

Q2 2023

## Weak urea prices impact earnings

SABIC AN reported a Q2 23 net income of SAR651mn, down 78.5% yoy (-33.6% qoq), recording the lowest level since Q1 21. The results were higher than the SNB Capital estimates of SAR589mn but lower than the consensus of SAR748mn. We believe the better than expected results are attributed to stronger than expected revenue and gross margins. Despite the yoy and qoq weakness, the strong performance of urea prices (+45.5% since June) will drive the stock going forward.

- Revenues stood at SAR2.63bn, down 53.9% yoy (-4.7% qoq), and were higher than our estimates of SAR2.26bn. We believe the variance is due to higher volumes as we expected the shutdown at Plants 3 and 4 to extend to Q2 23. According to the company, the yoy decline in revenue was driven by lower prices (-52%) and volumes (-3%), while the qoq decline was mainly driven by a decline in prices (-18%) which was mitigated by an increase in volumes (+16%). We highlight that plants 3 and 4 had maintenance turnaround in H1 for 40 days and 42 days, respectively.
- Gross profit stood at SAR932mn, down 71.4% yoy (-18.0% qoq) and higher than our estimates of SAR678mn. Gross margin stood at 35.5%, higher than our estimates of 30.0%, and compared to 57.2% in Q2 22 and 41.2% in Q1 23. This is the lowest margin since Q1 21 which is mainly due to weak prices and a slight increase in COGS, which might be attributed to the shutdown and higher depreciation.
- EBIT stood at SAR678mn, down 78.3% yoy (-29.2% qoq), and was higher than our estimates of SAR507mn. Opex stood at SAR254mn (9.7% of sales), higher than our estimates of SAR171mn (7.6% of sales) and SAR180mn (6.5% of sales) in Q1 23. EBITDA stood at SAR942mn (-73% yoy, -21% qoq).
- Net non-operating expense stood at SAR27mn vs our estimates of an income of SAR83mn and an income of SAR23mn in Q1 23.
- In Q2 23, urea prices decreased 61.1% yoy (-23.5% qoq) to US\$309 while ammonia decreased 77.7% yoy (-61.3% qoq) to US\$254.
- In Q3 22, demand for urea is expected to remain stable, with seasonal demand in India and South America offsetting a decline in demand from North America, Europe, and Southeast Asia. Supply is expected to grow due to several plants resuming operations post-shutdowns and China producers starting to export. However, this will be offset by gas curtailments in Egypt/Nigeria. We note that urea prices reached US\$400 recently, up from US\$275 in June with a remarkable increase of 45.5%.

### Outlook

Based on our last update, we are Neutral on SABIC AN with a PT of SAR143.8. SABIC AN's strengths are its debt free balance sheet, fixed feedstock costs, and SABIC related synergies. The major increase in urea prices is expected to be a key stock driver. The stock trades at 2023f EV/EBITDA of 13.4x, vs its peer average of 12.8x.

### Q2 23 Results Summary (SAR mn)

	Q2 23	Q2 22	%yoy	Q2 23f	%Var <sup>^</sup>	Q1 23	% qoq
Revenue	2,629	5,700	(53.9)%	2,259	16.4%	2,760	(4.7)%
Gross income	932	3,260	(71.4)%	678	37.5%	1,137	(18.0)%
Gross margin (%)	35.5%	57.2%	(21.7)%	30.0%	5.4%	41.2%	(5.8)%
EBIT	678	3,126	(78.3)%	507	33.8%	957	(29.2)%
EBIT margin (%)	25.8%	54.8%	(29.1)%	22.4%	3.4%	34.7%	(8.9)%
Net income	651	3025	(78.5)%	589	10.4%	981	(33.6)%
Net margin (%)	24.8%	53.1%	(28.3)%	26.1%	-1.3%	35.5%	(10.8)%
EPS (SAR)	1.37	6.35	(78.5)%	1.24	10.4%	2.06	(33.6)%

Source: Company, SNB Capital Research, <sup>^</sup> % Var indicates variance from SNB Capital forecasts

Iyad Ghulam, CFA +966 11 874 7811

i.ghulam@alahlicapital.com

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