to firm (FCFF)	683	1,098	1,261	12,896
Discounted FCFF	681	988	1,023	10,461
Enterprise Value				13,153
Less: Net debt (Includes lease liabilities)				(9,615)
Equity Value				15,129
Shares O/S				755
Equity Value per share				20.0
Current share price (SR)				21.2
% upside/downside				-5.5%

We use DCF methodology with a WACC of 10.9% and a long-term growth rate of 1%, giving us a TP of SAR 20.0. Our DCF valuation is based on the following assumptions i) Risk-free rate of 4.3%, ii) Equity risk premium of 6.0% iii) After-tax cost of debt of 0%. We have given a weightage of 80% to DCF valuation.

Petrochemical comps

Company	Region	MCap (USD bn)	PE FY23E	EV/EBITDA FY23E
Saudi Industrial Investment Group	KSA	4.3	14.6	11.5
SABIC	KSA	67.7	24.0	7.9
Saudi Kayan	KSA	5.4	87.2	9.1
TASNEE	KSA	2.2	5.7	7.5
ADVANCED	KSA	2.8	29.1	16.2
YANSAB	KSA	5.9	30.3	10.0
SIPCHEM	KSA	6.5	11.7	7.9
Petro Rabigh	KSA	4.8	10.5	8.5
Median			24.0	8.5

We have given a weightage of 10% each to the EV/EBITDA and P/E multiples. At median peer P/E multiple of 24.0x and EV/EBITDA multiple of 8.5x, we arrive at target price of SAR 27.9 and SAR 13.3 per share, respectively.

Sensitivity table

SIIG AB

Terminal Growth rate	Cost of Equity					Polypropylene price (USD/t, 2023e)	HDPE price (USD/t, 2023e)				
	9%	10%	11%	12%	13%		855	955	1055	1155	1255
0.50%	22.55	20.86	19.50	18.37	17.43	18.34	18.74	19.19	19.70	20.27	
0.75%	23.00	21.22	19.78	18.61	17.62	18.70	19.13	19.63	20.18	20.78	
1.00%	23.48	21.59	20.08	18.85	17.83	19.07	19.55	20.08	20.67	21.32	
1.25%	23.99	21.99	20.40	19.11	18.04	19.47	19.99	20.56	21.19	21.87	
1.50%	24.54	22.41	20.73	19.38	18.27	19.89	20.45	21.05	21.72	22.44	

Key Financials

(SAR mn)	FY20	FY21	Prev.FY22e	FY22e	Prev.FY23e	FY23e	Prev.FY24e	FY24e
Income Statement								
Share of net profit of joint ventures (equity method)	254	1,906	1,295	899	1,972	1,305	1,958	1,505
General and administrative expenses	(52)	(69)	(117)	(62)	(143)	(124)	(148)	(129)
Operating profit	201	1,837	1,179	837	1,829	1,180	1,809	1,376
Finance costs	(0)	(0)	(2)	0	(2)	0	(2)	0
Finance income	20	10	35	39	34	23	26	7
Other income - net	0	1	1	1	1	1	1	1
Profit before zakat	221	1,847	1,212	877	1,862	1,204	1,833	1,383
Zakat expense	(14)	(30)	(96)	(77)	(147)	(106)	(145)	(122)
Profit for the year	207	1,818	1,116	799	1,715	1,098	1,689	1,261
Balance Sheet								
Cash and cash equivalents	1,166	1,814	1,801	1,059	1,221	(50)	763	(461)
Short-term Murabaha deposits	0	497	497	497	497	497	497	497
Due from related parties	609	1,260	1,260	1,260	1,260	1,260	1,260	1,260
Prepayments and other current assets	7	4	4	4	4	4	4	4
Property and equipment	2	2	2	2	2	2	2	2
Investments in joint ventures	9,378	8,730	9,295	9,152	11,026	10,227	12,798	11,521
Total assets	11,166	12,311	12,863	11,979	14,015	11,944	15,328	12,828
Accrued and other liabilities	32	35	35	35	35	35	35	35
Zakat	419	363	363	363	363	363	363	363
Employee benefit obligations	19	20	22	20	24	20	26	20
Share capital	4,500	4,500	7,548	7,548	7,548	7,548	7,548	7,548
Non-controlling interests	4,060	4,565	0	0	0	0	0	0
Total equity	10,472	11,893	12,443	11,444	13,593	11,410	14,904	12,294
Total liabilities & equity	11,166	12,311	12,863	11,862	14,015	11,828	15,328	12,712
Cash Flow Statement								
Cash from operating activities	100	219	554	379	(13)	24	(80)	(32)
Cash from investing activities	93	1,058	(1)	(1)	(1)	(1)	(1)	(1)
Cash from financing activities	(344)	(628)	(566)	(1,132)	(566)	(1,132)	(377)	(377)
Net changes in cash	(151)	648	(13)	(755)	(580)	(1,110)	(458)	(411)
Cash at the end of the period	1,166	1,814	1,801	1,059	1,221	(50)	763	(461)
Key Ratios								
Current ratio	2.6	9.0	8.9	7.1	7.5	4.3	6.3	3.3
Average return on equity	1.4%	16.5%	11.3%	7.3%	13.2%	9.6%	11.9%	10.6%
Average return on assets	1.8%	15.5%	8.9%	6.6%	12.8%	9.2%	11.5%	10.2%
Debt/Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
P/E	182.4x	10.3x	17.1x	23.4x	11.1x	14.6x	11.3x	12.7x
EV/EBITDA	75.4x	8.9x	14.2x	16.3x	9.1x	11.5x	9.2x	9.9x
EPS (SR)	0.20	2.53	1.48	0.90	2.27	1.45	2.24	1.67
Dividend payout ratio	245.5%	29.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	2.4%	3.5%	3.0%	7.1%	3.0%	7.1%	2.0%	2.4%
Net debt (SR 'million)	(1,166)	(2,311)	(2,298)	(1,556)	(1,718)	(447)	(1,260)	(36)
Net debt/ EBITDA	5.77	1.26	1.95	1.86	0.94	0.38	0.70	0.03
ROCE	1.9%	15.4%	9.5%	7.2%	13.4%	10.2%	12.1%	11.1%

Source: Company Reports, U Capital Research

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%