

Saudi Basic Industries Corp. (SABIC)

Target Price: SAR 106.3

Upside: 9.8%

Recommendation	Hold
Bloomberg Ticker	SABIC:AB
Current Market Price (SAR)	96.8
52wk High / Low (SAR)	139 / 94.6
12m Average Vol. (mn)	2.4
Mkt.Cap. (SAR bn)	290.4
Shares Outstanding (mn)	3000
Free Float (%)	30.0%
3m Avg Daily Turnover (SAR mn)	220.4
6m Average Daily Turnover (SAR mn)	308.7
PE 2023e (x)	15.6
EV/EBITDA 2023e (x)	7.3
Dividend Yield '23e (%)	5.0%

Price Performance:

1 month (%)	-7.1%
3 months (%)	-10.7%
12 months (%)	-21.6%

Source: Refinitiv, as of 12th Sept. 2022

Price - Volume Performance



Source: Refinitiv

Valuation method	SAR	Percentage from CMP	Weights
DCF	107.8	11%	80%
EV/EBITDA	111.4	15%	10%
PE multiple	88.8	-8%	10%
Target price	106.3	9.8%	

Source: U Capital Research

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Ayisha Zia

Head of Research

a.zia@u-capital.net

+968 24949036

- Strong financial performance supported by resilient operating performance
- Diversified operations provide resilience to business
- Petrochemicals segment may be impacted in 2H22 due to volatility in oil and petrochemicals market, but the fertilizer business may cushion the impact
- We retain our previous Hold rating on the stock

Saudi Basic Industries Corp's (SABIC) bottom-line in 2Q22 increased by 3.7% YoY to SAR 7.9 bn (up by 22.4% QoQ), above our estimate of SAR 5.7 bn. The increase in the bottom line was mainly due to a higher-than-expected rise in revenue and share of profits from non-integral joint ventures. Revenue in 2Q22 increased by 6.3% QoQ to SAR 56.0 bn. A sequential increase in revenue of 41% from the fertilizer segment drove the topline. The bottom-line growth was also supported by the rise in revenue from the petrochemical segment, which increased by 4.4% QoQ to SAR 46.2 bn, led by an increase in average selling prices. The petrochemical segment accounts for ~83% of the top line, while the fertilizer segment accounts for ~10%.

Share of profits from non-integral joint ventures increased by 3x sequentially to SAR 1.8 bn in 2Q22 compared to SAR 0.5 bn. The sequential increase was mainly due to recording a fair value gain of SAR 363.8 mn on SABIC's original 50% interest in Scientific Design. On April 2022, SABIC acquired the remaining 50% shares in the Scientific Design group of companies from Clariant AG, which pulled the bottom line up further. 1Q22 witnessed an additional impairment provision of SAR 825 mn resulting from the Russia-Ukraine conflict and reversal of impairment loss of SAR 441 mn regarding investment in Aluminium Bahrain BSC, which were reflected in the share of profits from non-integral joint ventures.

Dividend: SABIC's board of directors approved a cash dividend of SAR 2.25 per share (22.5% of par value per share) for 1H22. This is higher by 29% compared to 1H21.

Valuation and risk: Post 2Q22 earnings, we revise our bottom-line estimate upward on SABIC for FY22 by 10.4%. We expect the petrochemicals segment to remain impacted comparatively in 2H22 amid recessionary fears and a slowdown in activities. Regarding the fertilizer business, favorable product price dynamics and demand in 2H22 will cushion the company's profitability. After adjusting the bottom line and accounting for changes in valuation, we arrive at our revised target price of SAR 106.3 per share compared to SAR 121.7 per share earlier. We retain our previous rating of **Hold** on the stock. The FY22 EPS estimate is at SAR 8.5 vs. SAR 7.7 earlier. Currently, the stock trades at 15.6x P/E and 7.3x EV/EBITDA, based on our FY23 estimates. The downside risks to our valuation include weaker than expected economic activities and consumer demand. 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

	FY22	FY23	FY24	FY25	FY26	Terminal Value
Pegged on September 12, 2022						
Time period index	0.30	1.30	2.30	3.30	4.30	4.30
Free cash flow						
PAT	25,419	18,637	18,149	19,856	19,691	
Interest (1-tax rate)	2,162	1,803	1,540	1,187	870	
Depreciation	13,631	16,027	17,393	18,667	19,937	
Changes in Working Capital	586	461	(9,492)	(2,135)	(484)	
Less: Capex	(11,889)	(22,813)	(20,360)	(12,077)	(12,178)	
Free cash flow to firm (FCFF)	29,909	14,115	7,229	25,498	27,837	336,697
Discounted FCFF	29,114	12,565	5,884	18,977	18,947	229,169
Enterprise Value						314,655
Less: Net debt (Includes leases)						(8,748)
Equity Value						323,403
Shares O/S						3,000
Equity Value per share						107.8
Current share price (SR)						96.8
% upside/downside						11.4%

We use a DCF methodology with a WACC of 9.4% and a long-term growth rate of 1%, giving us a TP of SAR 107.8. We have given a weightage of 80% to DCF valuation.

Petrochemical comps

Company	Region	MCap (USD bn)	PE FY23E	EV/EBITDA FY23E
Saudi Basic Industries Corp	KSA	79.1	15.6	7.3
Industries Qatar	Qatar	29.9	13.3	12.5
Mesaieed	Qatar	8.6	17.6	17.1
SABIC Agri-Nutrients	KSA	21.0	9.4	7.4
SIPCHEM	KSA	9.2	13.4	8.2
YANSAB	KSA	7.5	15.1	8.0
ADVANCED	KSA	3.2	25.0	17.3
SIIG	KSA	4.7	10.3	8.4
Median			14.3x	8.3x

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 14.3x and EV/EBITDA multiples of 8.3x, we arrive at a target price of SAR 88.8 and SAR 111.4 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)		440	540	640	740	840
	0.50%	122.0	111.2	102.5	95.4	89.4		280	103.2	104.0	104.8	105.6	106.4
	0.75%	125.0	113.5	104.3	96.8	90.6		330	103.9	104.7	105.5	106.3	107.1
	1.00%	128.2	115.9	106.3	98.4	91.9		380	104.7	105.5	106.3	107.1	107.9
	1.25%	131.6	118.6	108.3	100.0	93.2		430	105.4	106.2	107.0	107.8	108.6
	1.50%	135.3	121.4	110.5	101.8	94.6		480	106.1	106.9	107.7	108.5	109.3

Key Financials

(SAR mn)	FY19	FY20	FY21	Prev. FY22e	FY22e	Prev. FY23e	FY23e	Prev. FY24e	FY24e
Income Statement									
Sales	135,396	116,949	174,883	184,912	216,169	188,852	182,507	192,599	183,424
COGS	(105,991)	(94,311)	(123,796)	(131,871)	(155,798)	(135,054)	(138,457)	(138,188)	(140,246)
Gross profit	29,405	22,638	51,087	53,040	60,371	53,798	44,050	54,411	43,178
General and administrative expenses	(9,891)	(9,771)	(10,367)	(11,465)	(10,286)	(11,520)	(8,594)	(11,556)	(8,638)
Selling and distribution expenses	(9,725)	(9,302)	(10,753)	(11,327)	(17,688)	(11,569)	(11,180)	(11,798)	(11,236)
Share of results of integral JVs	1,734	1,009	3,275	2,574	2,494	3,038	3,003	3,014	3,016
Operating profit	11,523	4,574	33,242	32,822	34,890	33,747	27,278	34,070	26,320
Finance charges	(2,218)	(1,861)	(2,257)	(2,052)	(2,334)	(1,768)	(1,946)	(1,564)	(1,662)
Finance income	1,057	569	292	264	522	331	563	447	238
Income before tax	9,199	3,277	34,088	33,382	37,289	35,000	28,541	35,636	27,554
Zakat and Income tax	(2,595)	(2,021)	(3,586)	(3,522)	(3,063)	(3,692)	(3,011)	(3,759)	(2,907)
Net income for the period	5,198	67	23,066	23,022	25,419	23,885	18,637	24,448	18,149
Balance Sheet									
Cash and bank balances	36,639	33,156	41,403	54,796	45,567	77,942	35,932	102,262	18,712
Trade receivables	16,746	16,928	26,330	22,797	32,573	23,283	27,501	23,680	27,564
Inventories	22,565	19,311	28,621	28,181	33,294	28,861	29,588	29,450	29,888
Property, plant and equipment	136,416	136,180	131,019	127,291	130,698	123,414	139,486	119,351	145,724
Right of use assets	6,441	5,624	6,358	6,376	6,673	6,641	7,644	6,911	8,488
Investment in associates & JV	38,765	40,579	42,188	43,425	43,931	44,794	45,448	45,979	46,784
Total assets	300,481	295,469	318,439	324,923	333,828	346,765	326,282	369,300	317,348
Trade and other payables	29,326	29,503	43,150	33,606	52,821	34,148	43,858	35,055	34,737
Total borrowings and lease liability	44,345	45,986	38,559	30,600	30,776	26,627	26,800	22,975	23,147
Equity attributable to equity holders of the parent	178,722	167,626	180,141	202,867	191,759	226,752	195,847	251,200	198,681
Non-controlling interest	28,091	26,611	31,693	33,837	36,288	36,476	39,885	38,639	43,276
Total stockholders' equity	206,813	194,237	211,833	236,704	228,047	263,228	235,732	289,839	241,957
Total liabilities & stockholders' equity	300,481	295,469	318,439	324,923	333,828	346,765	326,282	369,300	317,348
Cash Flow Statement									
Cash from operating activities	33,777	22,146	39,229	37,755	43,988	44,550	38,210	46,714	28,827
Cash from investing activities	(12,359)	(13,964)	(8,918)	(11,887)	(14,029)	(12,647)	(26,023)	(13,476)	(23,971)
Cash from financing activities	(23,041)	(14,525)	(17,824)	(12,476)	(25,795)	(8,757)	(21,822)	(8,918)	(22,076)
Net changes in cash	(1,623)	(6,343)	12,487	13,392	4,164	23,146	(9,635)	24,319	(17,219)
Cash at the end of the period	35,292	28,938	41,389	54,796	45,567	77,942	35,932	102,262	18,712
Key Ratios									
Current ratio	2.3	2.2	2.2	3.1	2.1	3.8	2.1	4.4	2.3
Inventory turnover ratio	4.5	4.5	5.2	4.6	5.2	4.7	4.4	4.7	4.7
Debtors' turnover ratio	7.5	6.9	8.1	7.5	7.4	8.2	6.1	8.2	6.7
Trade payables and other current liabilities turnover ratio	3.5	3.3	3.5	3.6	3.7	4.1	2.9	4.1	3.6
Gross profit margin	21.7%	19.4%	29.2%	28.7%	27.9%	28.5%	24.1%	28.3%	23.5%
Operating margin	8.5%	3.9%	19.0%	17.8%	16.1%	17.9%	14.9%	17.7%	14.3%
Net profit margin	3.8%	0.1%	13.2%	12.5%	11.8%	12.6%	10.2%	12.7%	9.9%
EBITDA margin	19.0%	16.0%	27.0%	26.3%	22.4%	26.7%	23.7%	26.8%	23.8%
Average return on equity	2.9%	0.0%	13.3%	12.0%	13.6%	11.1%	9.6%	10.2%	9.2%
Average return on assets	2.2%	0.4%	9.9%	9.3%	10.5%	9.3%	7.7%	8.9%	7.7%
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	16.0x	15.0x	19.1x	14.0x	21.8x	15.8x
P/E	54.2x	4552.2x	15.1x	17.2x	11.4x	16.5x	15.6x	16.2x	16.0x
EV/EBITDA	12.1x	18.0x	7.9x	8.6x	6.5x	8.3x	7.3x	8.1x	7.2x
EV/Sales	2.3x	2.9x	2.1x	2.3x	1.5x	2.2x	1.7x	2.2x	1.7x
EPS (SR)	1.73	0.02	7.69	7.67	8.47	7.96	6.21	8.15	6.05
Dividend yield (%)	5.0%	2.5%	3.8%	3.5%	4.8%	3.7%	5.0%	3.9%	5.3%
Net debt (SR 'million)	2,147	6,974	(7,910)	(29,263)	(19,857)	(56,382)	(14,198)	(84,353)	(632)
Net debt/ EBITDA	0.08	0.37	-0.17	-0.60	-0.41	-1.12	-0.33	-1.63	-0.01
ROCE	4.4%	1.8%	12.4%	11.4%	12.6%	10.9%	9.8%	10.3%	9.4%

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

PO Box 1137

PC 111, Sultanate of Oman

Tel: +968 2494 9000

Fax: +968 2494 9099

Email: research@u-capital.net

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