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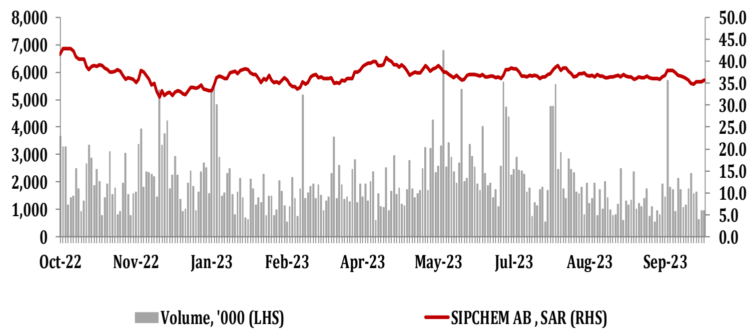
Sahara International Petrochemical Co. (SIPCHEM) - 3Q23 Results Review

Analyst: Neetika Gupta

Previous Recommendation:	**Accumulate**	**Target Price (SAR):**	**40.60**
Previous Reco. & Date:	TP: SAR 40.6 per share; Accumulate on 25-July-2023	Upside / (Downside):	14%

Date: 18-10-2023

Bloomberg Ticker	SIPCHEM AB
Current Market Price (SAR)	35.600
52wk High / Low (SAR)	43.55/30.9
12m Average Vol. (000)	2,019.9
Mkt. Cap. (USD/SAR mn)	25,386/26,107
Shares Outstanding (mn)	733.3
Free Float (%)	89%
3m Avg Daily Turnover (000)	62,469.2
6m Avg Daily Turnover (000)	77,086.8
P/E'23e (x)	19.44x
EV/EBITDA'23e (x)	11.01x
Dividend Yield '23e (%)	2.6%
Price Perf. (1m/3m) (%)	-1.1%/-2.7%



Revenue decline 39% YoY, in line with UCapital estimate.

SIPCHEM's revenue declined 39% YoY to SAR 1,789mn, in line with our estimated SAR 1,825mn for Q3'23. This YoY decrease can be attributed primarily to a lower selling price for the company's products compared to the previous year. However, SIPCHEM experienced a 5% increase in revenue compared to Q2'23, mainly due to the increase in sales volume for the current quarter.

Gross and operating profits lower than our estimates.

The company's gross profit and operating profit stood at SAR 458mn and SAR 305mn respectively, below our estimates of SAR 606m and SAR 398mn. This miss is primarily attributed to higher-than-expected operating cost despite the decline in the prices of raw materials. On margins side, gross margin came at 26% (vs 33% estimate) while operating margin stood at 17% (vs 22% estimate) for Q3'23.

Net profit declined by 70% YoY and 26% QoQ.

The company recorded a net profit of SAR 233mn in Q3'23 in comparison to SAR 313mn in Q2'23. This figure fell short of our estimated profit of SAR 345mn, primarily because of lower-than-expected margins. Additionally, the decline in the share of profits from an investment in joint venture and associates further contributed to the reduced net profit.

Maintain target price.

We anticipate that the petrochemical industry will continue to face challenges throughout the remainder of 2023e and into the first half of 2024e. This is due to global economic concerns, including the potential for a recession, higher interest rates for longer period, slow recovery in China, and the ongoing conflict in West Asia. However, we expect stability in the sector beyond the first half of 2024e and anticipate favourable pricing trends driven by demand for end products such as plastics, textiles, and footwear. As a result, we are maintaining our target price at SAR 40.60 per share and maintaining our 'Accumulate' rating for the stock.

Valuation.

SIPCHEM is trading at 2023e P/E of 19.44x based on our FY23 estimate, compared to its historical average 1-year forward P/E of 12.5x. Additionally, the stock is valued at EV/EBITDA multiple of 11x, based on our FY23 estimate, compared to the historical average of 8.5x.

Income Statement												
(SAR mn)	**3Q22**	**4Q22**	**1Q23**	**2Q23**	**3Q23**	**3Q23e**	**YoY (%)**	**QoQ (%)**	**Var (%)**	**9M22**	**9M23**	**YoY (%)**
Sales/Revenue	2,939	1,712	2,087	1,702	1,789	1,825	-39%	5%	-2%	8,299	5,578	-33%
Gross Profit (Loss)	1,209	568	755	528	458	606	-62%	-13%	-24%	4,028	1,740	-57%
Operating Profit (Loss)	909	621	561	353	305	398	-66%	-14%	-23%	3,430	1,219	-64%
Net Profit (Loss)	**774**	**479**	**469**	**313**	**233**	**345**	-70%	-26%	-32%	**3,116**	**1,015**	**-67%**
Balance Sheet												
(SAR mn)	**3Q22**	**4Q22**	**1Q23**	**2Q23**	**3Q23**	**3Q23e**	**YoY (%)**	**QoQ (%)**	**Var (%)**	**9M22**	**9M23**	**YoY (%)**
Shareholders' Equity	16,401	15,807	16,256	15,688	15,908	16,033	-3%	1%	-1%	16,401	15,908	-3%
Key Ratios												
	3Q22	**4Q22**	**1Q23**	**2Q23**	**3Q23**	**3Q23e**						
Gross Profit Margin	41%	33%	36%	31%	26%	33%						
Operating Profit Margin	31%	36%	27%	21%	17%	22%						
Net Profit Margin	26%	28%	22%	18%	13%	19%						
Return on Equity (RoE)	19%	12%	12%	8%	6%	9%						

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report, please click here.

Investment Research

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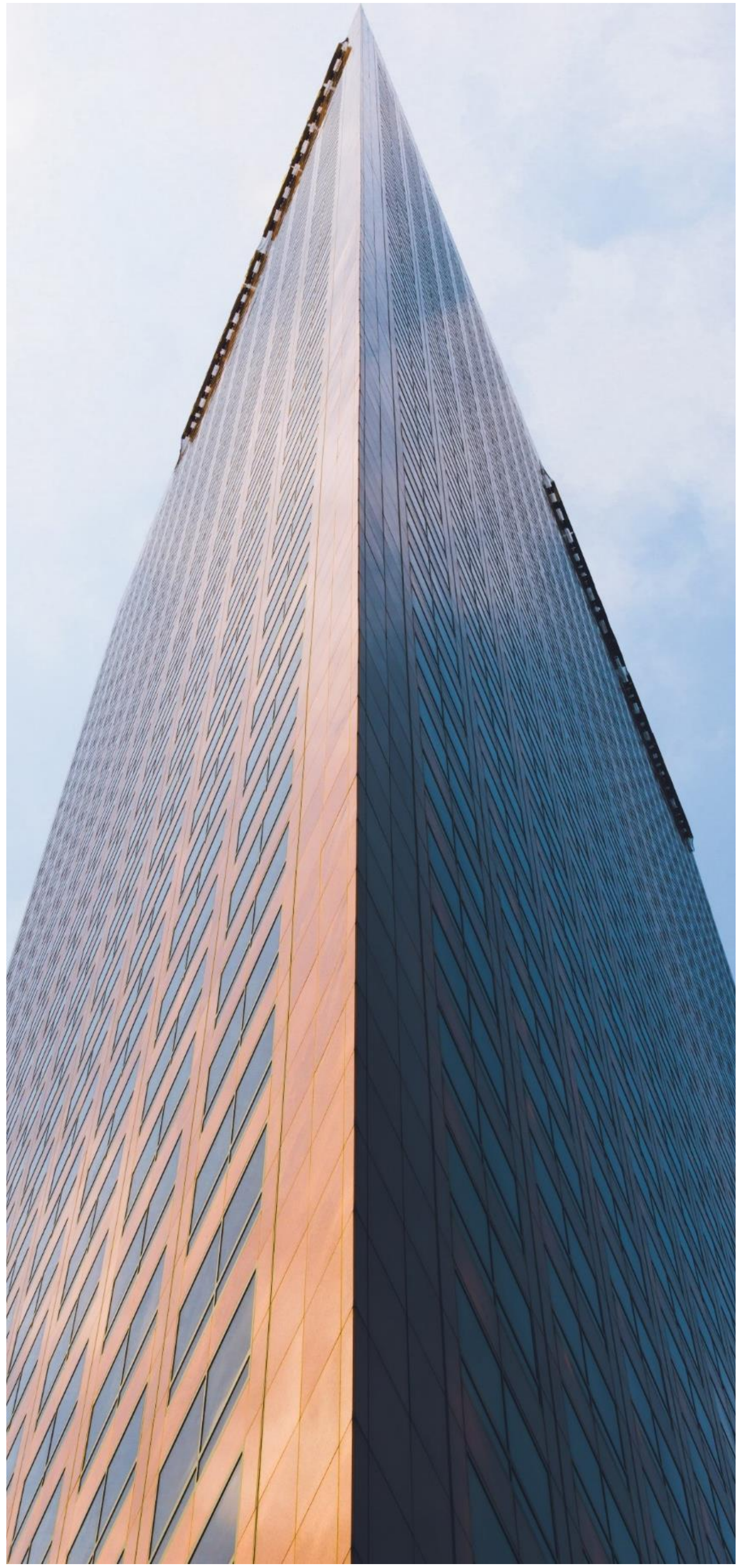

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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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