

## KSA PETROCHEMICAL SECTOR



## START-UPS AND MARKET OPENING SUPPORT VALUATION

The Petrochemicals sector outlook remains positive driven by the global economic performance, specifically in the US. In 2015E, improving operational efficiencies and the full contribution of new facilities will support the 14% earnings growth of covered stocks. We remain Overweight on SABIC, SIIG, Tasnee and Yansab. We downgrade Kayan to Underweight on weak margins and unjustified premium valuation. Market opening news impacted valuations positively, and we expect the sector to be a key beneficiary.

- Start-ups to add SR1.2bn to sector's total net income in 2015E:**  
 Capacities of around 2.9mn mt are scheduled to start commercial operations during 2H14-2015. This includes SAFCO V, which will add 1.1 mn mt of Urea in January 2015, and Sahara's JV projects (0.9mn mt) which started operation in 3Q14. Tasnee's slag facility and the remaining units of Sipchem phase III are also expected to start operations soon. We expect a net income of SR1.2bn from these start-ups in 2015E. We expect the net income of the ten stocks under coverage will grow 14% YoY to SR42.3bn in 2015E.
- Downgrade Kayan to Underweight on volatile earnings and margins:** We downgrade Kayan to Underweight with a PT of SR14.4. This is due to the ongoing weak operational performance, which resulted in low margins and net losses. The stock is trading at a 2015E P/E of 24.1x vs the sector P/E of 15.1x. Although we expect Kayan to be profitable as of 2015E, we believe the stock is trading at an unjustified premium at the current levels.
- We reiterate our ratings on the nine stocks under coverage:** We maintain our Overweight ratings on SABIC, SIIG, Tansee and Yansab, while remaining Neutral on the other stocks. Our top picks are Tasnee and SIIG. Start-ups contribution, margin expansions and possibility of higher dividend support our view on Tasnee, while Petrochem's strong earnings and valuation make us prefer SIIG.
- Market opening impacts valuations positively:** With the CMA's approval to open the market to FIIs, we expect net capital inflow to the market. As the TASI Petrochemical index contributes about 15% to the total turnover and represents 30% of market capitalization, we expect the sector to be one of the key beneficiaries. This move is expected to reduce the risk premium assumed, resulting in a re-rating and multiple expansion.

### Valuation summary

	Rating	PT (SR)	Mcap (US\$ mn)	Stock perf YTD (%)	P/E (x) 2015	DY (%) 2015	ROE (%) 2015
SABIC	O/W	153.8	106,872	19.8	14.2	4.5	16.6
Yansab	O/W	83.3	10,817	(2.2)	14.7	6.2	17.8
SIIG	O/W	44.0	4,544	16.7	11.2	4.0	20.4
Tasnee	O/W	43.7	6,760	13.1	12.0	5.3	16.6
Advanced	Neutral	59.7	2,498	40.0	15.2	5.3	25.6
Sipchem	Neutral	37.8	3,969	27.6	13.7	3.1	17.3
Sahara	Neutral	24.4	3,159	36.4	15.0	3.7	12.5
SAFCO	Neutral	156.0	14,595	4.9	17.0	5.8	39.7
Petrochem	Neutral	34.0	4,467	36.3	14.6	0.0	20.6
Kayan	U/W	14.4	6,576	4.7	24.1	0.0	7.0

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Source: NCBC Research estimates, prices as of 25 September 2014

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## Outlook Summary

### Prices outlook

#### Petrochemical prices to decline slightly in 2015E

- We increased our oil price projections for 2014E by 2.5% to US\$100/bbl in-line with EIA's Short Term Energy Outlook released in September 2014. We maintained our 2015E oil price forecast unchanged at US\$95/bbl, but increased our long term oil price outlook to US\$90/bbl from US\$85/bbl earlier. Higher oil prices from 2016E onwards have positively impacted our earnings estimates and valuations.
- We expect most petrochemical prices to increase 2-7% YoY in 2014E driven by the increase in feedstock prices. This is in-line with 2.3% YoY increase in oil prices and higher demand from the US. Few exceptions are Polystyrene (-6.4% YoY), Methanol (-6.3%), MEG (-6.3%) and styrene (-5.7%) which are expected to decline due to supply normalisation. In 2015E, petrochemical prices are expected to decrease 2-8% YoY due to the expected decline in oil prices (5.1%YoY) on oversupply from non-OPEC countries.

In-line with EIA, we increased 2014E oil prices estimates to US\$100 and maintained our 2015E forecast at US\$95

Petrochemical prices expected to increase 2-7% YoY in 2014E. In 2015E, prices are expected to decrease in-line with oil prices

#### Exhibit 1: Price movement and revision in estimates, 2014E and 2015E

In US\$/mt, unless specified

	2014E	YoY chg (%)	Revision (%)	2015E	YoY chg (%)	Revision (%)
Oil (US\$/bbl)	100	2.3	2.5	95	(5.1)	0.0
Naphtha	936	1.6	2.9	889	(5.1)	0.6
Ethylene	1,407	13.5	6.1	1,294	(8.0)	3.1
Propylene	1,361	2.7	2.6	1,317	(3.2)	0.6
Methanol	373	(6.3)	(0.3)	364	(2.4)	0.2
Benzene	1,316	0.5	6.1	1,209	(8.1)	3.2
Styrene	1,610	(5.7)	3.4	1,502	(6.7)	1.4
HDPE	1,569	7.1	3.2	1,493	(4.8)	3.1
LDPE	1,608	6.4	2.8	1,573	(2.2)	2.7
PP	1,525	3.4	2.1	1,495	(2.0)	1.0
MEG	986	(6.3)	2.3	1,046	6.1	1.5
Polystyrene	1,723	(6.4)	2.4	1,612	(6.4)	1.3
PVC	1,046	3.8	1.7	1,037	(0.8)	0.6
Ammonia	480	(2.4)	0.3	481	0.1	0.2
Urea	322	(7.5)	0.6	331	2.9	(5.7)

Source: Bloomberg, NCBC Research estimates

#### Fertilizer prices rely on China

Urea prices increased 6% since the lowest levels seen in June 2014. This can be attributed to higher demand in all key geographies. On the supply side, the impact of seasonal increase in supply from China due to the start of the tax window was mitigated by lower Ukrainian exports due to the tensions with Russia.

China's exports increased during July-October as a result of a reduction in export taxes. Export taxes were reduced to US\$6.55/ton during the off-season from 15% +US\$6.55/ton during the peak season. In July 2014, China exported 1.1mn ton of urea (up 213% MoM, but lower 16% YoY).

We expect Urea price to average US\$309/mt in 3Q14 (up 1.5% QoQ) while ammonia to be US\$477/mt (down 5.2% QoQ). However, lower supply globally, due to shutdowns in Trinidad, Egypt and Algeria are expected to increase ammonia prices in the coming quarters. In 4Q14, we are expecting urea prices to

Urea prices improved MoM in August on tight demand-supply conditions.

Chinese supply will remain a key factor for determining urea prices in the future

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be US\$324/mt and ammonia prices to be US\$484/mt. In the long term, we expect fertilizers prices to depend heavily on the Chinese supply.

### TiO<sub>2</sub> outlook positive on higher demand and lower costs

Global TiO<sub>2</sub> producers continued to report higher volumes in 2Q14, benefiting from the rising demand in the housing market and auto sales. Tronox reported a 13% QoQ growth in sales volumes and 11% YoY increase in revenues from its pigment segment in 2Q14. Similarly, Huntsman posted a volume growth of 3% YoY and revenue growth of 2% YoY during the same quarter, while prices declined about 2-3%.

**Tronox and Huntsman reported a sales increase of 11% and 3%, respectively during 2Q14**

Inventory levels of key producers are also normalizing driven by the improving demand. Tronox's inventory level was 45-50 days in 2Q14, in-line with normal historical level of 50 days. Huntsman's finished pigment inventory also stood at mid-50 days in 2Q14 compared to about 62-63 days last quarter.

We project TiO<sub>2</sub> prices to be around US\$3,111/mt in 2014E (broadly flat YoY), and increase 2.4% YoY to US\$3,185/mt in 2015E. Although TiO<sub>2</sub> prices are likely to remain broadly flat in the short-to-medium term, rising demand and lower raw material costs are expected to improve TiO<sub>2</sub> margins in the coming quarters.

**We expect TiO<sub>2</sub> prices to remain flat YoY and to improve marginally in 2015E**

### Polyethylene (PE) prices high on tight demand-supply

PE prices are expected to increase in the coming quarters on strong downstream demand from the US and Europe while shutdowns in Asia and Europe are expected to limit supply. HDPE prices increased 9.6% YoY and 1.4% QoQ to US\$1,600/mt in 3Q14 while LDPE prices increased 5.2% YoY and 2.8% QoQ to US\$1,619/mt. However, prices are expected to normalize after 4Q14 when supply returns to normal levels. We expect HDPE prices to average at US\$1,493/mt in 2015E (-4.8% YoY) after increasing 7.1% in 2014E, while LDPE prices are likely to decline 2.2% to US\$1,573/mt in 2015E after increasing 6.4% in 2014E.

**In 2014E, polyethylene prices are benefiting from demand growth and supply constraints**

According to IHS Chemical's outlook for polyethylene, global polyethylene demand is expected to grow at an annual average growth rate (AAGR) of 4.6% in 2013-2018E, while supply is likely to increase at an AAGR of 4.7%. Aggressive capex undertaken by North American producers to capitalize on availability of low cost ethane is expected to drive supply growth. Northeast Asia (accounting for 34% of total global polyethylene demand in 2018E), North America (18%) and Europe (17%) will remain the main demand areas.

### Weak demand exert pressure on Benzene prices

After growing 7% in June 2014, Benzene prices declined 8.6% to US\$1,205/mt since the beginning of September 2014. This was mainly due to supply normalisation. Shutdowns (mainly in Asia) supported prices during 1Q14. Supply normalisation, new capacity additions and weak downstream demand are expected to continue to pressure benzene prices in the coming months. We expect benzene prices to average at US\$1,209/mt (down 8.1% YoY) in 2015E lower than US\$1,316/mt in 2014.

**Benzene prices to remain under pressure on weak downstream demand**

## Demand indicators mixed

Key demand indicators such as industrial production, auto sales, pending home sales index and consumer confidence are improving in the US. In the Eurozone, economic indicators such as manufacturing PMI and consumer confidence are currently below expectations. We believe ECB’s measures such as policy easing and stimulus packages will support the economy in the coming quarters. However, the ongoing geopolitical risk is a key downside risk in the near term. Further improvement in these indicators supports petrochemicals outlook.

- IMF expects global GDP to grow further in 2015:** According to the IMF July publication, the global GDP is expected to grow by 4% in 2015E. This is faster than 3.4% in 2014E and 3.2% in 2013 of the back off strong growth in advanced economies. Improvement in demand outlook and consumer sentiment are expected to support the US economic growth in 2015E, while lower long-term interest rates and stimulus packages from central banks are set to improve European economies. The real GDP of the US and Euro regions is expected to grow 3% and 1.5%, respectively in 2015E. This is higher than 1.7% and 1.1%, respectively, in 2014E.

World GDP to grow faster in 2015 vs. 2014 and 2013, mainly supported by advanced economies

However, growth in emerging markets and developing economies is expected to be 4.6% in 2014E (lower than 4.8% projected in April 2014 outlook) and 5.2% in 2015E (lower than 5.3% estimated earlier) from 4.7% in 2013. The slight slowdown in 2014E can be attributed to tighter financial conditions and lack of major reforms such as credit policy easing, flexible exchange rates and higher fiscal and infrastructure spending.

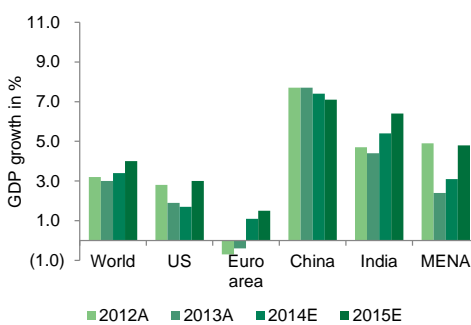
Emerging economies to grow 4.6% in 2014 and 5.2% in 2015E. This is slightly lower than the IMF previous estimates

IMF forecasts China’s GDP growth to slow down to 7.1% in 2015E from 7.4% in 2014E and 7.7% in 2013 due to tightening of financial market, weak domestic demand and real estate market. However, the recently announced stimulus measures might offer some support to the country’s economy.

China GDP to grow 7.1% in 2015E, slower than 7.4% in 2014E due to weak local demand and tight financial market

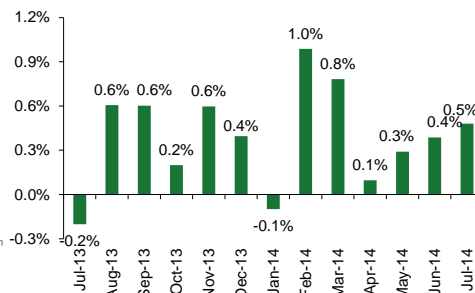
**Exhibit 2: IMF GDP outlook**

GDP growth in %, 2012A-2015E



**Exhibit 3: Industrial production**

MoM change in US IP index



Source: IMF World Economic Outlook Update (July 2014 update)

Source: US Federal Reserve; \* The index measures the amount of output from manufacturing, mining, electric and gas industries

- Industrial production showing sustainable uptrend:** The US industrial production (IP) index rose by 0.5% MoM and 5.5% YoY in July 2014, increasing for the sixth consecutive month. Industrial capacity utilization rate improved to 79.2% in July 2014 from 77.5% in July 2013 and 79.1% in June 2014. We believe a steady increase in demand is expected to improve industrial production index further in the coming months.
- Strong auto sales growth in the US and Europe:** The US auto sales increased 5.4% YoY to 1.58mn in August 2014, the highest level since August 2003. Car sales in Western Europe also grew 1.2% YoY to 0.64mn.

Industrial production index in the US has improving for the last six months

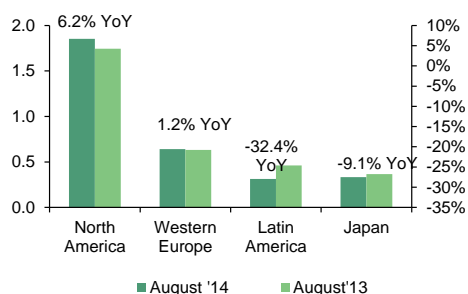
Auto sales shows strong growth in its two main markets –the US and Western Europe in August 2014

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On the contrary, in the month of August, vehicle sales in China reported the slowest YoY growth (8.5% to 1.5mn) since March 2014. The China Association of Automobile Manufacturers (CAAM), expects auto sales to grow 8.3% in 2014E lower than 13.9% in 2013.

**Exhibit 4: Vehicle sales by region**

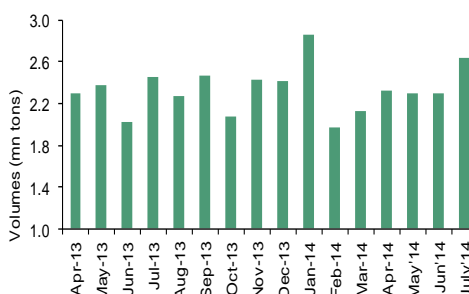
Vehicle sales in million (mn)



Source: Bloomberg, Reuters, NCBC Research

**Exhibit 5: Chinese petrochemical imports**

Petrochemical imports (mn mt)



Source: China customs, NCBC Research

- China petrochemical imports grew 1.8% YoY:** China imported 16.5 mn mt of key petrochemical products for the first seven months of 2014, higher than 16.2 mn mt in the same period last year. In July 2014, China's petrochemical imports increased 15.1% QoQ and 7.6% YoY to 2.6mn mt. We believe higher exports to developed markets ahead of the holiday's season, will increase Chinese petrochemical imports in the coming months.

Chinese import of key petrochemical products increased 1.8% YoY

**Recent updates on the Saudi petrochemical sector****Start-ups to add SR1.2bn to net income in 2015E**

In 2H14, we expect four projects to start commercial operations, adding about 1mn mt of capacity. These new capacities are expected to increase net income for the sector by SR152mn in 2014. In addition, about 1.9mt new capacity will be added in 2015E. This includes SAFCO V, the remaining units of Sipchem's Phase III, SIIG's Nylon 6.6, Sipchem's PBT and project of SABIC's subsidiaries. This, coupled with the full year contribution from the facilities which started operations in 2H14, we believe will result in a net income contribution of SR1.2bn in 2015E.

SAMCO project commenced commercial operations at its Acrylates (capacity of 224,000 mtpa) and Superabsorbent Polymers (80,000 mtpa) plants on 1 July 2014. The commercial operations at the Superabsorbent Polymer facility started six months prior to our expectation of January 2015. Tasnee has 52.3% stake in SAAC, while Sahara holds 43.2%.

On 1 July 2014, SAMAPCO (50:50 JV between Sahara and Ma'aden) started commercial operations at its caustic soda (capacity of 250,000 mtpa) and ethylene dichloride (300,000 mtpa) facilities. This is one-quarter delay from its previous announcement on 3 February 2014, but in-line with our expectations.

Based on Advanced management feedback, we believe that Advanced started to receive 80,000mt of propylene from SATORP in September 2014. This indicates a delay of two months from our estimates and about 8 months delay from the initial announcement in August 2013.

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**Exhibit 6: Project startups and earnings contribution 2015E**

Units as specified

Company/ project name	Products and capacity	Partners	Expected Start date	Earnings (SR mn)
SAMCO	Acrylates (224k mt), Superabsorbent Polymers (80k mt)	SAAC* (75%); Rohm & Haas (Dow) (25%)	July 2014	290
SAMAPCO	Caustic Soda (250k mt); Ethylene Dichloride (300k mt)	Sahara and Ma'aden (50% each)	July 2014	152
SATORP	Propylene (80k mt)	Advanced	September 2014	60
Eastern Petrochemical	Ethylene Glycol (75k mt)	SABIC (50%); Mitsubishi Corporation (50%)	October 2014	12
SABIC Innovative plastics	Engineering thermoplastics compounding plant (100k mt)	SABIC	January 2015	80
Petrokemya	Acrylonitrile butadiene styrene (ABS) (140k mt)	SABIC	January 2015	62
SAFCO V	Urea-(1.1mn mt)	SAFCO	January 2015	170
Nylon 6.6 and other polymer conversion	nylon 6,6 and various downstream products (188k mt)	SIIG (50%), Arabian Chevron Phillips Petroch. (50%)	January 2015	57
Phase III	EVA (100k mt), LDPE (100k mt) Wire & Cable Plant (25k mt);	Sipchem	January 2015	277
Natural alcohol plant	Natural Alcohol - Detergent grade (50k mt)	Kayan	February 2015	14
PBT	PBT (63k mt)	Sipchem	July 2015	14

Source: ICIS, Tadawul, NCBC Research estimates; k indicates 1,000 mt capacity

**Planned and unplanned shutdowns in 3Q14**

Five companies under coverage conducted planned and unplanned shutdowns during 3Q14. We estimate a total production loss of 200,000 mt and a net income loss of SR65.8mn in 3Q14.

- Sipchem had an unplanned shutdown at its methanol facility for 15 days. The financial impact is estimated to be SR25mn in 3Q14 results. Also, Sipchem conducted a planned shutdown at its butanediol facility for four weeks starting 29 August 2014. The company estimates a financial impact of SR8mn.
- Al Waha polypropylene facility was closed for 10 days in August 2014 due to technical issues. The company expects this to result in a profit loss of SR9mn.
- Tasnee (stake 45.3%) and Sahara (24.4%) announced a planned shutdown at Saudi Ethylene & Polyethylene Co. (SEPC). The ethylene and propylene facilities will be closed for 24 days, starting from 1 September 2014. The financial impact of SR7mn on Tasnee and SR3.8mn on Sahara will be reflected in 3Q14.
- SABIC's 75% owned subsidiary Jubail United Petrochemical Company (JUPC) conducted a planned shutdown at its No.1 MEG during July 2014 – August 2014. We expect this to reduce SABIC's 3Q14 net income by about SR13mn. Also, the No.2 MEG unit is scheduled to have a two-month

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shutdown starting end-September or early October 2014. We expect this shutdown to impact 4Q14 results.

- Tasnee's (66% owned) National Titanium Dioxide Company (Cristal) warehouse in Yanbu, was closed for one day due to fire. However, the company announced that 3Q14 results will not be impacted.

### Exhibit 7: Shutdown announcements in 3Q14

Units as specified

Project	Nature	Capacity (mt)	Duration (days)	Output loss (mt)
SABIC's Jubail United Petrochemical Co.	Planned	700,000	61	72,683
Sipchem (Methanol)	Unplanned	967,000	15	34,758
Sipchem (Butanediol)	Planned	75,000	28	6,417
Sahara's (Al Waha)	Unplanned	450,000	10	13,125
SEPC (ethylene and propylene)	Planned	1,295,000	24	86,333
Tasnee's 66% owned Cristal Global	Unplanned	180,000	1	Nil

Source: ICIS, Tadawul, NCBC Research estimates

### 2015E net income up 14% after a single digit 2014E growth

We estimate total net income of the ten stocks under coverage to grow 14% YoY to SR42.5bn in 2015E driven by:

- Higher earnings from SABIC, Tasnee and Petrochem on margin expansion.
- Positive earnings from Kayan due to the increase in operating rates and margin improvement.
- Full year contribution from start-ups of about SR1.2bn.
- The anticipated improvement in petrochemical demand outlook.

New start-ups are expected to add SR1.2bn net income in 2015E, supporting a 14% YoY growth in net income

We expect 2014E net income to increase 8.6% YoY due to positive earnings from Petrochem, Tasnee and SABIC on higher operating rates and margin expansions. However, our 2014E net income estimate is 2.7% lower than our previous estimate of SR38.3bn mainly due to Kayan's weak 1H14 results and lower operating rates. Our 2015E net income estimates remain broadly unchanged.

### Exhibit 8: 2015E net income up 14% YoY, after a growth of 8.6% in 2014

(SR mn)

	2013A	YoY (%)	2014E	YoY (%)	2015E	YoY (%)
SABIC	25,228	1.8	25,973	3.0	28,166	8.4
Sipchem	620	3.2	658	6.0	1,081	64.3
SAFCO	3,160	(18.3)	2,979	(5.7)	3,227	8.3
Sahara	571	179.2	691	21.1	790	14.3
SIIG	714	32.6	1,174	64.4	1,525	29.9
Saudi Kayan	(346)	NM	(46)	NM	1,021	NM
Advanced	557	69.7	686	23.2	615	(10.4)
Tasnee	1,177	(33.2)	1,652	40.3	2,115	28.0
Yansab	2,645	8.1	2,575	(2.6)	2,757	7.1
Petrochem	(66)	NM	877	NM	1,150	31.1
<b>Total</b>	<b>34,260</b>	<b>1.7</b>	<b>37,219</b>	<b>8.6</b>	<b>42,477</b>	<b>14.0</b>

Source: Company filings, NCBC Research estimates

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## Change in estimates

In the table below, we highlight changes to our estimates for 2014E and 2015E as well as our price targets since our last sector update in June 2014.

### Exhibit 9: Changes in estimates

		Old 2014E	New 2014E	% Chg	Old 2015E	New 2015E	% Chg
<b>SABIC</b>							
Revenue	SR mn	194,713	198,134	1.8	198,169	200,602	1.2
Operating profit	SR mn	42,392	42,092	(0.7)	47,931	46,467	(3.0)
Net profit	SR mn	25,614	25,973	1.4	29,024	28,166	(3.0)
Total sales volumes	Mn mt	61.6	61.6	0.0	64.1	64.1	0.0
Target price	SR				134.1	153.8	14.7
<b>Kayan</b>							
Revenue	SR mn	12,444	11,918	(4.2)	13,512	13,308	(1.5)
Operating profit	SR mn	1,467	550	(62.5)	1,822	1,643	(9.8)
Net profit	SR mn	871	(46)	NM	1,191	1,021	(14.2)
Total sales volumes	Mn mt	2.4	2.2	(6.0)	2.5	2.4	(2.6)
Target price	SR				14.6	14.4	(0.9)
<b>SAFCO</b>							
Revenue	SR mn	4,270	4,208	(1.4)	4,735	4,495	(5.1)
Operating profit	SR mn	2,773	2,722	(1.8)	2,795	2,857	2.2
Net profit	SR mn	3,125	2,979	(4.7)	3,159	3,227	2.1
Total sales volumes	Mn mt	3.2	3.1	(1.9)	3.5	3.5	0.0
Target price	SR				151.6	156.0	2.9
<b>YANSAB</b>							
Revenue	SR mn	9,773	9,807	0.3	10,201	9,693	(5.0)
Operating profit	SR mn	3,141	2,938	(6.5)	3,467	3,065	(11.6)
Net profit	SR mn	2,772	2,575	(7.1)	3,147	2,757	(12.4)
Total sales volumes	Mn mt	2.0	2.0	(2.4)	2.1	2.0	(9.0)
Target price	SR				81.8	83.3	1.8
<b>Petrochem</b>							
Revenue	SR mn	7,997	8,338	4.3	8,977	9,193	2.4
Operating profit	SR mn	1,469	1,598	8.7	1,831	2,097	14.5
Net profit	SR mn	804	877	9.1	967	1,150	18.9
Total sales volumes	Mn mt	1.4	1.4	1.2	1.7	1.7	0.0
Target price	SR				29.7	34.0	14.5
<b>Sipchem</b>							
Revenue	SR mn	4,457	4,069	(8.7)	5,132	5,155	0.4
Operating profit	SR mn	1,262	1,239	(1.8)	1,800	1,857	3.2
Net profit	SR mn	670	658	(1.8)	1,037	1,081	4.2
Total sales volumes	Mn mt	1.3	1.3	(1.6)	1.4	1.4	0.1
Target price	SR				29.9	37.6	25.8
<b>Tasnee</b>							
Revenue	SR mn	18,775	19,511	3.9	20,174	19,800	(1.9)
Operating profit	SR mn	4,011	3,664	(8.6)	4,540	4,400	(3.1)
Net profit	SR mn	1,869	1,652	(11.6)	2,188	2,115	(3.4)
Total sales volumes	Mn mt	2.5	2.6	1.1	2.5	2.5	0.0
Target price	SR				38.5	43.7	13.4
<b>Sahara</b>							
Revenue	SR mn	2,172	2,156	(0.7)	2,367	2,462	4.0
Operating profit	SR mn	294	286	(2.8)	348	368	5.9
Net profit	SR mn	556	691	24.4	763	790	3.6
Total sales volumes	Mn mt	0.4	0.4	(3.3)	0.5	0.5	2.9
Target price	SR				19.0	24.4	28.3
<b>Advanced</b>							
Revenue	SR mn	3,135	3,156	0.6	3,122	3,153	1.0
Operating profit	SR mn	635	691	8.9	613	624	1.9
Net profit	SR mn	627	686	9.5	604	615	1.8
Total sales volumes	Mn mt	0.6	0.6	(2.9)	0.6	0.6	0.0
Target price	SR				49.8	59.7	19.8
<b>SIIG</b>							
Revenue	SR mn	7,997	8,338	4.3	9,923	9,193	(7.4)
Operating profit	SR mn	2,329	2,406	3.3	2,969	3,085	3.9
Net profit	SR mn	1,345	1,174	(12.7)	1,847	1,525	(17.4)
Total sales volumes	Mn mt	1.4	1.4	1.2	1.7	1.7	0.0
Target price	SR				40.9	44.0	7.4

Source: NCBC Research estimates



## Summary of changes to estimates

Our 2014E revenue estimates remain broadly flat. However, EBIT and net income estimates were reduced by an average of 2.7% each, mainly due to the decrease in Kayan's earnings estimates. We have reduced Kayan's 2014E EBIT by 62.5% to SR550mn with a net loss of SR46mn against a net profit of SR871mn, estimated earlier. Our 2014E estimates also declined due to:

- Lower SCP and JCP earnings (SIIG's 50% owned subsidiaries).
- Weak results from Tasnee's titanium segment on slower than expected improvement in TiO<sub>2</sub> margins.
- Yansab's weaker than expected operating rates and margins.
- Sipchem's lower than expected net income due to shutdowns and start-ups delays.

However, earlier than expected start-up of Sahara's projects and improved operational efficiencies at Petrochem facilities partially mitigated this decline.

For 2015E, our earnings estimates are broadly unchanged. We believe higher operational efficiencies, the full year contribution from the start-ups and the anticipated improvement in petrochemical demand outlook will drive 14% YoY earnings growth in 2015E.

Our price targets for most of the companies increased by an average of 13% due to:

- Increase in long-term oil price outlook
- Delay in doubling of ethane price to 2016E
- Reducing risk premium by 15bps to 0.75% from 0.90%
- Multiples expansion (P/E and EV/EBITDA) following to the market opening news.

In addition to the above factors, lower Capex estimates supported the increase in Sipchem price target. Sahara's price target increased 28.3% due to increase in Alwaha operating rates to 102%-105% from 2015E onwards (from 95%-102% earlier) and earlier than expected commercial start-up of superabsorbent polymers project. Advanced's price target has also increased 19.8%, which can be attributed to higher expected contribution from its JV with SK Gas in Korea. The company increased its stake in this propylene project to 35% from 25% earlier. Moreover, we have raised the project's net margins to 13-14% from 3% assumed earlier.

## Market expansions on higher FII's inflows

In July 2014, the CMA has announced opening of the market to international institutional investors in 1H15 which we believe will improve investor's sentiment particularly on the petrochemical stocks. With the TASI Petrochemical index contributes about 15% to the total turnover and holds 30% of market capitalization, we believe the sector will be one the preferences of foreign investors. Moreover, the total free float weight of the Petrochemical index is 24% of TASI, the second highest after banking/financial institution. We expect this move to reduce risk premium and, therefore, reduce the additional risk premium of Saudi companies from 0.90% to 0.75%.



## COMPANY UPDATE

## Top pick on consistent operational progress

We remain Overweight on SIIG with a revised PT of SR44.0. We believe improvement in Petrochem's operating rates and margins will drive SIIG's earnings going forward. We increased our gross margin estimates to 29.2% (27.2% earlier) for 2014E and 31.8% for 2015E (24.4% earlier). This, coupled with increased long-term outlook for oil prices and lower WACC increased our PT by 7.4%. Although our 2014E net income estimate decreased by 12.7% on anticipation of weak earnings from SCP and JCP, strong earning potential of Petrochem and the attractive 2015E P/E of 11.2x (vs sector P/E 15.1x) supports our positive view on the stock.

## Financials

### Exhibit 10: Income Statement

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>858</b>	<b>4,437</b>	<b>8,338</b>	<b>9,193</b>	<b>8,967</b>	<b>8,843</b>
% change	(80.9)	417.2	87.9	10.3	(2.5)	(1.4)
COGS	(1,337)	(3,710)	(5,903)	(6,273)	(6,452)	(6,465)
Gross Profit	(479)	727	2,435	2,920	2,515	2,378
Margins (%)	(55.8)	16.4	29.2	31.8	28.1	26.9
Share in earnings of JVs	826	881	817	1,032	1,042	976
S,D,G & A expenses	(215)	(572)	(846)	(868)	(580)	(576)
Operating income	132	1,035	2,406	3,085	2,977	2,777
% change	(77.7)	686.3	132.5	28.2	(3.5)	(6.7)
Margins (%)	15.3	23.3	28.9	33.6	33.2	31.4
<b>EBITDA</b>	<b>334</b>	<b>1,854</b>	<b>3,234</b>	<b>3,947</b>	<b>3,846</b>	<b>3,676</b>
Margins (%)	38.9	41.8	38.8	42.9	42.9	41.6
Investment and other income	68	(58)	5	15	19	31
Finance charges	(22)	(203)	(174)	(201)	(204)	(209)
Income before MI payments	178	774	2,237	2,899	2,791	2,600
Minority interest payments	453	43	(929)	(1,205)	(1,129)	(1,048)
Income before zakat	631	817	1,308	1,695	1,662	1,552
Zakat	(92)	(103)	(134)	(169)	(249)	(233)
<b>Net income</b>	<b>539</b>	<b>714</b>	<b>1,174</b>	<b>1,525</b>	<b>1,413</b>	<b>1,319</b>
% change	1.9	32.6	64.4	29.9	(7.4)	(6.7)
Net margin (%)	62.8	16.1	14.1	16.6	15.8	14.9
EPS	1.2	1.7	2.6	3.4	3.1	2.9

Source: Company, NCBC Research estimates

## OVERWEIGHT

**Target price (SR) 44.0**
**Current price (SR) 37.8**

### STOCK DETAILS

52-week range H/L (SR)	42.7/25.7
Market cap (\$mn)	4,544
Shares outstanding (mn)	450
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.4)	4.4	36.5
Rel. to market	(6.7)	(8.2)	1.0

Avg daily turnover (mn)	SR	US\$
3M	23.2	6.2
12M	22.9	6.1

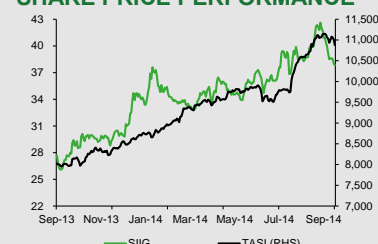
Reuters code	2250.SE
Bloomberg code	SIIG AB
	<a href="http://www.siig.com.sa">www.siig.com.sa</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	21.7	14.5	11.2
P/B (x)	2.7	2.4	2.2
EV/EBITDA (x)	17.2	9.9	8.1
Div Yield (%)	2.6	4.0	4.0

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Tadawul

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**Exhibit 11: Balance Sheet**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	1,176	1,510	2,965	3,134	4,781	5,452
Accounts receivables and other assets	513	970	1,263	1,392	1,365	1,346
Inventories	429	931	1,090	1,173	1,206	1,208
Total current assets	2,118	3,411	5,318	5,699	7,352	8,005
Employee loans	11	15	15	15	15	15
Deferred charges	107	75	75	75	75	75
Subordinated loan to joint venture projects	75	270	270	270	270	270
Investments in joint venture projects	2,910	3,234	3,642	4,159	4,679	5,167
Projects under construction	950	0	0	0	0	0
Property, plant and equipment	18,296	18,370	17,692	16,980	16,260	15,512
Total non-current assets	22,350	21,963	21,694	21,498	21,299	21,038
<b>Total assets</b>	<b>24,468</b>	<b>25,374</b>	<b>27,012</b>	<b>27,196</b>	<b>28,651</b>	<b>29,044</b>
Accounts payable and other liabilities	495	724	809	859	884	886
Zakat provision	565	177	177	177	177	177
Current portion of long term loans	129	1,526	1,927	1,343	1,357	1,391
Total current liabilities	1,189	2,426	2,912	2,379	2,418	2,453
Term loans	12,893	11,968	11,461	10,118	9,661	8,320
Loan from a non-controlling partner	764	1,132	1,132	1,132	1,132	1,132
Employees' terminal benefits	14	22	30	37	45	53
Total non-current liabilities	13,672	13,122	12,622	11,287	10,838	9,504
Share capital	4,500	4,500	4,500	4,500	4,500	4,500
Statutory reserve	362	434	551	704	845	977
Retained earnings	1,207	1,398	2,003	2,699	3,294	3,804
Total stockholders' equity	6,070	6,332	7,054	7,902	8,639	9,281
Non-controlling interests	3,538	3,494	4,423	5,628	6,757	7,805
<b>Total liabilities &amp; stockholders' equity</b>	<b>24,468</b>	<b>25,374</b>	<b>27,012</b>	<b>27,196</b>	<b>28,651</b>	<b>29,044</b>

Source: Company, NCBC Research estimates

**Exhibit 12: Cash flow Statement**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	(836)	22	1,754	2,406	2,396	2,316
Cash flow from investing activities	(1,350)	556	259	366	371	338
Addition(and transfers) to PP&E	(840)	918	259	366	371	338
Cash flow from financing activities	419	(244)	(558)	(2,604)	(1,119)	(1,984)
Debt	871	(198)	(106)	(1,927)	(443)	(1,307)
Net change in cash	(1,766)	334	1,455	169	1,647	670
Cash at start of the year	2,943	1,176	1,510	2,965	3,134	4,781
<b>Cash at end of the year</b>	<b>1,176</b>	<b>1,510</b>	<b>2,965</b>	<b>3,134</b>	<b>4,781</b>	<b>5,452</b>

Source: Company, NCBC Research estimates

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**Exhibit 13: Key Ratios**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	1.2	1.7	2.6	3.4	3.1	2.9
FCF per share	1.6	0.05	4.2	5.7	5.7	5.5
Div per share	1.0	1.0	1.5	1.5	1.5	1.5
Book value per share	13.5	14.1	15.7	17.6	19.2	20.6
<b>Valuation ratios (x)</b>						
P/E	31.6	21.7	14.5	11.2	12.0	12.9
P/FCF	23.1	768.4	8.9	6.7	6.7	6.9
P/BV	2.8	2.7	2.4	2.2	2.0	1.8
EV/sales	37.3	7.2	3.8	3.5	3.6	3.6
EV/EBITDA	95.8	17.2	9.9	8.1	8.3	8.7
Div yield (%)	2.6	2.6	4.0	4.0	4.0	4.0
<b>Profitability ratios (%)</b>						
Gross margins	(55.8)	16.4	29.2	31.8	28.1	26.9
Operating margin	15.3	23.3	28.9	33.6	33.2	31.4
EBITDA margins	38.9	41.8	38.8	42.9	42.9	41.6
Net profit margins	62.8	16.1	14.1	16.6	15.8	14.9
ROE	8.9	11.5	17.5	20.4	17.1	14.7
ROA	4.2	2.9	4.5	5.6	5.1	4.6
<b>Liquidity ratios</b>						
Current ratio	1.8	1.4	1.8	2.4	3.0	3.3
Quick Ratio	1.4	1.0	1.5	1.9	2.5	2.8
<b>Operating ratios (days)</b>						
Inventory	29	92	67	68	68	68
Receivables outstanding	54	80	55	55	56	56
Payables outstanding	33	75	50	50	50	50
Operating cycle	83	171	123	124	124	124
Cash cycle	49	96	73	74	74	74
<b>Production &amp; sales</b>						
Total production capacity (mn mt)	6.2	3.4	3.4	3.4	3.4	3.4
Production volumes (mn mt)	0.3	1.6	2.8	3.3	3.3	3.3
Utilization rate (%)	9	47	83	98	98	98
External sales volumes (mn mt)	0.1	0.8	1.4	1.7	1.7	1.7

Source: Company, NCBC Research estimates

# TASNEE



## COMPANY UPDATE

### New projects to support earnings growth

We remain Overweight on Tasnee with a revised PT of SR43.7. We expect new expansions and demand improvement to support earnings growth in 2014E and 2015E. The new acrylates project, which started commercial operations in July 2014, is estimated to contribute revenues of SR851mn in 2H14 and SR2.2bn in 2015E. On the other hand, the titanium slag facility in Jazan is expected to start commercial operations in 4Q14, thereby increasing the Industrial segment's gross margin to 24.9% in 2015E vs. 22.1% in 2014E. Driven by the upcoming positive catalysts and attractive valuation, Tasnee is one of our top picks.

We expect Tasnee to increase its dividends to SR2/share representing a pay-out ratio of 81% and a dividend yield of 5.3%. The stock is currently trading at 2015E P/E of 12x, lower than the sector average of 15.1x.

## Financials

### Exhibit 14: Income statement

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>17,922</b>	<b>18,199</b>	<b>19,511</b>	<b>19,800</b>	<b>18,573</b>	<b>18,042</b>
% change	(8.8)	1.5	7.2	1.5	(6.2)	(2.9)
Gross profit	5,578	4,837	5,518	6,015	5,534	5,554
SG&A expenses	(1,475)	(1,771)	(1,875)	(1,637)	(1,568)	(1,522)
Income from associates	17	21	22	22	80	155
Operating income	4,120	3,088	3,664	4,400	4,045	4,187
Margins (%)	23.0	17.0	18.8	22.2	21.8	23.2
<b>EBITDA</b>	<b>5,512</b>	<b>4,578</b>	<b>5,168</b>	<b>6,113</b>	<b>5,826</b>	<b>6,043</b>
Margins (%)	30.8	25.2	26.5	30.9	31.4	33.5
Income from investments	249	108	109	150	155	131
Finance charges	(803)	(654)	(614)	(599)	(539)	(450)
Others	0	(188)	0	0	0	0
Minority interest	(1,313)	(1,075)	(1,261)	(1,638)	(1,518)	(1,604)
Zakat	(490)	(102)	(247)	(199)	(184)	(195)
<b>Net income</b>	<b>1,764</b>	<b>1,177</b>	<b>1,652</b>	<b>2,115</b>	<b>1,959</b>	<b>2,070</b>
Net margin (%)	9.8	6.5	8.5	10.7	10.5	11.5
EPS	2.6	1.8	2.5	3.2	2.9	3.1

Source: Company, NCBC Research estimates

## OVERWEIGHT

**Target price (SR) 43.7**

**Current price (SR) 37.9**

### STOCK DETAILS

52-week range H/L (SR)	41.1/26.3
Market cap (\$mn)	6,760
Shares outstanding (mn)	669
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.3	14.4	38.8
Rel. to market	4.0	1.8	3.3

Avg daily turnover (mn)	SR	US\$
3M	73.0	19.5
12M	62.8	16.7

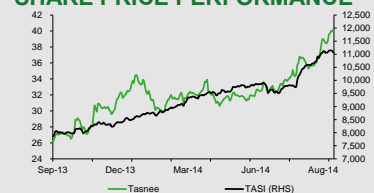
Reuters code	2060.SE
Bloomberg code	NIC AB
	<a href="http://www.tasnee.com">www.tasnee.com</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	21.5	15.3	12.0
P/B (x)	2.1	2.1	1.9
EV/EBITDA (x)	11.0	9.7	8.2
Div Yield (%)	4.0	5.3	5.3

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Tadawul

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**Exhibit 15: Balance sheet**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	6,456	5,182	6,126	5,735	4,456	3,004
Accounts receivables	3,853	3,997	4,811	4,882	4,580	4,449
Inventories	5,514	5,802	4,544	4,611	4,325	4,202
Other receivables & prepayments	700	841	1,227	1,246	1,168	1,135
Total current assets	16,523	15,821	16,708	16,474	14,530	12,789
Investments	1,029	1,615	1,718	1,740	1,820	1,975
Fixed assets	17,746	17,437	17,120	25,174	24,936	24,773
Intangible assets	3,608	3,588	3,613	3,662	3,714	3,767
Construction work-in-progress	5,850	7,876	8,542	0	0	0
Other non-current assets	854	934	934	934	934	934
Total non-current assets	29,087	31,449	31,926	31,510	31,403	31,449
<b>Total assets</b>	<b>45,610</b>	<b>47,270</b>	<b>48,634</b>	<b>47,984</b>	<b>45,933</b>	<b>44,238</b>
Short-term facilities	191	976	1,366	1,188	929	722
Current portion of long-term debt	2,415	3,142	2,067	2,905	2,789	1,749
Current part of capital lease obligations	188	188	188	188	188	188
Accounts payable	1,340	1,627	1,150	1,133	1,072	1,026
Accrued liabilities & others	1,868	2,249	2,333	2,291	2,167	2,075
Total current liabilities	6,002	8,181	7,103	7,705	7,144	5,760
Long term debts	17,573	17,645	18,678	15,973	13,384	11,835
Obligation under capital lease	656	469	1,031	844	656	469
End-of-service liabilities	210	271	301	336	374	417
Other liabilities	1,560	1,121	1,119	1,119	1,119	1,119
Total non-current liabilities	19,999	19,506	21,130	18,272	15,534	13,840
Share capital	6,689	6,689	6,689	6,689	6,689	6,689
Statutory reserve	917	1,035	1,200	1,411	1,607	1,814
Retained earnings	4,665	4,385	4,534	5,099	5,525	6,050
Others	(204)	(103)	(103)	(103)	(103)	(103)
Total shareholders' equity	12,067	12,006	12,320	13,097	13,719	14,451
Minority interest	7,542	7,577	8,080	8,910	9,537	10,187
Total equity	19,610	19,584	20,400	22,007	23,255	24,638
<b>Total liability and equity</b>	<b>45,610</b>	<b>47,270</b>	<b>48,634</b>	<b>47,984</b>	<b>45,933</b>	<b>44,238</b>

Source: Company, NCBC Research estimates

**Exhibit 16: Cash flow statement**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	3,002	3,470	4,108	5,269	5,697	5,568
Cash flow from investing activities	(3,254)	(3,487)	(1,958)	(1,274)	(1,594)	(1,747)
Addition(and transfers) to PP&E	(980)	(1,031)	(1,049)	(9,648)	(1,420)	(1,566)
Cash flow from financing activities	2,072	(1,257)	(1,206)	(4,385)	(5,381)	(5,275)
Debt	3,619	1,308	348	(2,045)	(2,965)	(2,796)
Net change in cash	1,819	(1,274)	944	(390)	(1,279)	(1,453)
Cash at start of the year	4,637	6,456	5,182	6,126	5,735	4,456
<b>Cash at end of the year</b>	<b>6,456</b>	<b>5,182</b>	<b>6,126</b>	<b>5,735</b>	<b>4,456</b>	<b>3,004</b>

Source: Company, NCBC Research estimates

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**Exhibit 17: Key ratios**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	2.6	1.8	2.5	3.2	2.9	3.1
FCF per share	(0.2)	0.4	3.3	6.0	6.1	5.7
Dividend per share	2.0	1.5	2.0	2.0	2.0	2.0
Book value per share	18.0	17.9	18.4	19.6	20.5	21.6
<b>Valuation ratios (x)</b>						
P/E	14.4	21.5	15.3	12.0	12.9	12.2
P/FCF	NM	89.2	11.4	6.3	6.2	6.6
P/BV	2.1	2.1	2.1	1.9	1.8	1.8
EV/sales	2.8	2.8	2.6	2.5	2.7	2.8
EV/EBITDA	9.1	11.0	9.7	8.2	8.6	8.3
Div yield (%)	5.3	4.0	5.3	5.3	5.3	5.3
<b>Profitability ratios (%)</b>						
Gross margins	31.1	26.6	28.3	30.4	29.8	30.8
Operating margin	23.0	17.0	18.8	22.2	21.8	23.2
EBITDA margins	30.8	25.2	26.5	30.9	31.4	33.5
Net profit margins	9.8	6.5	8.5	10.7	10.5	11.5
ROE	15.3	9.8	13.6	16.6	14.6	14.7
ROA	3.9	5.7	3.8	2.5	3.4	4.5
<b>Liquidity ratios</b>						
Current ratio	2.8	1.9	2.4	2.1	2.0	2.2
Quick Ratio	1.8	1.2	1.7	1.5	1.4	1.5
<b>Operating ratios (days)</b>						
Inventory	112	116	85	85	85	85
Receivables outstanding	78	80	90	90	90	90
Payables outstanding	40	44	30	30	30	30
Operating cycle	191	197	175	175	175	175
Cash cycle	151	152	145	145	145	145
<b>Production &amp; sales</b>						
Production volumes (mn mt)						
Titanium business	0.7	0.7	0.8	0.8	0.8	0.8
Petrochemical business	3.2	3.4	3.4	3.3	3.2	3.1
Utilization rate (%)						
Titanium business	82	91	93	95	95	95
Petrochemical business	98	105	104	100	97	95
External Sales volumes (mn mt)						
Titanium business	0.7	0.7	0.8	0.8	0.8	0.8
Petrochemical business	1.7	1.8	1.8	1.7	1.7	1.6

Source: Company, NCBC Research estimates



## COMPANY UPDATE

## Fundamentals and market opening drive valuation

We remain Overweight on SABIC with a revised PT of SR153.8. Our price target increased 14.7% mainly due to improved long term petrochemical price outlook (in-line with changes in oil prices), ethane price increase delays and positive impact (multiple expansion and lower risk premium) of market opening for FIIs. We expect 2015E net income to grow 8.4% YoY driven by improved efficiency and demand outlook. The stock is currently trading at 2015E P/E of 13.7x, lower than global peers average of 14.1x which we believe is unjustified.

We believe the stock will benefit from opening the market to foreign investors, as the valuation gap against global peers will narrow. SABIC is expected to be one of the key petrochemicals players in the emerging markets indices, benefiting from its strong fundamentals, global reach and diversified products.

## Financials

### Exhibit 18: Income statement

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>189,026</b>	<b>189,038</b>	<b>198,134</b>	<b>200,602</b>	<b>193,583</b>	<b>193,703</b>
% change	(0.5)	0.01	4.8	1.2	(3.5)	0.1
Gross profit	53,393	55,310	55,497	59,515	56,970	55,656
Gross margins (%)	28.2	29.3	28.0	29.7	29.4	28.7
G&A expenses	(12,368)	(12,719)	(13,405)	(13,039)	(12,583)	(12,591)
Operating income	41,026	42,591	42,092	46,476	44,387	43,065
% change	(16.0)	3.8	(1.2)	10.4	(4.4)	(3.0)
Operating margins (%)	21.7	22.5	21.2	23.2	22.9	22.2
<b>EBITDA</b>	<b>54,439</b>	<b>56,874</b>	<b>56,832</b>	<b>61,454</b>	<b>59,591</b>	<b>58,473</b>
EBITDA margins (%)	28.8	30.1	28.7	30.6	30.8	30.2
Investment & other	2,312	1,557	2,245	2,604	2,807	3,033
Finance charges	(2,493)	(1,756)	(1,575)	(1,614)	(1,247)	(879)
Income before MI	40,844	42,391	42,762	49,304	45,947	45,220
MI expenses	(13,564)	(14,863)	(14,452)	(17,454)	(16,276)	(16,020)
Income before Zakat	27,280	27,528	28,309	31,849	29,671	29,200
Zakat	(2,500)	(2,300)	(2,337)	(2,586)	(2,412)	(2,374)
<b>Net income</b>	<b>24,780</b>	<b>25,228</b>	<b>25,973</b>	<b>28,166</b>	<b>27,260</b>	<b>26,826</b>
% change	(15.3)	1.8	3.0	8.4	(3.3)	(1.6)
Net margin (%)	13.1	13.3	13.1	14.6	14.1	13.8
EPS (SR)	8.3	8.4	8.7	9.8	9.1	8.9

Source: Company, NCBC Research estimates

## OVERWEIGHT

**Target price (SR) 153.8**
**Current price (SR) 133.6**

### STOCK DETAILS

52-week range H/L (SR)	136.5/96
Market cap (\$mn)	106,872
Shares outstanding (mn)	3,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.8	16.2	37.0
Rel. to market	2.5	3.6	1.5

Avg daily turnover (mn)	SR	US\$
3M	437.8	116.8
12M	446.0	118.9

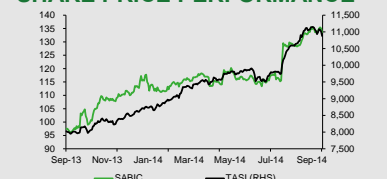
Reuters code	2010.SE
Bloomberg code	SABIC AB
	<a href="http://www.sabic.com">www.sabic.com</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	15.9	15.4	14.2
P/B (x)	2.6	2.4	2.3
EV/EBITDA (x)	8.1	8.1	7.5
Div Yield (%)	3.7	4.5	4.5

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Tadawul

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SEPTEMBER 2014

**Exhibit 19: Balance sheet**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash and cash equivalents	36,836	37,547	37,317	36,527	38,801	36,279
Short-term investments	28,985	30,681	30,681	30,681	30,681	30,681
Accounts receivable	31,542	30,116	34,290	34,717	33,502	33,523
Inventories	34,499	32,442	35,899	35,510	34,383	34,744
Prepayments and other current assets	4,433	4,066	4,113	4,107	4,035	4,050
Total current assets	136,295	134,852	142,300	141,541	141,403	139,278
Investments	10,382	13,491	13,484	15,156	17,006	19,069
Property, plant and equipment	165,440	165,435	165,432	166,053	164,235	161,536
Intangible assets	22,661	22,197	21,789	21,789	21,789	21,789
Other non-current assets	2,659	3,095	3,244	3,285	3,170	3,172
Total non-current assets	201,143	204,218	203,949	206,282	206,199	205,566
<b>Total assets</b>	<b>337,438</b>	<b>339,071</b>	<b>346,249</b>	<b>347,823</b>	<b>347,602</b>	<b>344,843</b>
Accounts payable	19,604	19,504	23,436	25,114	24,692	23,397
Accrued liabilities and other payables	9,627	13,995	12,837	12,698	12,295	12,424
Short-term bank borrowings	874	2,191	2,191	2,191	2,191	2,191
Current portion of long-term debt	15,029	5,726	13,957	12,646	11,827	12,705
Zakat payable	3,208	3,050	3,140	3,140	3,140	3,140
Total current liabilities	48,343	44,466	55,562	55,790	54,146	53,857
Long-term debt	79,532	73,947	60,113	47,467	35,640	22,935
Employees' benefits payable	10,536	10,495	10,763	10,914	11,085	11,259
Other non-current liabilities	3,176	3,507	3,328	3,255	3,217	3,122
Total non-current liabilities	93,244	87,948	74,204	61,636	49,943	37,316
Total liabilities	141,587	132,414	129,766	117,426	104,089	91,173
Share capital	30,000	30,000	30,000	30,000	30,000	30,000
Statutory reserve	15,000	15,000	15,000	15,000	15,000	15,000
General reserve	84,021	93,799	103,786	114,615	125,518	135,833
Retained earnings	16,394	17,472	15,457	14,791	14,243	12,753
Total shareholders' equity	145,415	156,271	164,242	174,406	184,761	193,586
Minority interests	50,436	50,385	52,241	55,991	58,752	60,084
<b>Total liabilities and equity</b>	<b>337,438</b>	<b>339,071</b>	<b>346,249</b>	<b>347,823</b>	<b>347,602</b>	<b>344,843</b>

Source: Company, NCBC Research estimates

**Exhibit 20: Cash flow statement**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	49,762	60,681	48,196	58,933	57,664	53,734
Cash flow from investing activities	(14,963)	(18,726)	(12,226)	(14,706)	(12,315)	(11,741)
Addition(and transfers) to PP&E	(10,861)	(11,903)	(14,737)	(15,599)	(13,386)	(12,709)
Cash flow from financing activities	(36,148)	(41,245)	(36,199)	(45,017)	(44,805)	(44,515)
Debt	(6,922)	(13,571)	(5,603)	(13,957)	(12,646)	(11,827)
Net change in cash	(1,349)	711	(230)	(790)	544	(2,522)
Cash at start of the year	38,185	36,836	37,547	37,317	38,257	38,801
<b>Cash at end of the year</b>	<b>36,836</b>	<b>37,547</b>	<b>37,317</b>	<b>36,527</b>	<b>38,801</b>	<b>36,279</b>

Source: Company, NCBC Research estimates

SEPTEMBER 2014

**Exhibit 21: Key ratios**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	8.3	8.4	8.7	9.4	9.1	8.9
FCF per share	12.2	14.6	12.0	14.8	15.1	14.0
Dividend per share	5.0	5.0	6.0	6.0	6.0	6.0
Book value per share	48.5	52.1	54.7	58.1	61.6	64.5
<b>Valuation ratios (x)</b>						
P/E	16.2	15.9	15.4	14.2	14.7	14.9
P/FCF	11.0	9.1	11.1	9.1	8.9	9.5
P/BV	2.8	2.6	2.4	2.3	2.2	2.1
EV/sales	2.5	2.4	2.3	2.3	2.4	2.4
EV/EBITDA	8.5	8.1	8.1	7.5	7.8	7.9
Div yield (%)	3.7	3.7	4.5	4.5	4.5	4.5
<b>Profitability ratios (%)</b>						
Gross margins	28.2	29.3	28.0	29.7	29.4	28.7
Operating margin	21.7	22.5	21.2	23.2	22.9	22.2
EBITDA margins	28.8	30.1	28.7	30.6	30.8	30.2
Net profit margins	13.1	13.3	13.1	14.0	14.1	13.8
ROE	17.5	16.7	16.2	16.6	15.1	14.2
ROA	7.4	7.5	7.6	8.1	7.8	7.7
<b>Liquidity ratios</b>						
Current ratio	2.8	3.0	2.6	2.5	2.6	2.6
Quick Ratio	2.1	2.3	1.9	1.9	2.0	1.9
<b>Operating ratios (days)</b>						
Inventory	96	92	95	95	95	95
Receivables outstanding	53	50	64	64	64	64
Payables outstanding	51	53	58	63	64	60
Operating cycle	149	142	159	159	159	159
Cash cycle	98	89	101	96	95	99
<b>Production &amp; sales</b>						
Capacity (mn mt)	88	89	90	91	91	91
Production volumes (mn mt)	71	77	80	84	82	82
Utilization rate (%)	81	87	90	93	90	90
External sales volumes (mn mt)	55	58	62	64	62	62

Source: Company, NCBC Research estimates



COMPANY UPDATE

## Operational stability key to outlook

We remain Overweight on Yansab with a revised PT of SR83.3. We have reduced 2014E and 2015E net income by 7.1% and 12.4%, respectively, due to lower operating rates and margins to reflect the ongoing operational volatility of Yansab's ethylene glycol (EG) reactor. Despite that, we expect Yansab to continue its progressive dividends policy and to distribute DPS of SR2.5 in 2H14E with full year DPS of SR4. This indicates a payout ratio of 87.4% and yield of 6.2%. We remain confident on the company's ability to distribute higher dividends in the coming years supported by a high cash balance and strong operating cash flows. Unexpected shutdowns, particularly at the EG reactor, is a key downside risk.

## Financials

### Exhibit 22: Income statement

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>9,299</b>	<b>9,354</b>	<b>9,807</b>	<b>9,693</b>	<b>10,080</b>	<b>9,966</b>
% change	(3.7)	0.6	4.8	(1.2)	4.0	(1.1)
COGS	(6,190)	(6,129)	(6,611)	(6,206)	(6,112)	(6,046)
Gross profit	3,109	3,225	3,196	3,487	3,968	3,919
Gross margins (%)	33.4	34.5	32.6	36.0	39.4	39.3
G&A expenses	(234)	(232)	(258)	(423)	(507)	(549)
Operating income	2,875	2,993	2,938	3,065	3,461	3,371
% change	(20.5)	4.1	(1.8)	4.3	12.9	(2.6)
Operating margins (%)	30.9	32.0	30.0	31.6	34.3	33.8
<b>EBITDA</b>	<b>3,894</b>	<b>4,073</b>	<b>4,201</b>	<b>4,151</b>	<b>4,527</b>	<b>4,376</b>
EBITDA margins (%)	41.9	43.5	42.8	42.8	44.9	43.9
Interest income	31	29	21	69	52	50
Finance charges	(361)	(260)	(225)	(188)	(127)	(77)
Income before Zakat	2,546	2,762	2,733	2,946	3,386	3,344
Zakat	(100)	(118)	(159)	(189)	(202)	(209)
<b>Net income</b>	<b>2,446</b>	<b>2,645</b>	<b>2,575</b>	<b>2,757</b>	<b>3,184</b>	<b>3,135</b>
% change	(22.9)	8.1	(2.6)	7.1	15.5	(1.6)
Net margin (%)	26.3	28.3	26.3	28.4	31.6	31.5
EPS (SR)	4.3	4.7	4.6	5.7	5.7	5.6

Source: Company, NCBC Research estimates

## OVERWEIGHT

**Target price (SR) 83.3**

**Current price (SR) 72.1**

### STOCK DETAILS

52-week range H/L (SR)	77.7/58.7
Market cap (\$mn)	10,817
Shares outstanding (mn)	563
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(2.6)	(1.2)	21.2
Rel. to market	(3.9)	(13.8)	(14.3)

Avg daily turnover (mn)	SR	US\$
3M	42.5	11.3
12M	39.5	10.5

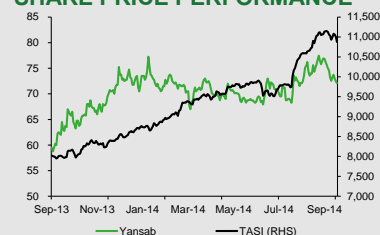
Reuters code	2290.SE
Bloomberg code	YANSABAB
	<a href="http://www.yansab.com.sa">www.yansab.com.sa</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	15.3	15.8	14.7
P/B (x)	2.7	2.6	2.6
EV/EBITDA (x)	11.3	10.9	11.0
Div Yield (%)	4.2	5.5	6.2

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Tadawul

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SEPTEMBER 2014

**Exhibit 23: Balance sheet**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	530	2,106	2,637	1,702	1,594	1,494
Murabaha commodity placements	891	915	915	915	915	915
Other current assets	2,820	2,642	2,821	2,788	2,900	2,867
Inventories	1,112	1,119	1,268	1,190	1,172	1,160
Total current assets	5,353	6,782	7,641	6,595	6,581	6,436
Property, plant and equipment	16,498	15,623	14,629	14,031	13,255	12,469
Intangible assets	330	305	183	72	0	0
Other non-current assets	208	191	191	191	191	191
Total non-current assets	17,036	16,119	15,002	14,294	13,446	12,659
<b>Total assets</b>	<b>22,388</b>	<b>22,901</b>	<b>22,644</b>	<b>20,889</b>	<b>20,027</b>	<b>19,095</b>
Accounts payable	361	252	362	340	335	331
Accruals and provisions	831	623	613	603	593	588
Current portion of term loan	922	933	932	959	805	336
Current portion of loan from majority shareholders	357	365	432	433	433	216
Current portion of Ijara financing arrangements	2,471	2,174	2,340	2,335	2,166	1,472
Total current liabilities	4,943	4,009	3,689	2,141	1,362	872
Term loans	0	0	0	0	0	0
Obligations under Ijara arrangements	1,878	1,513	1,081	649	216	0
Employees' terminal benefits	135	161	166	171	176	181
Total non-current liabilities	6,956	5,683	4,936	2,960	1,754	1,053
Share capital	5,625	5,625	5,625	5,625	5,625	5,625
Statutory reserve	743	1,008	1,265	1,541	1,859	2,173
Retained earnings	6,593	8,410	8,478	8,428	8,622	8,771
Total stockholders' equity	12,961	15,043	15,368	15,594	16,106	16,569
<b>Total liabilities &amp; stockholders' equity</b>	<b>22,388</b>	<b>22,901</b>	<b>22,644</b>	<b>20,889</b>	<b>20,027</b>	<b>19,095</b>

Source: Company, NCBC Research estimates

**Exhibit 24: Cash flow statement**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	3,345	3,620	3,615	3,926	4,147	4,181
Cash flow from investing activities	(342)	(204)	(147)	(377)	(218)	(218)
Addition(and transfers) to PP&E	(123)	(106)	(147)	(377)	(218)	(218)
Cash flow from financing activities	(3,073)	(1,840)	(2,937)	(4,485)	(4,036)	(4,063)
Debt	(3,073)	(1,279)	(687)	(1,954)	(1,365)	(1,391)
Dividend paid	-	(561)	(2,250)	(2,531)	(2,672)	(2,672)
Net change in cash	(69)	1,576	531	(936)	(108)	(100)
Cash at start of the year	599	530	2,106	2,637	1,702	1,594
<b>Cash at end of the year</b>	<b>530</b>	<b>2,106</b>	<b>2,637</b>	<b>1,702</b>	<b>1,594</b>	<b>1,494</b>

Source: Company, NCBC Research estimates

SEPTEMBER 2014

**Exhibit 25: Key ratios**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	4.3	4.7	4.6	4.9	5.7	5.6
FCF per share	6.2	6.6	6.5	6.5	7.1	7.1
Dividend per share	0	3.0	4.0	4.5	4.8	4.8
Book value per share	23.0	26.7	27.3	27.7	28.6	29.5
<b>Valuation ratios (x)</b>						
P/E	16.6	15.3	15.8	14.7	12.7	12.9
P/FCF	11.6	11.0	11.1	11.1	10.2	10.2
P/BV	3.1	2.7	2.6	2.6	2.5	2.4
EV/sales	4.9	4.9	4.7	4.7	4.5	4.6
EV/EBITDA	11.8	11.3	10.9	11.0	10.1	10.5
Div yield (%)	0	4.2	5.5	6.2	6.6	6.6
<b>Profitability ratios (%)</b>						
Gross margins	33.4	34.5	32.6	36.0	39.4	39.3
Operating margin	30.9	32.0	30.0	31.6	34.3	33.8
EBITDA margins	41.9	43.5	42.8	42.8	44.9	43.9
Net profit margins	26.3	28.3	26.3	28.4	31.6	31.5
ROE	20.8	18.9	16.9	17.8	20.1	19.2
ROA	10.8	11.7	11.3	12.7	15.6	16.0
<b>Liquidity ratios</b>						
Current ratio	2.2	3.1	3.3	2.8	3.0	4.4
Quick Ratio	1.7	2.6	2.7	2.3	2.5	3.6
<b>Operating ratios (days)</b>						
Inventory	66	67	70	70	70	70
Receivables outstanding	111	103	105	105	105	105
Payables outstanding	21	15	20	20	20	20
Operating cycle	176	170	175	175	175	175
Cash cycle	155	155	155	155	155	155
<b>Production &amp; sales</b>						
Capacity (mn mt)	4.0	4.0	4.0	4.0	4.0	4.0
Production volumes (mn mt)	4.0	3.6	3.7	3.8	4.0	4.0
Utilization rate (%)	99	96	92	96	98	98
External sales volumes (mn mt)	2.3	1.9	2.0	2.0	2.1	2.1

Source: Company, NCBC Research estimates

# SAUDI KAYAN



## RATING CHANGE

### Downgrade on weak margins and operations

We downgrade Kayan from Neutral to Underweight with a PT of SR14.4. This is due to continued operational and margin weaknesses. We reduced 2014E estimates in-line with weak 1H14 results and margins. With a 2015E P/E of 24.1x against the TASI petrochemical index P/E of 19.2x, we believe the stock is currently overvalued even if the performance stabilizes. Better than expected margin improvement is a key catalyst.

- 2014E estimates reduced on continued operational inefficiencies:**  
 After posting net income for three consecutive quarters, Kayan reported a net loss of SR133.1mn in 2Q14 on lower operating rates (<90%) and high feedstock cost. We expect Kayan's facilities to run at 88% in 2H14 (from 95% assumed earlier) in-line with 1H14. Since inception, Kayan's facilities were operating below 90%, except during 1Q13-3Q13 (operating at around 95%). We also reduced gross margin estimates to 9.9% for 2H14E from 20.8% earlier. This is higher than 6.5% in 1H14. We expect a net loss of SR46mn in 2014E against our previous net income estimate of SR871mn. We expect 2015E net income to be SR1bn with a gross margin of 16.2% and operating rates of 95%. Slower than expected improvement in operating rates and margins remain key risks.
- Fluctuating feedstock costs weigh heavily on earnings outlook:**  
 Kayan's dependency on Butane (80% of the total feedstock costs) exposes its earnings to naphtha price fluctuations (which are linked to oil prices). Naphtha prices increased 2% QoQ in 2Q14, while selling prices were broadly flat. Therefore, Kayan's gross margins contracted 465bps to 4.2% in 2Q14, to the lowest levels since 2Q13. This compares to margin improvement of 88bps by other mixed-feed Saudi petrochemical firms. Although lower naphtha prices may improve 3Q14 margins, volatile naphtha prices and operational efficiencies remain a long-run concern.
- Changing feedstock mix is crucial but unlikely:** We believe increasing proportion of ethane in the feedstock mix is a solution for Kayan to reduce margins volatility. However, this seems highly unlikely given the lack of new allocation by the Ministry of Petroleum. Kayan success in changing feedstock mix will be a key catalyst going forward.
- We downgrade Kayan to U/W with a revised PT of SR14.4:** Our PT remained broadly flat at SR14.4. Although our 2015E estimates are optimistic, we believe the stock is overvalued at the current levels with a 2015E P/E of 24.1x.

#### Summary Financials

SR mn	2012A	2013A	2014E	2015E	2016E	2017E	CAGR %
Revenues	9,482	10,353	11,918	13,308	13,963	14,233	8.5
Gross income	152	602	980	2,154	2,522	2,719	78.1
Gross margins (%)	1.6	5.8	8.2	16.2	18.1	19.1	
Operating income	(179)	235	550	1,643	1,989	2,175	NM
Operating margins (%)	(1.9)	2.3	4.6	12.3	14.2	15.3	
Net income	(772)	(346)	(46)	1,021	1,366	1,558	NM
Net margins (%)	(8.1)	(3.3)	(0.4)	7.7	9.8	10.9	
EPS (SR)	(0.5)	(0.2)	(0.03)	0.7	0.9	1.0	NM

Source: Company, NCBC Research estimate

## UNDERWEIGHT

<b>Target price (SR)</b>	<b>14.4</b>
<b>Current price (SR)</b>	<b>16.4</b>

#### STOCK DETAILS

52-week range H/L (SR)	19.0/11.6	
Market cap (\$mn)	6,576	
Shares outstanding (mn)	1,500	
Listed on exchanges	TADAWUL	

Price perform (%)	1M	3M	12M
Absolute	3.6	7.2	31.0
Rel. to market	2.3	(5.4)	(4.5)

Avg daily turnover (mn)	SR	US\$
3M	308.7	82.3
12M	267.5	71.3

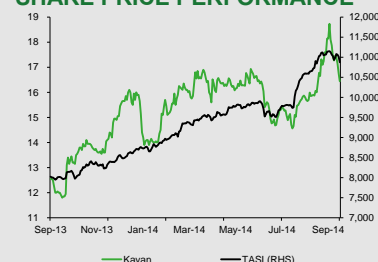
Reuters code	2350.SE
Bloomberg code	KAYAN AB
	<a href="http://www.saudikayan.com">www.saudikayan.com</a>

#### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	-	-	24.1
P/B (x)	1.7	1.8	1.6
EV/EBITDA (x)	20.9	17.7	13.6
Div Yield (%)	-	-	-

Source: NCBC Research estimates

#### SHARE PRICE PERFORMANCE



Source: Tadawul

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## Financials

### Exhibit 26: Income statement

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>9,482</b>	<b>10,353</b>	<b>11,918</b>	<b>13,308</b>	<b>13,963</b>	<b>14,233</b>
% change	294.5	9.2	15.1	11.7	4.9	1.9
Gross profit	152	602	980	2,154	2,522	2,719
Gross margins (%)	1.6	5.8	8.2	16.2	18.1	19.1
SG&A expenses	(330)	(367)	(430)	(511)	(533)	(544)
Operating profit	(179)	235	550	1,643	1,989	2,175
% change		(231.7)	133.4	199.0	21.0	9.4
Operating margins (%)	(1.9)	2.3	4.6	12.3	14.2	15.3
<b>EBITDA</b>	<b>1,885</b>	<b>2,526</b>	<b>2,993</b>	<b>3,879</b>	<b>4,279</b>	<b>4,513</b>
EBITDA margins (%)	19.9	24.4	25.1	29.1	30.6	31.7
Interest expense	(524)	(483)	(508)	(537)	(523)	(505)
Others	2	(9)	2	5	2	3
Profit before taxes	(701)	(256)	44	1,111	1,468	1,673
Zakat	(72)	(90)	(90)	(90)	(101)	(115)
<b>Net income</b>	<b>(772)</b>	<b>(346)</b>	<b>(46)</b>	<b>1,021</b>	<b>1,366</b>	<b>1,558</b>
% change	NM	NM	NM	NM	33.8	14.0
Net margin (%)	(8.1)	(3.3)	(0.4)	7.7	9.8	10.9
EPS (SR)	(0.5)	(0.2)	(0.03)	0.7	0.9	1.0

Source: Company, NCBC Research estimates

### Exhibit 27: Balance sheet

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	569	269	410	230	534	577
Accounts receivables	3,134	3,199	3,102	3,099	3,252	3,315
Inventories	1,960	2,176	2,248	2,261	2,320	2,334
Other receivables & prepayments	501	735	610	591	574	562
Total current assets	6,165	6,380	6,370	6,182	6,679	6,788
Investments	0	162	162	162	162	162
Cost of project under construction	2,883	1,219	0	0	0	0
Property, plant and equipment	37,388	37,691	37,472	36,328	34,973	33,576
Other non-current assets	25	136	136	136	136	136
Intangible assets	438	630	630	630	630	630
Total non-current assets	40,733	39,838	38,399	37,255	35,901	34,504
<b>Total assets</b>	<b>46,898</b>	<b>46,218</b>	<b>44,770</b>	<b>43,438</b>	<b>42,580</b>	<b>41,292</b>
Current portion of long term debts	1,166	1,737	2,215	2,243	6,312	3,173
Accounts payables	1,346	1,398	1,588	1,620	1,724	1,735
Accrued and other current liabilities	1,294	1,206	1,214	1,090	1,040	1,022
Total current liabilities	3,806	4,342	5,017	4,953	9,076	5,930
Long term debts	28,515	27,615	25,400	23,156	16,844	17,171
Other non-current liabilities	137	167	306	259	225	199
Total non-current liabilities	28,652	27,782	25,705	23,416	17,069	17,370
Share capital	15,000	15,000	15,000	15,000	15,000	15,000
Statutory reserves	49	49	49	152	288	444
Retained earnings	(609)	(956)	(1,002)	(83)	1,147	2,549
Total stockholders' equity	14,440	14,094	14,047	15,069	16,435	17,993
<b>Total liabilities &amp; equity</b>	<b>46,898</b>	<b>46,218</b>	<b>44,770</b>	<b>43,438</b>	<b>42,580</b>	<b>41,292</b>

Source: Company, NCBC Research estimates

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**Exhibit 28: Cash flow statement**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	1,149	1,403	2,883	3,127	3,483	3,796
Cash flow from investing activities	(1,219)	(1,375)	(1,005)	(1,092)	(936)	(940)
Addition(and transfers) to PP&E	(1,162)	(725)	1,219	(1,092)	(936)	(940)
Cash flow from financing activities	170	(328)	(1,737)	(2,215)	(2,243)	(2,812)
Debt	170	(328)	(1,737)	(2,215)	(2,243)	(2,812)
Net change in cash	100	(300)	141	(180)	304	43
Cash at start of the year	469	569	269	410	230	534
<b>Cash at end of the year</b>	<b>569</b>	<b>269</b>	<b>410</b>	<b>230</b>	<b>534</b>	<b>577</b>

Source: Company, NCBC Research estimates

**Exhibit 29: Key ratios**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	(0.5)	(0.2)	(0.03)	0.7	0.9	1.0
Dividend per share	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	(0.01)	0.2	2.7	1.4	1.7	1.9
Book value per share	9.6	9.4	9.4	10.0	11.0	12.0
<b>Valuation ratios (x)</b>						
P/E	NM	NM	NM	24.1	18.0	15.8
P/BV	1.7	1.7	1.8	1.6	1.5	1.4
P/FCF	NM	80.9	6.0	12.1	9.7	8.6
EV/sales	5.6	5.1	4.4	4.0	3.8	3.7
EV/EBITDA	28.0	20.9	17.7	13.6	12.4	11.7
Div yield (%)	-	-	-	-	-	-
<b>Profitability ratios (%)</b>						
Gross margins	1.6	5.8	8.2	16.2	18.1	19.1
Operating margin	(1.9)	2.3	4.6	12.3	14.2	15.3
EBITDA margins	19.9	24.4	25.1	29.1	30.6	31.7
Net profit margins	(8.1)	(3.3)	(0.4)	7.7	9.8	10.9
ROE	(5.2)	(2.4)	(0.3)	7.0	8.7	9.0
ROA	(1.7)	(0.7)	(0.1)	2.3	3.2	3.7
<b>Liquidity ratios</b>						
Current ratio	2.1	2.3	2.1	2.2	2.2	2.3
Quick Ratio	1.4	1.5	1.3	1.4	1.4	1.4
<b>Operating ratios (days)</b>						
Inventory	77	81	75	74	74	74
Receivables outstanding	121	113	95	85	85	85
Payables outstanding	53	52	53	53	55	55
Operating cycle	197	194	170	159	159	159
Cash cycle	145	142	117	106	104	104
<b>Production &amp; sales</b>						
Capacity (mn mt)	5.3	5.7	5.9	5.9	5.9	5.9
Production volumes (mn mt)	4.4	4.5	4.8	5.2	5.4	5.4
Utilization rate (%)	84.2	78.4	81.7	88.1	91.5	91.9
External sales volumes (mn mt)	2.2	2.2	2.2	2.4	2.6	2.6

Source: Company, NCBC Research estimates





# ADVANCED PETROCHEMICALS

## COMPANY UPDATE

### Dividends, Advanced's key strength

We remain Neutral on Advanced with a revised PT of SR59.7. Our PT increased 19.8% mainly due to 1) increased contribution from the new polypropylene project in South Korea, 2) increase in 2H14 gross margins, in-line with 2Q14, 3) anticipated multiple expansions, and 4) lowering of WACC. Advanced changed its dividend payment policy to quarterly from semi-annually, thereby being the first petrochemical company to pay a quarterly dividend. Although we remain confident on the company's dividend growth story, we believe the stock offers limited upside at the current levels.

- Higher dividends remain key positive for the stock:** Advanced's BoD recommended distributing a dividend of SR1.0/share for 3Q14, which includes a SR0.25/share extraordinary dividend. The company paid a dividend of SR1.25/share for 1H14, with total DPS of SR2.25 for the 9M14 vs. SR2.25 in 2013. Based on the new dividend policy, we expect the company to pay SR3/share in 2014E, which represents an attractive dividend yield of 5.3% and a payout ratio of around 72%.
- 2014E and 2015E estimates revised higher:** We increased 2014E-2015E net income estimates by 9.5% and 1.8%, respectively, as we believe high operational efficiency is sustainable. Advanced's existing facilities continue to operate above 100% since 2011. We expect the facility to reach an operating rate of 118% in 2014E and 115% in 2015E.
- SATORP propylene supply starts in September 2014:** Based on Advanced management feedback, an additional 80,000mt propylene supply from SATORP has started in September 2014. This indicates a delay of two months against our estimates and about 8 months delay from the initial announcement in August 2013. The extra supply is expected to help Advanced to generate additional revenues in the coming quarters and reaching revenues of SR3.2bn in 2015E.
- Maintain our Neutral rating on fair valuation:** Although we are confident on the company's earnings and dividend growth going forward, we believe the stock offers limited upside at the current levels. The stock is currently trading at 2015E P/E of 15.2x, in-line with the sector average of 15.1x. Key catalysts include 1) faster than expected ramping up of SATORP supply and 2) further decline in naphtha prices which support margins.

### Summary Financials

SR mn	2012A	2013A	2014E	2015E	2016E	2017E	CAGR %
Revenues	2,472	2,786	3,156	3,153	3,091	3,072	4.4
Gross income	387	611	737	674	633	630	10.3
Gross margins (%)	15.6	22.0	23.4	21.4	20.5	20.5	
Operating income	346	566	691	624	582	578	10.8
Operating margins (%)	14.0	20.3	21.9	19.8	18.8	18.8	
Net income	328	557	686	615	566	656	14.9
Net margins (%)	13.3	20.0	21.7	19.5	18.3	21.4	
EPS (SR)	2.0	3.4	4.2	3.7	3.4	4.0	14.9

Source: Company, NCBC Research estimate

Please refer to the last page for important disclaimer

## NEUTRAL

**Target price (SR)** 59.7

**Current price (SR)** 57.1

### STOCK DETAILS

M52-week range H/L (SR)	78/47
Market cap (\$mn)	2,498
Shares outstanding (mn)	164
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.8	27.2	67.0
Rel. to market	5.5	14.6	31.5

Avg daily turnover (mn)	SR	US\$
3M	47.7	12.7
12M	36.7	9.8

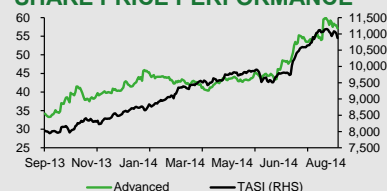
Reuters code	2330.SE
Bloomberg code	APPC AB
<a href="http://www.advancedpetrochem.com">www.advancedpetrochem.com</a>	

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	16.8	13.6	15.21
P/B (x)	4.2	4.0	3.81
EV/EBITDA (x)	11.5	9.9	10.81
Div Yield (%)	3.9	5.3	5.31

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Tadawul

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## Financials

### Exhibit 30: Income Statement

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>2,472</b>	<b>2,786</b>	<b>3,156</b>	<b>3,153</b>	<b>3,091</b>	<b>3,072</b>
% chg	(11.4)	12.7	13.3	(0.1)	(2.0)	(0.6)
COGS	(2,086)	(2,174)	(2,419)	(2,479)	(2,458)	(2,441)
Gross Profit	387	611	737	674	633	630
Margins (%)	15.6	22.0	23.4	21.4	20.5	20.5
S,D,G&A expenses	(40)	(46)	(46)	(50)	(51)	(53)
Operating income	346	566	691	624	582	578
% chg	(35.1)	63.3	22.2	(9.7)	(6.7)	(0.8)
Margins (%)	14.0	20.3	21.9	19.8	18.8	18.8
<b>EBITDA</b>	<b>544</b>	<b>773</b>	<b>895</b>	<b>821</b>	<b>778</b>	<b>777</b>
Margins (%)	22.0	27.8	28.4	26.0	25.2	25.3
Investment and other income	3	6	7	2	2	98
Finance charges	(21)	(15)	(12)	(11)	(19)	(19)
<b>Net income</b>	<b>328</b>	<b>557</b>	<b>686</b>	<b>615</b>	<b>566</b>	<b>656</b>
% chg	(36.0)	69.7	23.2	(10.4)	(8.0)	16.0
Net margin (%)	13.3	20.0	21.7	19.5	18.3	21.4
EPS (SR)	2.0	3.4	4.2	3.7	3.4	4.0

Source: Company, NCBC Research estimates

### Exhibit 31: Balance Sheet

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash Equivalents	462	544	343	351	122	57
Trade receivables	283	266	346	346	339	337
Other receivable, advances and prepayments	21	19	33	34	34	33
Inventories	141	145	159	163	162	161
Total current assets	907	974	881	893	656	588
Property, Plant & Equipment	2,215	2,163	2,101	2,002	1,926	1,764
Intangible Assets	98	54	32	23	19	18
Other non-current assets	33	33	33	33	33	33
Investment in an unconsolidated subsidiary	2	2	133	724	1,314	1,411
Available for sale of investment	0	0	208	208	0	0
Total non-current assets	2,348	2,251	2,506	2,989	3,292	3,225
<b>Total assets</b>	<b>3,255</b>	<b>3,225</b>	<b>3,387</b>	<b>3,882</b>	<b>3,948</b>	<b>3,813</b>
Accounts payable	161	158	186	190	189	187
Accruals and other current liabilities	214	201	242	248	246	244
Current portion of long term loans	125	125	138	152	283	145
Short term loan	188	0	0	0	0	0
Dividend payable	3	4	4	4	4	4
Total current liabilities	691	487	569	593	721	580
Long term loans	500	455	435	795	670	525
End-of-service indemnities	22	28	34	39	44	49
Total non-current liabilities	522	483	469	834	714	574
Share capital	1,640	1,640	1,640	1,640	1,640	1,640
Statutory reserve	151	207	275	337	393	459
Retained earnings	0	0	2	2	2	2
Unrealised gain on sale investment	252	407	432	476	477	558
Total stockholders' equity	2,043	2,254	2,349	2,455	2,513	2,659
<b>Total liabilities &amp; stockholders' equity</b>	<b>3,255</b>	<b>3,225</b>	<b>3,387</b>	<b>3,882</b>	<b>3,948</b>	<b>3,813</b>

Source: Company, NCBC Research estimates

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**Exhibit 32: Cash flow Statement**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	576	753	831	806	964	843
Cash flow from investing activities	(173)	(111)	(452)	(680)	(706)	(133)
Addition(and transfers) to PP&E	(97)	(111)	(110)	(79)	(106)	(26)
Cash flow from financing activities	(417)	(560)	(581)	(118)	(486)	(775)
Debt	(300)	(313)	(7)	374	6	(283)
Net change in cash	(14)	82	(201)	8	(229)	(65)
Cash at start of the year	476	462	544	343	351	122
<b>Cash at end of the year</b>	<b>462</b>	<b>544</b>	<b>343</b>	<b>351</b>	<b>122</b>	<b>57</b>

Source: Company, NCBC Research estimates

**Exhibit 33: Key Ratios**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	2.0	3.4	4.2	3.7	3.4	4.0
FCF per share	3.0	4.0	4.5	4.6	4.1	5.2
Div per share	2.0	2.3	3.0	3.0	3.0	3.0
Book value per share	12.5	13.7	14.3	15.0	15.3	16.2
<b>Valuation ratios (x)</b>						
P/E	28.5	16.8	13.6	15.2	16.6	14.3
P/FCF	18.7	14.2	12.6	12.5	13.8	11.0
P/BV	4.6	4.2	4.0	3.8	3.7	3.5
EV/sales	3.6	3.2	2.8	2.8	2.9	2.9
EV/EBITDA	16.4	11.5	9.9	10.8	11.4	11.4
Div yield (%)	3.5	3.9	5.3	5.3	5.3	5.3
<b>Profitability ratios (%)</b>						
Gross margins	15.6	22.0	23.4	21.4	20.5	20.5
Operating margin	14.0	20.3	21.9	19.8	18.8	18.8
EBITDA margins	22.0	27.8	28.4	26.0	25.2	25.3
Net profit margins	13.3	20.0	21.7	19.5	18.3	21.4
ROE	16.1	25.9	29.8	25.6	22.8	25.4
ROA	9.9	17.2	20.8	16.9	14.4	16.9
<b>Liquidity ratios</b>						
Current ratio	1.3	2.0	1.5	1.5	0.9	1.0
Quick Ratio	1.1	1.7	1.3	1.2	0.7	0.7
<b>Operating ratios (days)</b>						
Inventory	25	24	24	24	24	24
Receivables outstanding	45	38	45	45	45	45
Payables outstanding	28	30	28	28	28	28
Operating cycle	70	62	69	69	69	69
Cash cycle	42	32	41	41	41	41
<b>Production &amp; sales</b>						
Total production capacity (mn mt)	0.9	0.9	1.0	1.0	1.0	1.0
Production volumes (mn mt)	1.0	1.1	1.1	1.1	1.1	1.1
Utilization rate (%)	109	118	118	115	108	108
External sales volumes (mn mt)	0.5	0.5	0.6	0.6	0.6	0.6

Source: Company, NCBC Research estimates

# SIPCHEM



## COMPANY UPDATE

### Phase III, supports growth in 2015E

We remain Neutral on Sipchem with a revised PT of SR37.8. Our PT increased by about 25.8%, due to 1) reduction of long term CapEx as most of its projects will be completed by 2015E, 2) reducing WACC, 3) higher long term price forecast; in-line with changes in oil prices. The 2015E net income is expected to grow 64.3% YoY on the full year contribution from phase 3 and margin expansion. Despite the strong 2Q14 results, our 2014E estimates remain relatively unchanged due to the four months delay in the start-up of the EVA/LPDE facility and the shutdown at the Butanediol and methanol facilities.

The stock is trading at 2015E P/E of 13.8x lower than the sector's average of 15.1x. Any delay in commercial start-ups of new projects is a key downside risk.

## Financials

### Exhibit 34: Income statement

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>3,922</b>	<b>4,006</b>	<b>4,069</b>	<b>5,155</b>	<b>5,735</b>	<b>5,532</b>
% change	18.0	2.1	1.6	26.7	11.3	(3.5)
COGS	(2,654)	(2,707)	(2,674)	(3,130)	(3,446)	(3,443)
Gross profit	1,268	1,299	1,395	2,025	2,289	2,089
Gross margins (%)	32.3	32.4	34.3	39.3	39.9	37.8
G&A expenses	(132)	(137)	(156)	(167)	(186)	(181)
Operating income	1,136	1,162	1,239	1,857	2,103	1,908
% change	(12.8)	2.3	6.7	49.9	13.2	(9.3)
Operating margins (%)	29.0	29.0	30.5	36.0	36.7	34.5
<b>EBITDA</b>	<b>1,650</b>	<b>1,700</b>	<b>1,775</b>	<b>2,498</b>	<b>2,809</b>	<b>2,644</b>
Other income	23	17	17	26	29	20
Finance charges	(183)	(171)	(164)	(166)	(104)	(86)
Others	12	(22)	(36)	-	-	-
Income before MI expense	987	986	1,056	1,718	2,028	1,842
Minority interest	(314)	(310)	(317)	(540)	(638)	(579)
Income before Zakat	673	676	739	1,178	1,390	1,263
Zakat	(72)	(55)	(81)	(97)	(118)	(107)
<b>Net income</b>	<b>601</b>	<b>620</b>	<b>658</b>	<b>1,081</b>	<b>1,272</b>	<b>1,156</b>
% change	(14.8)	3.2	6.0	64.3	17.7	(9.2)
Net margin (%)	15.3	15.5	16.2	21.0	22.2	20.9
EPS (SR)	1.6	1.7	1.8	2.9	3.5	3.2

Source: Company, NCBC Research estimates

## NEUTRAL

**Target price (SR) 37.8**

**Current price (SR) 40.6**

### STOCK DETAILS

52-week range H/L (SR)	44.4/24.2
Market cap (\$mn)	3,969
Shares outstanding (mn)	366.6
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.0	25.2	62.7
Rel. to market	4.7	12.6	27.2

Avg daily turnover (mn)	SR	US\$
3M	25.9	6.9
12M	23.7	6.3

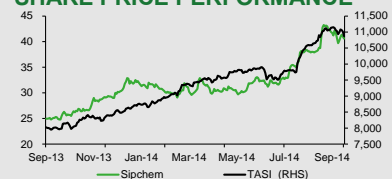
Reuters code	2310.SE
Bloomberg code	SIPCHEM AB
	<a href="http://www.sipchem.com">www.sipchem.com</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	24.0	22.6	13.8
P/B (x)	2.6	2.5	2.3
EV/EBITDA (x)	13.6	13.1	9.3
Div Yield (%)	3.1	3.1	3.7

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Tadawul

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SEPTEMBER 2014

**Exhibit 35: Balance sheet**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	3,053	2,858	2,909	3,046	2,000	2,437
Accounts receivables	857	1,314	1,115	1,271	1,257	1,288
Inventory	278	303	299	350	385	385
Total current assets	4,189	4,475	4,323	4,668	3,642	4,110
Property, plant & equipment	10,649	11,547	11,547	12,414	12,334	12,252
Project development costs	253	473	819	-	-	-
Intangible assets	69	164	240	230	219	198
Goodwill	30	30	30	30	30	30
Total noncurrent assets	11,000	12,214	12,636	12,673	12,583	12,480
<b>Total assets</b>	<b>15,189</b>	<b>16,689</b>	<b>16,959</b>	<b>17,341</b>	<b>16,225</b>	<b>16,590</b>
Accounts payable	746	748	824	796	881	931
Short term loans	-	49	138	-	-	-
Current portion of long term debts	490	417	526	654	725	759
Current portion of capital lease	59	-	-	110	145	-
Shareholders advances	94	75	75	75	75	75
Total current liabilities	1,389	1,288	1,564	1,635	1,827	1,765
Long term debt	5,777	7,155	6,629	5,975	3,450	2,691
Obligations under capital lease	252	255	255	145	-	-
Shareholder advances	414	392	392	392	392	392
End-of-service indemnities	83	100	106	112	116	120
Other non-current liabilities	140	78	78	78	78	78
Total non-current liabilities	6,665	7,979	7,460	6,702	4,036	3,281
Share capital	3,667	3,667	3,667	3,667	3,667	3,667
Statutory reserve	1,047	1,109	1,175	1,283	1,410	1,526
General reserve	-	-	-	-	-	-
Reserve for the sale of shares in subsidiaries	49	49	49	49	49	49
Retained earnings	960	783	915	1,336	1,928	2,416
Proposed dividend	-	238	238	238	238	238
Changes in fair value of int. rate hedging contracts	(97)	(53)	(53)	(53)	(53)	(53)
Total stockholder's equity	5,626	5,793	5,991	6,519	7,239	7,843
Minority interest	1,509	1,628	1,945	2,485	3,122	3,702
<b>Total liabilities &amp; stockholders' equity</b>	<b>15,189</b>	<b>16,689</b>	<b>16,959</b>	<b>17,341</b>	<b>16,225</b>	<b>16,590</b>

Source: Company, NCBC Research estimates

**Exhibit 36: Cash flow Statement**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	1,194	946	1,833	2,033	2,684	2,492
Cash flow from investing activities	(1,328)	(1,696)	(994)	(679)	(615)	(633)
Addition(and transfers) to PP&E	(1,208)	(1,309)	(490)	(507)	(558)	(577)
Cash flow from financing activities	(445)	555	(788)	(1,217)	(3,116)	(1,423)
Debt	464	1,353	(327)	(664)	(2,454)	(725)
Net change in cash	(579)	(195)	51	138	(1,047)	437
Cash at start of the year	3,630	3,053	2,858	2,909	3,046	2,000
<b>Cash at end of the year</b>	<b>3,053</b>	<b>2,858</b>	<b>2,909</b>	<b>3,046</b>	<b>2,000</b>	<b>2,437</b>

Source: Company, NCBC Research estimates

SEPTEMBER 2014

**Exhibit 37: Key ratios**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	1.6	1.7	1.8	2.9	3.5	3.2
FCF per share	(0.4)	(2.1)	2.4	3.7	5.6	5.1
Div per share	1.3	1.3	1.3	1.5	1.5	1.5
Book value per share	15.3	15.8	16.3	17.8	19.7	21.4
<b>Valuation ratios (x)</b>						
P/E	24.8	24.0	22.6	13.8	11.7	12.9
P/FCF	NM	NM	17.0	11.0	7.2	8.0
P/BV	2.6	2.6	2.5	2.3	2.1	1.9
EV/sales	5.9	5.8	5.7	4.5	4.0	4.2
EV/EBITDA	14.0	13.6	13.1	9.3	8.3	8.8
Div yield (%)	3.1	3.1	3.1	3.7	3.7	3.7
<b>Profitability ratios (%)</b>						
Gross margins	32.3	32.4	34.3	39.3	39.9	37.8
Operating margin	29.0	29.0	30.5	36.0	36.7	34.5
EBITDA margins	42.1	42.4	43.6	48.5	49.0	47.8
Net profit margins	15.3	15.5	16.2	21.0	22.2	20.9
ROE	10.7	10.9	11.2	17.3	18.5	15.3
ROA	4.0	3.9	3.9	6.3	7.6	7.0
<b>Liquidity ratios</b>						
Current ratio	3.0	3.5	2.8	2.9	2.0	2.3
Quick Ratio	2.8	3.2	2.6	2.6	1.8	2.1
<b>Operating ratios (days)</b>						
Inventory	38	41	41	41	41	41
Receivables outstanding	80	120	100	90	80	85
Payables outstanding	20	28	30	30	30	30
Operating cycle	118	161	141	131	121	126
Cash cycle	98	132	111	101	91	96
<b>Production &amp; sales</b>						
Production capacity, at the end of the year (mn mt)	2.2	2.5	2.5	2.6	2.6	2.6
Production volumes (mn mt)	2.4	2.0	2.2	2.4	2.6	2.4
Utilization rate (%)	109	79	87	92	100	94
External sales volumes(mn mt)	1.6	1.3	1.3	1.4	1.5	1.4

Source: Company, NCBC Research estimates



## COMPANY UPDATE

## Sustainability of dividends, a key risk

We remain Neutral on SAFCO with a revised PT of SR156.0. We expect SAFCO's 2015E net income to grow 8.3% driven by the start-up of SAFCO 5 (net income contribution of SR170mn) and a slight improvement in fertilizer prices. However, we have reduced our 2014E net income estimates by 4.7% to SR3bn mainly due to lower income from associates, as seen in 1H14. SAFCO is currently trading at 2015E P/E of 17x, higher than peers average of 15.1x, which is justified considering the high dividend yield. However, SAFCO reduced its DPS to SR4.0 in 1H14 against SR6.0 in 1H13. Any further cuts in dividends are a key downside risks to the stock.

## Financials

## Exhibit 38: Income Statement

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>4,980</b>	<b>4,240</b>	<b>4,208</b>	<b>4,495</b>	<b>4,698</b>	<b>5,301</b>
% change	(1.4)	(14.9)	(0.8)	6.8	4.5	12.8
COGS	(1,372)	(1,362)	(1,388)	(1,535)	(1,857)	(1,850)
Gross profit	3,608	2,879	2,821	2,960	2,841	3,451
Gross margins (%)	72.5	67.9	67.0	65.9	60.5	65.1
SG&A expenses	(87)	(81)	(99)	(103)	(108)	(122)
Operating income	3,522	2,797	2,722	2,857	2,733	3,329
% change	(4.2)	(20.6)	(2.7)	4.9	(4.4)	21.8
Operating margins (%)	70.7	66.0	64.7	63.6	58.2	62.8
<b>EBITDA</b>	<b>3,869</b>	<b>3,171</b>	<b>3,085</b>	<b>3,359</b>	<b>3,201</b>	<b>3,778</b>
EBITDA margins (%)	77.7	74.8	73.3	74.7	68.1	71.3
Net interest income	0.0	0.0	2.8	0.0	0.0	0.0
Income from associates	312	364	247	369	352	416
Others	139	79	86	86	86	86
Non-recurring items	0	0	0	0	0	0
Income before Zakat	3,973	3,241	3,058	3,312	3,170	3,830
Zakat	(107)	(80)	(79)	(86)	(82)	(99)
<b>Net income</b>	<b>3,866</b>	<b>3,160</b>	<b>2,979</b>	<b>3,227</b>	<b>3,089</b>	<b>3,732</b>
% change	(5.9)	(18.3)	(5.7)	8.3	(4.3)	20.8
Net margin (%)	77.6	74.5	70.8	71.8	65.7	70.4
EPS (SR)	11.6	9.5	8.9	9.7	9.3	11.2

Source: Company, NCBC Research estimates

## NEUTRAL

Target price (SR) 156.0

Current price (SR) 164.2

## STOCK DETAILS

M52-week range H/L (SR)	173/143
Market cap (\$mn)	14,595
Shares outstanding (mn)	333
Listed on exchanges	Tadawul

Price perform (%)	1M	3M	12M
Absolute	(0.3)	1.5	9.6
Rel. to market	(1.6)	(11.1)	(25.9)

Avg daily turnover (mn)	SR	US\$
3M	30.4	8.1
12M	30.6	8.1

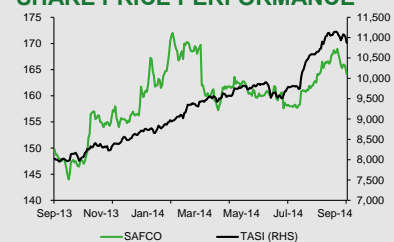
Reuters code	2020.SE
Bloomberg code	SAFCO AB
	<a href="http://www.safco.com.sa">www.safco.com.sa</a>

## VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	17.3	18.4	17.0
P/B (x)	6.6	6.6	6.9
EV/EBITDA (x)	16.6	17.0	15.6
Div Yield (%)	7.3	5.5	5.8

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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SEPTEMBER 2014

**Exhibit 39: Balance Sheet**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash and cash equivalents	3,594	2,140	1,320	1,037	869	1,141
Accounts receivable	1,062	876	800	877	916	1,007
Inventory	423	342	433	474	514	510
Home ownership receivables	13	10	10	10	10	10
Total current assets	5,092	3,368	2,563	2,398	2,309	2,669
Intangible assets	144	217	174	139	111	89
Investment in associates	814	828	852	889	925	966
Available for sale	449	700	700	700	700	700
Property, plant and equipment	3,500	4,320	5,078	4,896	4,744	4,597
Home ownership program	33	26	30	24	19	15
Total non-current assets	4,940	6,092	6,834	6,648	6,499	6,367
<b>Total assets</b>	<b>10,032</b>	<b>9,460</b>	<b>9,397</b>	<b>9,046</b>	<b>8,808</b>	<b>9,036</b>
Accounts payable & other liabilities	399	399	361	353	436	435
Dividends payable	131	156	156	156	156	156
Current portion of long term debt	40	-	-	-	-	-
Zakat provision	124	133	133	133	133	133
Total current liabilities	693	688	649	642	725	723
End of service indemnities& saving plans	482	503	500	430	520	518
Total non-current liabilities	482	503	500	430	520	518
Total liabilities	1,175	1,191	1,149	1,071	1,245	1,241
Share capital	3,333	3,333	3,333	3,333	3,333	3,333
Reserves	1,712	1,712	1,712	1,712	1,712	1,712
Adjustment for fair value changes	354	605	605	605	605	605
Retained earnings	1,458	619	598	658	413	478
Proposed dividends	2,000	2,000	2,000	1,667	1,500	1,667
Total shareholders' equity	8,857	8,269	8,248	7,974	7,563	7,794
<b>Total liabilities &amp; shareholders' equity</b>	<b>10,032</b>	<b>9,460</b>	<b>9,397</b>	<b>9,046</b>	<b>8,808</b>	<b>9,036</b>

Source: Company, NCBC Research estimates

**Exhibit 40: Cash flow Statement**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	3,957	3,444	3,033	3,169	3,304	3,677
Cash flow from investing activities	(287)	(883)	(853)	48	28	94
Addition(and transfers) to PP&E	(573)	(1,090)	(1,078)	(284)	(289)	(280)
Cash flow from financing activities	(3,356)	(4,015)	(3,000)	(3,500)	(3,500)	(3,500)
Debt	(120)	(40)	-	-	-	-
Net change in cash	314	(1,454)	(820)	(283)	(168)	272
Cash at start of the year	3,280	3,594	2,140	1,320	1,037	869
<b>Cash at end of the year</b>	<b>3,594</b>	<b>2,140</b>	<b>1,320</b>	<b>1,037</b>	<b>869</b>	<b>1,141</b>

Source: Company, NCBC Research estimates



SEPTEMBER 2014

**Exhibit 41: Key ratios**

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	11.6	9.5	8.9	9.7	9.3	11.2
FCF per share	11.0	7.7	6.5	9.7	10.0	11.3
Div per share	10.5	12.0	9.0	9.5	10.0	11.0
Book value per share	26.6	24.8	24.7	23.9	22.7	23.4
<b>Valuation ratios (x)</b>						
P/E	14.2	17.3	18.4	17.0	17.7	14.7
P/FCF	14.9	21.4	25.1	17.0	16.4	14.5
P/BV	6.2	6.6	6.6	6.9	7.2	7.0
EV/sales	10.5	12.4	12.5	11.7	11.2	9.9
EV/EBITDA	13.6	16.6	17.0	15.6	16.4	13.9
Div yield (%)	6.4	7.3	5.5	5.8	6.1	6.7
<b>Profitability ratios (%)</b>						
Gross margins	72.5	67.9	67.0	65.9	60.5	65.1
Operating margin	70.7	66.0	64.7	63.6	58.2	62.8
EBITDA margins	77.7	74.8	73.3	74.7	68.1	71.3
Net profit margins	77.6	74.5	70.8	71.8	65.7	70.4
ROE	45.3	36.9	36.1	39.8	49.9	61.2
ROA	39.9	32.4	31.6	35.0	42.1	50.8
<b>Liquidity ratios</b>						
Current ratio	7.3	4.9	3.9	3.7	3.2	3.7
Quick Ratio	11.7	7.6	5.9	5.4	4.1	5.0
<b>Operating ratios (days)</b>						
Inventory (excl. spare parts)	30	27	39	39	39	39
Receivables outstanding	78	75	69	71	71	69
Payables outstanding	63	83	66	58	60	60
Operating cycle	107	102	108	110	110	108
Cash cycle	45	19	42	52	50	48
<b>Production &amp; sales</b>						
Total production capacity (mn mt)	4.4	4.4	4.4	5.5	5.5	5.5
Production volumes (mn mt)	4.5	4.1	4.5	5.4	5.5	5.5
Utilization rate (%)	102	93	102	98	100	100
External sales volumes (mn mt)	3.0	2.8	3.1	3.5	3.5	3.5

Source: Company, NCBC Research estimates

# SAHARA PETROCHEMICAL



## COMPANY UPDATE

### Startups growth, priced in

We remain Neutral on Sahara with a revised PT of SR24.4. The price target increased by 28.3%, supported by an increase in Al Waha's operating rates (100-105% in 2015E onwards vs. previously of 95-102%), higher product prices and lower WACC. Al Waha facilities have been operating at 105% since 1Q13 (except in 1Q14 due to shutdown), we believe these operating rates are sustainable in the long-run. This, coupled with higher earnings from SEPC and earlier than expected commercial start-up of superabsorbent polymers project increased our 2014E net income by 24.4%.

We believe that the current price reflects Sahara's strong 2015E outlook. The stock price rallied 42.1% since our last update, outperforming the TASI petrochemical index by 28%. It is currently trading at 2015E P/E of 15.0x, higher than its peers average P/E of 13.7x. We believe all the positives of the stock are priced in at the current level.

## Financials

### Exhibit 42: Income Statement

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>1,543</b>	<b>2,378</b>	<b>2,156</b>	<b>2,462</b>	<b>2,481</b>	<b>2,465</b>
% chg	1.1	54.1	(9.3)	14.2	0.8	(0.6)
COGS	(1,490)	(1,946)	(1,720)	(1,959)	(1,977)	(1,974)
Gross Profit	53	432	436	503	504	492
Margins (%)	3.4	18.2	20.2	20.4	20.3	19.9
S,D,G&A expenses	(81)	(120)	(150)	(135)	(136)	(135)
Operating income	(28)	312	286	368	368	357
% chg	NA	NA	(8.5)	28.9	(0.0)	(3.2)
Margins (%)	(1.8)	13.1	13.3	15.0	14.8	14.5
<b>EBITDA</b>	<b>545</b>	<b>941</b>	<b>1,077</b>	<b>1,214</b>	<b>1,186</b>	<b>1,182</b>
Margins (%)	35.3	39.6	50.0	49.3	47.8	47.9
Interest income	8	13	13	13	13	15
Income from associates	318	417	562	614	583	588
Finance costs	(85)	(76)	(64)	(68)	(58)	(48)
Income before MI expenses	212	666	797	927	906	911
Minority interest	23	(63)	(63)	(80)	(82)	(82)
Income before zakat	236	603	734	847	824	829
Zakat	(31)	(32)	(42)	(57)	(69)	(70)
<b>Net income</b>	<b>204</b>	<b>571</b>	<b>691</b>	<b>790</b>	<b>755</b>	<b>760</b>
% chg	(50.3)	179.2	21.1	14.3	(4.5)	0.6
Net margin (%)	13.2	24.0	32.1	32.1	30.4	30.8
EPS (SR)	0.5	1.3	1.6	1.8	1.7	1.7

Source: Company, NCBC Research estimates

## NEUTRAL

**Target price (SR)** 24.4

**Current price (SR)** 27.0

### STOCK DETAILS

52-week range H/L (SR)	27.7/15.8
Market cap (\$mn)	3,159
Shares outstanding (mn)	439
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.3	27.2	64.6
Rel. to market	5.0	14.6	29.1

Avg daily turnover (mn)	SR	US\$
3M	91.6	24.4
12M	75.7	20.2

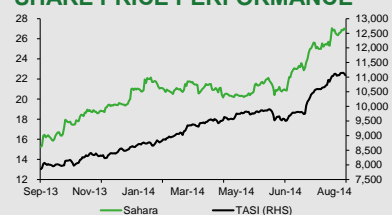
Reuters code	2260.SE
Bloomberg code	SPC AB
	<a href="http://www.saharapcc.com">www.saharapcc.com</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	20.8	17.1	15.0
P/B (x)	2.0	1.9	1.8
EV/EBITDA (x)	24.9	25.3	21.7
Div Yield (%)	3.1	3.1	3.7

Source: NCBC Research estimates

### SHARE PRICE PERFORMANCE



Source: Tadawul

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SEPTEMBER 2014

**Exhibit 43: Balance sheet**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & cash equivalents	986	1,127	1,280	1,703	2,060	2,503
Short-term deposits	-	160	160	160	160	160
Other receivables & prepayments	56	66	111	111	111	111
Accounts receivables	409	496	384	438	442	439
Inventories	301	227	353	403	406	324
Total current assets	1,752	2,075	2,288	2,815	3,179	3,537
Investment in associates	2,926	2,937	3,079	3,089	3,098	3,107
Cost of projects under development	60	54	29	29	29	29
Property and equipment, net	3,672	3,536	3,354	3,178	2,998	2,815
Intangible assets	91	76	83	75	67	60
Total non-current assets	6,749	6,603	6,546	6,371	6,192	6,011
<b>Total assets</b>	<b>8,501</b>	<b>8,678</b>	<b>8,834</b>	<b>9,186</b>	<b>9,371</b>	<b>9,548</b>
Short term borrowings	56	0	0	0	0	0
Current portion of long term loans	201	221	225	240	240	240
Accounts payables and other liabilities	401	368	330	376	379	378
Other current liabilities	42	40	40	40	40	40
Total current liabilities	701	630	595	656	659	659
Long term debts	1,889	1,713	1,518	1,308	1,088	858
Other non-current liabilities	94	72	76	80	84	88
Total non-current liabilities	1,983	1,785	1,594	1,388	1,172	946
Share capital	4,388	4,388	4,388	4,388	4,388	4,388
Statutory reserves	102	159	228	307	383	459
Change in cash flow hedge position	(54)	(27)	(27)	(27)	(27)	(27)
Retained earnings	982	1,274	1,523	1,861	2,102	2,347
Total stockholders' equity	5,418	5,794	6,113	6,530	6,846	7,167
Minority interest	399	469	532	612	694	776
<b>Total liabilities &amp; stockholders' equity</b>	<b>8,501</b>	<b>8,678</b>	<b>8,834</b>	<b>9,186</b>	<b>9,371</b>	<b>9,548</b>

Source: Company, NCBC Research estimates

**Exhibit 44: Cash flow statement**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	131	378	328	434	488	579
Cash flow from investing activities	2	197	390	556	528	532
Addition(and transfers) to PP&E	2	197	390	556	528	532
Cash flow from financing activities	(144)	(434)	(564)	(568)	(659)	(669)
Debt	56	(257)	(191)	(195)	(220)	(230)
Net change in cash	(12)	141	153	423	357	442
Cash at start of the year	998	986	1,127	1,280	1,703	2,060
<b>Cash at end of the year</b>	<b>986</b>	<b>1,127</b>	<b>1,280</b>	<b>1,703</b>	<b>2,060</b>	<b>2,503</b>

Source: Company, NCBC Research estimates

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**Exhibit 45: Key ratios**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	0.5	1.3	1.6	1.8	1.7	1.7
FCF per share	(0.1)	0.7	0.4	0.9	1.0	1.2
Dividend per share	0.5	0.9	0.9	1.0	1.0	1.0
Book value per share	12.3	13.2	13.9	14.9	15.6	16.3
<b>Valuation ratios (x)</b>						
P/E	57.9	20.8	17.1	15.0	15.7	15.6
P/FCF	NM	36.7	72.3	30.7	26.8	22.3
P/BV	2.2	2.0	1.9	1.8	1.7	1.7
EV/sales	8.4	5.5	6.0	5.3	5.3	5.3
EV/EBITDA	57.3	24.9	25.3	21.7	21.6	21.9
Div yield (%)	1.9	3.1	3.1	3.7	3.7	3.7
<b>Profitability ratios (%)</b>						
Gross margins	3.4	18.2	20.2	20.4	20.3	19.9
Operating margin	(1.8)	13.1	13.3	15.0	14.8	14.5
EBITDA margins	35.3	39.6	50.0	49.3	47.8	47.9
Net profit margins	13.2	24.0	32.1	32.1	30.4	30.8
ROE	3.9	10.2	11.6	12.5	11.3	10.8
ROA	2.4	6.6	7.9	8.8	8.1	8.0
<b>Liquidity ratios</b>						
Current ratio	1.5	1.9	2.3	2.3	2.3	2.1
Quick Ratio	0.9	1.4	1.3	1.3	1.3	1.3
<b>Operating ratios (days)</b>						
Inventory	74	43	75	75	75	60
Receivables outstanding	97	76	65	65	65	65
Payables outstanding	98	69	70	70	70	70
Operating cycle	171	119	140	140	140	125
Cash cycle	72	50	70	70	70	55
<b>Production &amp; sales</b>						
Capacity (mn mt)	0.9	0.9	0.9	0.9	0.9	0.9
Production volumes (mn mt)	0.4	0.9	0.8	1.0	0.9	0.9
Utilization rate (%)	45	105	87	105	102	102
External sales volumes (mn mt)	0.2	0.4	0.4	0.5	0.5	0.5

Source: Company, NCB Research estimates

# PETROCHEM



## COMPANY UPDATE

### Improved operations and margins priced-in

We remain Neutral on Petrochem with a revised PT of SR34.0. Our PT increased 14.5%, mainly due to 1) the improvement in operational efficiencies and margins, 2) the increase in long term oil price forecasts and 3) lowering WACC. Petrochem's gross margins reached 28.5% in 2Q14 driven by improving operational efficiencies. This trend is expected to continue for the next few quarters. We expect gross margins to increase 280bps in 2H14E and 256bps in 2015E to reach 31.8%. Continuous improvement in margins will be a key catalyst.

We believe these factors are already priced-in at the current levels. The stock gained 36.3% YTD, outperforming the TASI by 8.9%. The stock is trading at 2015 P/E of 14.6x, broadly in-line with sector average P/E of 15.1x. Moreover, we believe paying dividends is unlikely in the near-to-medium term due to the highly leveraged balance sheet (D/E ratio of 2.8x in 2Q14).

## Financials

### Exhibit 46: Income statement

SRmn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Revenues</b>	<b>858</b>	<b>4,437</b>	<b>8,338</b>	<b>9,193</b>	<b>8,967</b>	<b>8,843</b>
% change	-	417.2	87.9	10.3	(2.5)	(1.4)
COGS	(1,337)	(3,710)	(5,903)	(6,272)	(6,449)	(6,460)
Gross profit	(479)	727	2,435	2,921	2,518	2,383
Gross margins (%)	(55.8)	16.4	29.2	31.8	28.1	27.0
G&A expenses	(203)	(561)	(837)	(824)	(537)	(531)
Operating income	(682)	165	1,598	2,097	1,981	1,852
% change	NM	NM	865.8	31.2	(5.5)	(6.5)
Operating margins (%)	(79.5)	3.7	19.2	22.8	22.1	20.9
<b>EBITDA</b>	<b>(490)</b>	<b>952</b>	<b>2,425</b>	<b>2,958</b>	<b>2,848</b>	<b>2,745</b>
EBITDA margins (%)	(57.2)	21.5	29.1	32.2	31.8	31.0
Investment & other income	51	0	0	6	8	12
Finance charges	(14)	(203)	(174)	(201)	(204)	(209)
Income before MI expenses	(646)	(38)	1,424	1,902	1,786	1,655
Minority interest	221	10	(497)	(666)	(625)	(579)
Income before Zakat	(425)	(28)	927	1,236	1,161	1,076
Zakat	(39)	(38)	(50)	(87)	(58)	(54)
<b>Net income</b>	<b>(464)</b>	<b>(66)</b>	<b>877</b>	<b>1,150</b>	<b>1,103</b>	<b>1,022</b>
% change	-	NM	NM	31.1	(4.1)	(7.3)
Net margin (%)	(54.0)	(1.5)	10.5	12.5	12.3	11.6
EPS (SR)	(1.0)	(0.1)	1.8	2.4	2.3	2.1

Source: Company, NCBC Research estimates

## NEUTRAL

**Target price (SR)** 34.0

**Current price (SR)** 34.9

### STOCK DETAILS

52-week range H/L (SR)	36.4/20.9
Market cap (\$mn)	4,467
Shares outstanding (mn)	480
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	4.1	5.7	60.1
Rel. to market	2.8	(6.9)	24.6

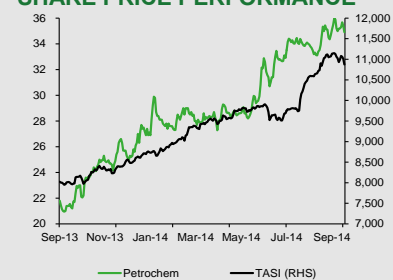
Avg daily turnover (mn)	SR	US\$
3M	33.7	9.0
12M	27.0	7.2

Reuters code	2002.SE
Bloomberg code	PETROCHEM AB
	<a href="http://www.petrochem.com.sa">www.petrochem.com.sa</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	NM	19.1	14.6
P/B (x)	4.1	3.4	2.7
EV/EBITDA (x)	33.6	13.2	10.8
Div Yield (%)	-	-	-

### SHARE PRICE PERFORMANCE



Source: Tadawul

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**Exhibit 47: Balance sheet**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash & Cash equivalents	168	673	1,808	2,400	3,491	3,783
Amount due from a related party	172	153	153	153	153	153
Accounts receivables	314	792	1,142	1,259	1,228	1,211
Inventories	429	931	1,213	1,289	1,325	1,327
Total current assets	1,083	2,548	4,316	5,101	6,197	6,475
Cost of project under construction	890	-	-	-	-	-
Property and equipment, net	18,295	18,369	17,692	16,981	16,264	15,521
Deferred expenses	107	75	75	75	75	75
Employee loans	11	13	13	13	13	13
Total non-current assets	19,303	18,457	17,780	17,069	16,352	15,609
<b>Total assets</b>	<b>20,387</b>	<b>21,006</b>	<b>22,096</b>	<b>22,170</b>	<b>22,549</b>	<b>22,084</b>
Accounts payable, accruals and other liabilities	428	608	970	1,031	1,060	1,062
Zakat provision	40	75	75	75	75	75
Due to an affiliate company	51	122	122	122	122	122
Short term borrowings	-	600	300	150	-	-
Current portion of LT debt	565	926	1,327	1,343	1,357	1,391
Total current liabilities	1,084	2,330	2,794	2,720	2,614	2,650
Long term debts	12,893	11,968	11,461	10,118	9,661	8,320
Support loans	764	1,132	1,132	1,132	1,132	1,132
Other non-current liabilities	14	22	29	37	44	52
Total non-current liabilities	13,672	13,121	12,622	11,287	10,837	9,504
Share capital	4,800	4,800	4,800	4,800	4,800	4,800
Statutory reserves	2	2	90	204	315	417
Retained earnings	(615)	(681)	109	1,143	1,656	2,096
Total shareholders' equity	4,187	4,121	4,998	6,148	6,771	7,313
Minority interests	1,444	1,434	1,682	2,015	2,328	2,617
<b>Total liabilities &amp; stockholders' equity</b>	<b>20,387</b>	<b>21,006</b>	<b>22,096</b>	<b>22,170</b>	<b>22,549</b>	<b>22,084</b>

Source: Company, NCBC Research estimates

**Exhibit 48: Cash flow statement**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
Cash flow from operating activities	(840)	103	1,691	2,219	2,313	2,229
Cash flow from investing activities	(1,570)	(0)	(150)	(150)	(150)	(150)
Addition(and transfers) to PP&E	(1,570)	(0)	(150)	(150)	(150)	(150)
Cash flow from financing activities	871	402	(406)	(1,477)	(1,073)	(1,787)
Debt	871	402	(406)	(1,477)	(593)	(1,307)
Net change in cash	(1,539)	505	1,135	593	1,090	292
Cash at start of the year	1,707	168	673	1,808	2,400	3,491
<b>Cash at end of the year</b>	<b>168</b>	<b>673</b>	<b>1,808</b>	<b>2,400</b>	<b>3,491</b>	<b>3,783</b>

Source: Company, NCBC Research estimates

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**Exhibit 49: Key ratios**

In SR mn, unless otherwise stated

	2012A	2013A	2014E	2015E	2016E	2017E
<b>Per share ratios (SR)</b>						
EPS	(1.0)	(0.1)	1.8	2.4	2.3	2.1
Dividend per share	(5.0)	0.6	4.0	5.3	5.5	5.2
FCF per share	-	-	-	-	1.0	1.0
Book value per share	8.7	8.6	10.4	12.8	14.1	15.2
<b>Valuation ratios (x)</b>						
P/E	NM	NM	19.1	14.6	15.2	16.4
P/BV	NM	62.5	8.7	6.6	6.4	6.6
P/FCF	4.0	4.1	3.4	2.7	2.5	2.3
EV/sales	37.2	7.2	3.8	3.5	3.6	3.6
EV/EBITDA	(65.1)	33.6	13.2	10.8	11.2	11.6
Div yield (%)	0	0	0	0	2.9	2.9
<b>Profitability ratios (%)</b>						
Gross margins	(55.8)	16.4	29.2	31.8	28.1	27.0
Operating margin	(79.5)	3.7	19.2	22.8	22.1	20.9
EBITDA margins	(57.2)	21.5	29.1	32.2	31.8	31.0
Net profit margins	(54.0)	(1.5)	10.5	12.5	12.3	11.6
ROE	(10.5)	(1.6)	19.2	20.6	17.1	14.5
ROA	(2.3)	(0.32)	4.1	5.2	4.9	4.6
<b>Liquidity ratios</b>						
Current ratio	1.6	1.3	1.8	2.0	2.2	2.2
Quick Ratio	0.7	0.6	0.8	1.0	1.1	1.1
<b>Operating ratios (days)</b>						
Inventory	29	92	75	75	75	75
Receivables outstanding	18	65	50	50	50	50
Payables outstanding	29	60	60	60	60	60
Operating cycle	47	157	125	125	125	125
Cash cycle	18	97	65	65	65	65
<b>Production &amp; sales</b>						
Capacity (mn mt)	3.4	3.4	3.4	3.4	3.4	3.4
Production volumes (mn mt)	0.3	1.6	2.8	3.3	3.3	3.3
Utilization rate (%)	74.6	56.9	83.5	98.0	98.0	98.0
External sales volumes (mn mt)	0.1	0.8	1.4	1.7	1.7	1.7

Source: Company, NCBC Research estimates

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PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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