



US\$80.80bn Market cap	22.6% Free float	US\$124.7mn Avg. daily volume
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Target price	126.0	24.75% over current
Consensus price	125.6	24.4% over current
Current price	101.0	as at 30/1/2011

Research Department

ARC Research Team

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

Underweight	Neutral	Overweight
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SABIC

Overall strong performance

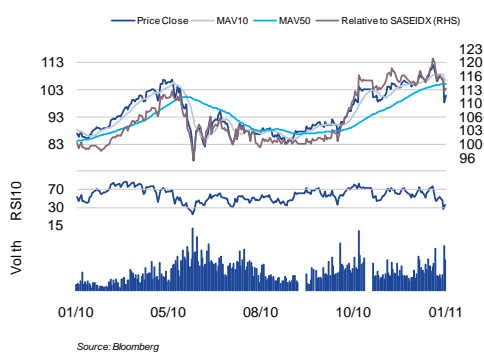
Key themes

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 the Saudi government) is well-positioned to capitalise on growth opportunities in the global petrochemicals sector.

Implications

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

Performance

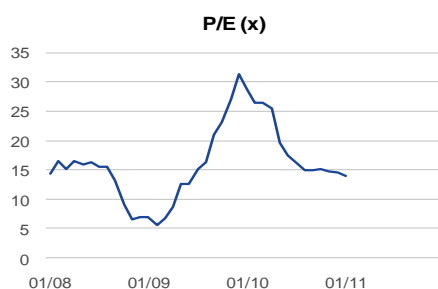


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	151,714	175,191	192,403	200,944
Revenue Growth	47.2%	15.5%	9.8%	4.4%
EBITDA (mn)	48,238	55,185	61,569	65,307
EBITDA Growth	63.1%	14.4%	11.6%	6.1%
EPS	7.20	8.22	8.60	9.47
EPS Growth	173.5%	14.2%	4.6%	10.1%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

This report follows our Flash View of 19th January. SABIC's Q4 2010 net profit exceeded our forecast but missed consensus estimates. We expect prospects for SABIC to improve further due to new capacity-driven volume growth and margin expansion led by a recovery in petrochemicals prices. We have made marginal changes to the assumptions in our long-run discounted economic profit valuation model based on the Q4 results. We retain our Overweight rating and target price of SAR126, implying 25% upside.

Strong sales growth: In Q4 2010, SABIC reported revenues of SAR 40.85bn, up by 30% from Q4 2009 and up by 8% from Q3 2010. Including intercompany adjustments, sales from the petrochemicals segment for Q4 2010 were up by 42% at SAR48.71bn while sales from the Fertilisers and Metals segments showed year-on-year growth of 72% and 24% at SAR2.23bn and SAR3.32bn respectively. Net sales increased thanks to strong volume growth and higher product prices; petrochemicals prices have started recovering after a dip in Q3 2010. In the near term, we expect stable petrochemicals prices with some upward bias.

Healthy rise in EBITDA & operating profit: EBITDA rose by 26% year-on-year to SAR12.92bn in Q4 2010. The increase in EBITDA is attributable to increased capacity utilisation and higher prices for petrochemicals & plastics products. Operating profit also jumped by 25% to SAR10.01bn from SAR7.98bn for Q4 2009. Net profit increased by 27% to SAR5.81bn for the same period. Net profit was above our estimate but missed the Bloomberg consensus forecast by 5%.

Increase in dividend payout for 2010: Following the healthy Q4 results, SABIC's board of directors has recommended a final dividend of SAR2 per share (2009: SAR1.5 per share), making a total dividend of SAR3.5 per share for 2010 (2009: SAR1.5 per share; there was no interim dividend in 2009 due to the financial crisis). The cash cost of the full year dividend is SAR10.5bn (2009: SAR4.5bn).

Expansion through innovation & diversification: We believe that SABIC will continue to boost production capacity in coming years with heavy capex and product diversification. SABIC is aiming to move beyond petrochemicals into value-added products. To augment this, SABIC is planning to increase its spending on innovation such as renewable energy and new material. It is also exploring new technologies to replace gas-based crackers as it foresees a shortage of gas which currently is a major feedstock for the company. The expected commencement of operations by Saudi Kayan in a few quarters should further expand the SABIC group's product mix.

Valuation and conclusion: We believe that SABIC continues to represent an attractive investment opportunity given its low feedstock cost advantage, growing demand from Asian countries, the firm oil price and large-scale capacity expansion. Following the release of the Q4 results and a review of our assumptions we have marginally revised our forecasts. We retain our Overweight rating and target price of SAR126, implying 25% upside. The stock trades on 2011 P/E and EV/EBITDA multiples of 12.3x and 8.1x, respectively.



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\$)	303.0bn / 80.80bn		
52-week range	76.75 - 112.3		
Daily avg volume (US\$)	124.7mn		
Shares outstanding	3,000mn		
Free float (est)	22.6%		
Performance:	1M	3M	12M
Absolute	-3.6%	4.1%	16.1%
Relative to index	-0.6%	3%	12.9%
Major Shareholder:			
Public Investments Funds (PIF)	70%		
GOSI	5.1%		

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	151,714	175,191	192,403	200,944
EBITDA (SARmn)	48,238	55,185	61,569	65,307
Net Profit (SARmn)	21,585	24,660	25,810	28,420
EPS (SAR)	7.20	8.22	8.60	9.47
DPS (SAR)	3.50	3.75	3.75	5.12
EPS Growth	173.5%	14.2%	4.7%	10.1%
EV/EBITDA (x)	9.4	8.1	7.1	6.5
P/E (x)	14.0	12.3	11.7	10.7
P/B (x)	2.5	2.3	2.0	1.8
Dividend Yield	3.5%	3.7%	3.7%	5.1%

Source: Company data, Al Rajhi Capital

Q4 results: strong yoy performance

Below we present the key details of SABIC's Q4 2010 results, together with our comments.

Figure 1. SABIC: Q4 2010 results

(SAR mn)	Q4 2009 actual	Q3 2010 actual	Q4 2010 actual	% chg y-y	Q4 2010 ARC est	Comment
Revenues	31,510	37,877	40,849	29.6%	38,580	Rise in products prices as well as an improvement in capacity utilization leading to a rise in production volumes.
Gross profit	12,475	14,128	15,908	27.5%	14,661	As above
Gross margin	39.6%	37.3%	38.9%	(0.7)pp	38.0%	Close to our estimates
EBITDA	10,239	11,616	12,920	26.2%	12,153	Compared to Q4 2009, EBITDA growth led by increased volume and price realisation
EBITDA margin (%)	32.5%	30.7%	31.6%	(0.9)pp	31.5%	Close to our estimates
Depreciation & amortization	(2,255)	(2,634)	(2,909)	29.0%	(2,879)	Close to our estimates
Operating Profit	7,984	8,982	10,011	25.4%	9,274	Well above our estimates
Financing cost	(489)	(411)	(275)	-43.8%	(576)	Higher investment income compared to our estimates resulted in decline in net financing cost
Net profit before tax and minority	7,495	8,571	9,737	29.9%	8,698	Higher operating profit and lower net financing cost resulted in higher pre tax income
Tax	(425)	(700)	(700)	64.7%	(609)	Close to Q3 2010 numbers
Minority	(2,475)	(2,545)	(3,226)	30.3%	(2,582)	Higher profit from subsidiaries reflected in higher income from minority
Net profit	4,595	5,326	5,811	26.5%	5,507	Net profit above our estimate but below consensus
Capex	(5,259)	(4,675)	(863)	-83.6%	(5,015)	Well below our forecast, quarterly capex is very volatile
Capex / Sales	16.7%	12.3%	2.1%	n/m	13.0%	As above
Net debt	50,637	58,797	59,110	16.7%	56,990	Net debt increased as a result of higher than estimated investment in net operating assets
Net debt / Annualized EBITDA (x)	1.2	1.3	1.1	n/m	1.2	

Source: Company data, Al Rajhi Capital



Global recovery and capacity expansion set to drive strong sales growth over the next three years

We expect growth in the dividend resulting from growth in earnings

Strong Asian demand should drive growth

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	103,062	151,714	175,191	192,403	200,944
Cost of Goods Sold	(64,851)	(92,766)	(107,743)	(117,366)	(122,576)
Gross Profit	38,211	58,948	67,449	75,037	78,368
Government Charges					
S.G. & A. Costs	(19,407)	(21,104)	(23,991)	(29,790)	(29,841)
Operating EBIT	18,804	37,844	43,457	45,247	48,527
Cash Operating Costs	(73,485)	(103,476)	(120,006)	(130,834)	(135,637)
EBITDA	29,577	48,238	55,185	61,569	65,307
Depreciation and Amortisation	(10,773)	(10,394)	(11,728)	(16,322)	(16,779)
Operating Profit	18,804	37,844	43,457	45,247	48,527
Net financing income/(costs)	(1,529)	(2,034)	(2,266)	(2,136)	(2,029)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses	(1,181)	-	-	-	-
Net Profit Before Taxes	16,094	35,810	41,191	43,111	46,498
Taxes	(900)	(2,500)	(2,883)	(3,018)	(2,790)
Minority Interests	(7,302)	(11,725)	(13,648)	(14,284)	(15,289)
Net profit available to shareholders	7,892	21,585	24,660	25,810	28,420
Dividends	(4,500)	(10,500)	(11,250)	(11,250)	(15,347)
Transfer to Capital Reserve					
	12/09A	12/10A	12/11E	12/12E	12/13E
Adjusted Shares Out (mn)	3,000	3,000	3,000	3,000	3,000
CFPS (SAR)	8.66	14.57	16.68	18.81	20.16
EPS (SAR)	2.63	7.20	8.22	8.60	9.47
DPS (SAR)	1.50	3.50	3.75	3.75	5.12
Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	-31.7%	47.2%	15.5%	9.8%	4.4%
Gross Profit Growth	-31.5%	54.3%	14.4%	11.3%	4.4%
EBITDA Growth	-36.6%	63.1%	14.4%	11.6%	6.1%
Operating Profit Growth	-48.6%	101.2%	14.8%	4.1%	7.2%
Net Profit Growth	-64.2%	173.5%	14.2%	4.7%	10.1%
EPS Growth	-64.2%	173.5%	14.2%	4.7%	10.1%
Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	37.1%	38.9%	38.5%	39.0%	39.0%
EBITDA margin	28.7%	31.8%	31.5%	32.0%	32.5%
Operating Margin	18.2%	24.9%	24.8%	23.5%	24.1%
Pretax profit margin	15.6%	23.6%	23.5%	22.4%	23.1%
Net profit margin	7.7%	14.2%	14.1%	13.4%	14.1%
Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	7.1%	13.9%	15.1%	14.8%	15.6%
ROIC	7.4%	13.6%	14.6%	14.4%	14.7%
ROE	7.5%	18.8%	19.3%	18.2%	18.2%
Effective Tax Rate	5.6%	7.0%	7.0%	7.0%	6.0%
Capex/Sales	23.3%	10.6%	12.0%	12.0%	12.0%
Dividend Payout Ratio	57.0%	48.6%	45.6%	43.6%	54.0%
Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	38.4	14.0	12.3	11.7	10.7
P/CF (x)	11.7	6.9	6.1	5.4	5.0
P/B (x)	2.8	2.5	2.3	2.0	1.8
EV/Sales (x)	4.4	3.0	2.5	2.3	2.1
EV/EBITDA (x)	15.4	9.4	8.1	7.1	6.5
EV/EBIT (x)	24.2	12.0	10.3	9.6	8.7
EV/IC (x)	1.8	1.6	1.5	1.4	1.3
Dividend Yield	1.5%	3.5%	3.7%	3.7%	5.1%

Source: Company data, Al Rajhi Capital



SABIC's capacity expansion is expanding the balance sheet

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	56,377	50,645	55,759	64,519	61,088
Current Receivables	20,534	29,216	30,851	33,919	35,424
Inventories	23,770	26,240	32,666	34,916	36,466
Other current assets	5,482	10,335	10,335	10,335	10,335
Total Current Assets	106,464	116,436	129,610	143,689	143,313
Fixed Assets	157,539	165,050	174,345	181,112	188,446
Investments	8,299	8,829	8,829	8,829	8,829
Goodwill	21,901	22,263	22,263	22,263	22,263
Other Intangible Assets	-	-	-	-	-
Total Other Assets	2,658	4,636	4,636	4,636	4,636
Total Non-current Assets	190,398	200,778	210,073	216,840	224,174
Total Assets	296,861	317,214	339,684	360,528	367,486
Short Term Debt	6,477	16,621	16,621	16,621	16,621
Accounts Payable	13,382	15,347	18,148	19,952	20,838
Accrued Expenses	13,402	12,804	16,333	17,957	18,754
Zakat Payable	-	-	-	-	-
Dividends Payable	587	625	625	625	625
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	33,849	45,397	51,727	55,155	56,838
Long-Term Debt	100,538	94,031	94,031	94,031	81,127
Other LT Payables	9,845	11,605	11,605	11,605	11,605
Provisions	-	-	-	-	-
Total Non-current Liabilities	110,382	105,636	105,636	105,636	92,732
Minority interests	44,375	45,342	48,072	50,928	53,986
Paid-up share capital	30,000	30,000	30,000	30,000	30,000
Total Reserves	78,255	90,839	104,249	118,809	133,930
Total Shareholders' Equity	108,255	120,839	134,249	148,809	163,930
Total Equity	152,630	166,181	182,321	199,737	217,916
Total Liabilities & Shareholders' Equity	296,861	317,214	339,684	360,528	367,486

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

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	50,637	60,007	54,893	46,133	36,661
Net Debt/EBITDA (x)	1.71	1.24	0.99	0.75	0.56
Net Debt to Equity	33.2%	36.1%	30.1%	23.1%	16.8%
EBITDA Interest Cover (x)	19.3	23.7	24.4	28.8	32.2
BVPS (SAR)	36.08	40.28	44.75	49.60	54.64

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	16,094	35,810	41,191	43,111	46,498
Depreciation & Amortisation	10,773	10,394	11,728	16,322	16,779
Decrease in Working Capital	(461)	(12,837)	(1,731)	(1,889)	(1,373)
Other Operating Cashflow	(393)	(2,878)	(2,883)	(3,018)	(2,790)
Cashflow from Operations	26,012	30,489	48,305	54,526	59,115
Capital Expenditure	(23,988)	(16,027)	(21,023)	(23,088)	(24,113)
New Investments	724	105	-	-	-
Others	(1,371)	(4,216)	-	-	-
Cashflow from investing activities	(24,636)	(20,139)	(21,023)	(23,088)	(24,113)
Net Operating Cashflow	1,377	10,350	27,282	31,437	35,002
Dividends paid to ordinary shareholders	(3,750)	(8,962)	(11,250)	(11,250)	(13,298)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(6,931)	(10,577)	(10,918)	(11,427)	(12,231)
Cashflow from financing activities	3,973	(16,083)	(22,168)	(22,677)	(38,433)
Total cash generated	5,350	(5,732)	5,114	8,760	(3,432)
Cash at beginning of period	51,028	56,377	50,645	55,759	64,519
Implied cash at end of year	56,377	50,645	55,759	64,519	61,088

We expect the capex/sales ratio to stabilise at 12%

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	23.3%	10.6%	12.0%	12.0%	12.0%

Source: Company data, Al Rajhi Capital



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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 Alsuhaybani
Head of Research
Tel : +966 1 2119434
alsuhaybanis@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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