Sipchem

Petrochemicals –Industrial
SIPCHEM AB: Saudi Arabia
23 October 2013

الراجحي المالية
Al Rajhi Capital

US$2.542bn	92%	US$3.969mn
Market cap	Freefloat	Avg. daily volume

Target price	28.8	10.8% over current
Consensus price	24.4	-6.2% over current
Current price	26.0	as at 22/10/2013

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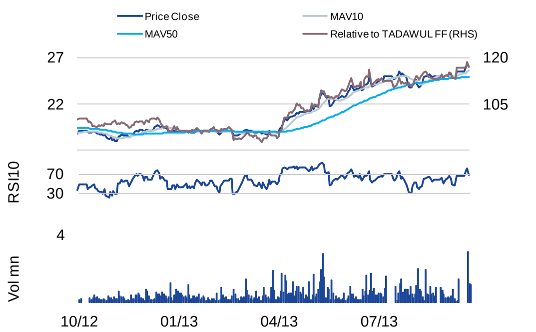
Existing rating

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

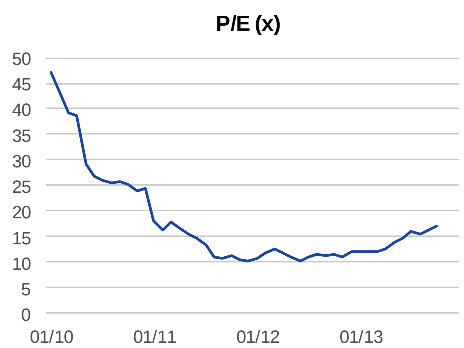


Earnings

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	3,922	3,815	4,374	4,768
Revenue Growth	18.0%	-2.7%	14.7%	9.0%
EBITDA (mn)	1,651	1,572	1,818	2,153
EBITDA Growth	-6.6%	-4.8%	15.6%	18.4%
EPS	1.60	1.51	1.95	2.59
EPS Growth	-16.9%	-6.1%	29.8%	32.6%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Sipchem
Bottom line below expectations

Sipchem reported a Q3 net profit of SAR185.2mn short of our expectations of SAR217.6mn. The management had guided utilization rates of around 100%; however, we believe lower operating rates especially at the recently started EA plant was the key reason for the earnings miss. We await detailed financials for further investigation. For now, we maintain our Overweight rating on the stock with a target price of SAR28.8 per share.

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

- **Revenues not yet published:** Sipchem has not yet published Q3 revenue. Looking at the earnings miss, we expect revenue to be lower than our SAR1,055mn estimate (consensus: SAR997mn).
- **Gross and operating profits lower q-o-q:** Sipchem reported a decline in gross profit (6.3% q-o-q) on account of higher ethylene feedstock prices, which climbed 14.1% q-o-q.Despite a decline in operating expenses, operating profit dropped 6.1% q-o-q to SAR318.8mn. Both, gross and operating profits were below our expectations.
- **Net profit miss our estimate:** Sipchem's SAR185.2mnnet profit for Q3 was well below our expectations,but was largely in-line with consensus estimate. We believe utilization rate at the recently commenced EA plant was lower than our expectations. We will review the results after detailed financial statements are released.
- **Valuation and Conclusion:** Sipchem's lower than expected Q3 numbers were on account of lower operating rates andelevatedfeedstock prices. Additionally, performance of the marketing segment, which contributes over 25% to total revenues, also needs to be assessed. For now, we reiterate our Overweight rating on the stock with a target price of SAR28.8 per share.

Figure 1 Sipchem: Summary of Q3 2013 results

SAR (mn)	Q3 2012	Q2 2013	Q3 2013	% chg y-o-y	% chg q-o-q	ARC est
Revenue	914	912	Not disclosed	n.a.	n.a.	1,055
EBITDA	394	475	Not disclosed	n.a.	n.a.	513
EBITDA margin	43.1%	52.1%	n.a.			48.6%
Operating profit	288	339	319	10.7%	-6.1%	401
Net profit	156	174	185	18.8%	6.4%	218

Source: Bloomberg, Al Rajhi Capital

Major Q3 Developments

Commencement of EA/BA plant

Sipchem started commercial production at its ethyl acetate (EA) and butyl acetate (BA) plant on 1st September. The plant, which is a part of Sipchem's Phase III downstream projects, has capacities of 100ktpa of EA and BA.

Experimental start-up at EVA/LDPE unit

On 26th September, Sipchem announced beginning of initial operations at some of the processes at the EVA and LDPE unit owned by International Polymers Co. (IPC, Sipchem's affiliate).The company has completed the first phase of start-up that includes installation and testing of major machinery. IPC has production capacities of 200ktpa of EVA and LDPE. We expect commercial operations to begin in Q1 2014.

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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