

Rabigh Refining & Petrochemicals Co

Petrochemicals –Industrial

PETROR AB: Saudi Arabia

20 August 2011

الراجحي المالية
Al Rajhi Capital



US\$5.07bn Market cap
17.4% Free float
US\$11.19mn Avg. daily volume

Target price **n/a**
Consensus price **32.18** 48.3% over current
Current price **21.70** as at 17/8/2011

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Not rated

Petro Rabigh Shutdown marred Q2 results

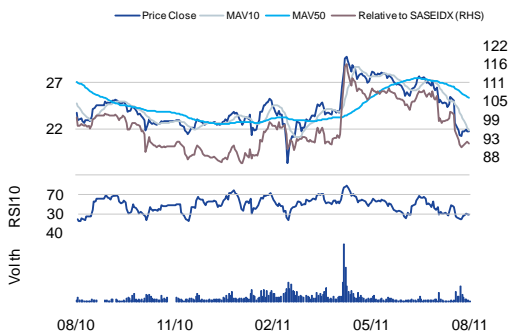
Key themes

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

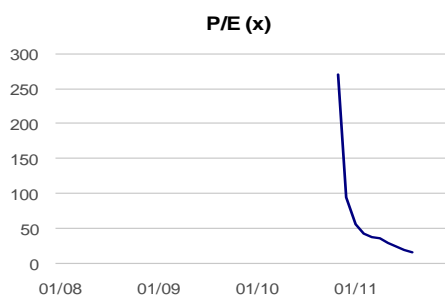


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	46,838	52,370	58,987	59,164
Revenue Growth	59.2%	11.8%	12.6%	0.3%
EBITDA (mn)	1,906	3,823	5,119	5,068
EBITDA Growth		100.6%	33.9%	-1.0%
EPS	0.24	1.97	3.55	3.54
EPS Growth		726.8%	80.3%	-0.4%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Petro Rabigh posted a loss of SAR402mn in Q2 2011, owing to more than two months of scheduled maintenance program at all of its plants. The company's plants started production by the end of Q2, except High Olefins plant which commenced operations by the end of July. We expect the company's average utilization rate to be 89% in Q3 and 100% in Q4. However, considering the recent global economic concerns (US rating downgrade and European sovereign debt crisis), we have lowered our assumption for the oil prices and also become conservative about the petrochemical prices for the remainder of the year. We do not have an investment rating or target price for Petro Rabigh.

Maintenance drive down Q2 results: Petro Rabigh reported revenues of SAR7.6bn for Q2 2011, a sharp decline of 49% sequentially and well below our expectations, mainly due to planned maintenance shutdown at all its plants (from April 21-June 30, 2011). The revenue drop was significant despite the company's guidance of building inventory to cover approximately one month of sales. Petro Rabigh's capacity utilization in Q2 was only 44% compared to 99% in Q1 2011. The cost of sales (as a % of sales) also rose sharply to 95.7% in Q2 2011 (from 90.4% in Q1) on lower production levels and higher fixed costs, hampering profitability. As a result, the company reported a net loss of SAR402mn as compared to net profit of SAR698mn in Q1 2011.

Macroeconomic concerns to weigh on top-line in the near term: Petro Rabigh missed the opportunity to cash-in the upward momentum in crude prices in Q2 (+11.5% on a q-o-q basis). By the time the company's plant became fully operational, oil prices declined by 7.6% since the early-July 2011 due to global macro-economic concerns. As we expect the crude prices to remain stable at US\$105/bbl for the remainder of the year, we estimate GRMs to be at US\$1.2/bbl in Q3 and Q4 2011. On the other hand, petrochemical product prices also declined in the last two months, in-line with the crude prices. We anticipate petrochemicals prices to witness a sequential decline of 6% and 1% in Q3 & Q4 2011 respectively. We might have to revise our price estimates in the event of major negative macroeconomic developments in the US or Europe.

Lowering capex estimates: During our call with the management, the company stated that Saudi Aramco will initiate the phase II expansion plans and there is no clarity on whom it will assign this project. Hence, we have substantially lowered our annual capex estimates for Petro Rabigh for the period 2011-2015 to 1-2% of revenue as compared to our previous estimate of 7-8%. Our earlier capex estimates was based on a press release in April 2009 stating that Petro Rabigh has entered into a Memorandum of Understanding (MoU) with Saudi Aramco for Phase II expansion.

Conclusion: Petro Rabigh's Q2 results were significantly below our expectations and hence we have lowered our earnings forecast for 2011 to SAR1.7bn. The company is highly geared to the crude oil prices (refinery business contributes ~85% revenue) and hence we believe that it can be susceptible for margin pressures in the near term. Further, the company's high debt levels (net debt/EBITDA of 5.5x for 2011) will limit its ability to fund future growth. Petro Rabigh currently trades on a 2011 EV/EBITDA multiple of 9.0x, as compared to peer average of 6.6x. We do not have an investment rating or target price for Petro Rabigh.



Corporate summary	Share information	Valuation																																																							
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.	Market cap (SAR/US\$) 19.01bn / 5.07bn 52-week range 18.30 - 29.80 Daily avg volume (US\$) 11.19mn Shares outstanding 876.0mn Free float (est) 17.4%	<table border="1"> <thead> <tr> <th>Period End</th> <th>12/10A</th> <th>12/11E</th> <th>12/12E</th> <th>12/13E</th> </tr> </thead> <tbody> <tr> <td>Revenue (SARmn)</td> <td>46,838</td> <td>52,370</td> <td>58,987</td> <td>59,164</td> </tr> <tr> <td>EBITDA (SARmn)</td> <td>1,906</td> <td>3,823</td> <td>5,119</td> <td>5,068</td> </tr> <tr> <td>Net Profit (SARmn)</td> <td>209</td> <td>1,726</td> <td>3,112</td> <td>3,100</td> </tr> <tr> <td>EPS (SAR)</td> <td>0.24</td> <td>1.97</td> <td>3.55</td> <td>3.54</td> </tr> <tr> <td>DPS (SAR)</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>EPS Growth</td> <td>na</td> <td>726.8%</td> <td>80.3%</td> <td>-0.4%</td> </tr> <tr> <td>EV/EBITDA (x)</td> <td>19.1</td> <td>9.0</td> <td>6.2</td> <td>5.7</td> </tr> <tr> <td>P/E (x)</td> <td>91.1</td> <td>11.0</td> <td>6.1</td> <td>6.1</td> </tr> <tr> <td>P/B (x)</td> <td>2.4</td> <td>2.0</td> <td>1.5</td> <td>1.2</td> </tr> <tr> <td>Dividend Yield</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> </tr> </tbody> </table>	Period End	12/10A	12/11E	12/12E	12/13E	Revenue (SARmn)	46,838	52,370	58,987	59,164	EBITDA (SARmn)	1,906	3,823	5,119	5,068	Net Profit (SARmn)	209	1,726	3,112	3,100	EPS (SAR)	0.24	1.97	3.55	3.54	DPS (SAR)	-	-	-	-	EPS Growth	na	726.8%	80.3%	-0.4%	EV/EBITDA (x)	19.1	9.0	6.2	5.7	P/E (x)	91.1	11.0	6.1	6.1	P/B (x)	2.4	2.0	1.5	1.2	Dividend Yield	0.0%	0.0%	0.0%	0.0%
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Performance: 1M 3M 12M Absolute -17.8% -20.2% -10.3% Relative to index -12% -11.7% -9.1%	Major Shareholder: Saudi Arabian Oil Co. (ARAMCO) 37.5% Sumitomo Chemical 37.5%	Source: Company data, Al Rajhi Capital																																																							
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Figure 1. Petro rabigh: Q2 and Q3 results (actual and our estimates)

(SAR mn)	Q2 2010 actual	Q1 2011 actual	Q2 2011 ARC est	Q2 2011 actual	% chg y-y	Q3 2010 actual	Q3 2011 ARC est	% chg y-y
Revenues	12,001	15,053	13,309	7,629	-36.4%	11,275	14,194	25.9%
Gross profit	785	1,446	1,566	329	-58.1%	448	1,398	212.1%
Gross margin	6.5%	9.6%	11.8%	4.3%	-223 bps	4.0%	9.9%	588 bps
EBITDA	587	1,216	1,366	119	n/m	296	1,185	300.6%
EBITDA margin (%)	4.9%	8.1%	10.3%	1.6%	-334 bps	2.6%	8.4%	573 bps
Operating Profit	83	710	857	(389)	n/m	(213)	672	n/m
Net profit	122	698	833	(402)	n/m	(237)	647	n/m
Capex	(75)	(20)	(1,313)	(318)	322.0%	(53)	(142)	166.2%
Capex / Sales	0.6%	0.1%	9.9%	4.2%	n/m	0.5%	1.0%	n/m
Net debt	25,262	23,448	23,514	24,763	-2.0%	25,272	22,381	-11.4%
Net debt / Annualized EBITDA (x)	10.8	4.8	4.3	52.2	n/m	21.4	4.7	n/m

Source: Company data, Al Rajhi Capital



We expect crude oil price to be in the range of US\$105-110/bbl in the next five years

We do not expect a dividend payment until 2016

Strong Asian demand and higher oil price realisation to drive earnings growth

Rabigh currently trades on a 2011 EV/EBITDA multiple of 9.0x

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	29,423	46,838	52,370	58,987	59,164
Cost of Goods Sold	(29,878)	(44,195)	(47,662)	(52,984)	(53,268)
Gross Profit	(455)	2,643	4,708	6,003	5,896
Government Charges					
S.G. & A. Costs	(754)	(2,756)	(2,927)	(2,947)	(2,705)
Operating EBIT	(1,209)	(113)	1,782	3,056	3,191
Cash Operating Costs	(30,632)	(44,932)	(48,547)	(53,869)	(54,096)
EBITDA	(1,209)	1,906	3,823	5,119	5,068
Depreciation and Amortisation	-	(2,019)	(2,041)	(2,063)	(1,877)
Operating Profit	(1,209)	(113)	1,782	3,056	3,191
Net financing income/(costs)	(224)	(164)	(116)	(3)	(20)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income	-	485	59	59	59
Other Expenses					
Net Profit Before Taxes	(1,433)	209	1,726	3,112	3,230
Taxes	-	-	-	-	(129)
Minority Interests					
Net profit available to shareholders	(1,433)	209	1,726	3,112	3,100
Dividends	-	-	-	-	-
Transfer to Capital Reserve					
	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	4.30	5.91	5.68
EPS (SAR)	(1.636)	0.238	1.970	3.552	3.539
DPS (SAR)	0	0	0	0	0
	12/09A	12/10A	12/11E	12/12E	12/13E
Growth					
Revenue Growth	349.7%	59.2%	11.8%	12.6%	0.3%
Gross Profit Growth	-26.8%		78.1%	27.5%	-1.8%
EBITDA Growth	-7.1%		100.6%	33.9%	-1.0%
Operating Profit Growth	-7.1%	-90.7%		71.5%	4.4%
Net Profit Growth	14.1%		726.8%	80.3%	-0.4%
EPS Growth	14.1%		726.8%	80.3%	-0.4%
	12/09A	12/10A	12/11E	12/12E	12/13E
Margins					
Gross profit margin	-1.5%	5.6%	9.0%	10.2%	10.0%
EBITDA margin	-4.1%	4.1%	7.3%	8.7%	8.6%
Operating Margin	-4.1%	-0.2%	3.4%	5.2%	5.4%
Pretax profit margin	-4.9%	0.4%	3.3%	5.3%	5.5%
Net profit margin	-4.9%	0.4%	3.3%	5.3%	5.2%
	12/09A	12/10A	12/11E	12/12E	12/13E
Other Ratios					
ROCE	-3.0%	-0.3%	5.1%	8.1%	7.6%
ROIC	-3.4%	-0.3%	6.1%	11.0%	11.5%
ROE	-16.8%	2.6%	19.5%	27.6%	21.6%
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	4.0%
Capex/Sales	4.2%	0.5%	1.2%	1.0%	2.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
	12/09A	12/10A	12/11E	12/12E	12/13E
Valuation Measures					
P/E (x)	na	91.1	11.0	6.1	6.1
P/CF (x)	na	8.5	5.0	3.7	3.8
P/B (x)	2.4	2.4	2.0	1.5	1.2
EV/Sales (x)	1.5	0.8	0.7	0.5	0.5
EV/EBITDA (x)	na	19.1	9.0	6.2	5.7
EV/EBIT (x)	na	na	19.4	10.3	9.1
EV/IC (x)	1.2	1.2	1.2	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 from due to continuing investment

Net debt is expected to decline on account of higher cash generated flow from operations

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	1,306	2,548	5,448	9,730	14,108
Current Receivables	4,682	6,452	7,747	7,459	7,100
Inventories	2,670	2,826	4,028	4,040	3,550
Other current assets	289	385	310	311	296
Total Current Assets	8,948	12,212	17,532	21,539	25,054
Fixed Assets	39,689	31,833	30,393	28,920	28,226
Investments	3,212	2,906	2,824	2,824	2,824
Goodwill	298	292	345	345	345
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	43,199	35,031	33,562	32,089	31,395
Total Assets	52,146	47,243	51,094	53,628	56,449
Short Term Debt	1,035	1,287	1,452	1,452	1,452
Accounts Payable	9,455	11,510	13,634	13,053	11,833
Accrued Expenses	848	842	1,239	1,243	1,183
Zakat Payable	-	-	-	-	-
Dividends Payable	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	11,338	13,639	16,326	15,748	14,469
Long-Term Debt	32,961	25,565	25,000	25,000	26,000
Other LT Payables	-	-	-	-	-
Provisions	17	29	47	47	47
Total Non-current Liabilities	32,978	25,594	25,047	25,047	26,047
Minority interests	-	-	-	-	-
Paid-up share capital	8,760	8,760	8,760	8,760	8,760
Total Reserves	(929)	(750)	960	4,072	7,173
Total Shareholders' Equity	7,831	8,010	9,720	12,832	15,933
Total Equity	7,831	8,010	9,720	12,832	15,933
Total Liabilities & Shareholders' Equity	52,146	47,243	51,094	53,628	56,449
Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	32,689	24,304	21,005	16,723	13,344
Net Debt/EBITDA (x)	(27.04)	12.75	5.49	3.27	2.63
Net Debt to Equity	417.4%	303.4%	216.1%	130.3%	83.8%
EBITDA Interest Cover (x)	(5.4)	11.6	33.1	1,869.6	251.0
BVPS (SAR)	8.94	9.14	11.10	14.65	18.19
Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	(1,433)	209	1,726	3,112	3,230
Depreciation & Amortisation	-	2,019	2,041	2,063	1,877
Decrease in Working Capital	(1,105)	234	54	(303)	(415)
Other Operating Cashflow	1,073	(376)	38	-	(129)
Cashflow from Operations	(1,465)	2,085	3,859	4,872	4,562
Capital Expenditure	(1,226)	(246)	(634)	(590)	(1,183)
New Investments	125	306	77	-	-
Others	-	-	-	-	-
Cashflow from investing activities	(1,101)	60	(557)	(590)	(1,183)
Net Operating Cashflow	(2,565)	2,145	3,302	4,282	3,379
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)	(403)	-	1,000
Total cash generated	(228)	1,242	2,899	4,282	4,379
Cash at beginning of period	1,534	1,306	2,548	5,448	9,730
Implied cash at end of year	1,306	2,548	5,448	9,730	14,108
Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	4.2%	0.5%	1.2%	1.0%	2.0%

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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