



<b>US\$2.391bn</b> Market cap	<b>68.3%</b> Free float	<b>US\$7.75mn</b> Avg. daily volume
Target price	<b>32.80</b>	21.93% over current
Consensus price	<b>29.80</b>	10.8% over current
Current price	<b>26.90</b>	as at 15/1/2011



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**Existing rating**

**Underweight**   **Neutral**   **Overweight**

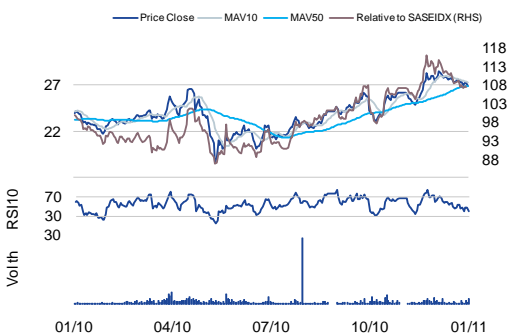
## Sipchem Mixed Q4 2010 results

### 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.

*Higher production volumes and improved prices for most petrochemicals products led Sipchem to report 57% quarter-on-quarter growth in sales in Q4 2010. However, we think a changed product mix contributed to significant margin contraction in Q4 versus Q3. In consequence, profits were below our forecast. We will revise our estimates and if necessary our fair value once we have seen the full Q4 results.*

### Performance

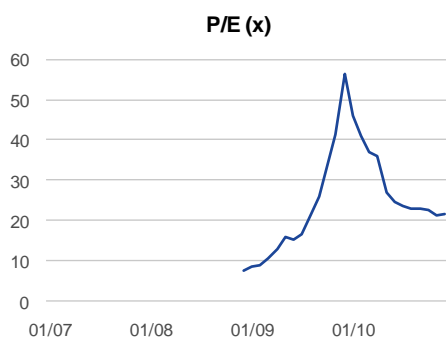


### Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	830	1,956	3,221	3,446
Revenue Growth	-51.4%	135.5%	64.7%	7.0%
EBITDA (mn)	336	1,105	1,852	2,033
EBITDA Growth	-69.4%	229.4%	67.6%	9.8%
EPS	0.42	1.28	2.21	2.57
EPS Growth	-79.0%	203.3%	72.5%	16.1%

Source: Company data, Al Rajhi Capital

### Valuation



Source: Company data, Al Rajhi Capital

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

- **Healthy revenue growth:** On a preliminary basis, Sipchem reported Q4 revenues of SAR801mn, up by 169% year-on-year and by 57% quarter-on-quarter. Q4 revenues exceeded our estimate of SAR770mn by 4%. The growth in sales reflected higher production of two of the company's core products, methanol and butanediol, as well as better pricing for the majority of the company's petrochemicals products. Sipchem launched its Phase 2 production facilities in the middle of 2010; these supply carbon monoxide, acetic acid and vinyl acetate monomer (VAM). While increased output of these products should also have boosted Q4 sales, Sipchem has specifically mentioned that prices for acetic acid and VAM were weak over much of the year before picking up slightly in November and December.
- **EBITDA and operating profit below our forecasts:** From Sipchem's preliminary results statements we calculate that EBITDA was SAR331mn in Q4, up by 86% year-on-year but well below our estimate of SAR431mn. Compared to Q3, the EBITDA margin dropped from 55.7% to 41.3%. We think this decline chiefly reflects a shift in Sipchem's business mix as output of the new product lines picked up; besides pricing issues, operating rates and productivity are likely to have been lower in these areas. We had clearly underestimated the impact of this shift on profit margins. Operating profit rose by 130% from SAR123mn in Q4 2009 to SAR282mn in Q4 2010. However, this was again significantly below our estimate of SAR329mn.
- **Net profit:** Net profit increased by 122% year-on-year and by 49% quarter-on-quarter to SAR125mn. We had forecast net profit of SAR174mn. This shortfall is explained partly by the fact that operating profit was below our estimate, and partly by the fact that the "zakat" charge was well above our estimate (amounting to 18.3% of profit before zakat in Q4 compared to 6.1% in Q3). The net profit margin shrank from 16.5% in Q3 to 15.6% in Q4.
- **Conclusion:** The positive long-run case for Sipchem is that it is diversifying its product mix at a time when demand is firm. However, given the results we need to revise our profit forecasts and maybe our fair value of SAR32.8.



Corporate summary	Share information	Valuation
Sipchem is something of a rarity in the Saudi petrochemicals sector. While the other big players like SABIC and PetroRabigh are owned directly or indirectly by the government, Sipchem is a company promoted by a private sector enterprise, the Zamil Industrial Group (the government owns only 8% through the Public Investment Fund).	Market cap (SAR/US\$) 8.97bn / 2.391bn 52-week range 18.70 - 28.50 Daily avg volume (US\$) 7.75mn Shares outstanding 333.3mn Free float (est) 68.3%	<b>Period End</b> 12/09A 12/10E 12/11E 12/12E Revenue (SARmn) 830 1,956 3,221 3,446 EBITDA (SARmn) 336 1,105 1,852 2,033 Net Profit (SARmn) 141 427 737 856 EPS (SAR) 0.42 1.28 2.21 2.57 DPS (SAR) 1.00 1.00 1.00 1.00 EPS Growth -79.0% 203.3% 72.5% 16.1% EV/EBITDA (x) 40.9 13.3 8.5 8.1 P/E (x) 63.6 21.0 12.2 10.5 P/B (x) 1.8 1.8 1.7 1.5 Dividend Yield 3.7% 3.7% 3.7% 3.7%
	Performance: 1M 3M 12M Absolute -2.9% 4.3% 11.6% Relative to index -6.3% -2.3% 4.3%	<b>Source:</b> Company data, Al Rajhi Capital
	Major Shareholder: Al-Zamil Group Holding Co. 10.1% National Industries Group Holding. 8.3%	<b>Source:</b> Company data, Al Rajhi Capital
	<b>Source:</b> Bloomberg, Al Rajhi Capital	

**Figure 1. Sipchem: summary of Q4 2010 results**

(SAR mn)	Q4 2009	Q3 2010	Q4 2010	% chg y-o-y	% chg q-o-q	ARC est
Revenue	298	509	801	168.5%	57.4%	770
EBITDA	178	283	331	85.8%	16.6%	431
EBITDA margin (%)	59.7%	55.7%	41.3%			56.0%
Operating profit	123	176	282	129.9%	60.6%	329
Net profit	57	84	125	121.5%	48.9%	174

Source: Company data, Al Rajhi Capital

**Figure 2. Sipchem: summary of 2010 results**

(SAR mn)	2009	2010	% chg y-o-y	ARC est
Revenue	830	1,987	139.2%	1,956
EBITDA	336	1,005	199.5%	1,105
EBITDA margin (%)	40.4%	50.6%		56.5%
Operating profit	168	765	354.5%	812
Net profit	141	378	168.4%	427

Source: Company data, Al Rajhi Capital



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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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