



## GP margin expansion, increase in prices of some products aided the net income growth Q/Q despite a plant shutdown

SIPCHEM's net profit increased 14.4% Q/Q to SAR 182mn in Q1-24, beating our and consensus estimates of SAR 151mn and SAR 170mn, respectively. The variance from our estimate is mainly attributable to better-than-expected gross margin, which was driven by price premium in Europe amid the supply disruption due to the Red Sea issue. However, the better-than expected result was partially offset by loss in joint venture and associates as against our estimate of profit. The gross margin improved to 24.9% from 23.0% in Q4-23 and was higher than our estimate of 20.1%. SIPCHEM's revenue decreased 2.9% Q/Q primarily due to maintenance turnaround at Al Waha plant, which was partially offset by increase in prices of products such as Vinyl Acetate Monomer (VAM; +9.5% Q/Q) and Methanol (+3.6% Q/Q). We maintain our TP of SAR 42.6/share and "Overweight" recommendation.

- Sahara International Petrochemical Co. (SIPCHEM) registered a net profit of SAR 182mn in Q1-24, an increase of 14.4% Q/Q. The net income came above our and consensus estimates of SAR 151mn and SAR 170mn, respectively. The variance from our estimate is mainly attributable to the higher-than-expected gross margin. We expect net profit growth was limited by loss from JVs and associates (TSOC, SAMAPCO, SAAC). As per our calculations, loss from JVs and associates was at ~SAR 41mn vs. our forecast of profit of SAR 27mn and loss of SAR 56mn in the previous quarter.
- SIPCHEM's revenue fell 2.9% Q/Q at SAR 1,925mn in Q1-24 (-2.9% Q/Q), slightly above our estimate of SAR 1,832mn. The topline was impacted negatively by lower sales volume due to plant shutdown at Al Waha plant. However, increase prices of key products likely to have limited decline in revenue. Average prices of VAM jumped 9.5% Q/Q to USD 956 per ton in Q1-24, while Methanol prices grew 3.6% Q/Q to USD 291 per ton. PP was also up 1.2% Q/Q. Meanwhile, Acetic acid (AA) average prices fell 5.3% Q/Q and EVA average prices declined by 2.6% Q/Q.
- Gross profit increased 5.5% Q/Q to SAR 480mn in Q1-24, above AJC's estimate of SAR 368mn, as gross margin was significantly above our expectations. The gross margin of 24.9% expanded from 23.0% in Q4-23 and was above our estimate of 20.1%. The improvement in gross margin came despite an increase in average price of feedstock Propane (+2.7% Q/Q) and butane (+3.0% Q/Q). We believe the company is benefiting from price premium in Europe amid the supply disruption due to the Red Sea issue. This seems to have reflected positively on the company's revenues as well as GP margin. The impact of fixed feedstock price increase for SIPCHEM expected to be SAR 172mn on an annual basis, which will be more visible in coming quarters. However, variable feedstock prices may reduce in the coming summer season.
- Operating profit rose 29.6% Q/Q to SAR 294mn. OPEX-to-sales ratio stood at 9.7% as against 11.2% in Q4-23 but in line with our estimate.

**AJC view and valuation:** Overall, SIPCHEM posted a strong set of operating results. Revenue was relatively steady despite a plant shutdown, which we believe was driven by higher production efficiency as well as higher selling prices. The prices of some of the company's key products such as VAM and methanol improved during the quarter. Additionally, it seems to be benefiting from pricing premium in Europe due to the Red Sea supply disruption. These factors are likely to have supported the GP margin expansion. In upcoming summer season feedstock cost may decrease and support further expansion of GP margin. Asia including China accounted for ~22% of the company's sales in FY23. The expected recovery in China's construction and other sectors with support from the government may help SIPCHEM's products such as VAM and EVA. The company is trading at TTM PE of 32.0x versus a forward PE of 19.1x based on our FY24 earnings forecasts. We maintain our TP of SAR 42.6/share and "Overweight" recommendation on the stock.

### Results Summary

SARmn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,087	1,981	1,925	-7.8%	-2.9%	5.1%
Gross Profit	755	455	480	-36.4%	5.5%	30.5%
Gross Margin	36.2%	23.0%	24.9%	-	-	-
EBIT	561	227	294	-47.5%	29.6%	54.3%
Net Profit	470	159	182	-61.4%	14.4%	20.0%
EPS	0.65	0.22	0.25	-	-	-

Source: Company Reports, Aljazira Capital

Recommendation	<b>Overweight</b>
Target Price (SAR)	42.6
Upside / (Downside)*	32.1%

Source: Tadawul \*prices as of 28<sup>th</sup> of April 2024

### Key Financials

SARmn (unless specified)	FY22	FY23	FY24E
Revenues	10,254	7,618	7,977
Growth %	2.7%	-25.7%	4.7%
Net Income	3,595	1,175	1,230
Growth %	0.1%	-67.3%	4.7%
EPS	4.90	1.60	1.68
DPS	3.25	1.75	2.0

Source: Company reports, Aljazira Capital

### Key Ratios

	FY22	FY23	FY24E
Gross Margin	47.2%	28.5%	27.6%
Net Margin	35.1%	15.4%	15.4%
ROE	22.7%	7.5%	11.3%
ROA	5.0%	5.3%	8.2%
P/E (x)	6.7	23.0	19.1
P/B (x)	1.5	1.7	1.5
EV/EBITDA (x)	4.8	10.9	9.1
Dividend Yield	10.0%	4.7%	6.2%

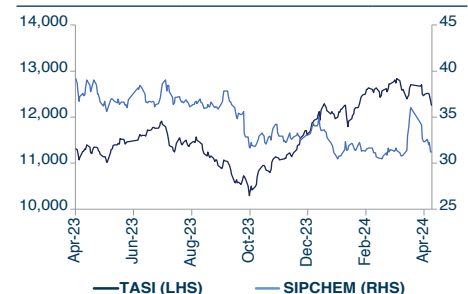
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap(bn)	23.5
YTD%	-8.4%
52 week (High)/(Low)	30.1/39.4
Share Outstanding (mn)	733.3

Source: Company reports, Aljazira Capital

### Price Performance



Source: Company reports, Aljazira Capital

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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