



Key themes

Petrochemicals prices maintained their upward momentum in March except for a small aberration immediately after the earthquake in Japan. The prices were driven by growing demand, mainly from Asian countries and rising supply concerns from the MENA region.

Implications

With continued upheaval in Libya and the possibility that the unrest may spread to other parts of the region, we believe the oil prices will continue to rise in the near term. We further expect the rise in petrochemical prices to reflect in higher Q1 2011 net earnings for the petrochemical companies under our coverage as has been seen in Q4 2010.

Our coverage universe

Stock	Rating	Price Target
SABIC	Overweight	SAR 126.0
Sipchem	Overweight	SAR 27.2*
Saudi Kayan	Underweight	SAR 15.5
Yansab	No rating	
PetroRabigh	No rating	

* adjusted for the bonus issue dated 16 March 2011

Events calendar – April 2011*

Company	Event	Date
Yansab	Q1-11 earnings release	13-Apr-11
Saudi Kayan	Q1-11 earnings release	13-Apr-11
Sipchem	Q1-11 earnings release	13-Apr-11
SABIC	Q1-11 earnings release	17-Apr-11
Petro Rabigh	Q1-11 earnings release	20-Apr-11

* Tentative dates based on last year filings

Key benchmark overview

Name	28-Mar-11	1 M (%)	QTD (%)	YTD (%)
TASI	6508.3	9.5%	-1.7%	-1.7%
TASI Petroleum	6513.7	12.1%	-0.1%	-0.1%
Brent (\$/bbl)	115.7	3.3%	21.2%	21.2%
Natural Gas (\$/MMBtu)	4.3	10.7%	2.6%	2.6%
Ethylene (\$/MT)	1580.0	3.6%	31.1%	31.1%

Source: Bloomberg, Tadawul, Al Rajhi Capital

Key macroeconomic data

	2009	2010E	2011F
GDP growth forecast	0.2%	3.8%	4.2%
Inflation	4.2%	5.4%	3.9%
Base interest rate	2.0%	2.0%	

Source: Al Rajhi Capital, Saudi Arabian Monetary Agency (SAMA)

Saudi Petrochemicals Monthly: Upward momentum continues

The ongoing turmoil in Libya intensified in the month of March triggering a surge in crude prices. In addition, the devastating earthquake in Japan and its after-effects also influenced the oil prices in March. The price of Brent crude oil rose to US\$115 from US\$106, a month back primarily due to the continued upheaval in Libya that dampened investor sentiments. The outlook for prices of ethylene and other petrochemicals in the near term remains positive on the back of firm demand and rising crude oil prices.

Macroeconomic news/developments

Libyan commotion and the Japan catastrophe weighing on the oil prices:

The Brent crude prices have risen 2.9% over the past one month amid fluctuations especially in mid march when the oil prices were dictated by the massive earthquake in Japan. The prices were pulled down immediately after the earthquake amid investor pessimism about the country's growth prospects. However, the prices started rising again due to the escalation of geopolitical tensions in MENA and especially Libya and the realisation that hydrocarbons will have to compensate for Japan's loss of nuclear generation capacity. We believe, the oil prices will continue to rise in the near term as there still are supply concerns with continued unrest in Libya.

Volatile naphtha prices: Naphtha prices, which were rising consistently in the month of March fell for four consecutive days after the Japan earthquake as petrochemical-plant outages in Japan (the largest importers of naphtha) cut demand. Cracker shutdowns in Japan (four crackers with a total capacity of 1.8 MTPA) led to a decline in naphtha prices. However, the prices of Naphtha have rebounded to pre earthquake levels in the past week on apparent tighter supplies. We believe Naphtha prices will remain volatile in the near term depending on the supply of Naphtha from Japan.

Demand for petrochemicals to continue to rise in the near term: In mid March 2011, SABIC CEO Mohamed Al-Mady predicted that the growth in global demand for petrochemicals this year should match 2010 levels, led by Asia and the Middle East, despite higher oil prices.

Existing natural gas reserves enough for planned petrochemical projects:

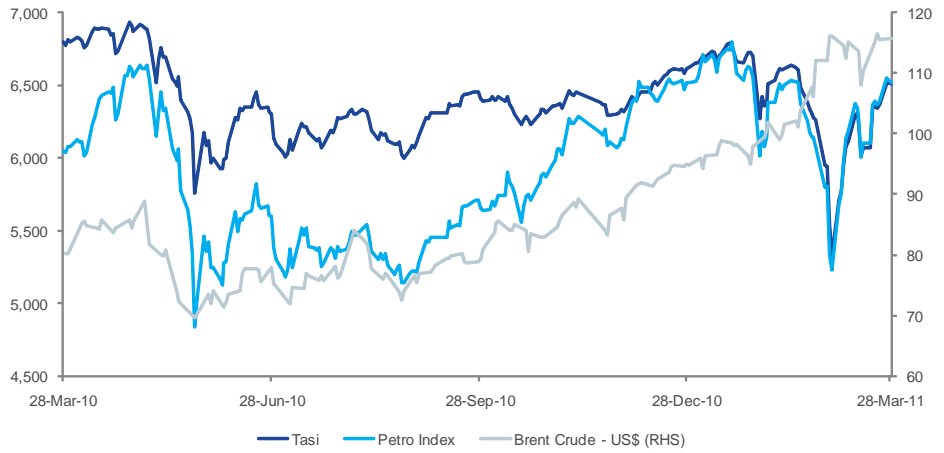
Prince Faisal bin Turki, a ministry adviser, said that all projects under development and all the existing plants are fully supplied with natural gas. The Prince further indicated that only companies with a "committed" expansion scheme would receive new gas allocation.

Saudi's SAR500bn stimulus to boost economy: In mid March, King Abdullah announced a SAR500bn social spending package targeted at lower income brackets (the package focuses on social security benefits and housing). Consequently, Saudi stocks rose to the highest level in last five weeks as investors reinstate confidence in the Saudi economy. However, we believe, the Saudi stock market to remain under pressure in the near term by the ongoing political uncertainty in the MENA region.



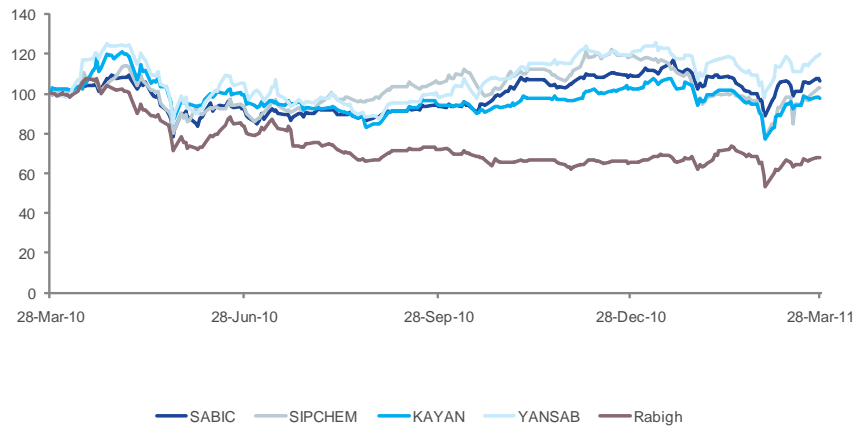
After moving in the opposite direction at January end (following unrest in Egypt), TASI and crude prices started to move in sync again

Figure 1. TASI & Petro Index Movement and Crude Prices



Source: Bloomberg, Tadawul, Al Rajhi Capital

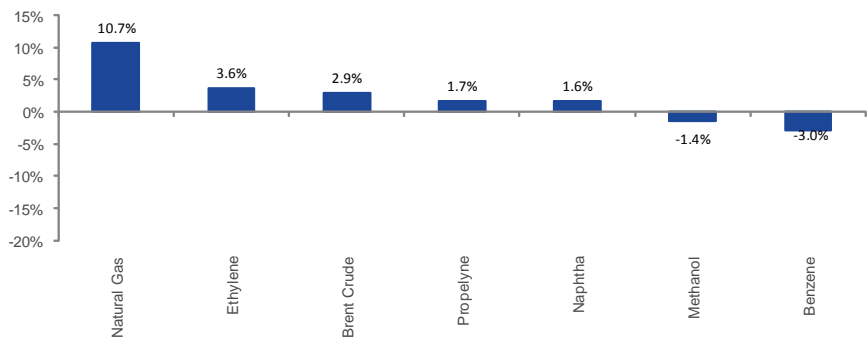
Figure 2. Stock Performance of PPC companies in Saudi (Rebased to 100)



Source: Bloomberg, Al Rajhi Capital

Japan's nuclear power disaster boosted the demand for natural gas.

Figure 3. Price Performance of PPC Components (MoM%)



Source: Bloomberg, Al Rajhi Capital. (Note: Prices as of 28 March 2011)



Major corporate developments

SABIC

Large investments in India in the offering: According to various articles published in the media recently, SABIC is planning large investments in India, to tap the growth this emerging market provides. SABIC reportedly is in talks with Indian petrochemical players for a joint venture for cracker projects and downstream refineries. Although SABIC is present in India since 1994, it primarily imports its products from facilities in Saudi Arabia and Europe into India. SABIC is planning its expansion in India on the lines of its Chinese operations (a joint venture and setting up its own manufacturing plant).

Shuts down Japan compounding unit after the earthquake: SABIC has shut down its only facility (a small compounding unit) in Japan after the earthquake in early March; however the company's operations and sales are unaffected as per the Company press release.

Elastomers project moves into FEED stage: In a press release in early March 2011, SABIC announced that the work on its proposed elastomers project joint venture (with ExxonMobil Chemical) has moved fully into Front-End Engineering and Design (FEED) stage.

Receives financing for the steel plant: Hadeed, a wholly-owned subsidiary of SABIC, has signed a US\$435mn long term borrowing facility with HSBC to finance a steel plant. The new plant is located in Jubail and will produce 1.0 MTPA of pellets and 0.5 MTPA of rebar. Production from the new steel plant is expected to commence in the second half of 2012. (Source: Zawya dated 13 March 2011).

Sipchem

Bonus shares issued: On March 16 2011, Sipchem raised its share capital by 10% to SAR3.7bn from SAR3.3bn by issuing a bonus share for every 10 shares. (Source: Tadawul). Consequently our target price for Sipchem is revised downward to SAR27.2 from SAR29.9.

Saudi Kayan

Murabaha deal worth SAR2bn signed with Fransi: Saudi Kayan signed a SAR2bn murabaha facility agreement with Banque Saudi Fransi to cover the escalated construction costs. The loan which is guaranteed by SABIC is expected to be repaid in 10 years. (Note: In a murabaha, a financier such as a bank buys a commodity and sells it to the customer at a higher price, complying with Islam's ban on interest).

Trial operations started at Jubail polycarbonate plant: In a press release dated 14 March 2011, Kayan announced that it has started trial operations at its polycarbonate plant in Jubail Industrial City. The plant has a capacity to produce 0.26 MTPA of polycarbonate resins used in industries such as optical media, construction, automotive and electronic.

Yansab

No major news.

PetroRabigh

PetroRabigh to invite bids for second phase in 1-2 months: PetroRabigh plans to invite bids for work related to the second phase of its petrochemicals complex in 1-2 months. The second phase of PetroRabigh, which will add 17 new plants, will not see expansion of refinery capacity, but the ethane cracker will be expanded by 30mn cubic feet per day.



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.