



**US\$73.39bn** Market cap    **24.8%** Free float    **US\$168.2mn** Avg. daily volume

Target price **131.2** 43.00% over current  
 Consensus price **131.9** 43.8% over current  
 Current price **91.75** as at 17/10/2011

Existing rating

Underweight

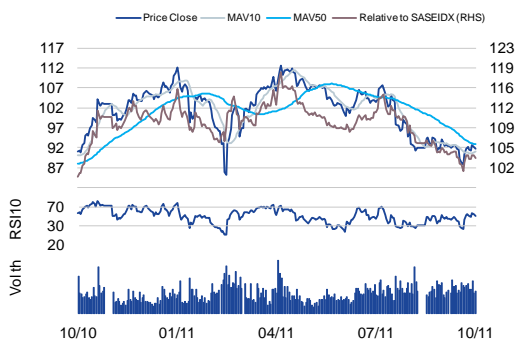
Neutral

**Overweight**

**Flash view**

Flash View is an analyst's preliminary interpretation of 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**

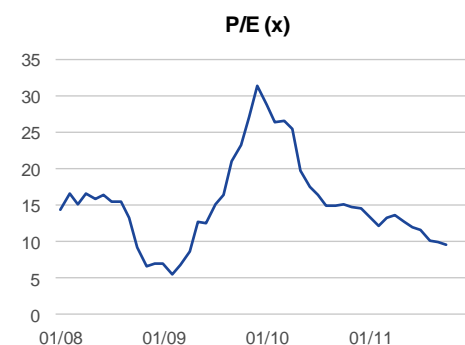


**Earnings**

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	151,714	189,836	207,879	214,473
Revenue Growth	47.2%	25.1%	9.5%	3.2%
EBITDA (mn)	48,238	62,760	64,694	65,414
EBITDA Growth	63.1%	30.1%	3.1%	1.1%
EPS	7.20	10.14	9.58	9.37
EPS Growth	173.5%	40.8%	-5.5%	-2.1%

Source: Company data, Al Rajhi Capital

**Valuation**



Source: Company data, Al Rajhi Capital

**SABIC**  
**Upbeat Q3 performance**

SABIC reported a 54% y-o-y growth in earnings for Q3 on the back of higher utilization rates, a y-o-y rise in product prices, and lower financing costs. We believe that SABIC is benefiting from its scale and diversified product portfolio in this uncertain macroeconomic environment. Considering Q3 results, we might increase our earnings estimates for the next 1-2 quarters. However, we await detailed financial results to confirm our positive view on the company. For the moment, we remain Overweight on the stock with a target price of SAR131.2.

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

- Strong revenue growth:** SABIC has not reported Q3 revenues numbers yet. However, according to Bloomberg, SABIC's Q3 revenue was SAR49bn, up by 29% y-o-y and a beat to our estimates of SAR47.0bn as well as consensus of SAR47.2bn. Increased capacity utilization and stable demand from key markets helped the company report healthy rise in revenues. We believe that robust performance of SAFCO further boosted SABIC's performance.
- Gross profit and income from operations rose significantly:** Gross profit and income from operations rose by 46% and 50% y-o-y to SAR16.8bn and SAR13.5bn respectively. Lower operating costs resulted in a robust income from operations, higher than our estimates of SAR12.6bn.
- Net profit above our estimates:** Driven by lower financial costs, SABIC reported a net profit of SAR8.2bn for Q3, up by 54% y-o-y and by 1% sequentially. This was better than our estimates of SAR7.4bn and the consensus of SAR7.6bn.
- Valuation and Conclusion:** We believe that the q-o-q decline in product prices in Q3 was offset by higher volumes and lower financial costs. Although we might increase our short term forecasts following the release of detailed Q3 results, we will also take into account the escalating concerns about the global markets. For the moment, we remain Overweight on the stock with a target price of SAR131.2.

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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\$)	275.3bn / 73.39bn		
52-week range	85.25 - 112.5		
Daily avg volume (US\$)	168.2mn		
Shares outstanding	3,000mn		
Free float (est)	24.8%		
Performance:	1M	3M	12M
Absolute	-2.4%	-11.8%	3.1%
Relative to index	-1.7%	-6.7%	5.2%
Major Shareholder:			
Public Investments Funds (PIF)	70%		
GOSI	5.2%		

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	151,714	189,836	207,879	214,473
EBITDA (SARmn)	48,238	62,760	64,694	65,414
Net Profit (SARmn)	21,585	30,410	28,727	28,113
EPS (SAR)	7.20	10.14	9.58	9.37
DPS (SAR)	3.50	3.75	3.75	5.06
EPS Growth	173.5%	40.9%	-5.5%	-2.1%
EV/EBITDA (x)	8.9	6.6	6.2	6.0
P/E (x)	12.8	9.1	9.6	9.8
P/B (x)	2.3	2.0	1.7	1.6
Dividend Yield	3.8%	4.1%	4.1%	5.5%

Source: Company data, Al Rajhi Capital

**Figure 1. SABIC: summary of Q3 2011 results**

(SAR bn)	Q3 2010	Q2 2011	Q3 2011	% chg y-o-y	% chg q-o-q	ARC est	Consensus
Revenue	37.9	49.1	49.0	29.4%	-0.2%	47.0	47.2
EBITDA	11.6	16.0	Not disclosed	n.a.	n.a.	15.5	n.a.
EBITDA margin (%)	30.7%	32.7%	n.a.			33.0%	n.a.
Operating profit	9.0	13.3	13.5	50.3%	1.7%	12.6	12.6
Net profit	5.3	8.1	8.2	53.8%	1.1%	7.4	7.6

Source: Company data, Al Rajhi Capital, Q3 2011 revenue number as per Bloomberg.



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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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