Saudi Basic Industries Corp. (SABIC)

Results Flash Note Q1-24

Improved gross margin offset by higher OPEX and losses from discontinued operations of Hadeed.

SABIC reported a net profit of SAR 246mn in Q1-24 compared to a net loss of SAR 1.7bn in Q4-23 and a profit of SAR 657mn in Q1-23. The net profit was below AJC's and market estimates of SAR 424mn and SAR 406mn, respectively. The deviation from our estimate was mainly attributable to lower revenue and higher OPEX as well as non-operating expenses, partially offset by higher GP margin. The weaker than expected bottom-line resulted from losses of SAR 387mn related to discontinued operations of Hadeed. The net profit from continuing operations stood at SAR 633mn in Q1-24 compared to a net loss of SAR 1.5bn recorded in the previous quarter. SABIC reported revenue of SAR 32.7bn, down 6.7% Q/Q and below our estimate of SAR 36.1bn, on account of lower sales volumes amid multiple turnarounds. Gross margins improved to 17.9% from 13.1% in Q4-23, above our estimate of 14.1%, supported by higher selling prices for the Petrochemical segment. We remain "Overweight" on the stock with a revised TP of SAR 94.1/share.

- In Q1-24, SABIC posted a net profit of SAR 246mn compared to a net loss of SAR 1.7bn in Q4-23. The bottom line missed our estimate of a net profit of SAR 424mn and market estimate SAR 406mn. The lower-than-expected revenue coupled with higher OPEX and non-operating expenses led the deviation from our estimate, offsetting the better-than-expect GP margin. The weak net profit resulted from the losses of SAR 387mn related to Hadeed's discontinued operations. The net profit from continuing operations stood at SAR 633mn in Q1-24 compared to a net loss of SAR 1.5bn recorded in the previous quarter.
- SABIC's revenue fell 6.7% Q/Q to SAR 32.7bn, missing our estimate of SAR 36.1bn. The Q/Q decline in revenue was mainly due to 11% Q/Q decrease in sales volumes. Multiple maintenance turnarounds dragged the sales volume. Nevertheless, 4% improvement in average selling prices curtailed the decline in revenue partially. Agri-Nutrients' revenue declined 22% Q/Q due to 18% decrease in sales volume and a fall of 4% average selling prices. Petrochemicals revenue dropped 5% Q/Q mainly due to lower sales volume. The selling prices for Petrochemicals segment were higher supported by supply disruptions and improved demand. During the quarter, the average selling prices of MTBE decreased 0.9% Q/Q. MEG-SABIC declined 4.9% Q/Q, while MEG-Asia jumped 12.0% Q/Q. Ethylene and Methanol gained 4.4% Q/Q and 3.6% Q/Q, respectively. PP average prices inched up 1.2% Q/Q, while PC fell 2.0 Q/Q.
- Gross profit grew 28.0% Q/Q to SAR 5.9bn, exceeding our estimate of SAR 5.1bn, despite a revenue miss due to a substantially higher GP margin. GP margin came-in at 17.9% vs. our estimate of 14.1% and higher than 13.1% in the previous quarter. The higher basic Petrochemical prices resulted in higher GP margin. The prices of variable feedstock propane and butane rose 2.7% Q/Q and 3.0% Q/Q, respectively, in Q1-24. Propane-HDPE and Propane-PP spreads contracted by 2.1% Q/Q and 0.7% Q/Q, respectively.
- Operating profit stood at SAR 1.2bn compared to a loss of SAR 1.4bn in Q4-23 and above our estimate of SAR 628mn, drawing support from higher gross profit. However, OPEX was higher than our estimate, despite lower revenue leading to a higher OPEX-to-sales ratio.

AJC view and valuation: SABIC's sales volumes were hit by shutdowns at different plants in Q1-24. However, improvement in the Petrochemical segment's selling prices led to widening of gross margin. The losses related to discontinued operations worth SAR 387mn hit the net profit. SABIC witnessed an improvement in prices of some of its key products such as MEG, Methanol and Ethylene. However, prices were partially driven by short term supply disruptions and partially supported by improved demand. Overall, the outlook for petrochemicals still remains uncertain amid headwinds of geopolitical and macroeconomic factors. Moreover, oversupply of some products due to capacity expansion is likely to keep pressure on prices on the S-T. Nonetheless, we expect to see some improvement in the sector in the H2-24 with expected decline in feedstock prices during the summer. SABIC's diverse portfolio and geographic exposure is expected to support tackling the headwinds better compared to most of its peers. Additionally, the company's cost optimization, increased focus on core business and synergies realized with Saudi Aramco (SAR 7.2bn until Q1-24) would support its performance. We remain "**Overweight**" on SABIC with a revised TP of **SAR 94.1/share**.

Results Summary

SAR mn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	36,432	35,030	32,686	-10.3%	-6.7%	-9.4%
Gross Profit	5,854	4,580	5,862	0.1%	28.0%	15.1%
Gross Margin	*16.1%*	*13.1%*	*17.9%*	-	-	-
EBIT	1,760	-1,360	1,210	-31.2%	NM	92.8%
Net Profit	**657**	**-1,730**	**246**	-62.5%	NM	-42.0%
EPS	0.22	-0.58	0.08	-	-	-

Source: Company Reports, AlJazira Capital; NM – Not meaningful

Recommendation	Overweight
Target Price (SAR)	94.1
Upside / (Downside)*	15.6%

Source: Tadawul *prices as of 8th of May 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E
Revenues	198,467	141,537	140,905
Growth %	13.5%	-28.7%	-0.4%
Net Income	16,530	1,305	6,583
Growth %	-28.3%	-92.1%	404.6%
EPS	5.51	0.43	2.19
DPS	4.25	3.40	3.50

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E
Gross Margin	21.5%	15.6%	20.3%
Net Margin	8.3%	0.9%	4.7%
ROE	9.0%	0.7%	3.6%
ROA	5.2%	0.4%	2.2%
P/E (x)	18.7	High	37.1
P/B (x)	1.7	1.3	1.3
EV/EBITDA (x)	7.9	13.4	10.0
Dividend Yield	4.1%	4.3%	4.3%

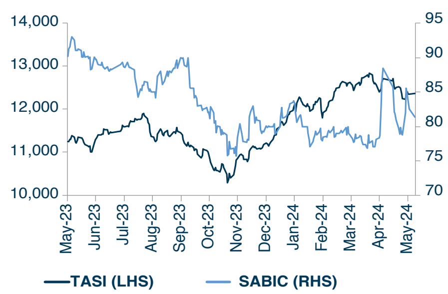
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	244.2
YTD%	-2.5
52 week (High)/(Low)	93.5 / 75.3
Share Outstanding (mn)	3,000.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

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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