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The Potential Impacts of Feedstock Price Hikes on Petrochemical & Cement Sectors

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Saudi Aramco raises feedstock and fuel prices again: A step forward in ongoing energy reforms

Saudi Aramco has informed multiple petrochemical and cement companies along with some other firms about price increases for certain feedstocks and fuel products, effective January 1, 2025. This was the second consecutive increase in feedstock and fuel prices. The decision was a step forward in Saudi Arabia's energy price reforms program that has been a vital part of the Kingdom's Vision 2030 strategy, aimed at modernizing its economy and ensuring long-term sustainability. The program seeks to optimize resource allocation, reduce inefficiencies, and align domestic energy prices with global benchmarks. These efforts are designed to encourage industries to adopt energy-efficient technologies, minimize waste, and enhance competitiveness in international markets.

Progress has already been observed across various sectors. For example, several cement producers in the Kingdom have already onboarded "The Industrial Sector Competitiveness Program", which could help to raise efficiency and facilitate energy transition from traditional fuels to more efficient alternatives like natural gas and waste-derived fuels, improving both energy utilization and emissions standards. Similarly, reforms have encouraged industries to rethink energy-intensive processes, promoting innovation and efficiency while reducing the fiscal burden of subsidies on the national budget.

The recent feedstock and fuel price hike in January 2025 represents another significant step in this reform journey. While the changes aim to drive long-term economic benefits, the immediate impacts will vary across sectors, presenting both challenges and opportunities. Methane prices are increased from USD 1.75/mmBtu to USD 2.15/mmBtu (+23%) and ethane from USD 2.5/mmBtu to USD 3.0/mmBtu (+20%). While there are no changes in prices or discount of LPG feedstock (propane and butane). For cement companies, HFO380 price are raised from USD 8.3/barrel to USD 12.2/barrel (+47%) and Arab light price from USD 14.9/barrel to USD 18.8/barrel (+26%). The impact of higher prices will be reflected in the financials, starting Q1-25. For petrochemical companies under our coverage, we expect higher feedstock costs to have a combined negative impact of SAR 1,837mn, with GP margin contraction in the range of 80-214bps. The higher costs are estimated to have a drag of ~7-15% on FY25E net income. Our cement sector coverage is likely to take a hit of SAR 450mn in COGS due to an estimated 7.6% rise in average cost per tonne. The impact on the cement sector seems more persistent irrespective of the business cycle as against the petrochemical sector. Thus, cement companies may require immediate action to mitigate the effects of higher costs such as increasing selling prices; or shifting to more efficient energy sources in the long run.

Apart from this, Aramco has also increased diesel prices by 44% to SAR 1.66 per liter from SAR 1.15 per liter, effective 1 January 2025. Gasoline prices were kept unchanged at SAR 2.18 per liter for 91-octance and SAR 2.33 per liter for 95-octane. The increased diesel prices will affect companies from Consumers sector which rely on diesel as fuel for transport of goods. Almarai and NADEC are expected to face the greatest impact. Almarai projects that the diesel price hike will add SAR 200mn in costs for FY25, compared to SAR 150mn in FY24. NADEC anticipates a ~1.5% increase in operational costs. While Alamar, Americana, Herfy, and Jahez have relatively high transportation costs, the impact on them is likely to be minimal, as their delivery vehicles mainly run on gasoline rather than diesel. Diesel price hike is also expected to impact other sectors such as transportation, logistics, industrials and utilities. On the other hand, Aldrees and SASCO may not have any impact despite the higher selling prices of diesel, as they operate on fixed margins.

Table 1. Estimated feedstock price hikes

Feedstock	Before	After	Change
Methane	USD 1.75/mmBtu	USD 2.15/mmBtu	+23%
Ethane	USD 2.5/mmBtu	USD 3.0/mmBtu	+20%
Propane/Butane	20% discount to FOB Japan	20% discount to FOB Japan	No change
HFO-380	USD 8.3/barrel	USD 12.2/barrel	+47%
Arab light	USD 14.9/barrel	USD 18.8/barrel	+26%

Source: Aljazira Capital Research

Petrochemical sector impact

Feedstock composition to dictate the intensity of impact of fixed feedstock cost: The impact of increases in feedstock prices will depend on the type of feedstock used by each company. Companies with methane and ethane forming a higher portion of feedstock will witness larger increase in cost of sales, as our estimates indicate a 23% and 20% increase in methane and ethane prices, respectively. SABIC Agri (100% methane), Sipchem (45% methane + 14% ethane), SABIC (18% methane + 32% ethane) and Yansab (42% ethane) are Saudi's petrochemical companies with higher exposure to fixed cost feedstocks (methane and ethane); hence, the effect of price hikes will reflect more on financials for these companies. Whereas Advanced and Alujain with 100% propane (variable) feedstock, that is dependent on market prices, will have the least impact from the latest price hikes by Aramco.

Table 2. Feedstock usage by Saudi Petrochemical companies under coverage

Company	Methane	Ethane	Propane	Butane	Naphtha
Advanced	-	-	100%	-	-
Alujain	-	-	100%	-	-
Kayan	-	21%	-	79%	-
Yansab	-	42%	58%	-	-
SABIC	18%	32%	13%	6%	30%
SABIC Agri	100%	-	-	-	-
SIPCHEM	45%	14%	36%	5%	-
Tasnee	-	21%	79%	-	-

Source: Aljazira Capital Research

Total SAR 1.8bn increase in costs expected for companies under our coverage: SABIC Agri and Yansab are expected to see the highest increase in cost of sales (FY23) at 3.7% and 2.6%, respectively, as fixed feedstock constitutes 100% of SABIC Agri's and 42% of Yansab's total feedstock. This would be followed by SIPCHEM (2.0% increase in cost of sales), Tasnee (1.85%), Kayan (1.3%) and SABIC (1.0%). However, SABIC will have the highest impact in absolute terms at SAR 1,195mn followed by SABIC Agri at SAR 238mn. We estimate a combined increase in the cost of sales of 1.2% or SAR 1,837mn for the companies under our coverage. Nevertheless, there is likely to be some delay in recognition of the full impact on costs due to existing low cost inventory, while we expect full impact to start reflecting from end of Q1-25 onwards.

Profitability of the companies plays a role in proportionate impact on bottom line: The above-mentioned SAR 1,837mn increase in cost will translate into an impact of 7-15% on FY25E net income, while Kayan's losses will increase by 18% due to the impact of the feedstock cost. Among the profitable peers, the net income of Yansab, SABIC, and Tasnee are estimated to be most impacted at 15%, 13% and 13% respectively due to their lower profitability compared to others. Thus, under the current lower margin environment, the impact of higher fixed cost appears more predominant on Yansab, SABIC, and Tasnee. On the other hand, SABIC Agri is expected to witness the highest % increase in cost of sales, but the % impact on FY25E net income is likely to be the lowest at 7% due to higher margins of the company. We compare impact on the bottom line for FY25E vs. normalized earnings of FY22 as FY22 were comparatively a normal year vis-a-vis FY23. Our analysis of the impact on FY22 normalized earnings indicates an impact at 2-29%, with a lower impact for all companies except for Yansab. Thus, when compared with FY22, impact on FY25 net income will be higher for the petrochemical sector due to lower margins currently.

Table 3. Expected impact on cost of sales and net income

Company	Expected impact as % of cost of sales	Absolute impact (SAR mn)	Impact as % of FY22 normalized net in-come	Impact on FY25E EPS
Advanced	-	-	-	-
Alujain	-	-	-	-
Kayan	1.3%	117	NM	NM
Yansab	2.6%	119	-29%	-15%
SABIC	1.0%	1,195	-7%	-13%
SABIC Agri	3.7%	238	-2%	-7%
SIPCHEM	2.0%	109	-3%	-10%
Tasnee	1.9%	59	-11%	-13%

Source: Company announcements, Aljazira Capital Research

Additional feedstock cost to drag total earnings by 12%; GP margin contraction to be 80-214bps across the coverage: Our revised estimates for FY25E indicate 80-214bps lower GP margins for the companies under our coverage. SABIC Agri is expected to bear the highest contraction of 214bps in GP margin from 40.1% to 37.9%, as the company operates on 100% methane feedstock. Yansab (42%) and Sipchem (59% fixed feedstock) are also estimated to take a hit of 175bps and 143bps, respectively on GP margins. SABIC is likely to see a comparatively lower impact of 80bps, despite 50% reliance on fixed cost feedstock. Kayan with lower dependency on fixed feedstock (21%) would see a 117bps impact. Advanced and Alujain will have minimal impact. The combined earnings of the companies under coverage are revised down by ~12%, with 15% downward revision to YANSAB, and an increase in Kayan's losses by 18%. Based on revised EPS estimates, spike in FY25E PE indicates potential impact on stock prices valuation in the range of 7-18%, with highest impact expected for Yansab at 18%, followed by SABIC (15%), Tansee (14%), Sipchem (11%), and SABIC Agri (7%).

Table 4. Revision to estimates

Company	GP margin (FY25E)			Net income (FY25E)			EPS (FY25E)		PE (FY25E)	
	Before	After	Differences (bps)	Before	After	change %	Before	After	Before	After
Advanced	13.98%	13.98%	0	74.3	74.3	-	0.29	0.29	111.9	111.9
Alujain	18.52%	18.52%	0	169.0	169.0	-	3.42	3.42	11.1	11.1
Kayan	6.43%	5.25%	-117	(648.5)	(765.8)	NM	(0.43)	(0.51)	NEG	NEG
Yansab	20.35%	18.59%	-175	792.9	673.6	-15%	1.41	1.20	26.2	30.9
SABIC	21.01%	20.21%	-80	9,418.5	8,223.9	-13%	3.14	2.74	21.3	24.4
SABIC Agri	40.08%	37.95%	-214	3,539.3	3,301.2	-7%	7.43	6.93	14.7	15.8
SIPCHEM	25.93%	24.49%	-143	1,086.4	977.4	-10%	1.48	1.33	16.2	18.1
Tasnee	13.86%	12.45%	-141	470.9	411.6	-13%	0.70	0.62	14.2	16.3
Total				**14,903**	**13,065**	-12%				

Source: Aljazira Capital Research

A major upward adjustment in feedstock prices seems to be done, expect lower hikes in future and a benchmark-based pricing mechanism in the long term: The new price of ethane at USD 3.0/mmBtu still sits below the average prices of ethane in the US **(USD 3.21 per mmBtu)** but the gap has narrowed with two consecutive hikes. Similarly, the gap of domestic prices of methane with average price of US Henry Hub **(USD 2.52 per mmBtu)** is also lowered. Also, it is noteworthy that current US Ethane prices of USD 3.60 per mmBtu and methane with Henry Hub of USD 4.1 per mmBtu hold premiums due to supply constraints, seasonality, and geopolitical factors. Thus, we expect there is limited room for increasing methane and ethane prices in coming years. We believe there is a chance of 10-20% increase in ethane and methane prices next year to be comparable with global prices and then government might device a mechanism to set up a benchmark and link prices to the benchmark that will help keep prices dynamic to factor in global market volatilities. Moreover, propane prices in KSA post the 20% discount are trading consistently above US propane prices for more than the past two years. Hence, we see there is a possibility of KSA shifting its benchmark US prices that might help to keep the prices at competitive levels.

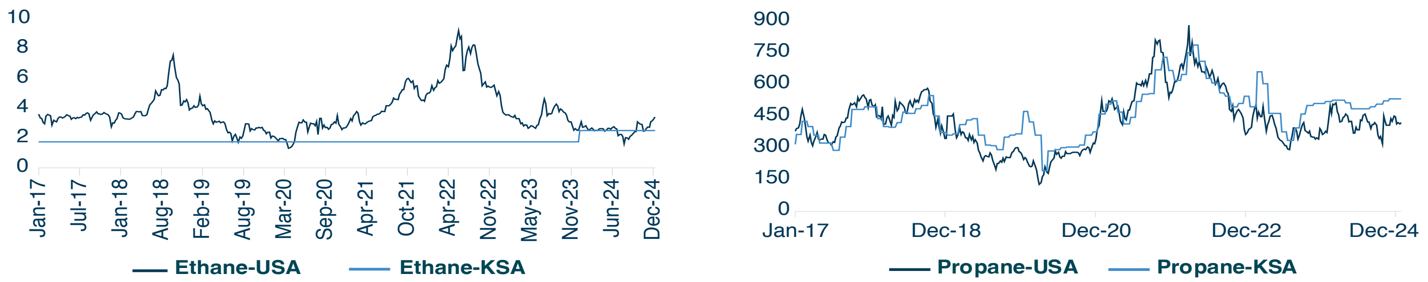
Any favorable development in global feedstock prices could play a vital role in mitigating the impact of feedstock price hike domestically: The feedstock prices are at elevated levels currently due to geopolitical factors that have led to supply constraints. The new Trump administration aims to initiate efforts to resolve the geopolitical conflicts in Russia and Europe. If successful, it could be a game changer for the petrochemical industry, as easing of supply would lead to decline in feedstock prices, supporting petrochemical product spreads and profitability. Such a favorable development will also help Saudi petrochemical companies in mitigating the impact of feedstock price hike domestically. Additionally, easing shipping costs and cost optimization initiatives can help companies to compensate partially for higher feedstock cost.

Table 5. KSA and US feedstock price comparison

Feedstock	Price		Difference
	KSA	US	
Methane (USD per mmBtu)	2.15*	2.52**	0.37
Ethane (USD per mmBtu)	3.00*	3.21**	0.21
Propane (USD per ton)	508	402	-106

Source: Argaam, Aljazira Capital Research, * price after increase ** the average price since Jan-2023.

Figure 1. Historical price trend for Ethane (USD per mmBtu) and Propane (USD/ton)

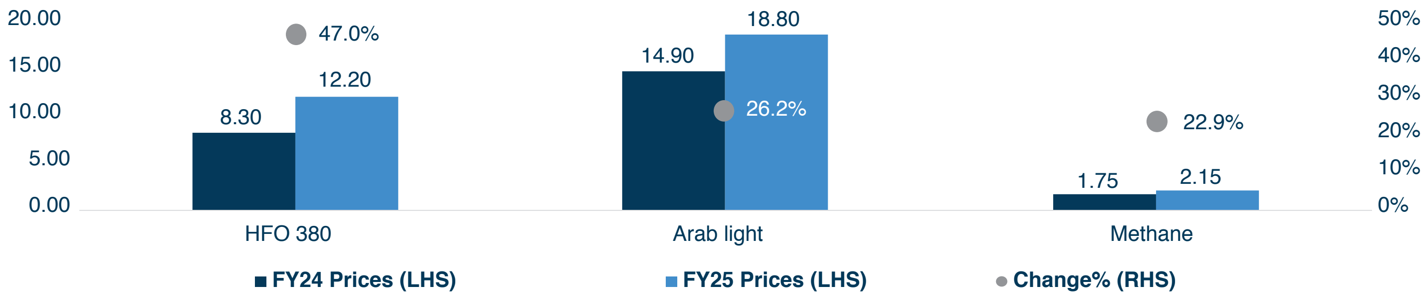


Source: Argaam, Aljazira Capital Research; Propane prices at 20% discount to FOB Japan

Cement sector impact

Energy price hikes by Saudi Aramco – particularly HFO380, Arab light crude oil and methane – are expected to increase average cost per tonne for the cement companies.

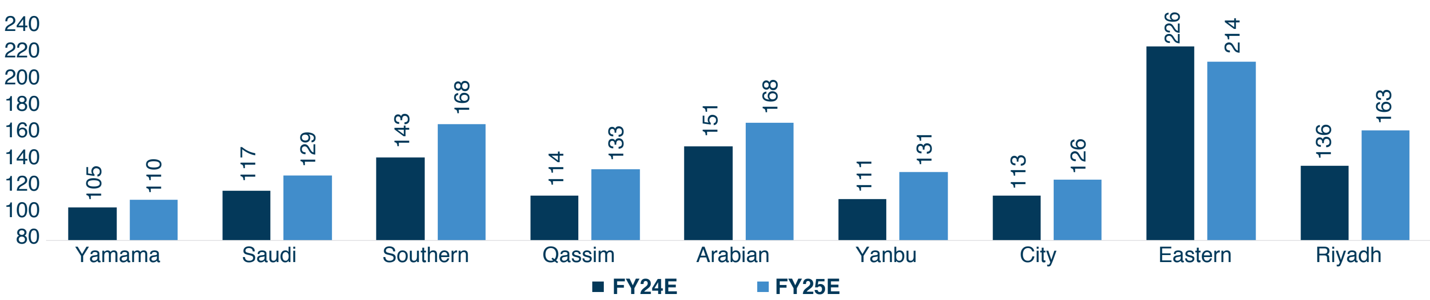
Figure 2: Energy prices in F24 and FY25 (in USD)



Source: Aljazira Capital Research. Note: HFO 380 and Arab Light prices in USD/barrel, while Methane prices in USD/mmBtu

Total impact on COGS to be lower than FY24, the bottom-line impact on each company will be dependent on fuel composition and business models; high inventory level may lead to lower actual impact in FY25: Considering the above increase in energy prices we estimate a 7.5% (or SAR 10.3/tonne) higher average cost per tonne at SAR 149 per tonne for our Cement sector coverage in FY25E compared to our previous estimate. The higher cost per tonne would be reflected in an additional COGS of SAR 450mn based on our estimated volumetric sales for FY25, which is lower than our estimate for impact in FY24. Our initial estimate for the earnings of our cement universe for FY25 are expected to decline by 17.7% to SAR 2.0bn from SAR 2.43bn. The lower impact would be a combined effect of comparatively lower increases in energy prices, and continuation of the Industrial Sector Competitiveness Program that has led to partial mitigation of higher energy prices through improved energy efficiency. Furthermore, the current high level of inventory covering ~94% of the annual volumetric sales would lead to lower-than-estimated actual impact in FY25.

Figure 3: Cost per tonne for Cement companies (SAR/tonne)



Source: Aljazira Capital Research. Note: Eastern cement's COGS for 2025 is expected lower due to different product mix.

The company-wise impact on the net income will be dependent mainly on the source of energy used by the company. Whereas Methane is the cheapest and the most efficient, and HFO380 consuming firms are expected to pose the highest negative impact on earnings. Based on our initial estimates of FY25 sales, we expect Arabian Cement, Southern Cement and Yanbu Cement to post the steepest decline in earnings by 37% (down SAR 59mn), 35% (down SAR 58mn) and 31% (down SAR 54mn), respectively, mainly due to their high consumption of HFO 380. Followed by Riyadh Cement (-18%; down SAR 50mn), and Saudi Cement (-17.0%; down SAR 74mn), which are consuming Arab light. Eastern Cement (-7%; down SAR 17mn) and Yamama Cement (-7%; down SAR 30mn) consuming 100% methane are expected to be least impacted.

Table 6. Feedstock usage by Saudi Cement companies under coverage

Company	Methane	HFO 380	Arab light	Consumption of HFO 380
Yamama	✓	-	-	0 %
City	-	✓	-	100%
Saudi	✓	-	✓	0%
Southern	-	✓	✓	61%
Riyadh	-	✓	✓	37%
Arabian	-	✓	-	100%
Eastern	✓	-	-	0%
Yanbu	-	✓	-	100%
Qassim	-	-	✓	0%

Source: Companies' reports, Aljazira Capital Research

Table 7. Downward revision of margins and earnings estimates

Company	GP Margin % (FY25E)			Net income (FY25E) -SAR mn			PE (FY25E)		
	Before	After	Difference (bps)	Before	After	Difference (%)	Before	After	change %
Yamama	45.6%	43.2%	-248	417	387	-7.3%	17.3	18.7	7.8%
City	36.8%	32.4%	-443	154	132	-14.3%	16.6	19.4	16.6%
Saudi	40.6%	35.8%	-475	433	360	-17.0%	14.7	17.7	20.5%
Southern	27.9%	21.1%	-683	167	109	-35.0%	27.4	42.2	53.9%
Riyadh	39.0%	33.0%	-603	276	226	-18.2%	13.6	16.6	22.2%
Arabian	26.1%	18.7%	-739	159	100	-37.2%	15.8	25.2	59.3%
Eastern	29.2%	27.7%	-144	243	226	-7.0%	12.3	13.2	7.6%
Yanbu	26.6%	20.5%	-605	176	122	-30.9%	21.1	30.5	44.6%
Qassim	29.8%	23.3%	-642	402	338	-15.8%	14.4	17.1	18.8%
Average	33.5%	28.4%	-509	2,427	1,999	-17.7%			

Source: Companies' reports, Aljazira Capital Research

Based on revised EPS estimates, spike in FY25E PE indicates potential impact on stock prices valuation in the wide range, with highest impact expected for Arabian Cement, followed by Southern and Yanbu. Eastern (7.6%) and Yamama (7.8%) are likely to be least affected.

Higher selling prices could be the immediate action to mitigate the impact of energy prices: While switching to more efficient sources of energy via upgrading production lines could take a longer time and require an extra Capex, increasing the selling prices of cement is a short-term feasible solution for the increase in production costs. Based on our previous estimates, Saudi Cement companies under our coverage were likely to reach ASPs of SAR 201.5 per tonne. According to our calculations, our cement universe needs ASP of SAR 212.5 per tonne to completely offset the impact of energy prices. We believe ASPs can inch higher than our earlier estimates to mitigate the impact of fuel price hike, but the transfer of fuel price hike would be partial considering the elevated inventory level and competitive pressure amid overcapacity in the sector. Based on our analysis, ASP for Yamama and Eastern Cement are closest to their offset-point and would require SAR 4.8 and SAR 6.3 per tonne increase in ASP to completely mitigate the impact of energy price hikes. Whereas on average our cement coverage universe requires SAR 10.9 per tonne increase in ASP to completely mitigate the impact.

Table 8. FY25E ASP vs. required ASP to offset the impact of energy prices hikes (SAR per tonne)

Company	FY25E ASP	ASP offsetting energy impact	Difference
Yamama	194.3	199.1	4.8
City	185.6	193.7	8.1
Saudi	200.8	210.3	9.5
Southern	212.5	227.0	14.6
Riyadh	195.4	210.1	14.7
Arabian	175.8	194.9	19.1
Eastern	310.3	316.6	6.3
Yanbu	165.3	175.5	10.2
Qassim	173.9	185.0	11.1
Average	**201.5**	**212.5**	**10.9**

Source: Companies' reports, Aljazira Capital Research

Liquid fuels may continue to see substantial hikes, while an increase in natural gas prices is likely to be limited: As mentioned earlier, we expect a limited room of 10-20% for natural gas prices hike and a benchmark-based pricing mechanism in the long term. However, HFO380 and Arab light prices post the latest hikes are still at a significant discount to global benchmark prices. Thus, we expect potential for substantial increase in prices of these liquid fuels.

Saudi Cement industry to progress towards natural gas as energy source; second consecutive energy price hike may accelerate the ongoing efforts: For Saudi Cement companies, it is advantageous in the long term to shift from HFO 380 to other more production efficient and environment-friendly energy options like the Methane. However, there will be capex involved in upgrading the production lines to be able to consume other sources of energy. As per our analysis, the transition cost to methane as the source of energy will be between SAR 60-70mn. Several Cement producers in the Kingdom have already onboarded "The Industrial Sector Competitiveness Program" by The Ministry of Industry and Mineral Resources. This program is expected to help cement companies to raise efficiency and facilitate energy transition. The program has already helped the companies in the sector to lower the impact of energy price hikes in FY24. The relief from reduced impact is likely to encourage the companies to allocate capital for energy transition. Moreover, the transition to methane aligns well with the Kingdoms planned strategic shift to natural gas as an energy source supported by Aramco's planned expansion of natural gas production. Thus, full support from government, long term benefits from more efficient and cleaner energy sources, and two consecutive hikes in energy prices coupled with potential future hikes in HFO380 are likely to accelerate sector-wide energy transition efforts. We expect Saudi Cement sector to transition to methane by FY27.

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