

Saudi Basic Industries Corp

Petrochemicals – Industrial

SABIC AB: Saudi Arabia

19 April 2011

الراجحي المالية
Al Rajhi Capital



US\$86.99bn Market cap
22.6% Free float
US\$167.6mn Avg. daily volume

Target price **127.5** 17.24% over current
Consensus price **125.6** 15.4% over current
Current price **106.3** as at 18/4/2011

Existing rating

Underweight

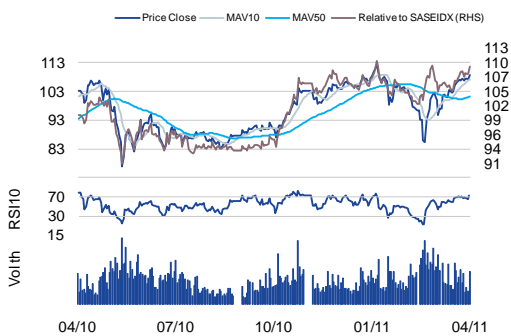
Neutral

Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

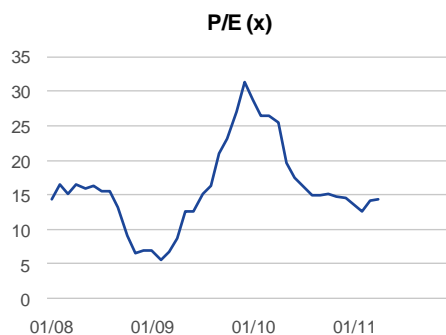


Earnings

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	9.51
EPS Growth	173.5%	14.2%	4.7%	10.5%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

SABIC

Leader delivers robust Q1

SABIC reported 42% year-on-year growth in net profit in Q1 2011 due to higher sales volumes and a rise in petrochemicals prices; the latter played a major role in SABIC's robust performance this quarter. This growth also reflects continued strong demand from Asian markets. SABIC comprehensively beat consensus as well as our estimates in Q1. Therefore, we expect to raise our forecasts primarily on increasing product prices and slightly on volumes for the coming quarters; and this may increase the fair value per share of SAR127.5. We expect to retain our overweight rating on the stock.

Earnings vs. our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues not yet published:** SABIC has not yet published revenues for Q1 2011. Until the company does so, we will be unable to assess future prospects properly. We await the full results with revenue details. We were expecting SAR42.15bn in revenues for Q1 as against the consensus estimate of SAR44.50bn.
- Gross profit and income from operations soar:** Gross profit and income from operations rose by 26% and 29% year-on-year to SAR15.43bn and SAR12.51bn respectively. This robust increase is attributable to increased capacity utilisation leading to a rise in production volumes and higher prices for petrochemicals and plastics products.
- Clean beat at net level as well:** SABIC reported a net profit of SAR7.69bn for Q1, up by 42% year-on-year and by 34% quarter-on-quarter (We were expecting SAR5.9bn while the consensus was at SAR6.3bn). In addition to the improved product prices in the quarter, the Company also benefitted from the superior operating performance in its overseas affiliates.
- Conclusion:** We believe SABIC is well-placed to capitalise on firm demand from Asia and rising petrochemicals prices amid rebound in the end user industries. According to Saudi Ports Authority, Saudi Arabia boosted petrochemical exports to 4.65 million metric tons in the first two months of the year from 4.35 million a year earlier. The positive impact of the increased Petrochemical exports was seen on robust results of the Petrochemical companies in general and SABIC in particular. We reaffirm our Overweight rating on the stock and may raise our forecasts when it releases the detailed Q1 2011 results. SABIC now trades at a 2011e PE of 13.2x and an EV/EBITDA of 7.5x which we think deserves further upside.

Research Department

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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\$)	326.3bn / 86.99bn		
52-week range	76.75 - 112.3		
Daily avg volume (US\$)	167.6mn		
Shares outstanding	3,000mn		
Free float (est)	22.6%		
Performance:	1M	3M	12M
Absolute	7.1%	0.5%	5.8%
Relative to index	2.4%	2.2%	9.9%
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	28,528
EPS (SAR)	7.20	8.22	8.60	9.51
DPS (SAR)	3.50	3.75	3.75	5.14
EPS Growth	173.5%	14.2%	4.7%	10.5%
EV/EBITDA (x)	10.0	8.6	7.5	6.9
P/E (x)	15.1	13.2	12.6	11.4
P/B (x)	2.7	2.4	2.2	2.0
Dividend Yield	3.2%	3.4%	3.4%	4.7%

Source: Company data, Al Rajhi Capital

Figure 1. SABIC: summary of Q1 2011 results

(SAR mn)	Q1 2010	Q4 2010	Q1 2011	% chg y-o-y	% chg q-o-q	ARC est	Consensus
Revenue	34,126	40,849	Not disclosed	n.a.	n.a.	42,152	44,498
EBITDA	11,906	12,920	Not disclosed	n.a.	n.a.	13,278	13,870
EBITDA margin (%)	34.9%	31.6%	n.a.			31.5%	31.2%
Operating profit	9,712	10,011	12,510	28.8%	25.0%	10,439	11,682
Net profit	5,432	5,750	7,690	41.6%	33.7%	5,905	6,329

Source: Company data, Al Rajhi Capital

Disclaimer and additional disclosures for Equity Research

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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.

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