

# Saudi Basic Industries Corp. (SABIC)

**Target Price: SAR 95.0**

**Upside: 10.9%**

<b>Recommendation</b>	<b>Accumulate</b>
Bloomberg Ticker	SABIC:AB
Current Market Price (SAR)	85.60
52wk High / Low (SAR)	139 / 79.9
12m Average Vol. (mn)	2.46
Mkt.Cap. (SAR bn)	256.8
Shares Outstanding (mn)	3000
Free Float (%)	30.0%
3m Avg Daily Turnover (SAR mn)	209.5
6m Average Daily Turnover (SAR mn)	213.7
PE 2023e (x)	24.2x
EV/EBITDA 2023e (x)	7.9x
Dividend Yield '23e (%)	5.0%
<b>Price Performance:</b>	
1 month (%)	4.4%
3 months (%)	-5.1%
12 months (%)	-26.2%

Source: Refinitiv, as of 20<sup>th</sup> Dec. 2022

Price - Volume Performance



Source: Refinitiv

Valuation method	SAR	Percentage from CMP.	Weights
DCF	97.3	13.7%	80%
EV/EBITDA	129.5	51.3%	10%
PE multiple	41.4	-51.7%	10%
<b>Target price</b>	<b>95.0</b>	<b>10.9%</b>	

Source: U Capital Research

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Ayisha Zia

Head of Research

[a.zia@u-capital.net](mailto:a.zia@u-capital.net)

+968 24949036

- Diverse global footprint, including sales in KSA (22%), Europe (20%), China (17%), Rest of Asia (20%), Americas (11%), and Others (10%).
- Impairment provision of SAR 0.51 bn recognized in 3Q22
- Start of commercial operations at United Ethylene Glycol Plant to increase MEG capacity by 700,000 metric tons
- Strong adherence to capital discipline, credit rating, and dividend (stable/growing)
- We upgrade our rating on the stock to Accumulate from Hold earlier

Sabic Basic Industries Corporation (SABIC) reported a net profit of SAR 1,836 mn in 3Q22 (our estimate of a net profit of SAR 6,082 mn) compared to a net profit of SAR 5,595 mn in 3Q21. The bottom line was hit mainly due to a lower-than-expected fall in topline and an above-expected jump in direct cost. The top line in 3Q22 decreased by 16.3% QoQ, to SAR 46,868 mn compared to our estimate of SAR 53,485 mn. The decline in topline resulted from a fall in end product prices. Petrochemical prices, on average, fell by 18% QoQ, fertilizer prices by 8% QoQ and steel prices by 9% QoQ. The decline in fertilisers and steel volumes by 17% QoQ and 4% QoQ, respectively, further led to a decrease in revenue. SABIC derives ~83% of the total topline from Petrochemicals, 9% from Agri-Nutrients and the remaining 8% from Hadeed.

Despite a decrease in direct cost by 6.1% QoQ to SAR 37,025 mn, the gross margin for SABIC in 3Q22 declined to 21.0% compared to 29.6% in 2Q22 and 28.6% in 3Q21. This is likely due to an increase in natural gas and naphtha price, which on average, increased by 54% QoQ and 6% QoQ, respectively.

The fall in end product prices got trickled down to a lower share of income from joint ventures, which reduced by ~62% QoQ to SAR 962 mn from SAR 2,517 mn in 2Q22. It is to be noted that SABIC recorded an impairment provision to the tune of SAR 0.51 bn in 3Q22. Post adjusting for the impairment provision, the net profit for SABIC stood at SAR 2,346 mn.

**Valuation and risk:** Post 3Q22 earnings, we reduce our bottom-line forecast for SABIC by 30.5% for FY22. We expect partial rebound in demand to flow in after lockdowns in China are removed in 2H23. Prices are likely to remain volatile amid an uncertain demand scenario, with product-specific demand-supply dynamics weighing in more than the overall price trend. Any decrease in oil prices is likely to result in a decrease in feedstock prices, which may help to maintain margins in general. Post adjusting the bottom line and accounting for changes in valuation, we arrive at our revised target price of SAR 95.0 per share compared to SAR 106.3 per share earlier. We upgrade our rating on the stock from Hold to Accumulate. The FY22 EPS estimate is at SAR 5.9 vs SAR 8.5 earlier. Currently, the stock trades at 24.2x P/E and 7.9x EV/EBITDA, based on our FY23 estimates. The downside risks to our valuation include slack in economic activities, surplus capacity, unfavourable swings in crude oil price and, rising interest rate. Key upside risks to our valuation include rising demand from reopening of Chinese economy, recovery in commodities prices and stable to falling rate of interest.

## Valuation:

### Discounted Cash Flow

	FY22	FY23	FY24	FY25	FY26	Terminal Value
Pegged on December 20, 2022						
Time period index	0.03	1.03	2.03	3.03	4.03	4.03
<b>Free cash flow</b>						
PAT	17,661	10,599	12,771	16,406	17,727	
Interest (1-tax rate)	2,733	2,057	1,763	1,130	827	
Depreciation	13,989	15,865	16,994	18,127	19,339	
Changes in Working Capital	2,460	1,291	(10,751)	(2,681)	(1,661)	
Less: Capex	(11,008)	(16,218)	(14,878)	(10,358)	(10,925)	
Free cash flow to firm (FCFF)	25,835	13,593	5,900	22,625	25,307	292,321
Discounted FCFF	25,763	12,352	4,884	17,066	17,394	200,915
Enterprise Value						278,373
Less: Net debt (Includes leases)						(13,671)
Equity Value						292,044
Shares O/S						3,000
Equity Value per share						97.3
Current share price (SR)						85.6
% upside/downside						13.7%

We use DCF methodology with a WACC of 9.7% and a long-term growth rate of 1.0%, giving us a TP of SAR 97.3. Our DCF valuation is based on the following assumptions i) Risk-free rate of 4.28%, ii) Equity risk premium of 5.97%, iii) Beta of 1.09. We have given a weightage of 80% to the DCF valuation.

### Peer set

Company	Region	MCap (USD bn)	PE FY23E	EV/EBITDA FY23E
Saudi Basic Industries Corp	KSA	66.7	24.23	7.9
Industries Qatar	Qatar	21.7	10.0	10.2
SABIC Agri-Nutrients	KSA	17.2	10.8	8.4
Mesaieed	Qatar	7.6	15.8	12.5
SIPCHEM	KSA	6.3	11.7	7.9
YANSAB	KSA	5.9	30.4	10.1
SIIG	KSA	4.2	9.5	7.9
ADVANCED	KSA	2.8	29.5	16.3
<b>Median</b>			<b>11.7</b>	<b>10.1</b>

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 11.7x and EV/EBITDA multiples of 10.1x, we arrive at a target price of SAR 41.4 and SAR 129.5 per share, respectively.

### Sensitivity table

#### SABIC:AB

Cost of Equity							MEG price (USD/t, 2023e)						
Terminal Growth rate		9%	10%	11%	12%	13%	Methanol price USD/t, 2023e)		330	430	530	630	730
	0.50%	108.0	99.1	91.8	85.8	80.8		250	92.4	93.1	93.8	94.4	95.1
	0.75%	110.4	101.0	93.4	87.1	81.8		300	93.0	93.7	94.4	95.0	95.7
	1.00%	113.0	103.0	95.0	88.4	82.9		350	93.6	94.3	95.0	95.6	96.3
	1.25%	115.8	105.2	96.7	89.8	84.0		400	94.2	94.9	95.6	96.3	96.9
	1.50%	118.8	107.5	98.5	91.2	85.2		450	94.8	95.5	96.2	96.9	97.5

## Key Financials

(SAR mn)	FY19	FY20	FY21	Prev. FY22e	FY22e	Prev. FY23e	FY23e	Prev. FY24e	FY24e
<b>Income Statement</b>									
Sales	135,396	116,949	174,883	216,169	200,146	182,507	170,719	183,424	183,673
COGS	(105,991)	(94,311)	(123,796)	(155,798)	(150,166)	(138,457)	(130,272)	(140,246)	(140,041)
<b>Gross profit</b>	<b>29,405</b>	<b>22,638</b>	<b>51,087</b>	<b>60,371</b>	<b>49,980</b>	<b>44,050</b>	<b>40,447</b>	<b>43,178</b>	<b>43,633</b>
General and administrative expenses	(9,891)	(9,771)	(10,367)	(10,286)	(10,265)	(8,594)	(10,072)	(8,638)	(10,102)
Selling and distribution expenses	(9,725)	(9,302)	(10,753)	(17,688)	(16,681)	(11,180)	(14,228)	(11,236)	(15,308)
Share of results of integral JVs	1,734	1,009	3,275	2,494	1,988	3,003	2,834	3,016	2,943
<b>Operating profit</b>	<b>11,523</b>	<b>4,574</b>	<b>33,242</b>	<b>34,890</b>	<b>25,022</b>	<b>27,278</b>	<b>18,980</b>	<b>26,320</b>	<b>21,166</b>
Finance charges	(2,218)	(1,861)	(2,257)	(2,334)	(3,140)	(1,946)	(2,363)	(1,662)	(2,026)
Finance income	1,057	569	292	522	717	563	638	238	217
<b>Income before tax</b>	<b>9,199</b>	<b>3,277</b>	<b>34,088</b>	<b>37,289</b>	<b>27,257</b>	<b>28,541</b>	<b>19,749</b>	<b>27,554</b>	<b>21,965</b>
Zakat and Income tax	(2,595)	(2,021)	(3,586)	(3,063)	(2,641)	(3,011)	(2,083)	(2,907)	(2,317)
Minority interest	1,406	1,189	7,436	8,807	6,954	6,893	7,066	6,499	6,877
<b>Net income avail. to equity shareholders of the parent</b>	<b>5,198</b>	<b>67</b>	<b>23,066</b>	<b>25,419</b>	<b>17,661</b>	<b>18,637</b>	<b>10,599</b>	<b>18,149</b>	<b>12,771</b>
<b>Balance Sheet</b>									
Cash and bank balances	36,639	33,156	41,403	45,567	40,201	35,932	31,870	18,712	13,306
Trade receivables	16,746	16,928	26,330	32,573	30,159	27,501	25,725	27,564	27,601
Inventories	22,565	19,311	28,621	33,294	32,090	29,588	27,839	29,888	29,845
Property, plant and equipment	136,416	136,180	131,019	130,698	129,192	139,486	131,603	145,724	132,754
Right of use assets	6,441	5,624	6,358	6,673	6,944	7,644	7,915	8,488	8,758
Investment in associates & JV	38,765	40,579	42,188	43,931	43,931	45,448	45,448	46,784	46,784
<b>Total assets</b>	<b>300,481</b>	<b>295,469</b>	<b>318,439</b>	<b>333,828</b>	<b>323,298</b>	<b>326,282</b>	<b>310,797</b>	<b>317,348</b>	<b>299,184</b>
Trade and other payables	29,326	29,503	43,150	52,821	50,769	43,858	42,809	34,737	36,180
Total borrowings and lease liability	44,345	45,986	38,559	30,776	30,776	26,800	26,800	23,147	23,147
Equity attributable to equity holders of the parent	178,722	167,626	180,141	191,759	184,002	195,847	181,851	198,681	179,308
Non-controlling interest	28,091	26,611	31,693	36,288	35,321	39,885	39,009	43,276	42,597
<b>Total stockholders' equity</b>	<b>206,813</b>	<b>194,237</b>	<b>211,833</b>	<b>228,047</b>	<b>219,324</b>	<b>235,732</b>	<b>220,860</b>	<b>241,957</b>	<b>221,905</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>300,481</b>	<b>295,469</b>	<b>318,439</b>	<b>333,828</b>	<b>323,298</b>	<b>326,282</b>	<b>310,797</b>	<b>317,348</b>	<b>299,184</b>
<b>Cash Flow Statement</b>									
Cash from operating activities	33,777	22,146	39,229	43,988	36,855	38,210	31,201	28,827	22,181
Cash from investing activities	(12,359)	(13,964)	(8,918)	(14,029)	(13,148)	(26,023)	(19,428)	(23,971)	(18,488)
Cash from financing activities	(23,041)	(14,525)	(17,824)	(25,795)	(24,909)	(21,822)	(20,105)	(22,076)	(22,256)
Net changes in cash	(1,623)	(6,343)	12,487	4,164	(1,202)	(9,635)	(8,331)	(17,219)	(18,563)
Cash at the end of the period	35,292	28,938	41,389	45,567	40,201	35,932	31,870	18,712	13,306
<b>Key Ratios</b>									
Current ratio	2.3	2.2	2.2	2.1	2.0	2.1	2.0	2.3	2.0
Inventory turnover ratio	4.5	4.5	5.2	5.2	5.1	4.4	4.3	4.7	4.9
Debtors' turnover ratio	7.5	6.9	8.1	7.4	7.1	6.1	6.1	6.7	6.9
Trade payables and other current liabilities turnover ratio	3.5	3.3	3.5	3.7	3.6	2.9	2.9	3.6	3.7
Gross profit margin	21.7%	19.4%	29.2%	27.9%	25.0%	24.1%	23.7%	23.5%	23.8%
Operating margin	8.5%	3.9%	19.0%	16.1%	12.5%	14.9%	11.1%	14.3%	11.5%
Net profit margin	3.8%	0.1%	13.2%	11.8%	8.8%	10.2%	6.2%	9.9%	7.0%
EBITDA margin	19.0%	16.0%	27.0%	22.4%	19.5%	23.7%	20.4%	23.8%	20.8%
Average return on equity	2.9%	0.0%	13.3%	13.6%	9.6%	9.6%	5.8%	9.2%	7.1%
Average return on assets	2.2%	0.4%	9.9%	10.5%	7.7%	7.7%	5.6%	7.7%	6.4%
Debt/Equity (x)	0.2x	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Interest coverage ratio (x)	5.2x	2.5x	14.7x	15.0x	8.0x	14.0x	8.0x	15.8x	10.4x
P/E	45.3x	5234.6x	17.5x	11.4x	14.5x	15.6x	24.2x	16.0x	20.1x
EV/EBITDA	12.1x	18.0x	7.9x	6.5x	7.1x	7.3x	7.9x	7.2x	7.2x
EV/Sales	2.3x	2.9x	2.1x	1.5x	1.4x	1.7x	1.6x	1.7x	1.5x
EPS (SR)	1.73	0.02	7.69	8.47	5.89	6.21	3.53	6.05	4.26
Dividend yield (%)	4.8%	2.3%	4.3%	4.8%	5.4%	5.0%	5.0%	5.3%	6.0%
Net debt (SR 'million)	2,147	6,974	(7,910)	(19,857)	(14,491)	(14,198)	(10,136)	(632)	4,774
Net debt/ EBITDA	0.08	0.37	-0.17	-0.41	-0.37	-0.33	-0.29	-0.01	0.13
ROCE	4.4%	1.8%	12.4%	12.6%	9.3%	9.8%	7.2%	9.4%	8.1%

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%



### Ubhar Capital SAOC (U Capital)

Website: [www.u-capital.net](http://www.u-capital.net)

PO Box 1137

PC 111, Sultanate of Oman

Tel: +968 2494 9000

Fax: +968 2494 9099

Email: [research@u-capital.net](mailto:research@u-capital.net)

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