Rabigh Refining & Petrochemicals Co

Petrochemicals – Industrial

PETROR AB: Saudi Arabia

الراجحي المالية

Al Rajhi Capital

US$5.25bn	17.4%	US$12.64mn
Market cap	Free float	Avg. daily volume

Target price	n/a	n/a
Consensus price	29.10	29.6% over current
Current price	22.45	as at 19/1/2011

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Existing rating

	Not rated	

Petro Rabigh
Disappointing quarter

Petro Rabigh's Q4 revenues were higher than our estimate, benefiting from higher volumes and positive trends in prices. However, net profit was well below our estimate. In consequence we are likely to lower our profit forecasts. We do not have an investment rating or target price for Petro Rabigh.

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:** Petro Rabigh's preliminary revenues for Q4 2010 came in at SAR12.89bn compared to our estimate of SAR11.68bn, driven by higher sales volume. On a year-on-year basis, this was an increase of 25% as some units of the company were not fully operational in Q4 2009. Revenues increased by 14% compared to the prior quarter. Note that Petro Rabigh had faced technical difficulties which halted its production at its polymers and MEG units for around two weeks in Q3 2010.

- **Operating profit:** Operating profit for Q4 reached SAR67mn compared to an operating loss of SAR184mn in Q4 2009 and an operating loss of SAR213mn in Q3 2010, benefiting from the increase in sales volume and improvement in the gross margin. However operating profit was well below our estimate of SAR202mn as we were expecting cost efficiencies in the company's new plants which appear not to have materialised in Q4. Furthermore, we believe that power supply outage to the most of the units in Q4 may have also affected the company's margins. For the full year 2010, the operating loss decreased to SAR113mn compared to an operating loss of SAR1.21bn in 2009, benefiting from newly commissioned units.

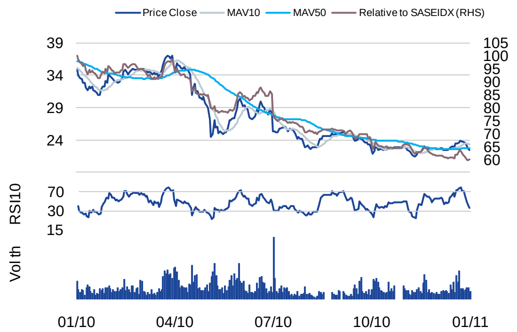
- **Net profit:** Petro Rabigh reported net profit of SAR53mn for Q4 compared to the net loss of SAR237mn reported in Q3 2010. The company faced technical difficulties at its polymers and MEG units which halted production in Q3. For Q4 2009, the company reported a net loss of SAR324mn. The trend in net profit mirrors the improved operating income performance resulting from the factors mentioned above.

- **Conclusion:** Petro Rabigh's Q4 net profit was significantly below our forecasts, primarily because, as we think, the company did not realise the efficiency gains that we had assumed. We may downgrade our earnings estimates following the release of the full Q4 results depending on any additional information we receive regarding margins. We do not have an investment rating or target price for Petro Rabigh, since the company's high debt level means that it is not Sharia-compliant by our definition.

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)	29,423	45,628	47,089	47,493
Revenue Growth	349.7%	55.1%	3.2%	0.9%
EBITDA (mn)	(1,209)	2,049	3,616	4,175
EBITDA Growth	-7.1%		76.4%	15.5%
EPS	(1.64)	0.29	1.18	1.84
EPS Growth	14.1%		303.5%	56.3%

Source: Company data, Al Rajhi Capital

Valuation

Note. We have not provided an historical valuation chart here, because until this year Petro Rabigh was not profitable.

Corporate summary

Petro Rabigh is the world‟s largest integrated refining and petrochemical complex. Incorporated in 2005, the company is owned jointly by Saudi Aramco and Japan's Sumitomo Chemical (37.5% each), with the rest being divested through an IPO in 2008. This is the first affiliate of the giant Saudi Aramco to be publicly listed on the TASI. The facility is an extension of Saudi Aramco‟s oil refining operations in Rabigh and represents the single largest investment by the company in the Kingdom, costing a total of US$10bn.

Share information

Market cap (SAR/US$)	19.67bn / 5.25bn
52-week range	21.40 - 37.00
Daily avg volume (US$)	12.64mn
Shares outstanding	876.0mn
Free float (est)	17.4%

Performance:	1M	3M	12M
Absolute	-1.1%	-3.7%	-36.2%
Relative to index	-2.3%	-10%	-40.7%

Major Shareholder:	
Saudi Arabian Oil Co. (ARAMCO)	37.5%
Sumitomo Chemical	37.5%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	29,423	45,628	47,089	47,493
EBITDA (SARmn)	(1,209)	2,049	3,616	4,175
Net Profit (SARmn)	(1,433)	256	1,031	1,612
EPS (SAR)	(1.64)	0.29	1.18	1.84
DPS (SAR)	-	-	-	-
EPS Growth	14.1%	na	303.5%	56.3%
EV/EBITDA (x)	na	17.9	11.1	10.3
P/E (x)	na	76.9	19.1	12.2
P/B (x)	2.5	2.4	2.2	1.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Figure 1. PetroRabigh: summary of Q4 2010 results

(SAR mn)	Q4 2009	Q3 2010	Q4 2010	% chg y-o-y	% chg q-o-q	ARC est
Revenue	10,345	11,275	12,886	24.6%	14.3%	11,676
EBITDA	376	296	575	52.9%.	96.9%	719
EBITDA margin (%)	3.6%	2.6%	4.5%			6.2%
Operating profit	(184)	(213)	67	n.a.	n.a.	202
Net profit	(324)	(237)	53	n.a.	n.a.	100

Source: Company data, Al Rajhi Capital

Figure 2. PetroRabigh: summary of 2010 results

(SAR mn)	2009	2010	% chg y-o-y	ARC est
Revenue	29,423	46,838	59.2%	45,628
EBITDA	(1,209)	1,906	n.a.	2,049
EBITDA margin (%)	-4.1%	4.1%		4.5%
Operating profit	(1,209)	(113)	-90.7%	22
Net profit	(1,433)	209	n.a.	256

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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