

Rabigh Refining and Petrochemical Co. (Petro Rabigh)

Target Price: SAR 15.5

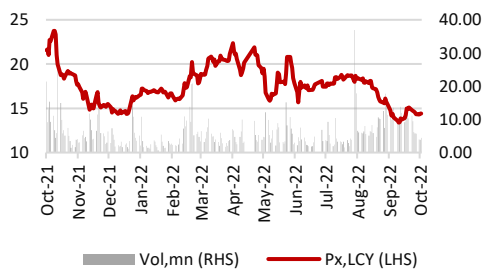
Upside: 7.8%

Recommendation	Hold
Bloomberg Ticker	Petror:AB
Current Market Price (SAR)	14.4
52wk High / Low (SAR)	23.7 / 13.4
12m Average Vol. (mn)	6.1
Mkt.Cap. (SAR bn)	24.1
Shares Outstanding (mn)	1671
Free Float (%)	25.0%
3m Avg Daily Turnover (SAR mn)	134.4
6m Average Daily Turnover (SAR mn)	113.1
PE 2023e (x)	11.8x
EV/EBITDA 2023e (x)	11.0x
Dividend Yield '23e (%)	0.0%

Price Performance:	
1 month (%)	1.7%
3 months (%)	-19.0%
12 months (%)	-31.4%

Source: Refinitiv, as of 18th Oct. 2022

Price -Volume Performance



Source: Refinitiv

Valuation method	SAR	Percentage from CMP	Weights
DCF	17.6	22%	80%
EV/EBITDA	4.2	-71%	10%
PE multiple	10.6	-26%	10%
Target price	15.5	7.8%	

Source: U Capital Research

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- Refining margin expected to narrow down amid waning demand for refined products and increased supply
- Weaker demand and lower crude oil prices to affect revenue from petrochemicals
- 2Q22 witnessed the de-leveraging of the balance sheet from the early retirement of long-term loans resulting in a non-recurring gain of SAR 236.3 mn
- We revise our rating on the stock to Accumulate from the Hold previously

Rabigh Refining and Petrochemical company's (Petro Rabigh) bottom line in 2Q22 increased by 93.1% YoY to SAR 1,385 mn (up by 91.1% QoQ), above our estimate of SAR 702.8 mn. The increase in the bottom line was mainly due to a higher-than-expected rise in revenue, especially from the refining business, which grew by 107.8% YoY (+30.9% QoQ) to SAR 13,304. Globally, refining income started increasing since 3Q21. Demand for refined products kept increasing amid easing Covid-19 curbs and resumption of travel. The increase in demand outpaced the supply, which was affected by lower refining capacity. The global market, since January 2020, has lost a total of 3.3 mn barrels per day of refining capacity, of which 1.1 mn barrels per day came from the United States.

Amid the current ongoing global uncertainties with increasing tensions between Russia and Ukraine, rising inflation, and the increasing fears of recession, the demand has been affected. In contrast, supplies are growing, with refineries processing more crude, helping increase the overall supply. It has been observed that the average gasoline price, which increased by ~31% QoQ in 2Q22, fell by ~21% QoQ in 3Q22 while the average diesel price increased by ~31% QoQ in 2Q22 fell by ~4.8% QoQ in 3Q22.

We expect 3Q22 and 4Q22 earnings to remain impacted by narrowing refinery margin and declining petrochemical prices resulting from subdued demand-supply dynamics

Valuation and risk: Post 2Q22 earnings, we revise our bottom-line estimate upward on Petro Rabigh for FY22 by 91.9%. We expect the petrochemicals segment to remain impacted comparatively in 2H22 amid recessionary fears and a slowdown in activities. We expect refining income to reduce, resulting from an increase in the supply of refined products coupled with slowing demand amidst recessionary fears. After adjusting the bottom line and accounting for changes in valuation, we arrive at our revised target price of SAR 15.5 per share compared to SAR 24.1 per share earlier. We revise our rating on the stock to Hold from Buy earlier. The FY22 EPS estimate is at SAR 2.3 vs. SAR 1.2 earlier. Currently, the stock trades at 11.8x P/E and 11.0x EV/EBITDA, based on our FY23 estimates. The downside risks to our valuation include an increase in inflation, and the resulting increase in interest rate to curb inflation will impact the overall demand and product prices. Key upside risks to our valuation include increased demand for petrochemicals and refined products from reopening the Chinese economy from extended lockdowns. Some relief in the ongoing surging tensions between Russia and Ukraine could help prevent demand from falling further.

Valuation:

Discounted Cash Flow

	FY22	FY23	FY24	FY25	FY26	Terminal Value
Pegged on October 18, 2022						
Time period index	0.20	1.20	2.21	3.21	4.21	4.21
Free cash flow						
PAT	3,844	2,039	2,186	2,385	2,402	
Interest (1-tax rate)	1,006	700	654	608	562	
Depreciation	3,052	2,919	2,961	3,009	3,073	
Changes in Working Capital	(1,756)	(724)	(325)	665	(13)	
Less: Capex	(1,342)	(1,078)	(1,649)	(1,400)	(2,610)	
Free cash flow to firm (FCFF)	4,803	3,856	3,827	5,268	3,413	66,517
Discounted FCFF	4,745	3,587	3,353	4,346	2,652	51,685
Enterprise Value						70,369
Less: Net debt (Includes leases)						41,000
Equity Value						29,369
Shares O/S						1,671
Equity Value per share						17.6
Current share price (SR)						14.4
% upside/downside						21.9%

We use a DCF methodology with a WACC of 6.2% and a long-term growth rate of 1%, giving us a TP of SAR 17.6. We have given a weightage of 80% to DCF valuation.

Peer set

Company	Region	MCap (USD bn)	PE FY23E	EV/EBITDA FY23E
Rabigh Refining and Petrochemical Co.	KSA	6.4	11.8	11.0
Saudi Aramco	KSA	2083.5	13.3	6.8
Idemitsu kosan	Japan	6.5	3.7	4.9
HD Hyundai	Korea	3.2	4.1	10.3
Aldrees Petroleum And Transp.	KSA	1.5	21.0	9.5
Median			8.7x	8.1x

We have given an equal weightage of 10% each to the P/E and EV/EBITDA multiples. At a median peer P/E multiple of 8.7x and EV/EBITDA multiples of 8.1x, we arrive at a target price of SAR 10.6 and SAR 4.2 per share, respectively.

Sensitivity table

PETRO:AB

		Cost of Equity					Average selling price (refined products) in SAR/bl,2022e					
		11%	12%	13%	14%	15%	440	540	640	740	840	
Terminal Growth rate	0.50%	15.3	14.2	13.3	12.3	11.5	280	6.6	10.8	15.0	19.1	23.3
	0.75%	16.6	15.4	14.3	13.4	12.4	330	6.9	11.1	15.2	19.4	23.6
	1.00%	18.0	16.7	15.5	14.5	13.5	380	7.2	11.4	15.5	19.7	23.9
	1.25%	19.5	18.1	16.9	15.7	14.6	430	7.5	11.7	15.8	20.0	24.2
	1.50%	21.3	19.7	18.3	17.0	15.8	480	7.8	12.0	16.1	20.3	24.5
								Average selling price (Petchem products) in SAR/MT,2022e				

Key Financials

(SAR mn)	FY19	FY20	FY21	Prev.FY22e	FY22e	Prev.FY23e	FY23e	Prev.FY24e	FY24e
Income Statement									
Sales	34,062	21,870	45,638	52,687	65,569	52,322	52,666	55,115	54,110
COGS	(32,344)	(22,773)	(40,882)	(47,747)	(58,632)	(47,833)	(47,808)	(50,234)	(49,091)
Gross profit	1,718	(903)	4,756	4,940	6,936	4,488	4,859	4,881	5,020
Selling & marketing expenses	(406)	(661)	(835)	(905)	(979)	(942)	(948)	(992)	(974)
General & administrative expenses	(960)	(928)	(881)	(986)	(887)	(994)	(1,000)	(1,046)	(1,028)
Operating profit	439	(2,436)	3,192	3,079	5,093	2,642	3,000	2,937	3,110
Finance charges	(1,022)	(1,505)	(1,089)	(817)	(1,101)	(767)	(767)	(716)	(716)
Finance income	264	202	196	0	244	0	0	0	0
Income before tax	(319)	(3,739)	2,299	2,262	4,235	1,875	2,233	2,221	2,394
Zakat and Income tax	(225)	(42)	(263)	(258)	(391)	(214)	(194)	(254)	(208)
Net income for the period	(544)	(3,781)	2,037	2,003	3,844	1,661	2,039	1,967	2,186
Balance Sheet									
Cash and bank balances	316	1,016	3,972	5,251	5,622	6,926	6,510	8,652	7,438
Trade receivables	5,364	3,990	8,257	9,533	12,216	9,502	9,956	9,982	10,349
Inventories	3,406	3,071	3,806	4,960	6,091	5,297	5,294	5,139	5,421
Property, plant and equipment	46,111	46,050	44,090	42,729	43,043	41,069	41,916	40,235	41,320
Right of use assets	12,039	11,342	10,669	9,955	9,978	9,242	9,327	8,528	8,675
Long term loans	3,450	2,983	179	170	170	162	162	154	154
Total assets	74,030	70,694	73,362	75,584	80,832	75,103	76,468	75,659	76,666
Trade and other payables	9,402	7,690	12,398	14,651	17,778	14,663	14,088	15,396	14,438
Total borrowings	40,455	43,212	38,729	29,048	29,048	27,257	27,257	25,466	25,466
Total lease liabilities	12,306	11,766	11,234	10,726	10,726	10,241	10,241	9,777	9,777
Share capital	8,760	8,760	8,760	16,710	16,710	16,710	16,710	16,710	16,710
Statutory reserve	252	252	252	252	252	252	252	252	252
Retained earnings	1,034	(2,804)	(702)	1,302	3,142	2,963	5,182	4,930	7,367
Total stockholders' equity	10,041	6,203	8,306	18,259	20,100	19,920	22,139	21,887	24,325
Total liabilities & stockholders' equity	74,030	70,694	73,362	75,584	80,832	75,103	76,468	75,659	76,666
Cash Flow Statement									
Cash from operating activities	1,829	944	5,297	4,587	5,222	4,752	4,234	5,652	4,822
Cash from investing activities	(1,815)	(2,336)	2,829	(1,069)	(1,333)	(801)	(1,069)	(1,671)	(1,641)
Cash from financing activities	(961)	2,092	(5,170)	(2,239)	(2,239)	(2,276)	(2,276)	(2,254)	(2,254)
Net changes in cash	(948)	700	2,956	1,279	1,650	1,675	889	1,727	928
Cash at the end of the period	316	1,016	3,972	5,251	5,622	6,926	6,510	8,652	7,438
Key Ratios									
Current ratio	0.4	0.5	0.5	0.7	0.8	0.8	0.8	0.9	0.9
Inventory turnover ratio	9.8	7.0	11.9	10.9	11.8	9.3	8.4	9.6	9.2
Debtors' turnover ratio	6.0	4.7	7.5	5.9	6.4	5.5	4.8	5.7	5.3
Creditors turnover ratio	3.4	2.7	4.1	3.5	3.9	3.3	3.0	3.3	3.4
Gross profit margin	5.0%	-4.1%	10.4%	9.4%	10.6%	8.6%	9.2%	8.9%	9.3%
Operating margin	1.3%	-11.1%	7.0%	5.8%	7.8%	5.0%	5.7%	5.3%	5.7%
Net profit margin	-1.6%	-17.3%	4.5%	3.8%	5.9%	3.2%	3.9%	3.6%	4.0%
EBITDA margin	8.3%	3.5%	14.0%	11.9%	12.4%	11.3%	11.2%	11.3%	11.2%
Average return on equity	-5.3%	-46.6%	28.1%	15.1%	27.1%	8.7%	9.7%	9.4%	9.4%
Average return on assets	-0.8%	-5.2%	2.8%	2.7%	5.0%	2.2%	2.6%	2.6%	2.9%
Debt/Equity (x)	5.25x	8.86x	6.02x	2.18x	1.98x	1.88x	1.69x	1.61x	1.45x
Interest coverage ratio (x)	0.43x	-1.62x	2.93x	3.77x	4.62x	3.45x	3.91x	4.10x	4.34x
P/E	NA	NA	9.41x	14.23x	6.27x	17.16x	11.81x	14.49x	11.02x
EV/EBITDA	25.22x	87.07x	10.05x	11.60x	7.99x	12.39x	11.00x	11.72x	10.72x
EV/Sales	2.10x	3.02x	1.40x	1.38x	0.99x	1.39x	1.24x	1.32x	1.20x
EPS (SR)	NA	NA	2.32	1.20	2.30	0.99	1.22	1.18	1.31
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt (SR 'million)	52,445	53,962	45,990	34,523	34,152	30,572	30,987	26,591	27,806
Net debt/ EBITDA	18.52	71.15	7.21	5.49	4.19	5.19	5.24	4.27	4.58
ROCE	0.8%	-4.4%	6.8%	8.8%	15.2%	8.5%	10.1%	10.7%	11.9%

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%



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