SIPCHEM
Petrochemicals – Industrial
SIPCHEM AB: Saudi Arabia
07 August 2022

Al Rajhi Capital

US$9.625bn	89%	US$38.57mn
Market cap	Free float	Avg. daily volume

Target price	60.00	+21% over current
Current price	49.70	as at 4/8/2022

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Existing rating

Underweight	Neutral	Overweight

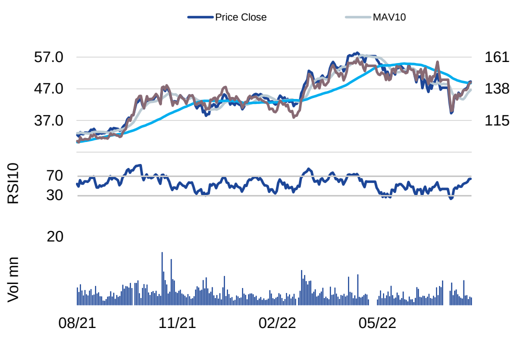
SIPCHEM

Q2: Earnings beat; TP raise to SAR60/sh.

Sipchem reported strong Q2 results across the board with the bottom-line beating our and consensus estimates by a wide margin, primarily driven by higher-than-expected sales volume. While the demand across the sector remained healthy in Q2, the company witnessed a significant jump in demand from Europe (accounted for 22% of total volume vs ~18% earlier) amid higher gas prices, helping the company to beat its internal production target by 4%.

Going forward, we expect the sales volume to remain firm, aided by improvement in plant efficiencies following the recent plant shutdowns (Al Waha and IAC plants). However, we may see some pressure on product prices (mainly Acetic Acid, VAM, Methanol, and Polymers) in Q3, on account of weak demand and increased supply, which may keep the near-term performance under pressure. Nonetheless, improving leverage position (gearing ratio declined to 26% at the end of Q2 2022 from 34% in 2021, helped by repayments and pre-settlement of the loans), is expected to lower financial expenses going forward and ease the earnings pressure to some extent. However, we don't see any pressure on the dividends and expect the company to continue maintaining its semi-annual dividend of SAR1.75/sh. (59% payout) in H2 2022 taking the annual DPS to SAR3.50/sh. (57% annual payout). This stock currently offers an attractive dividend yield of ~7% based on our 2022e DPS. Post Q2 earnings beat and healthy dividend outlook, we revise our TP to SAR60/sh. (SAR55/sh. earlier) and remain Overweight on the stock.

Performance



Source: Bloomberg

Earnings

(SARmn)	2021	2022e	2023e
Revenue	9,982	11,105	10,027
Y-o-Y	87.5%	11.3%	-9.7%
Gross profit	5,580	6,089	5,465
Gross margin	55.9%	54.8%	54.5%
EBITDA	5,463	5,794	5,201
EBITDA margin	54.7%	52.2%	51.9%
Net profit	3,592	4,486	4,007
Net margin	36.0%	40.4%	40.0%
EPS (SAR)	4.95	6.18	5.52
DPS (SAR)	2.25	3.50	3.50
Payout ratio	45.5%	56.7%	63.5%
ROE	14.7%	16.6%	13.9%
EV/EBITDA	7.1x	6.7x	7.4x
P/E	10.0x	8.0x	9.0x

Source: Company data, Al Rajhi Capital

Figure 1 SIPCHEM Q2 2022 results

(SAR mn)	Q2 2022	Q1 2022	Q2 2021	Q2 2020	ARC Est.	Cons Est.	q-o-q	y-o-y	% ch vs 2020	vs ARC	vs Cons
Revenue	**3,193.0**	**2,409.5**	**2,362.7**	**950.2**	**2,582.7**	**2,547.8**	*32.5%*	*35.1%*	*236.0%*	*23.6%*	*25.3%*
Gross Profit	1,679.3	1,382.9	1,477.6	149.8	1,343.0	NA	*21.4%*	*13.7%*	*1021.0%*	*25.0%*	*NM*
G. margin	*52.6%*	*57.4%*	*62.5%*	*15.8%*	*52.0%*	NA					
Op. profit	1,369.5	1,148.1	1,139.9	(23.4)	1,096.4	NA	*19.3%*	*20.1%*	*NM*	*24.9%*	*NM*
Op. margin	*42.9%*	*47.6%*	*48.2%*	*-2.5%*	*42.5%*	*NA*					
Net profit	**1,263.1**	**1,078.8**	**829.9**	**(99.0)**	**1,024.5**	**958.0**	***17.1%***	***52.2%***	***NM***	***23.3%***	***31.8%***
Net margin	*39.6%*	*44.8%*	*35.1%*	*-10.4%*	*39.7%*	*37.6%*					

Source: Company data, Al Rajhi Capital.

Q2 results: Sipchem posted the highest quarterly revenues at SAR3,193mn (~33% q-o-q) in Q2, beating our (SAR2,583mn) as well as consensus (SAR2,548mn) estimates, primarily due to better-than-expected sales volume despite the 21 days planned shutdowns at the IAC plants. Top-line beat further flowed down to gross and operating levels as well with both gross and operating profits beating our estimates by almost similar margins. However, in terms of margins, both gross and operating margins came in largely in line with our estimates. Overall, net profit rose ~17% q-o-q to SAR1,263mn, above our estimate of SAR1,025mn (consensus: SAR958mn).

Valuation and risks. We continue to remain positive on Sipchem, given its strong fundamentals, production & operating efficiencies, and cost-saving measures along with strong FCF generation capabilities and comfortable debt position. We value Sipchem using an equal mix given to DCF, and dividend-based valuations. Our DCF-based TP, using 2% terminal growth and 12.8% cost of equity, is ~SAR62/share, while dividend yield-based TP is SAR58/sh, using a 6% yield on 2022E DPS. Thus, equal-weighted TP stands at SAR60/sh (earlier SAR55/share), implying "Overweight" on the stock.

Key upside risks include better-than-expected product prices, faster-than-expected ramping up production at IMC, and higher dividends in 2020. Major downside risks involve unexpected disruption at the company's upstream operations, which can further impact its downstream plants as well and persistent weakness in product prices, particularly Methanol prices.

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"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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