


US\$2.390bn

Market cap

88%

Free float

US\$23.43mn

Avg. daily volume

Target price

21.70

6.2% over current

Consensus price

22.44

9.8% over current

Current price

20.43

as at 16/4/2014

Research Department

ARC Research Team

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Existing rating

Underweight

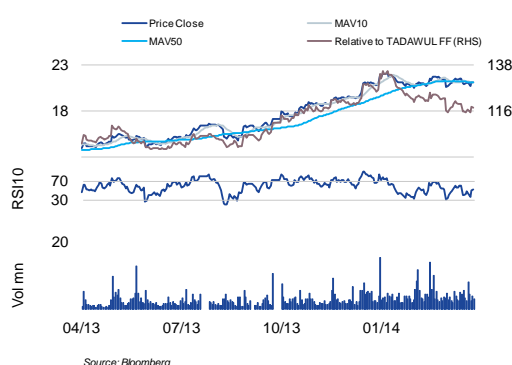
Neutral

Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

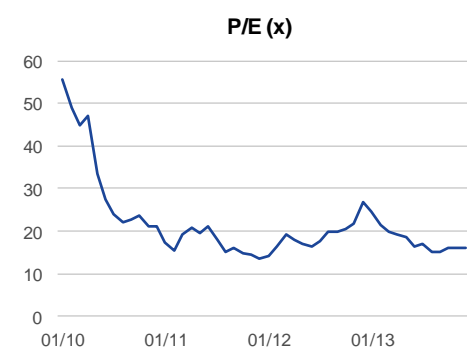


Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	1,544	2,378	2,824	3,460
Revenue Growth	1.2%	54.0%	18.7%	22.5%
EBITDA (mn)	228	511	610	885
EBITDA Growth	-29.1%	124.3%	19.4%	45.0%
EPS	0.47	1.32	1.91	2.63
EPS Growth	-65.2%	183.1%	44.8%	37.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Sahara Petrochemical Co

Al Waha shutdown hits Q1 results

SPC reported adjusted net income of SAR108.2mn (adjusted for one-off merger expense of SAR8.3mn), which was well below our estimates of SAR137.8mn as well as the consensus estimates of SAR158.5mn. The company attributed its poor performance to the Al Waha shutdown, which spanned across a 17-day period starting Dec 24, 2013. Considering only 9 days of the shutdown in Q1, the wide earnings miss point toward a weaker ramp-up post commencement. With Al Waha shutdown behind us and Sahara & Ma'aden Petrochemicals Company (SAMAPCO) coming online in H2, we expect earnings to improve over the medium-term. As a result, we revise our target price marginally upward to SAR21.7 a share and reiterate our Neutral rating.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Lower revenues expected:** SPC has not yet declared its Q1 revenues. Considering the earnings miss, we expect the top-line to be lower than our estimates of SAR557.6mn.
- Shutdown drags down profits:** SPC reported an operating profit of SAR17.9mn (-58% y-o-y), which was considerably lower than our forecast of SAR61.3mn. The company attributed its poor show to the shutdown at Al Waha, although it had earlier stated that the overall impact would be limited (net profit impact of SAR12mn). This makes us believe that the operating rates after resumption were significantly lower (at ~55%) than our expectations of ~85% (Q4 operating rates: ~100%). The company's lower operating profits resulted in a disappointing bottom-line of SAR99.9mn (-20.3% y-o-y).
- Conclusion and Valuation:** SPC closed its Al Waha plant for a shorter period this year as compared to Q1 2013. Moreover, polypropylene (from which SPC derives its top-line) prices inched up 2.3% y-o-y. Based on these factors we had estimated a marginally better quarter y-o-y. However, with Al Waha running smooth and SAMAPCO expected to come online in H2, we expect SPC to improve its performance in FY2014. We revise our target price upward to SAR21.7 a share and maintain a Neutral rating.

Figure 1 APC: Summary of Q1 2014 results

SAR (mn)	Q1 2013	Q4 2013	Q1 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	521.0	666.1	Not disclosed	n.a.	n.a.	557.6
EBITDA	94.6	141.0	Not disclosed	n.a.	n.a.	114.4
EBITDA margin	18.2%	21.2%	n.a.			20.5%
Operating profit	42.6	87.6	17.9	-58.0%	-79.6%	61.3
Net profit	125.4	178.2	99.9	-20.3%	-43.9%	137.8

Source: Company data, Al Rajhi Capital



Major Q1 developments

SPC announces developments at SAMAPCO

In January, SPC declared that it had completed the performance tests at its affiliate SAMAPCO (SPC owns 50% stake). The company further added that it will continue experimental operations till Q2 2014 and these operations will have no financial impact. We expect the plant to commence commercial operations in H2 this year.

SPC commences initial operations at SAPCO

SPC recently announced that it has initiated experimental operations at Saudi Acrylic Polymers Co (SAPCO) – a Saudi Acrylic Acid company (SAAC) subsidiary (SPC holds a stake of 43.16% in SAAC). The initial operations are expected to continue till 2014-end. Superabsorbent polymers produced by SAPCO will have applications in construction, agriculture and food packaging industries.

SPC-Sipchem merger developments

SPC has filed an announcement on Tadawul that both the companies have completed initial studies on the proposed merger and signed a memorandum of understanding to initiate final due diligence process. Also, the companies have agreed on the swap ratio of 0.685 (Sipchem will issue 0.685 new share for each share of Sahara). We await further details related to the merger.



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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