

What do we think?

Stock	Rating	Price Target	Upside
APPC	Neutral	SAR 40.0	7.40%
YANSAB	Neutral	SAR 40.0	6.40%
SABIC AN	Neutral	SAR 134.0	-0.60%
SABIC	Neutral	SAR 80.0	0.60%
Sipchem	OW	SAR 36.0	11.50%

Saudi Petchem Sector

Cautiously optimistic on product prices, Broader recovery to be gradual

Amid the ongoing supply glut and sluggish global demand, the petrochemical sector continued to face stiff challenges. The recent quarter was marked by a continued fall in key commodity prices especially polymers coupled with a sequential rise in feedstock costs fuelled by the momentum in crude oil prices. Hence, most companies across the spectrum continued to post weak margins. Nevertheless, the sector witnessed a minor recovery across some product prices, although the recovery was not broad based. On a sequential basis, product prices for basic chemicals like Methanol, Butandiol, etc, and some Intermediate chemicals like Acetic acid, etc posted minor improvements. In other note, prices for key fertilisers like Urea and Ammonia skyrocketed for a short period in the third quarter owing to global production curtailments. On the other hand, correction in key polymer prices persisted in Q32023 (e.g LDPE, HDPE, PS and PP down by c. 2-4%) weighing down on the overall earnings. In addition to this, China's IIP for October'23 came in at 4.6%, although higher than Reuters poll but still lower than pre-covid levels, evident of a weak economic recovery. The industrial profit growth in China also eased in October (+2.7% y-o-y) versus the growth of 11.9% in September 2023. Besides, the global backdrop suggests persisting slowdown in the manufacturing sector as the JPM Global PMI came in below 50 for the 14th consecutive month. The supply overhang lingers on the sector owing to the rapid capacity expansion in China. However, taking cognizance of the anticipated softness in monetary tightening in the coming years, we assume product spreads to witness an improvement, albeit marginal. In our view, spreads are expected to recover by \$35-75/mt between 2024-25. Moreover, IMF's upward revision of 2024 growth forecasts for China (from 4.2% forecasted in October to 4.6% in November) underpins our view for demand rebound in the sector. Altogether, at the current juncture, the sector looks poised to benefit from the rebound in demand as global economic concerns start to ease, but we do not expect any major improvement in product prices for the near term. However, if the market dynamics improve considerably, we might revise our estimates upwards.

Overall, we believe the market to have factored in the concerns over product prices and the slowdown in earnings for the sector. In our view, at the current levels there exists a limited downside for product prices. We expect recovery in product prices to augur well for the companies in the long term and are cautiously optimistic on price improvement in the near term owing to the high interest rate scenario. Hence, we continue to remain 'Neutral' on the sector and revise the TPs for our coverage set of companies.

Figure 1 Product Prices appears to have bottomed out

	2019	2020	2021	2022	5Y Avg. price	Current spot price	2023E	2024E
Average oil prices								
Brent (US\$/bbl)	64	43	71	99	70	82	83	80
WTI (US\$/bbl)	57	39	68	94	65	78	79	78
Feedstock prices (US\$/t)								
Naphtha	525	382	649	789	592	640	649	628
Propane	435	398	620	747	551	610	573	555
Butane	441	405	606	740	546	620	524	506
Product prices (US\$/t)								
HDPE	991	886	1,178	1,182	1,108	980	1,027	1,080
LDPE	997	1,006	1,523	1,438	1,229	1,000	1,046	1,098
PP	1,082	956	1,296	1,175	1,154	940	994	1,050
Polycarbonates	2,047	1,931	3,417	2,391	2,616	1,765	1,838	1,930
MEG	689	557	813	683	768	563	569	597
Methanol	323	276	409	400	371	338	341	320
Urea	244	227	479	606	363	329	351	385
Spreads (US\$/t)								
LDPE-Naphtha	472	624	874	649	637	360	397	470
PP-Propane	648	558	677	428	603	330	420	495

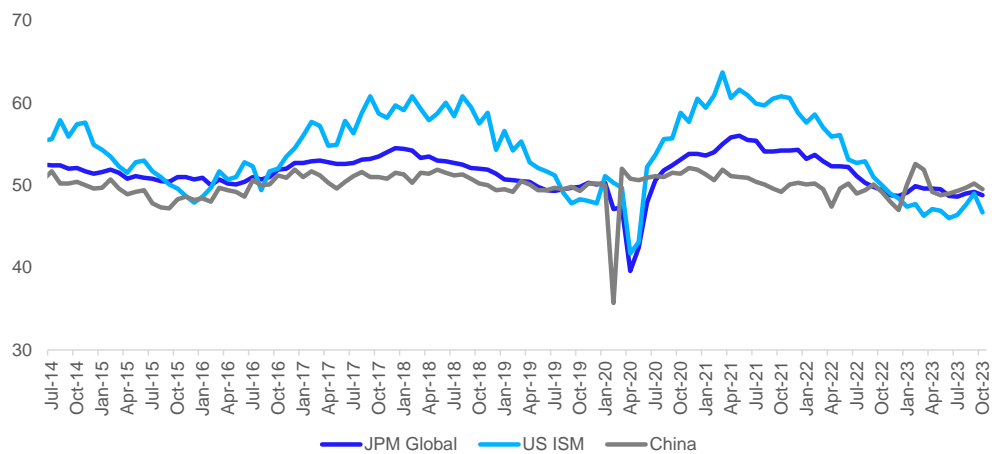
Source: Bloomberg, Al Rajhi Capital, Prices as of 20th November 2023

Figure 2 Earnings Summary for Coverage Companies in the Sector

(SARmn)*	9M2023	9M2022	y-o-y	3Q2023	3Q2022	y-o-y
Revenue	131,366	182,976	-28.2%	42,129	52,834	-20.3%
Gross Profit	22,774	52,705	-56.8%	8,097	12,210	-33.7%
Gross margin	17.3%	28.8%		19.2%	23.1%	
Net income	5,713	27,393	-79.1%	1,703	4,266	-60.1%
Net margin	4.3%	15.0%		4.0%	8.1%	

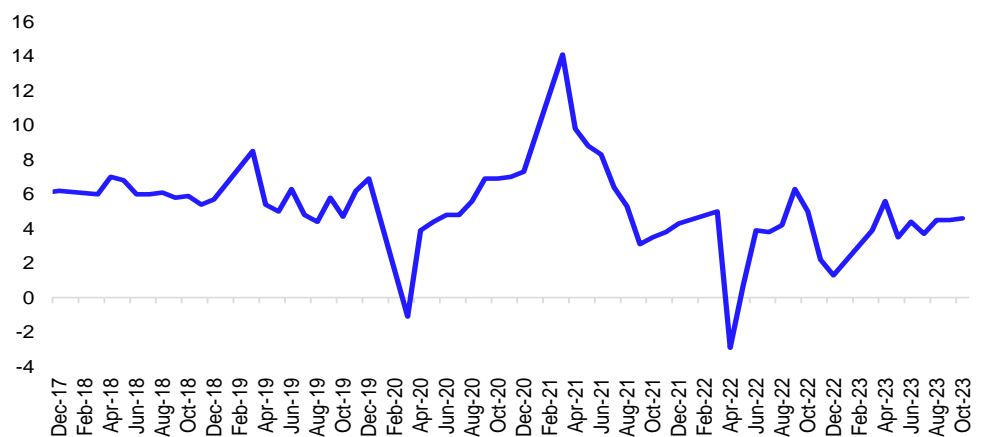
Source: Company Data, Al Rajhi Capital

Figure 3 Manufacturing PMI



Source: Bloomberg, Al Rajhi Capital

Figure 4 China Monthly IIP (%)



Source: Bloomberg, Al Rajhi Capital

Valuation Changes-

Post updating our latest commodity price deck, and updating Q32023 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 5 Revised Estimates and Target Prices

Companies	2023E	2024E	2023E	2024E	2023E	Old rating	New rating	Old TP (SAR)	New	CMP*	Upside / (downside)
	EPS	EPS	DPS (SAR)	DPS (SAR)	Div. Yield				TP (SAR)		
APPC**	0.6	1.4	-	-	NA	Neutral	Neutral	45.0	40.0	37.3	7.4%
Yansab	(0.9)	1.3	2.1	2.2	5.6%	Neutral	Neutral	40.0	40.0	37.6	6.4%
SABIC Agri-Nutrients	8.0	10.1	7.0	8.0	5.2%	Neutral	Neutral	139.0	134.0	134.8	-0.6%
SABIC	1.2	1.5	2.8	1.7	3.5%	Neutral	Neutral	91.0	80.0	79.5	0.6%
Sipchem	1.8	2.4	2.4	1.9	7.3%	Neutral	Overweight	40.0	36.0	32.3	11.5%

Source: Bloomberg, Al Rajhi Capital; *As of 26th November 2023. ** Including the PDH-PP project

Key upside risks include stronger-than-expected recovery in China driven by stability in oil prices, faster-than-expected improvement in product prices, significant improvement in demand dynamics. Key downside risks include unexpected plant shutdowns and volatility in oil prices.

Financials

Figure 6 **APPC Income Statement**

(SARmn)	2023E	2024E	2025E
Revenue	2,379	2,577	2,797
Cost of revenues	(1,951)	(2,032)	(2,098)
Gross profit	428	545	699
Selling & General Administrative expenses	(160)	(173)	(168)
Operating Profit	268	373	531
Profit before zakat and income tax	165	370	529
Zakat and income tax	(6)	(8)	(11)
Profit for the period after minority interest	160	365	521

Source: Company Data, Al Rajhi Capital

Figure 8 **APPC Balance Sheet**

(SARmn)	2023E	2024E	2025E
Assets			
Cash & Cash Equivalents	1,871	2,372	2,931
Receivables	343	339	353
Inventories	175	159	165
Prepayments and other receivables	133	133	133
Total current assets	2,521	3,004	3,582
Property plant and equipment	7,764	7,736	7,713
Investments	831	831	831
Other non-current assets	384	384	384
Total non-current assets	8,980	8,951	8,928
Total assets	11,501	11,955	12,511
Liabilities			
Accounts payables	129	191	198
Other current liabilities	271	271	271
Total current liabilities	400	462	469
Long term debt	6,982	6,982	6,982
Lease Liabilities	174	174	174
Provisions and other non-current liabilities	352	377	400
Total non-current liabilities	7,508	7,533	7,556
Shareholders' equity			
Paid-up capital	2,600	2,600	2,600
Reserves	429	429	429
Treasury shares	(79)	(79)	(79)
Retained earnings	269	634	1,156
Minority interest	374	377	380
Total equity	3,593	3,961	4,485
Total liabilities	11,501	11,955	12,511

Source: Company Data, Al Rajhi Capital

Figure 7 **APPC Cash Flow Statement**

(SARmn)	2023E	2024E	2025E
Operating activities	419	652	718
Investing activities	(2,580)	(152)	(159)
Financing activities	3,026	-	-
Change in cash	865	501	559
Cash and cash equivalents, end of the period	1,871	2,372	2,931

Source: Company Data, Al Rajhi Capital

Figure 9 **APPC Key Ratios**

KPIs	2023E	2024E	2025E
Gross margin (%)	18.0%	21.2%	25.0%
EBITDA margin (%)	18.8%	21.4%	25.5%
Operating margin (%)	11.3%	14.5%	19.0%
Net margin (%)	6.7%	14.2%	18.6%
ROA (%)	1.4%	3.1%	4.2%
ROE (%)	4.5%	9.2%	11.6%
D/E (x)	1.6x	1.5x	1.3x

Source: Company Data, Al Rajhi Capital

Figure 10 Yansab Income Statement

(SARmn)	2023E	2024E	2025E
Revenue	4,465	6,261	6,615
Cost of revenues	(4,511)	(4,992)	(4,892)
Gross profit	(46)	1,269	1,723
Selling & General Administrative expenses	(465)	(501)	(529)
Other operating income	10	63	66
Operating profit	(500)	830	1,260
Interest income	146	53	42
Interest expense	(50)	(43)	(34)
Profit before zakat and income tax	(404)	840	1,267
Zakat and income tax	(83)	(118)	(177)
Profit for the period after minority interest	(487)	723	1,090

Source: Company Data, Al Rajhi Capital

Figure 12 Yansab Balance Sheet

(SARmn)	2023E	2024E	2025E
Assets			
Cash & cash equivalents	2,647	2,812	2,693
Receivables	1,153	1,440	1,729
Inventories	584	505	531
Prepayments and other receivables	441	618	653
Total current assets	4,824	5,375	5,605
Property plant and equipment	8,948	7,996	7,045
Intangibles	11	9	8
Other non-current assets	317	445	473
Total non-current assets	9,427	8,600	7,676
Total assets	14,251	13,975	13,281
Liabilities			
Accounts payables	486	421	442
Other current liabilities	1,041	1,349	1,410
Total current liabilities	1,527	1,770	1,852
Lease Liabilities	144	144	144
Provisions and other non-current liabilities	833	820	806
Total non-current liabilities	977	964	950
Shareholders' equity			
Paid-up capital	5,625	5,625	5,625
Reserves	1,688	1,688	1,688
Actuarial reserve	267	267	267
Retained earnings	4,168	3,662	2,899
Total equity	11,747	11,241	10,478
Total liabilities	14,251	13,975	13,281

Source: Company Data, Al Rajhi Capital

Figure 11 Yansab Cash Flow Statement

(SAR mn)	2023E	2024E	2025E
Operating activities	1,601	1,644	1,998
Investing activities	523	(250)	(265)
Financing activities	(1,885)	(1,228)	(1,853)
Change in cash	238	165	(119)
Cash and Cash equivalents, end of the period	470	636	516

Source: Company Data, Al Rajhi Capital

Figure 13 Yansab Key Ratios

KPIs	2023E	2024E	2025E
Gross margin	-1.0%	20.3%	26.0%
EBITDA margin	15.5%	32.5%	37.4%
Operating margin	-11.2%	13.3%	19.0%
Net margin	-10.9%	11.5%	16.5%
ROA (%)	-3.4%	5.2%	8.2%
ROE (%)	-4.1%	6.4%	10.4%
D/E (x)	0.0x	0.0x	0.0x

Source: Company Data, Al Rajhi Capital

Figure 14 SABIC Agri Income Statement

(SARmn)	2023E	2024E	2025E
Revenue	10,652	11,446	11,622
Cost of revenues	(6,080)	(5,531)	(5,429)
Gross profit	4,572	5,915	6,193
Selling & General Administrative expenses	(775)	(916)	(930)
R&D cost	(66)	(71)	(72)
Operating profit	3,732	4,929	5,192
Other income	661	518	600
Profit before zakat and income tax	4,393	5,447	5,792
Zakat and income tax	(388)	(327)	(348)
Profit for the period after minority interest	3,785	4,784	5,105

Source: Company Data, Al Rajhi Capital

Figure 16 SABIC Agri Balance Sheet

(SARmn)	2023E	2024E	2025E
Assets			
Cash & cash equivalents	8,534	10,924	12,454
Receivables	2,656	1,981	2,068
Inventories	1,167	950	885
Other current assets	4,629	4,649	4,654
Total current assets	16,986	18,504	20,061
Property plant and equipment	8,223	8,109	7,996
Intangibles	80	80	80
Investment in joint venture	1,265	1,265	1,265
Other non-current assets	585	585	585
Total non-current assets	10,154	10,039	9,927
Total assets	27,140	28,543	29,987
Liabilities			
Accounts payables	867	932	946
Other current liabilities	932	913	915
Total current liabilities	1,799	1,845	1,861
Long term debt	-	-	-
Provisions and other non-current liabilities	3,699	3,763	3,832
Total non-current liabilities	3,699	3,763	3,832
Shareholders' equity			
Paid-up capital	4,760	4,760	4,760
Reserves	1,933	1,933	1,933
Share premium	3,998	3,998	3,998
Retained earnings	9,654	10,611	11,632
Minority interest	1,296	1,631	1,970
Total equity	21,642	22,935	24,294
Total liabilities	27,140	28,543	29,987

Source: Company Data, Al Rajhi Capital

Figure 15 SABIC Agri Cash Flow Statement

(SARmn)	2023E	2024E	2025E
Operating activities	3,941	6,962	6,370
Investing activities	(692)	(744)	(755)
Financing activities	(3,332)	(3,828)	(4,084)
Change in cash	(84)	2,390	1,530
Cash and cash equivalents, end of the period	8,534	10,924	12,454

Source: Company Data, Al Rajhi Capital

Figure 17 SABIC Agri Key Ratios

(SARmn)	2023E	2024E	2025E
Gross margin	42.9%	51.7%	53.3%
EBITDA margin	43.0%	50.6%	52.1%
Operating margin	35.0%	43.1%	44.7%
Net margin	35.5%	41.8%	43.9%
ROA (%)	13.9%	16.8%	17.0%
ROE (%)	17.5%	20.9%	21.0%
D/E (x)	0.0x	0.0x	0.0x

Source: Company Data, Al Rajhi Capital

Figure 18 SABIC Income Statement

(SARmn)	2023E	2024E	2025E
Revenue	149,113	144,033	151,194
Cost of revenues	(124,835)	(122,447)	(124,215)
Gross profit	24,278	21,586	26,980
Selling & General Administrative expenses	(16,138)	(14,403)	(15,119)
Other expenses	(1,821)	(1,759)	(1,847)
Share of results of integral JVs	1,288	1,290	1,372
Operating Profit	7,607	6,713	11,386
Interest expense	(2,395)	(1,975)	(1,646)
Other income	2,905	2,799	1,840
Profit before zakat and income tax	8,117	7,538	11,580
Zakat and income tax	(1,914)	(754)	(1,158)
Profit for the period after minority interest	3,733	4,605	6,726

Source: Company Data, Al Rajhi Capital

Figure 20 SABIC Balance Sheet

(SARmn)	2023E	2024E	2025E
Assets			
Cash & Cash equivalents (incl. investments)	44,044	39,926	49,101
Receivables	19,706	17,362	18,225
Inventories	19,265	20,483	21,502
Prepayments and other receivables	21,022	21,022	21,022
Total current assets	104,037	98,794	109,850
Property plant and equipment	120,008	111,402	102,996
Investments	42,264	42,264	42,264
Other non-current assets	30,746	30,746	30,746
Total non-current assets	193,019	184,412	176,006
Total assets	297,056	283,206	285,856
Liabilities			
Short term debt	8,827	8,827	8,827
Accounts payables	38,831	16,356	17,170
Total current liabilities	47,658	35,971	37,321
Long term debt	24,083	24,083	24,083
Lease Liabilities	24,178	24,178	24,178
Total non-current liabilities	48,262	48,262	48,262
Shareholders' equity			
Paid-up capital	30,000	30,000	30,000
Reserves	109,253	109,253	109,253
Retained earnings	33,009	30,847	32,147
Minority interest	28,874	28,874	28,874
Total equity	201,136	198,974	200,274
Total liabilities	297,056	283,206	285,856

Source: Company Data, Al Rajhi Capital

Figure 19 SABIC Cash Flow Statement

(SARmn)	2023E	2024E	2025E
Operating activities	23,891	12,031	25,856
Investing activities	(12,375)	(7,202)	(7,560)
Financing activities	(17,236)	(8,947)	(9,122)
Change in cash	(5,720)	(4,118)	9,174
Cash and cash equivalents, end of the period	34,319	29,452	38,626

Source: Company Data, Al Rajhi Capital

Figure 21 SABIC Key Ratios

(SARmn)	2023E	2024E	2025E
Gross margin	16.3%	15.0%	17.8%
EBITDA Margin	15.6%	15.6%	18.1%
Operating margin	5.1%	4.7%	7.5%
Net margin	4.2%	4.7%	6.9%
ROA (%)	1.3%	1.6%	2.4%
ROE (%)	1.9%	2.3%	3.4%
D/E (x)	0.2x	0.2x	0.2x

Source: Company Data, Al Rajhi Capital

Figure 22 Sipchem Income Statement

(SARmn)	2023E	2024E	2025E
Revenue	7,365	7,995	8,611
Cost of revenues	(5,101)	(5,278)	(5,450)
Gross profit	2,264	2,717	3,161
Selling & General Administrative expenses	(659)	(715)	(770)
Operating profit	1,605	2,002	2,391
Interest expense	(257)	(198)	(183)
Other income	264	327	364
Profit before zakat and income tax	1,611	2,131	2,572
Zakat and income tax	(108)	(143)	(172)
Profit for the period after minority interest	1,503	1,988	2,400

Source: Company Data, Al Rajhi Capital

Figure 24 Sipchem Balance Sheet

(SARmn)	2023E	2024E	2025E
Assets			
Cash & cash equivalents (incl investments)	1,874	2,116	2,370
Receivables	1,518	1,620	1,720
Inventories	1,129	1,226	1,320
Total current assets	4,521	4,962	5,411
Property plant and equipment	11,798	11,766	11,802
Intangibles	554	554	554
Investment in joint venture	4,007	4,249	4,540
Other non-current assets	1,464	1,464	1,464
Total non-current assets	17,823	18,033	18,360
Total assets	22,343	22,995	23,771
Liabilities			
Accounts payables	208	225	243
Short term debt	532	532	532
Other current liabilities	1,816	1,816	1,816
Total current liabilities	2,556	2,574	2,591
Long term debt	2,365	2,365	2,365
Provisions and other non-current liabilities	1,040	1,097	1,158
Total non-current liabilities	3,405	3,462	3,524
Shareholders' equity			
Paid-up capital	7,333	7,333	7,333
Reserves	1,533	1,533	1,533
Share premium	4,041	4,041	4,041
Retained earnings	2,508	2,861	3,287
Total equity	16,382	16,959	17,656
Total liabilities	22,343	22,995	23,771

Source: Company Data, Al Rajhi Capital

Figure 23 Sipchem Cash Flow Statement

(SARmn)	2023E	2024E	2025E
Operating activities	2,229	2,509	2,878
Investing activities	(641)	(855)	(921)
Financing activities	(2,503)	(1,411)	(1,703)
Change in cash	(915)	242	254
Cash and cash equivalents, end of the period	1,541	1,783	2,037

Source: Company Data, Al Rajhi Capital

Figure 25 Sipchem Key Ratios

KPIs	2023E	2024E	2025E
Gross margin	30.7%	34.0%	36.7%
EBITDA margin	33.8%	36.1%	38.0%
Operating margin	21.8%	25.0%	27.8%
Net margin	18.1%	22.1%	24.7%
ROA (%)	6.0%	7.7%	9.0%
ROE (%)	8.1%	10.4%	12.1%
D/E (x)	0.2x	0.2x	0.2x

Source: Company Data, Al Rajhi Capital

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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.

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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi, CFA, CMT

Head of Research

Tel : +966 11 836 5468

Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

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