3Q22 Results Update

December 5, 2022

Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	83.8
Target Price (SAR)	100.1
Upside/Downside (%)	19.4%

As of December 4, 2022

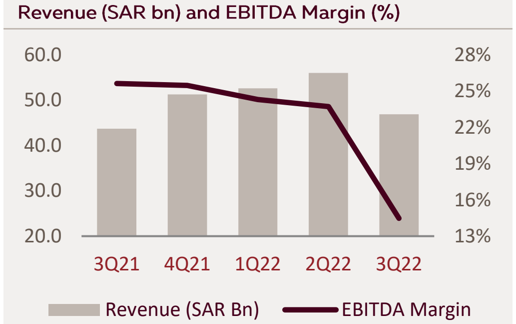
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	251.4
52-wk High (SAR)	141.4
52-wk Low (SAR)	81.1
Total Outstanding shares (in bn)	3.0
Free Float (%)	30.0%

SABIC vs. TASI (Rebased)

Price Performance (%)	Absolute	Relative
1m	(2.1%)	4.1%
6m	(25.3%)	(10.4%)
12m	(22.7%)	(21.2%)

Major Shareholders (%)	
Aramco Chemical	70.0%

Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of December 4, 2022

Bottomline slipped on decline in selling prices

Saudi Basic Industries Corp. (SABIC)'s revenue grew 7.3% YoY to SAR 46.9bn in 3Q22, mainly driven by an increase in volumetric sales. The rise, however, was slightly offset by a fall in selling prices during the quarter. An increase in top line was supported by improved revenue contribution from the petrochemicals (up 3.2% YoY to SAR 39.1bn), agri-nutrients (up 55.5% YoY to SAR 4.3bn), and Hadeed (up 14.6% YoY to SAR 3.6bn) segments. Cost of sales surged 17.9% YoY to SAR 37.0bn in 3Q22, leading to a 19.9% YoY decline in gross profit to SAR 9.8bn. Consequently, gross profit margin contracted 713bps YoY to 21.0%. Operating income plunged 57.4% YoY to SAR 3.3bn owing to an increase in SG&A expenses and a decline in the share of results of integral joint ventures (JVs). An increase in finance costs and a fall in the share of results of associates offset the rise in other income and fall in zakat expenses. This resulted in a 67.2% YoY fall in net profit to SAR 1.8bn in 3Q22. Subsequently, net margin contracted 889bps YoY to 3.9% in 3Q22.

SABIC reported a weak performance in 3Q22 as its bottom line slipped 67.2% YoY. The company's top line grew 7.3% YoY during the quarter on an increase in sales volume (up 11% YoY), slightly offset by a decline in selling prices (down 4% YoY). Growth in top line was supported by high revenue contribution from all segments. Moreover, growth in the petrochemicals and specialties segments was driven by a 9% YoY volume growth, slightly offset by a 6% YoY fall in selling prices, while the agri-nutrients segment surged following a 13% YoY rise in sales volume and a 42% YoY increase in prices. However, the company's margin deteriorated during the quarter owing to an increase in feedstock prices. Additionally, a decline in selling prices led to weak contribution from associates and JVs. Nevertheless, SABIC's debt-to-equity ratio improved to 0.17x in 3Q22 from 0.21x in 3Q21 on lower debt. The management continues to control operating costs and maintain its strong balance sheet position. The company's margins are expected to remain under pressure in 4Q22, mainly on decelerating global GDP growth. However, the company continues to expand and started commercial operations at United Ethylene Glycol Plant 3 with annual production capacity of 700,000 metric tons. The financial impact of the project is expected to be reflected from the fourth quarter of the year. Additionally, SABIC and Saudi Aramco plans to launch a JV to convert crude into petrochemicals, with a daily capacity of 400,000 barrels of crude. Moreover, oil production cuts announced by OPEC+ could keep the oil prices elevated. Considering the abovementioned factors, we reaffirm our "Overweight" rating on the stock.

- SABIC's revenue surged 7.3% YoY to SAR 46.9bn in 3Q22, attributable to a rise in sales volumes, slightly offset by a decline in selling prices during the quarter.
- Gross profit fell 19.9% YoY to SAR 9.8bn as cost of sales jumped 17.9% YoY to SAR 37.0bn in 3Q22. Consequently, gross profit margin contracted 713bps to 21.0% in 3Q22 from 28.1% in 3Q21.
- An increase in SG&A expenses and a fall in profit contribution from JVs led to a 57.4% YoY decline in SABIC's operating income to SAR 3.3bn during 3Q22. Consequently, operating margin narrowed to 7.0% in 3Q22 from 17.6% in 3Q21.
- The company's net income slipped 67.2% YoY to SAR 1.8bn owing to a rise in finance expenses and a fall in the share of results from associates in 3Q22. Consequently, net margin fell to 3.9% from 12.8% in 3Q21.
- SABIC's revenue slipped 16.3% QoQ from SAR 56.0bn in 2Q22 on a decline in selling prices and volumetric sales. Additionally, a decline in the share of results from associates and a rise in finance expenses led to a 76.8% QoQ fall in net income.

Valuation: We revise our target price to a fair value of SAR 100.1 per share but reaffirm our "Overweight" rating on the stock.

	3Q22	3Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR bn)	46.9	43.7	7.3%	203.8	174.9	16.5%
Gross Profit (SAR bn)	9.8	12.3	(19.9%)	53.0	51.1	3.6%
EBITDA (SAR bn)	6.8	11.2	(39.4%)	42.3	48.3	(12.4%)
Net Profit (SAR bn)	1.8	5.6	(67.2%)	19.7	23.0	(14.7%)
EPS Basic (SAR)	0.6	1.9	(67.2%)	6.55	7.68	(14.7%)
Gross Margin (%)	21.0%	28.1%	(7.1%)	26.0%	29.2%	(3.2%)
EBITDA Margin (%)	14.5%	25.6%	(11.1%)	20.8%	27.6%	(6.8%)
Net Profit Margin (%)	3.9%	12.8%	(8.9%)	9.6%	13.2%	(3.5%)

Source: Company Financials, Yaqeen Capital

Yaqeen Capital Rating Methodology

Yaqeen Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by ≥ 10%.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by ≥ 10%.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from Yaqeen Capital.

Yaqeen Capital

Contact us on the below phone numbers:
Customer Services: 8004298888
Brokerage Services: 920004711

Fax or Email us at the below number:
Fax: +966 11 2032546
Email: addingvalue@yaqeen.sa

Mail us at the following address:
P.O. Box 884
Riyadh 11421
Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, Yaqeen Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Yaqeen Capital does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. Yaqeen Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and Yaqeen Capital shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent Yaqeen Capital current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

Yaqeen Capital acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.