



**US\$71.20bn** Market cap    **22.6%** Free float    **US\$78.80mn** Avg. daily volume

Target price **105.5** 18.5% over current  
 Consensus price **113.0** 27.0% over current  
 Current price **89.0** as at 17/10/2010

Research Department

**ARC Research Team**

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Existing rating

Underweight

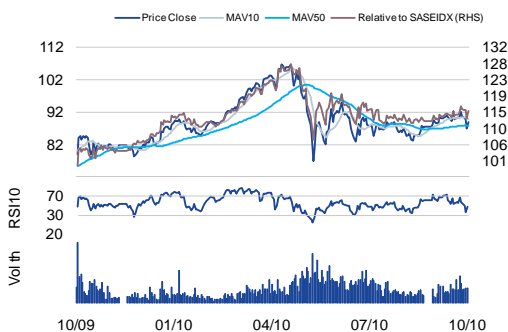
Neutral

**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**

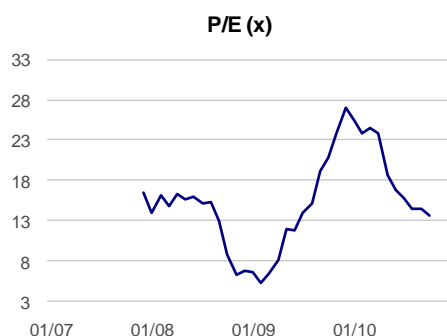


**Earnings**

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	103,062	136,438	156,280	172,340
Revenue Growth	-31.7%	32.4%	14.5%	10.3%
EBITDA (SARmn)	29,577	52,256	59,855	66,006
EBITDA Growth	-36.6%	76.7%	14.5%	10.3%
EPS	3.02	7.08	8.94	9.81
EPS Growth	-58.8%	134.0%	26.2%	9.8%

Source: Company data, Al Rajhi Capital

**Valuation**



Source: Company data, Al Rajhi Capital

# SABIC: Sector giant delivers strong Q3

As we had expected, SABIC reported strong year-on-year growth in net profit in Q3 2010. This growth reflected firm demand from Asian markets, higher capacity utilisation and higher petrochemicals (although prices declined on a quarter-on-quarter basis). As the Saudi government continues its investment plan in non-oil sectors, SABIC is expanding production of petrochemicals and fertilisers to cater to increased demand. We do not anticipate major changes to our profit forecasts or fair value. We retain our Overweight rating with 19% implied upside potential to our target price of SAR105.5.

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

- **Revenues:** SABIC has not yet published revenues for Q3 2010. Until the company does so, we will be unable to assess future prospects properly. We await the full results will revenue details.
- **Gross profit and operating profit:** Profitability benefited from higher product prices, a stronger performance by SABIC's overseas affiliates and increased demand for its products from Asian markets. Gross profit in Q3 rose by 34% year-on-year to SAR11.49bn, but dropped by 3% compared to Q2. We assume that this decline reflected the impact of quarter-on-quarter declines in petrochemicals prices which we estimate at about 7%.

Reflecting the strong gross profit performance, operating profit increased by 41% year-on-year to SAR8.98bn. This was an impressive 17% above our estimate of SAR7.65bn. Operating profit was, however, down by 2% compared to Q2.

- **Net profit:** SABIC reported net profit of SAR5.33bn, or 3% above our estimate of SAR 5.18bn. On a quarter-on-quarter basis, net profit increased by 6%. It is not yet clear certain why operating profit was 17% above our estimate but net profit only 3% higher.
- **Conclusion:** As explained in our major sector report *Saudi Petrochemicals Sector: Advantage Saudi Arabia* (4th August, 2010), we believe that strong demand from Asian markets and government policy are helping drive growth in the Saudi petrochemicals industry. SABIC is capitalising on these opportunities by expanding capacity in its various production units. We will revise our forecasts following release of the full Q3 results. We maintain our Overweight rating and target price of SAR105.5, implying 19% upside.



### 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\$) 267.0 bn / 71.20bn  
 52-week range 76.75 - 106.8  
 Daily avg volume (US\$) 78.80mn  
 Shares outstanding 3,000mn  
 Free float (est) 22.6%

Performance:

	1M	3M	12M
Absolute	0.6%	1.4%	12.3%
Relative to index	2.1%	-0.7%	15%

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	136,438	156,280	172,340
EBITDA (SARmn)	29,577	52,256	59,855	66,006
Net Profit (SARmn)	16,375	32,147	38,645	43,644
EPS (SAR)	3.02	7.08	8.94	9.81
DPS (SAR)	1.25	2.83	4.47	5.69
EPS Growth	-58.8%	134.0%	26.2%	9.8%
EV/EBITDA (x)	9.0	5.1	4.5	4.0
P/E (x)	29.4	12.6	10.0	9.1
P/B (x)	2.5	2.2	2.0	1.8
Dividend Yield	1.4%	3.2%	5.0%	6.4%

Source: Company data, Al Rajhi Capital

**Figure 1. SABIC: summary of Q3 2010 results**

(SAR mn)	Q3 2009	Q2 2010	Q3 2010	ARC Q3 2010		
				est.	% chg y-on-y	% chg q-on-q
Gross profit	8,560	11,845	11,490	n/a	34.2%	-3.0%
Operating profit	6,360	9,138	8,980	7,648	41.2%	-1.7%
Net profit	3,648	5,016	5,330	5,178	46.1%	6.3%

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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