

PETROCHEM



EVENT FLASH

Highest quarterly earnings since inception

Petrochem reported a net income of SR305mn, significantly higher than the NCBC estimate of SR219mn. This is the highest quarterly net income since inception. It was an increase of 55% YoY and 200% QoQ driven by margin expansion. Petrochem reported the highest gross margin of 37.5%. We believe this is mainly due to operational efficiency and lower feedstock cost. The stock is currently trading at 2016E P/E of 11.6x, lower than the sectors average P/E of 12.7x.

- **NCBC view on the result:** Petrochem reported the highest quarterly net income since inception. Net income came-in at SR305mn, 39.3% higher than our estimate of SR219mn. It increased 55% YoY and 200% QoQ. Margins expansion was the main reason behind the strong result.
- Revenues came-in broadly in-line with our estimate while gross and operating profit came-in 19.1% and 35.1% higher than our estimates. We believe higher than expected margins and lower than expected SG&A expenses were the main reasons behind the deviation in earnings.
- We believe Petrochem facilities were operating at 95% in-line with our expectations of 95% and 1Q15 but higher than 79% reported in 2Q14.
- Gross margins stood at 37.5% in 2Q15, the highest since inception. We believe operational efficiency and lower feedstock cost supported gross margins expansion.
- Net income increased 55% YoY and 200% QoQ due to expansion in margins on lower feedstock prices. Also, an increase in product prices and lower SG&A expenses further supported the QoQ growth.
- Benchmark prices of key products such as polypropylene and polyethylene increased 14-18% QoQ but declined 13-16% YoY. Naphtha prices (60% of Petrochem feedstock) also fell 40.7% YoY but increased 13.9% QoQ. Moreover, Styrene prices declined 15.6% YoY but increased 34.4% QoQ.
- SIIG holds 50% stake in Petrochem, we revise SIIG's net income to SR242mn significantly higher than our earlier estimates of SR199mn.
- We remain Overweight on Petrochem with a PT of SR30.7. Net income to increase 11.9% YoY in 2015E on improvement in operation efficiency and gross margin expansion to 31.1% from 29.3% in 2014. The stock is trading at an attractive 2016E P/E of 11.6x, a discount to the sector average of 12.7x.

2Q15 Results Summary

SR mn	2Q15A	1Q15A	% QoQ	2Q14A	% YoY	2Q15E	% Var^
Revenues	1,967	1,771	11.1	1,966	0.1	2,025	(2.9)
Gross income	738	440	67.9	561	31.6	620	19.1
Gross margin	37.5	24.8	12.7	28.5	12.7	30.6	6.9
Operating income	565	233	142	365	54.7	418	35.1
Net income	305	102	200	197	55.0	219	39.3
EPS (SR)	0.64	0.21	200	0.41	55.0	0.46	39.3

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price	30.7
Current price (SR)	25.7

STOCK DETAILS

52-week range H/L (SR)	36/18
Market cap (\$ mn)	3,288
Shares outstanding (mn)	480
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.5)	6.0	(24.5)
Rel. to market	(1.1)	4.1	(19.8)

Avg daily turnover (mn)	SR	US\$
3M	11.6	3.1
12M	13.9	3.7

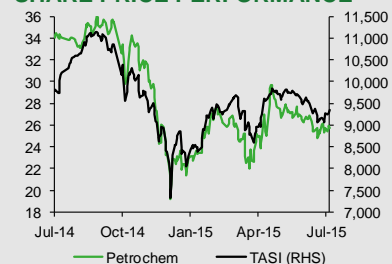
Reuters code	2002.SE
Bloomberg code	PETROCHEM AB
	www.petrochem.com.sa

VALUATION MULTIPLES

	14A	15E	16E
P/E (x)	15.9	14.2	11.6
P/B (x)	2.5	2.1	1.9
EV/EBITDA (x)	10.4	9.7	8.7
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
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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CS: Coverage Suspended. NCBC has suspended coverage of this company

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