July 2023

Sahara Intl. Petrochemical Co. (SIPCHEM)

Results Flash Note Q2-23

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

In-line profits; Plants' maintenance, weak gross margins and associate income impacted the profitability

SIPCHEM's net profit plunged 75.2% Y/Y and 33.5% Q/Q to SAR 313mn in Q2-23, however, it is in-line with our estimates of SAR 309mn (deviation of +1.4%) and compares to a consensus estimate of SAR 333mn, respectively. The Q/Q decline in profitability is mainly due to weak revenues led by a five-week periodic maintenance shutdown at IMC and IDC in Q2-23, sharp decline in some of the key products which weighed on the gross margins, and lower than expected investment from JVs and associates. At gross level, margins came-in at 31.0%, against margins of 51.1% in Q2-22 and 36.2% in Q1-23. The sharp decline in key product prices weighed on GP margin. Vinyl Acetate Monomer (VAM) average prices dropped 11.3% Q/Q, while acetic acid increased slightly by 1.3% Q/Q, Methanol and PP prices declined 16.6% and 7.4%, respectively, during the quarter. Price of the products fell Y/Y too. We maintain our TP of SAR 42.0/share and "Overweight" recommendation.

- SIPCHEM registered a net profit of SAR 313mn in Q2-23, a decline of 75.2% Y/Y and 33.5% Q/Q. The net income was in-line with our estimates of SAR 309mn and compares to a consensus estimates of SAR 333mn. The Y/Y weak bottom line is mainly due to five-weeks shutdown at IMC and IDC plants in Q2-23, sharp decline in some of the company's key products which weighed on the gross margins, and lower than expected income from JVs and associates. We expect income from JVs and associates (TSOC, SAMAPCO, SAAC) to stand at ~SAR 51mn as compared to SAR 149mn recorded during Q2-22 and SAR 42.6mn in Q1-23.
- SIPCHEM's revenue stood at SAR 1,702mn in Q2-23 (down 45.1% Y/Y and 18.5% Q/Q), and in-line with our estimate of SAR 1,674mn (deviation of 1.7%). The Y/Y and Q/Q decline in revenues is due to five weeks planned maintenance shutdown at IMC and IDC plants in Q2 -23. Sequentially, revenue decreased on account of steep decline in the company's main product prices, despite a decrease in average feedstock prices. During the quarter, Vinyl Acetate Monomer (VAM)) average prices declined 11.3% Q/Q (-58.0% Y/Y) and Acetic Acid (AA) increased slightly +1.3% Q/Q (-32.8% Y/Y). EVA average prices fell by 10.7% Q/Q (-44.3% Y/Y) and average prices of Methanol dropped 16.6% Q/Q (-25.4% Y/Y).
- Gross profit decreased 66.7% Y/Y and 30.1% Q/Q to SAR 528mn in Q2-23, in-line with AJC's estimate of SAR 531mn, due to lower gross margin. Gross margin of 31.0% vs. 51.1% in Q2-22 and 36.2% in Q1-23 and in-line with our estimate of 31.7% was impacted by sharp reduction in product prices compared to average feedstock prices, as Methane-based feedstock cost remained constant. Average prices of Propane feedstock fell 25.7% Q/Q to USD 520/MT, resulted in Propane-PP spreads increase by 18.8% Q/Q.
- Operating profit declined 74.2% Y/Y and 37.1% Q/Q to SAR 353mn. At OPEX of SAR 175mn compared to SAR 213mn in Q2-22 and SAR 194mn in Q1-23, OPEX-to-sales ratio stood at 10.3% (in-line with our estimates of 10.3%) as against 6.9% in Q2-22 and 9.3% in Q1-23

AJC view and valuation: Overall, SIPCHEM posted a weak result in Q2-23, impacted by a five-week maintenance shutdown at IMC and IDC plants in Q2-23, steep decline in key product prices which weighed upon gross margins, and lower income from associates. However, the improvement in company's production efficiency following the maintenance shutdown at its plants in Q2 23, along with the current decline in feedstock cost may benefit SIPCHEM's top line in the short to mid-term. The company has reduced its debt by SAR 1.3bn in 3M-23, resulting in improved gearing ratio of 19% from 34% at the end of FY21. Additionally, SIPCHEM holds healthy cash balance of SAR 3.1bn (cash + short term investments as of March 2023), thus providing scope for further deleveraging and keeping finance cost under control during rising interest rates. The company is trading at TTM PE of 13.1x versus a forward PE of 16.3x based on our FY23 earnings forecast, while DPS is estimated to stand at 2.0/share for 2023E yielding 5.4%. We maintain our TP of SAR 42.0/share and "**Overweight**" recommendation on the stock.

Results Summary

SARmn	Q2-22	Q1-23	Q2-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	3,097	2,087	1,702	-45.1%	-18.5%	1.7%
Gross Profit	1,584	755	528	-66.7%	-30.1%	-0.7%
Gross Margin	*51.1%*	*36.2%*	*31.0%*	-	-	-
EBIT	1,371	561	353	-74.2%	-37.1%	-1.5%
Net Profit	**1,263**	**470**	**313**	-75.2%	-33.5%	1.4%
EPS	1.72	0.64	0.43	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	**Overweight**
Target Price (SAR)	**42.0**
Upside / (Downside)*	**13.8%**

Source: Tadawul *prices as of 24th of July 2023

Key Financials

SARmn (unless specified)	FY20	FY21	FY22	FY23E
Revenue	5,323	9,982	10,254	7,519
Growth %	-2.1%	87.5%	2.7%	-26.7%
Net Income	175.9	3,592	3,595	1,657
Growth %	-41.3%	NM	0.1%	-53.9
EPS	0.24	4.90	4.90	2.26

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY2E	FY23E
Gross Margin	22.0%	55.9%	47.2%	35.4%
Net Margin	3.3%	36.0%	35.1%	22.0%
P/E (x)	72.1	8.6	6.7	16.3
P/B (x)	1.0	2.1	1.5	1.7
EV/EBITDA (x)	10.8	5.9	4.8	8.9
Dividend Yield	2.8%	5.3%	9.9%	5.4%

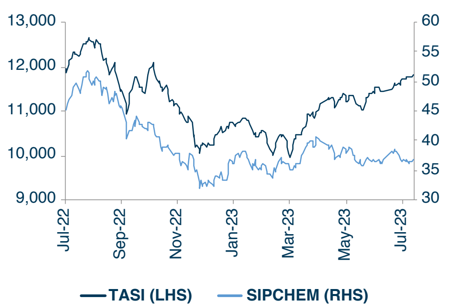
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	27.2
YTD %	8.7%
52 Week (High)/(Low)	52.0/30.9
Shares Outstanding (mn)	733.3

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

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RESEARCH DIVISION

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

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.

Disclaimer