



US\$83.40\$bn **22.6%** **US\$68.22mn**
Market cap Free float Avg. daily volume

Target price **120.2** 15.3% over current
Consensus price **113.0** 8.3% over current
Current price **104.3** as at 6/11/2010

Research Department
ARC Research Team

Tel +966 1 211 9233, research@alrajhi-capital.com

Underweight **Neutral** **Overweight**

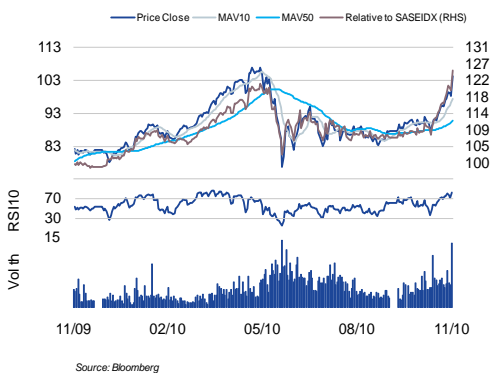
Key themes

We expect Saudi petrochemicals suppliers to outperform global rivals with margins driven by cheap feedstock costs and strong demand coming from Asia. We believe that SABIC (majority owned by Saudi Government) is well positioned to capitalise on growth opportunities in the global petrochemicals sector.

Implications

Sector giant's diverse petrochemicals portfolio, proximity to its main target market and high-capex driven growth are key catalysts for the stock. We rate SABIC Overweight.

Performance

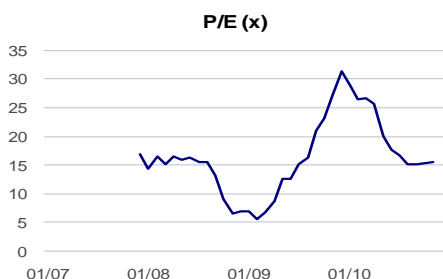


Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	103,062	149,128	170,264	186,999
Revenue Growth	-31.7%	44.7%	14.2%	9.8%
EBITDA (mn)	29,577	47,370	54,067	59,840
EBITDA Growth	-36.6%	60.2%	14.1%	10.7%
EPS	2.63	7.07	8.37	8.55
EPS Growth	-64.2%	168.8%	18.4%	2.2%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

SABIC

We remain Overweight

This report follows our Flash View of 18th October. SABIC's Q3 2010 results were better than both consensus estimates and our own. We expect prospects for SABIC to improve further owing to new capacity-driven volume growth and margin expansion led by cost efficiencies and a mild improvement in petrochemicals prices. Reflecting these assumptions, we have raised our sales estimates by around 9% for the years 2010-2012. Consequently we have raised our target price to SAR120.2, implying 15% upside, and remain Overweight.

Well-positioned to capitalise on firm demand: Looking forward, massive capacity expansion through its subsidiaries should allow SABIC to capture a high share of the strong growth in petrochemicals demand from China and India. Moreover, we expect a marginal improvement in product prices in the coming quarters driven by firm demand, reversing the declining trend in price observed in the last two quarters. However, China's recent announcement that it may impose custom tariffs on petrochemical imports from Saudi Arabia for alleged dumping is a cause of concern. On a more positive note, China has at least reportedly decided not to impose dumping duties on imports of methanol from Saudi Arabia. (Source: Zawya news dated 27 and 30 October 2010).

Strong sales growth: In Q3 2010, SABIC reported revenues of SAR 37.88bn, up 35% from Q3 2009, but down by 2.5% from Q2 2010. On a year-on-year basis, SABIC's top line benefited from improved demand, higher capacity utilisation and higher product prices. The quarter-on-quarter decline in sales reflected an average drop of about 7% in the prices of basic petrochemicals products in Q3. Reflecting our assumptions about continuing volume growth and a likely modest recovery in prices, we have revised our estimate of compound annual growth in revenues for the period 2009-14 from 13% to 15%.

Low feedstock cost is substantial advantage: Cheap and secure feedstock prices give Saudi petrochemicals players an advantage over global competition. Since the majority of SABIC's costs are fixed at very low levels, we do not expect any major impact from higher crude oil and naphtha prices. In Q3 2010, operating profit of SAR8.98bn exceeded consensus estimates mainly due to strong revenues. The operating profit margin improved to 23.7% compared to 22.7% in Q3 2009 and 23.5% in Q2 2010. SABIC posted net profit of SAR5.33bn, versus net profit of SAR3.65bn in Q3 2009.

Valuation and conclusion: We expect strong capex-driven growth and further robust performance by the subsidiaries to drive the overall performance of SABIC. In contrast to 2009, when the company paid no interim dividend due to the economic crisis, SABIC has declared an interim dividend of SAR4.5bn in Q3 2010. Although we do see a near-term correction in the stock (the stock is up by 17% since release of Q3 2010 results), we believe there is further upside potential in the long run. Following the Q3 results and a review of our assumptions we have revised our forecasts. Using our long-run discounted economic profit valuation model, we have increased our target price by 14% to SAR120. SABIC currently trades on a PE of 14.7x for 2010; we think this is still good value for the strongest company in the Saudi petrochemicals sector.



Corporate summary

Established in 1976, SABIC is the largest listed company in the GCC. It is 70% owned by the Saudi government, giving it solid financial and regulatory backing. SABIC has grown from producing 6mtpa of petrochemicals in the 1980s to over 60mtpa currently, and it accounts for over 80% of Saudi Arabia's output. SABIC has seen solid revenue growth over the last 5 years while the EBITDA margin has averaged 35% over the same period, significantly higher than the global average of 15%.

Share information

Market cap (SAR/US\$)	312.75 bn / 83.40 bn		
52-week range	76.75 - 106.8		
Daily avg volume (US\$)	68.22mn		
Shares outstanding	3,000mn		
Free float (est)	22.6%		
Performance:	1M	3M	12M
Absolute	15.5%	18.1%	28.3%
Relative to index	14.8%	15.5%	26.4%
Major Shareholder:			
Public Investments Funds (PIF)	70%		
GOSI	5%		

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	103,062	149,128	170,264	186,999
EBITDA (SARmn)	29,577	47,370	54,067	59,840
Net Profit (SARmn)	15,194	32,269	36,892	39,345
EPS (SAR)	2.63	7.07	8.37	8.55
DPS (SAR)	1.50	3.00	3.50	3.85
EPS Growth	-64.2%	168.8%	18.4%	2.2%
EV/EBITDA (x)	15.8	9.8	8.4	7.5
P/E (x)	39.6	14.7	12.5	12.2
P/B (x)	2.9	2.6	2.3	2.1
Dividend Yield	1.4%	2.9%	3.4%	3.7%

Source: Company data, Al Rajhi Capital

Q3 results: strong y-o-y performance

Below we present the key details of SABIC's Q3 2010 results, together with our comments.

Figure 1. SABIC: Q3 2010 results

(SAR mn)	Q3 2009 actual	Q2 2010 actual	Q3 2010 actual	% chg y-y	Q3 2010 ARC est	Comment
Revenues	27,984	38,862	37,877	35.4%	30,456	Strong outcome reflected volume growth from new capacity
Gross profit	10,891	14,502	14,128	29.7%	15,462	Decline in petrochemical prices compared to Q2 2010 impacted gross profit
Gross margin	38.9%	37.3%	37.3%	-1.6pp	50.8%	As above
EBITDA	8,692	11,795	11,616	33.6%	n/a	Compared to Q3 2009, EBITDA growth led by increased volume and price realisation
EBITDA margin (%)	31.1%	30.4%	30.7%	-0.4pp	n/a	Margin impacted on account of higher operating expenses
Depreciation & amortization	2,333	2,657	2,634	12.9%	n/a	In line with Q2 2010 numbers
Operating Profit	6,360	9,138	8,982	41.2%	7,648	Well above our estimates
Financing cost	(316)	(531)	(411)	30.1%	25	Higher financing cost on account of higher net debt. Investment income was also higher than expected
Net profit before tax after minority	6,044	8,607	8,571	41.8%	7,672	Higher net profit before tax in line with higher operating profits
Tax	(200)	(600)	(700)	250.0%	(115)	Higher than our estimates
Minority	(2,196)	(2,991)	(2,545)	15.9%	(2,379)	Close to our estimates
Net profit	3,648	5,016	5,326	46.0%	5,178	Close to our estimates
Capex	(4,918)	(2,750)	(4,675)	-4.9%	(6,098)	Well below our forecast, quarterly capex is very volatile for SABIC
Capex / Sales	45.2%	19.0%	33.1%	-12.1pp	39.4%	As above
Net debt	53,298	57,540	58,797	10.3%	44,365	Net debt increased as a result of higher than estimated working capital
Net debt / Annualized EBITDA (x)	2.2	1.3	1.3	n/m	0.9	

Source: Company data, Al Rajhi Capital



We have raised revenue estimates for the next three years by 9%

We expect growth in dividends resulting from growth in earnings

Strong Asian demand to drive growth

SABIC is currently trading on a 2010 PE of 14.7x

Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue	150,810	103,062	149,128	170,264	186,999
Cost of Goods Sold	(94,994)	(64,851)	(91,548)	(104,278)	(114,069)
Gross Profit	55,815	38,211	57,581	65,985	72,929
Government Charges					
S.G. & A. Costs	(19,224)	(19,407)	(20,574)	(24,070)	(28,891)
Operating EBIT	36,591	18,804	37,007	41,916	44,039
Cash Operating Costs	(104,166)	(73,485)	(101,758)	(116,197)	(127,159)
EBITDA	46,643	29,577	47,370	54,067	59,840
Depreciation and Amortisation	(10,052)	(10,773)	(10,364)	(12,151)	(15,801)
Operating Profit	36,591	18,804	37,007	41,916	44,039
Net financing income/(costs)	744	(1,529)	(2,335)	(2,247)	(2,182)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses	-	(1,181)	-	-	-
Net Profit Before Taxes	37,335	16,094	34,671	39,669	41,857
Taxes	(1,400)	(900)	(2,402)	(2,777)	(2,511)
Minority Interests	(13,905)	(7,302)	(11,051)	(11,777)	(13,687)
Net profit available to shareholders	22,030	7,892	21,218	25,115	25,658
Dividends	(9,000)	(4,500)	(9,000)	(10,500)	(11,546)
Transfer to Capital Reserve					
	12/08A	12/09A	12/10E	12/11E	12/12E
Adjusted Shares Out (mn)	3,000	3,000	3,000	3,000	3,000
CFPS (SAR)	15.33	8.66	14.21	16.35	18.38
EPS (SAR)	7.34	2.63	7.07	8.37	8.55
DPS (SAR)	3.000	1.500	3.000	3.500	3.849
Growth	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue Growth	19.5%	-31.7%	44.7%	14.2%	9.8%
Gross Profit Growth	0.5%	-31.5%	50.7%	14.6%	10.5%
EBITDA Growth	-4.1%	-36.6%	60.2%	14.1%	10.7%
Operating Profit Growth	-10.9%	-48.6%	96.8%	13.3%	5.1%
Net Profit Growth	-18.5%	-64.2%	168.8%	18.4%	2.2%
EPS Growth	-25.3%	-64.2%	168.8%	18.4%	2.2%
Margins	12/08A	12/09A	12/10E	12/11E	12/12E
Gross profit margin	37.0%	37.1%	38.6%	38.8%	39.0%
EBITDA margin	30.9%	28.7%	31.8%	31.8%	32.0%
Operating Margin	24.3%	18.2%	24.8%	24.6%	23.6%
Pretax profit margin	24.8%	15.6%	23.2%	23.3%	22.4%
Net profit margin	14.6%	7.7%	14.2%	14.8%	13.7%
Other Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
ROCE	14.9%	7.1%	13.1%	13.9%	14.4%
ROIC	16.4%	7.4%	13.3%	13.9%	13.9%
ROE	22.7%	7.5%	18.6%	19.6%	17.9%
Effective Tax Rate	3.7%	5.6%	6.9%	7.0%	6.0%
Capex/Sales	17.6%	23.3%	13.5%	13.0%	13.0%
Dividend Payout Ratio	40.9%	57.0%	42.4%	41.8%	45.0%
Valuation Measures	12/08A	12/09A	12/10E	12/11E	12/12E
P/E (x)	14.2	39.6	14.7	12.5	12.2
P/CF (x)	6.8	12.0	7.3	6.4	5.7
P/B (x)	3.0	2.9	2.6	2.3	2.1
EV/Sales (x)	3.1	4.5	3.1	2.7	2.4
EV/EBITDA (x)	9.9	15.8	9.8	8.4	7.5
EV/EBIT (x)	12.6	24.9	12.6	10.9	10.2
EV/IC (x)	1.9	1.8	1.7	1.5	1.5
Dividend Yield	2.9%	1.4%	2.9%	3.4%	3.7%

Source: Company data, Al Rajhi Capital



SABIC's capacity expansion is expanding the balance sheet

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	51,028	56,377	56,105	60,287	54,337
Current Receivables	16,104	20,534	26,019	29,797	32,725
Inventories	24,360	23,770	27,550	31,549	34,650
Other current assets	3,677	5,482	9,638	9,638	9,638
Total Current Assets	95,455	106,464	119,312	131,272	131,351
Fixed Assets	141,440	157,539	168,610	178,593	187,102
Investments	8,696	8,299	8,807	8,807	8,807
Goodwill	22,979	21,901	20,892	20,892	20,892
Other Intangible Assets	-	-	-	-	-
Total Other Assets	3,190	2,658	3,147	3,147	3,147
Total Non-current Assets	176,305	190,398	201,455	211,438	219,947
Total Assets	271,760	296,861	320,767	342,710	351,298
Short Term Debt	4,289	6,477	7,954	7,954	7,954
Trade Payables					
Dividends Payable	620	587	644	644	644
Other Current Liabilities					
Total Current Liabilities	26,580	33,849	37,678	41,900	45,173
Long-Term Debt	88,367	100,538	104,967	104,967	92,910
Other LT Payables	10,171	9,845	11,598	11,598	11,598
Provisions	-	-	-	-	-
Total Non-current Liabilities	98,538	110,382	116,565	116,565	104,508
Minority interests	43,709	44,375	46,053	48,408	51,145
Paid-up share capital	30,000	30,000	30,000	30,000	30,000
Total Reserves	72,932	78,255	90,471	105,837	120,471
Total Shareholders' Equity	102,932	108,255	120,471	135,837	150,471
Total Equity	146,642	152,630	166,524	184,245	201,617
Total Liabilities & Shareholders' Equity	271,760	296,861	320,767	342,710	351,298

We expect decline in net debt on account of higher cash flow from operations

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	41,629	50,637	56,815	52,633	46,526
Net Debt/EBITDA (x)	0.89	1.71	1.20	0.97	0.78
Net Debt to Equity	28.4%	33.2%	34.1%	28.6%	23.1%
EBITDA Interest Cover (x)	(62.7)	19.3	20.3	24.1	27.4
BVPS (SAR)	34.31	36.08	40.16	45.28	50.16

Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	37,335	16,094	34,671	39,669	41,857
Depreciation & Amortisation	10,052	10,773	10,364	12,151	15,801
Decrease in Working Capital	1,090	(461)	(10,694)	(3,555)	(2,756)
Other Operating Cashflow	(2,248)	(393)	(1,180)	(2,777)	(2,511)
Cashflow from Operations	46,230	26,012	33,161	45,488	52,390
Capital Expenditure	(26,596)	(23,988)	(20,138)	(22,134)	(24,310)
New Investments	(1,550)	724	(109)	-	-
Others	(1,661)	(1,371)	(775)	-	-
Cashflow from investing activities	(29,807)	(24,636)	(21,022)	(22,134)	(24,310)
Net Operating Cashflow	16,423	1,377	12,139	23,354	28,080
Dividends paid to ordinary shareholders	(10,282)	(3,750)	(8,942)	(9,750)	(11,023)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash					
Other Financing Cashflow	(13,702)	(6,931)	(9,270)	(9,422)	(10,950)
Cashflow from financing activities	(11,272)	3,973	(12,411)	(19,172)	(34,030)
Total cash generated	5,151	5,350	(272)	4,182	(5,950)
Cash at beginning of period	45,877	51,028	56,377	56,105	60,287
Implied cash at end of year	51,028	56,377	56,105	60,287	54,337

We expect the capex/sales ratio to stabilise at 13%

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	17.6%	23.3%	13.5%	13.0%	13.0%

Source: Company data, Al Rajhi Capital

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair 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.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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

Dr. Saleh Alsuhaibani
Head of Research
Tel : +966 1 2119434
alsuhaibanis@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

Al Rajhi Capital, a subsidiary of Al Rajhi Bank, is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.