Rabigh Refining & Petrochemicals Co

Petrochemicals –Industrial
PETROR AB: Saudi Arabia
29 May 2011

الراجحي المالية
Al Rajhi Capital

US$6.54bn	17.4%	US$26.08mn
Market cap	Free float	Avg. daily volume

Target price	**n/a**	n/a
Consensus price	**30.35**	8.8% over current
Current price	**27.90**	as at 28/5/2011

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Not rated

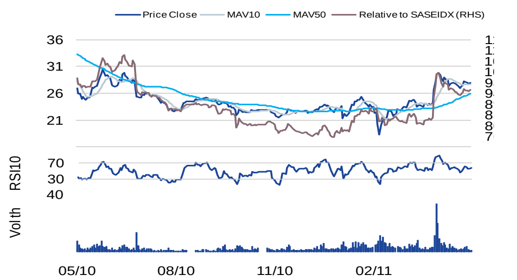
Key themes

We expect the Saudi petrochemicals sector to outperform global peers in the next few years given its feedstock cost advantages and strong demand growth from emerging economies. Petro Rabigh is backed by strong parent companies and its Phase 2 expansion will add to its top-line growth.

Implications

The company's integrated operating model almost guarantees low-cost supply of feedstock. While strategically we are positive, Petro Rabigh has high gearing which is unlikely to fall in the near term.

Performance



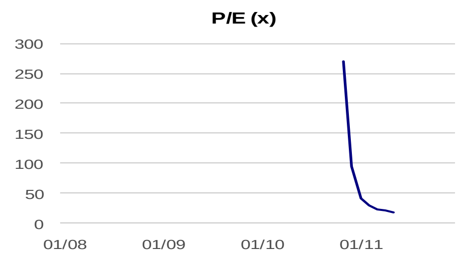
Source: Bloomberg

Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	46,838	57,659	58,353	59,571
Revenue Growth	59.2%	23.1%	1.2%	2.1%
EBITDA (mn)	1,906	5,254	5,637	5,840
EBITDA Growth		175.6%	7.3%	3.6%
EPS	0.24	3.58	3.86	3.82
EPS Growth		1401.0%	7.9%	-0.9%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Petro Rabigh
Solid start to the year

This report follows our Flash View of 23rd April. Petro Rabigh's Q1 performance was significantly higher than our forecast, benefiting primarily from increased crude oil and petrochemical product prices. Crude oil prices have risen over the past four months on the back of robust growth in emerging markets and risk of undersupply due to geo-political uncertainty. Hence we have revised up our economic forecast for the WTI crude oil price from US$87 per barrel to US$93 per barrel. Consequently, we have upgraded our revenue estimates for the 2011-2014 period; however, we expect a muted performance in Q2 due to a maintenance shutdown at its refineries. We also have revised our GRM assumptions following weaker than expected Refining margins in Q1 2011. We do not have an investment rating or target price for Petro Rabigh.

Revenue and profit surpass our estimates by a wide margin: Petro Rabigh's revenues for Q1 2011 grew by 16.8% sequentially to SAR15.1bn (compared to our estimate of SAR12.9bn). The company benefited from the improved crude oil and Petrochemicals product prices during the quarter (grew by about 13% sequentially on average) and increased operating rates. The pricing led growth reflected in improved gross margin of 9.6% in Q1 2011 compared to 6.1% in Q4 2010. The robust top-line performance trickled further down the income statement as the company reported a net profit of SAR698.5mn vs. SAR52.6mn in Q4 2010. We were expecting a net profit of SAR359mn while the consensus was at SAR304mn.

Ascended crude oil price to boost revenues going forward: In line with our economist forecast for oil price, we have revised up our assumption for the WTI crude oil price for 2011 from US$87 per barrel to US$93 per barrel; we have assumed this level also for all future years. Consequently, we have increased our revenue estimates by 11% for the 2011-2014 period. Revenue growth chiefly driven by higher realised prices coupled with high operating rates should trigger an increase in margins. We expect gross margin to improve to 11.2% in 2012 from 10.6% in 2011. Note that, as the gross margin for the refining segment was weak during the quarter (0.3%), we have updated our model to reflect a gross refining margin assumption of about US$1.5- 1.8/bbl.

Limited impact due to likely increase in Ethane prices: We think that Saudi Aramco which provides ethane (a major feedstock) to Saudi Petrochemicals companies at subsidised rates might increase the ethane prices (from current level of US$0.75/mmbtu) from 2012 onwards. However, the move will have little impact on Petro Rabigh as the company has secured the feedstock at $1.50 / mmbtu and the price is fixed till 2015 (guaranteed supply for 20 years). It is important to note that the probability of an increase in feedstock price is less considering that Saudi Aramco is the parent company of Petro Rabigh.

Valuation and conclusion: The Company's Phase 2 expansion programme and higher product prices are prime growth drivers for the company. However, high net debt and plant shutdowns are areas of concern. Petro Rabigh currently trades on a 2011 EV/EBITDA multiple of 7.9x. We do not have an investment rating or target price for Petro Rabigh.

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$)	24.53bn / 6.54bn
52-week range	18.30 - 30.40
Daily avg volume (US$)	26.08mn
Shares outstanding	876.0mn
Free float (est)	17.4%

Performance:	1M	3M	12M
Absolute	-5.4%	18.9%	14.3%
Relative to index	-6%	11.6%	-2.4%

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

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	46,838	57,659	58,353	59,571
EBITDA (SARmn)	1,906	5,254	5,637	5,840
Net Profit (SARmn)	209	3,132	3,381	3,349
EPS (SAR)	0.24	3.58	3.86	3.82
DPS (SAR)	-	-	-	-
EPS Growth	na	1401.0%	7.9%	-0.9%
EV/EBITDA (x)	20.9	7.9	7.6	7.5
P/E (x)	117.5	7.8	7.3	7.3
P/B (x)	3.1	2.2	1.7	1.4
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Q1 2011 results: Stellar performance driven by higher prices

Below we present the key details of Petro Rabigh's Q1 2011 results, and our estimates for Q2 2011. We expect the company to deliver a subdued performance in Q2 2011 due to a maintenance shutdown. The company rolled out a two-month routine maintenance program on all the units of its oil-refining complex on April 21 (source: Zawya dated April 06, 2011). Even though Petro Rabigh has undertaken steps to reduce the financial impact, we believe that the company will witness a q-o-q fall in sales in 2Q 2011. Nevertheless, the sequential increase in crude oil and Petro products prices by about 12% and 5% respectively so far in the quarter, will enable the company partially arrest the decline in revenues in Q2 2011. Further, due to expected increased contribution from the high margin Petrochemicals segment to the top-line in Q2 2011, we expect the company to record sequential increase in gross margin.

Net debt declining

The company has managed to lower its net debt over the last couple of quarters. Net debt decreased marginally from the Q4 level to SAR23.4bn at the end of Q1 2011 and the net debt/EBITDA ratio for 2011 stands at 4.4x. However, we expect the net debt/EBITDA ratio to fall to 3.8x by the end of 2014 due to our revised estimate for the crude oil prices. Given the high debt on its balance sheet (gross debt of about SAR26.9bn at the end of Q1 2011); we think that the company might raise capital through rights issue.

Figure 1. Petro Rabigh: Q1 and Q2 results (actual and our estimates)

(SAR mn)	Q1 2010 actual	Q4 2010 actual	Q1 2011 ARC est	Q1 2011 actual	% chg y-y	Q2 2010 actual	Q2 2011 ARC est	% chg y-y
Revenues	**10,676**	**12,886**	**12,922**	**15,053**	**41.0%**	**12,001**	**13,309**	**10.9%**
Gross profit	623	787	1,133	1,446	132.0%	785	1,566	99.4%
Gross margin	5.8%	6.1%	8.8%	9.6%	377 bps	6.5%	11.8%	522 bps
EBITDA	**447**	**576**	**926**	**1,216**	**172.0%**	**587**	**1,366**	**132.7%**
EBITDA margin (%)	4.2%	4.5%	7.2%	8.1%	389 bps	4.9%	10.3%	537 bps
Operating Profit	(50)	67	410	710	-1525.9%	83	857	933.4%
Net profit	**272**	**(22)**	**359**	**698**	**157.2%**	**122**	**833**	**584.4%**
Capex	(97)	(20)	(1,313)	(20)	-79.8%	(75)	(1,313)	1642.5%
Capex / Sales	0.9%	0.2%	10.2%	0.1%	n/m	0.6%	9.9%	n/m
Net debt	26,827	24,304	25,261	23,448	-12.6%	25,262	23,514	-6.9%
Net debt / Annualized EBITDA (x)	15.0	10.5	6.8	4.8	n/m	10.8	4.3	n/m

Source: Company data, Al Rajhi Capital

We expect strong revenue growth based on our revised oil price of US$93/bbl in the forecast period

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	**29,423**	**46,838**	**57,659**	**58,353**	**59,571**
Cost of Goods Sold	(29,878)	(44,195)	(51,536)	(51,840)	(52,896)
Gross Profit	**(455)**	**2,643**	**6,122**	**6,513**	**6,674**
Government Charges					
S.G. & A. Costs	(754)	(2,756)	(2,909)	(3,039)	(3,043)
Operating EBIT	**(1,209)**	**(113)**	**3,214**	**3,474**	**3,632**
Cash Operating Costs	(30,632)	(44,932)	(52,405)	(52,715)	(53,730)
EBITDA	(1,209)	1,906	5,254	5,637	5,840
Depreciation and Amortisation	-	(2,019)	(2,040)	(2,164)	(2,209)
Operating Profit	**(1,209)**	**(113)**	**3,214**	**3,474**	**3,632**
Net financing income/(costs)	(224)	(164)	(143)	(155)	(205)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income	-	485	62	62	62
Other Expenses					
Net Profit Before Taxes	**(1,433)**	**209**	**3,132**	**3,381**	**3,489**
Taxes	-	-	-	-	(140)
Minority Interests					
Net profit available to shareholders	**(1,433)**	**209**	**3,132**	**3,381**	**3,349**
Dividends	-	-	-	-	-
Transfer to Capital Reserve					

We do not expect a dividend payment until 2016

	12/09A	12/10A	12/11E	12/12E	12/13E
Adjusted Shares Out (mn)	876.0	876.0	876.0	876.0	876.0
CFPS (SAR)	(1.64)	2.54	5.90	6.33	6.34
EPS (SAR)	(1.636)	0.238	3.576	3.859	3.824
DPS (SAR)	0	0	0	0	0

Expansions, strong Asian demand and higher oil price realisation to drive medium-term earnings growth

Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	349.7%	59.2%	23.1%	1.2%	2.1%
Gross Profit Growth	-26.8%		131.6%	6.4%	2.5%
EBITDA Growth	-7.1%		175.6%	7.3%	3.6%
Operating Profit Growth	-7.1%	-90.7%		8.1%	4.5%
Net Profit Growth	14.1%		1401.0%	7.9%	-0.9%
EPS Growth	14.1%		1401.0%	7.9%	-0.9%

Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	-1.5%	5.6%	10.6%	11.2%	11.2%
EBITDA margin	-4.1%	4.1%	9.1%	9.7%	9.8%
Operating Margin	-4.1%	-0.2%	5.6%	6.0%	6.1%
Pretax profit margin	-4.9%	0.4%	5.4%	5.8%	5.9%
Net profit margin	-4.9%	0.4%	5.4%	5.8%	5.6%

Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	-3.0%	-0.3%	8.8%	8.7%	8.2%
ROIC	-3.4%	-0.3%	10.9%	11.0%	10.0%
ROE	-16.8%	2.6%	32.7%	26.4%	20.7%
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	4.0%
Capex/Sales	4.2%	0.5%	6.9%	9.0%	8.8%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Rabigh currently trades on a 2011 EV/EBITDA multiple of 7.9x

Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	na	117.5	7.8	7.3	7.3
P/CF (x)	na	11.0	4.7	4.4	4.4
P/B (x)	3.1	3.1	2.2	1.7	1.4
EV/Sales (x)	1.6	0.9	0.7	0.7	0.7
EV/EBITDA (x)	na	20.9	7.9	7.6	7.5
EV/EBIT (x)	na	na	12.9	12.4	12.1
EV/IC (x)	1.3	1.4	1.3	1.2	1.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

The balance sheet should expand due to continuing investment

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	1,306	2,548	3,590	3,575	4,631
Current Receivables	4,682	6,452	7,351	7,011	7,148
Inventories	2,670	2,826	3,823	3,797	3,574
Other current assets	289	385	455	453	459
Total Current Assets	**8,948**	**12,212**	**15,219**	**14,836**	**15,812**
Fixed Assets	39,689	31,833	33,767	36,853	39,894
Investments	3,212	2,906	2,865	2,865	2,865
Goodwill	298	292	288	288	288
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	**43,199**	**35,031**	**36,920**	**40,006**	**43,047**
Total Assets	**52,146**	**47,243**	**52,139**	**54,842**	**58,860**
Short Term Debt	1,035	1,287	1,288	1,288	1,288
Accounts Payable	9,455	11,510	12,938	12,269	11,914
Accrued Expenses	848	842	1,176	1,168	1,191
Zakat Payable					
Dividends Payable					
Other Current Liabilities					
Total Current Liabilities	**11,338**	**13,639**	**15,403**	**14,726**	**14,394**
Long-Term Debt	32,961	25,565	25,565	25,565	26,565
Other LT Payables	-	-	-	-	-
Provisions	17	29	43	43	43
Total Non-current Liabilities	**32,978**	**25,594**	**25,608**	**25,608**	**26,608**
Minority interests					
Paid-up share capital	8,760	8,760	8,760	8,760	8,760
Total Reserves	(929)	(750)	2,367	5,748	9,098
Total Shareholders' Equity	**7,831**	**8,010**	**11,127**	**14,508**	**17,858**
Total Equity	**7,831**	**8,010**	**11,127**	**14,508**	**17,858**
Total Liabilities & Shareholders' Equity	**52,146**	**47,243**	**52,139**	**54,842**	**58,860**

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	32,689	24,304	23,263	23,278	23,222
Net Debt/EBITDA (x)	(27.04)	12.75	4.43	4.13	3.98
Net Debt to Equity	417.4%	303.4%	209.1%	160.4%	130.0%
EBITDA Interest Cover (x)	(5.4)	11.6	36.7	36.4	28.5
BVPS (SAR)	8.94	9.14	12.70	16.56	20.39

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	**(1,433)**	**209**	**3,132**	**3,381**	**3,489**
Depreciation & Amortisation	-	2,019	2,040	2,164	2,209
Decrease in Working Capital	(1,105)	234	(224)	(310)	(252)
Other Operating Cashflow	1,073	(376)	14	(0)	(140)
Cashflow from Operations	**(1,465)**	**2,085**	**4,962**	**5,235**	**5,306**
Capital Expenditure	(1,226)	(246)	(3,957)	(5,250)	(5,250)
New Investments	125	306	39	-	-
Others					
Cashflow from investing activities	**(1,101)**	**60**	**(3,919)**	**(5,250)**	**(5,250)**
Net Operating Cashflow	**(2,565)**	**2,145**	**1,044**	**(15)**	**56**
Dividends paid to ordinary shareholders	-	-	-	-	-
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash					
Other Financing Cashflow	2,337	(895)	-	-	-
Cashflow from financing activities	**2,337**	**(903)**	**(2)**	**-**	**1,000**
Total cash generated	(228)	1,242	1,042	(15)	1,056
Cash at beginning of period	1,534	1,306	2,548	3,590	3,575
Implied cash at end of year	**1,306**	**2,548**	**3,590**	**3,575**	**4,631**

We project capex/sales of 7-9% for 2011-2013

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	4.2%	0.5%	6.9%	9.0%	8.8%

Source: Company data, Al Rajhi Capital

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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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