

Saudi Basic Industries Corp

Petrochemicals – Industrial

SABIC AB: Saudi Arabia

19 January 2011

الراجحي المالية
Al Rajhi Capital



US\$88.62bn Market cap
22.6% Free float
US\$127.7mn Avg. daily volume

Target price **126.0** 13.7% over current
Consensus price **120.0** 8.3% over current
Current price **110.8** as at 18/1/2011

Existing rating

Underweight

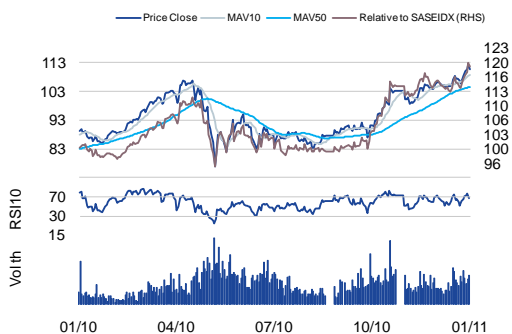
Neutral

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

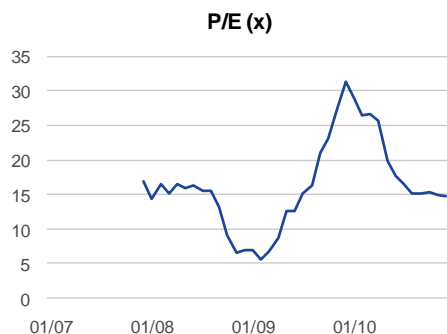


Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	103,062	149,445	175,191	191,505
Revenue Growth	-31.7%	45.0%	17.2%	9.3%
EBITDA (mn)	29,577	47,370	55,634	61,282
EBITDA Growth	-36.6%	60.2%	17.4%	10.2%
EPS	2.63	7.09	8.70	8.82
EPS Growth	-64.2%	169.6%	22.7%	1.4%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

SABIC

Respectable Q4 performance

SABIC reported 26% year-on-year growth in net profit in Q4 2010 due to higher sales volumes and a rise in petrochemicals prices. Firm demand from Asian markets in particular is one of the key factors behind this outcome. While net profit was 6% above our forecast, it was about 5% below the reported Bloomberg consensus. Consequently SABIC's share price has fallen 3% so far today (19th January). We are inclined see this drop as an over-reaction to a respectable Q4 performance. We expect to raise our profit forecasts slightly, and this may lead us to push up our fair value per share of SAR126.

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 Q4 2010. Until the company does so, we will be unable to assess future prospects properly. We await the full results with revenue details.
- **Healthy rise in gross profit and income from operations:** Gross profit and income from operations both rose by 29% year-on-year to SAR13.00bn and SAR10.01bn respectively. This healthy increase is attributable to increased capacity utilisation leading to a rise in production volumes and higher prices for petrochemicals and plastics products. For the full year, gross profit and income from operations rose by 70% and 101% respectively.
- **Increasing Asian demand:** SABIC's operational improvements reflect firm demand, especially from Asia. According to the Export Development Centre of Saudi Arabia, demand for Saudi petrochemicals from Asia exceeded the available supply in Q4 due mainly due to continued Chinese economic expansion. Demand from India is also increasing despite the imposition of a 6.5% anti-dumping duty on polypropylene (source: Bloomberg, 12th January, 2011). We expect demand to stay robust for the time being.
- **Net profit above our estimate but below consensus:** SABIC reported net profit of SAR5.81bn for Q4, up by 27% year-on-year and by 9% quarter-on-quarter. Net profit exceeded our estimate by 6% but fell 5% short of the reported Bloomberg consensus estimate of SAR6.14bn. This explains SABIC's share price has fallen by 3% so far today (19th January, 2011).
- **Conclusion:** We believe SABIC is well-placed to capitalise on firm demand from Asia and rising petrochemicals prices in an improving economic environment. While we need to see the full results, we are inclined to view today's fall in the share price as an over-reaction to respectable Q4 results. We expect to raise our profit forecasts slightly, and this may lead us to push up our fair value per share (which is also our target price) of SAR126.0.

Research Department

ARC Research Team

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Corporate summary	Share information	Valuation																																																							
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%.	Market cap (SAR/US\$) 332.3bn / 88.62bn 52-week range 76.75 - 112.3 Daily avg volume (US\$) 127.7mn Shares outstanding 3,000mn Free float (est) 22.6% Performance: 1M 3M 12M Absolute 5% 21.7% 24.1% Relative to index 2.7% 14.9% 19.3% Major Shareholder: Public Investments Funds (PIF) 70% GOSI 5% Source: Bloomberg, Al Rajhi Capital	<table border="1"> <thead> <tr> <th>Period End</th> <th>12/09A</th> <th>12/10E</th> <th>12/11E</th> <th>12/12E</th> </tr> </thead> <tbody> <tr> <td>Revenue (SARmn)</td> <td>103,062</td> <td>149,445</td> <td>175,191</td> <td>191,505</td> </tr> <tr> <td>EBITDA (SARmn)</td> <td>29,577</td> <td>47,470</td> <td>55,634</td> <td>61,282</td> </tr> <tr> <td>Net Profit (SARmn)</td> <td>7,892</td> <td>21,281</td> <td>26,085</td> <td>26,475</td> </tr> <tr> <td>EPS (SAR)</td> <td>2.63</td> <td>7.09</td> <td>8.70</td> <td>8.82</td> </tr> <tr> <td>DPS (SAR)</td> <td>1.50</td> <td>3.00</td> <td>3.50</td> <td>3.97</td> </tr> <tr> <td>EPS Growth</td> <td>-64.2%</td> <td>169.6%</td> <td>22.6%</td> <td>1.5%</td> </tr> <tr> <td>EV/EBITDA (x)</td> <td>16.6</td> <td>10.3</td> <td>8.6</td> <td>7.7</td> </tr> <tr> <td>P/E (x)</td> <td>42.1</td> <td>15.6</td> <td>12.7</td> <td>12.5</td> </tr> <tr> <td>P/B (x)</td> <td>3.1</td> <td>2.8</td> <td>2.4</td> <td>2.2</td> </tr> <tr> <td>Dividend Yield</td> <td>1.4%</td> <td>2.7%</td> <td>3.2%</td> <td>3.6%</td> </tr> </tbody> </table> Source: Company data, Al Rajhi Capital	Period End	12/09A	12/10E	12/11E	12/12E	Revenue (SARmn)	103,062	149,445	175,191	191,505	EBITDA (SARmn)	29,577	47,470	55,634	61,282	Net Profit (SARmn)	7,892	21,281	26,085	26,475	EPS (SAR)	2.63	7.09	8.70	8.82	DPS (SAR)	1.50	3.00	3.50	3.97	EPS Growth	-64.2%	169.6%	22.6%	1.5%	EV/EBITDA (x)	16.6	10.3	8.6	7.7	P/E (x)	42.1	15.6	12.7	12.5	P/B (x)	3.1	2.8	2.4	2.2	Dividend Yield	1.4%	2.7%	3.2%	3.6%
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Figure 1. SABIC: summary of Q4 2010 results

(SAR mn)	Q4 2009	Q3 2010	Q4 2010	% chg y-o-y	% chg q-o-q	ARC est
Revenue	31,510	37,877	Not disclosed	n.a.	n.a.	38,580
EBITDA	10,239	11,616	Not disclosed	n.a.	n.a.	12,153
EBITDA margin (%)	32.5%	30.7%	n.a.			31.5%
Operating profit	7,984	8,982	Not disclosed	n.a.	n.a.	9,274
Net profit	4,595	5,326	5,810	26.4%	9.1%	5,507

NB SABIC's definition of income from operations does not match our definition of operating profit.
 Source: Company data, Al Rajhi Capital

Figure 2. SABIC: summary of 2010 results

(SAR mn)	2009	2010	% chg y-o-y	ARC est
Revenue	103,062	Not disclosed	n.a.	149,445
EBITDA	29,577	Not disclosed	n.a.	47,470
EBITDA margin (%)	28.7%	n.a.		31.8%
Operating profit	19,986	Not disclosed	n.a.	37,107
Net profit	9,074	21,590	137.9%	21,281

NB SABIC's definition of income from operations does not match our definition of operating profit.
 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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