SABIC

RESULT ANALYSIS

Q2 2023

Lower non-opex offset high production cost

SABIC reported an in-line set of Q2 23 results. Net income declined by 85.1% yoy (+79.6% qoq) to SAR1.18bn, but it was in-line with our estimates and lower than the consensus estimates of SAR1.31bn. Although revenues and net income were in-line with our estimates, cost of production was significantly higher than expected but was offset by lower non-opex related mainly to re-measurement of option rights.

- Revenues stood at SAR37.17bn, down 33.6% yoy (-6.4% qoq), and were in-line with our estimates as strong performance by Agri-nutrients offset the weakness in Petrochemicals. The qoq decline was due to lower selling prices (-7%) as volumes remained flat. Petrochemicals segment revenue was SAR31.6bn, (-7% qoq) and was lower than our estimates of SAR32.5bn. The qoq decline was driven by lower volumes (-4%) and prices (-3%). Agri-nutrients revenues stood at SAR2.49bn, (+3%), and were higher than our estimates of SAR1.56bn. The qoq improvement was driven by higher volumes (+38%) which offset the decline in prices (-35%). Hadeed sales declined 6% qoq to SAR3.07bn compared to our estimates of SAR3.26bn, driven by a decrease in volumes (-6%) as prices remained flat qoq.
- Gross profit stood at SAR5.37bn, down 64.4% yoy (-5.5% qoq) and lower than our estimates of SAR6.35bn. Gross margin was 14.4%, lower than our estimates of 17.0% and in-line with 14.3% in Q1 23. We believe the higher than expected cost of production, despite the c20% qoq decline in feedstock costs, is a concern.
- EBIT stood at SAR1.43bn, down 86.0% yoy (-15.3% qoq), lower than our estimates of SAR2.42mn. Opex was SAR3.94bn, in line with our estimate and compared to SAR3.99bn in Q1 23. Opex to sales stood at 10.6%, in-line with our estimate. EBITDA stood at SAR5.13bn, (-63% yoy, -2% qoq) in Q2 23. SABIC realized a cumulative synergy of US$1.51bn (SAR5.65bn) up-to Q2 23 since Aramco deal. The company said that it achieved its target 2 years ahead of the plan.
- Net non-opex was SAR250mn, down 89.2% yoy (-75.8% qoq) and was lower than our estimates of SAR1.2bn. We believe the decline is due to re-measurement gains of option rights and lower zakat/tax, despite a decline in non-integral JVs profits.
- In Q2 23, HDPE dropped 17.6% yoy (-0.1% qoq) and MEG was down 30.1% yoy (-10% qoq). PP-propane spread grew 34.7% yoy (+6.8% qoq) to US$372.

Outlook

Based on our last update, we are Overweight on SABIC with a PT of SAR95.4. The sector's outlook remains muted in the short-term due to weak demand, delayed recovery in China and high supply. We believe the potential recovery might be realized in H1 24. SABIC expects Q3 23 earnings to be impacted by weaker spreads as feedstock prices could rise. The stock is trading at 2023f P/E of 22.5x vs its peer group average of 27.1x.

Q2 23 Results Summary (SAR mn)

	Q2 23	Q2 22	%yoy	Q2 23f	%Var^	Q1 23	% qoq
Revenue	37,170	55,980	(33.6)%	37,298	(0.3)%	39,693	(6.4)%
Gross income	5,370	15,090	(64.4)%	6,353	(15.5)%	5,680	(5.5)%
Gross margin (%)	*14.4%*	*27.0%*	*(12.5)%*	*17.0%*	*(2.6)%*	*14.3%*	*0.1%*
EBIT	1,430	10,250	(86.0)%	2,416	(40.8)%	1,688	(15.3)%
EBIT margin (%)	*3.8%*	*18.3%*	*(14.5)%*	*6.5%*	*(2.6)%*	*4.3%*	*(0.4)%*
Net income	1,180	7,930	(85.1)%	1,200	(1.7)%	657	79.6%
Net margin (%)	*3.2%*	*14.2%*	*(11.0)%*	*3.2%*	*(0.0)%*	*1.7%*	*1.5%*
EPS (SAR)	0.39	2.64	(85.1)%	0.40	(1.7)%	0.22	79.6%

Source: The company, SNB Capital Research, ^ % Var indicates variance from SNB Capital forecasts

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