

What do we think?

Stock	Rating	Price Target	Upside
APCC	Neutral	SAR45.0	+3.2%
YANSAB	Neutral	SAR40.0	-6.9%
SABIC AN	Neutral	SAR139.0	+7.9%
SABIC	Neutral	SAR91.0	+1.3%
Sipchem	Neutral	SAR40.0	+9.0%

Saudi Petchem Sector

Product prices lagging recovery

The petrochemical sector has been facing challenges owing to a steep fall across most product prices (especially polymer) but the cool off in some feedstock prices neutralised the headwinds. We note that price slowdown q-o-q was driven by market's overoptimistic view on China recovery. The markets priced in a spur in demand due to China reopening but slower than expected recovery in demand coupled with an abundant supply added to the pricing pressure across key products. China IIP for April 2023 came in at 5.6% (Figure 3), significantly lower than forecast of 10.9%. Besides, the dip in global manufacturing index signals that the demand for certain Petchem products might take longer to pick up. On the other hand, the correction in oil prices (YTD -8.6%) supported widening spreads across certain products. In our view these spreads might not be sustainable as product prices start to witness gradual improvement in the later half of 2023 driven by recovery in oil prices owing to OPEC's production cut, if implemented successfully (as mentioned in our Oil Market Report dated 15th May 2023).

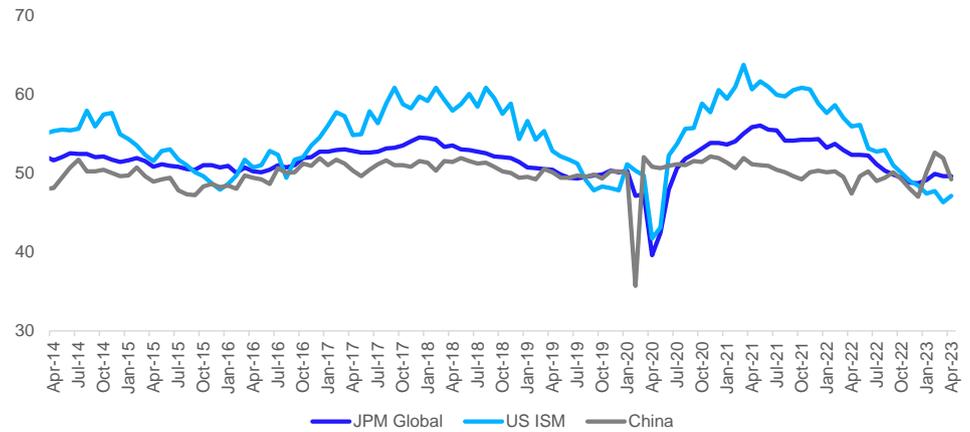
Overall, we mostly continue to remain Neutral on the sector and hence maintain our rating for most companies. However, we reduce our rating for Sipchem owing to i) the steep slump in methanol prices, and ii) existing pricing pressure on intermediate chemicals such as Acetic Acid and VAM prices. Besides, we also see some downward potential in Yansab due to stagnancy in MEG prices and expected rise in feedstock (Naphtha) prices for 2023, and hence reduce our TP.

Figure 1 Product price pressure to continue for 2023

	2019	2020	2021	2022	5Y Avg. price	Current spot price	2023E
Average oil prices							
Brent (US\$/bbl)	64	43	71	99	70	77	81
WTI (US\$/bbl)	57	39	68	94	65	73	76
Feedstock prices (US\$/t)							
Naphtha	525	382	649	789	592	597	715
Propane	435	398	620	747	551	555	708
Butane	441	405	606	740	546	555	581
Product prices (US\$/t)							
HDPE	991	886	1,178	1,182	1,108	1,040	1,181
LDPE	997	1,006	1,523	1,438	1,229	1,040	1,105
PP	1,082	956	1,296	1,175	1,154	1,020	1,180
Polycarbonates	2,047	1,931	3,417	2,391	2,616	1,780	1,848
MEG	689	557	813	683	768	570	590
Methanol	323	276	409	400	371	297	311
Urea	244	227	479	606	363	385	378
Spreads (US\$/t)							
LDPE-Naphtha	472	624	874	649	637	443	390
PP-Propane	648	558	677	428	603	465	473

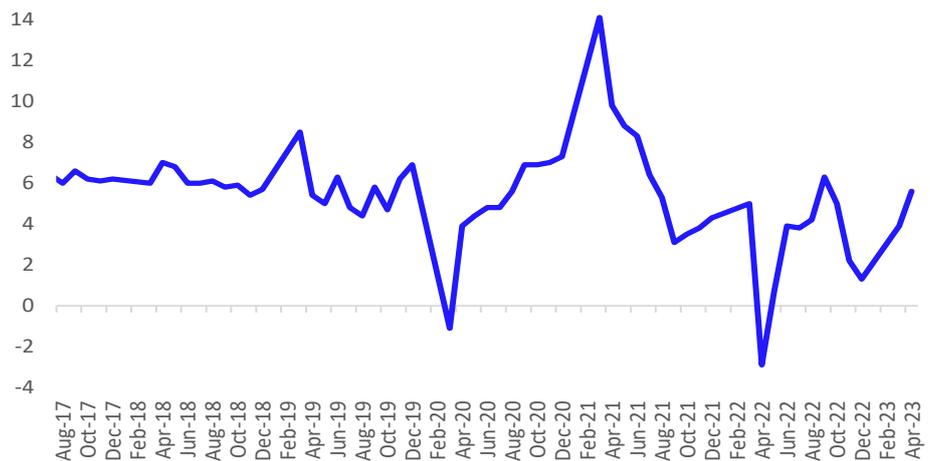
Source: Bloomberg, Al Rajhi Capital. Prices as of 26th May 2023

Figure 2 Manufacturing PMI



Source: Bloomberg, Al Rajhi Capital.

Figure 3 China Monthly IIP (%)



Source: Bloomberg, Al Rajhi Capital.

Valuation Changes:

Post updating our latest commodity price deck along with 1Q 2023 financials, we have revised our estimates for the petchem companies under our coverage as shown below. Our valuation methodology is a blended average of DCF and Dividend Yield (with different weights across companies).

Figure 4 Revised Estimates and Target Prices

Companies	2023E	2024E	2023E	2024E	2023E	Old rating	New rating	Old TP (SAR)	New TP (SAR)	CMP*	Upside / (downside)
	EPS	EPS	DPS (SAR)	DPS (SAR)	Div. Yield						
APPC**	1.5	2.8	-	-	NA	Neutral	Neutral	43.0	45.0	43.6	3.2%
Yansab	(0.1)	1.0	1.9	1.7	4.3%	Neutral	Neutral	42.0	40.0	43.0	-6.9%
SABIC Agri-Nutrients	8.1	10.4	7.0	8.3	5.4%	Neutral	Neutral	135.0	139.0	128.8	7.9%
SABIC	1.3	2.8	2.0	2.6	2.2%	Neutral	Neutral	90.0	91.0	89.8	1.3%
Sipchem	2.5	3.3	2.2	2.3	6.0%	Overweight	Neutral	46.0	40.0	36.7	9.0%

Source: Bloomberg, Al Rajhi Capital. *As of 29 May 2023. ** Including the PDH-PP project

Key upside risks include strong recovery in China driven by stability in oil prices.

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"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.

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