



Saudi Basic Industries Corp. (SABIC)

Underwhelming performance FY2020A, Despite Resilient Sales Volumes

31 March 2021

SABIC showed significant recovery on a quarterly basis in Q4 2020, mainly supported by healthy demand and higher sales prices during the quarter. However, the increase in revenue was despite a slight drop in sale volume, which is expected given the current economic climate. For the year 2020A, the company's performance was underwhelming, mainly due to the weak H1 2020. Going forward, we believe SABIC's commitment in creating synergies with Aramco is bound to significantly support the company's long term potential. Meanwhile, on a shorter term, the company's recovery in FY2021e is heavily dependent on the pickup in the global economic activity.

We maintain our 52 weeks target price SAR105.1/share while maintaining our Neutral recommendation.

Despite what was previously forecasted, the company was able to continue its recovery towards the end of the year. With significant losses in H1 2020, SABIC showed impressive rebound in H2 2020. Following a relatively strong Q3 2020, the company posted revenues of SAR32.85bn in Q4 2020, representing a 3.7% increase Y-o-Y (+12.1% Q-o-Q). The increase in revenue is to be attributed to the rise in product prices during Q4 2020, driven by healthy demand and a tightness in the demand/supply balance in SABIC's key products. Moreover, average sale prices increased by ~13.0% Q-o-Q during Q4 2020, where Brent crude oil prices increased by ~3.0% Q-o-Q, Both Japanese and European naphtha prices increased by around ~2.0% Q-o-Q, meanwhile, Japanese propane and butane prices increased by more than +30.0% Q-o-Q. However, it is worth mentioning that during Q4 2020, sales volumes dropped by around 1.0% Q-o-Q.

COGS increased during the quarter by ~9.0% Q-o-Q, on the back of the increase in feedstock prices. While gross profit increased by over 24.5% Q-o-Q (+130% Y-o-Y)

SABIC's EBIT amounted to SA3.69bn in Q4 2020, representing a 75.7% increase Q-o-Q, from SAR2.10bn in Q3 2020. The significant increase was due to the higher sales prices, although this was offset by the higher feedstock prices during the quarter. EBIT margin stood at 9.5%, higher than 7.1% obtained in Q3 2020.

Certain adjustments in impairment provisions allowed non-recurring gains during the quarter with an amount netted to SAR0.45bn, while in Q3 2020 non-recurring gains reached SAR0.69bn.

Finally, SABIC reported net income of SAR2.22bn in Q4 2020, compared to net losses of SAR0.89bn in Q4 2019 (+103.9% Q-o-Q). Net income margin stood at around 6.8% in Q4 2020, compared to 3.7% on Q3 2020.

In December 2020, SABIC's Board announced a dividend distribution of SAR 1.5 per share for H2 2020, which was same amount announced as the dividends for H1 2020.

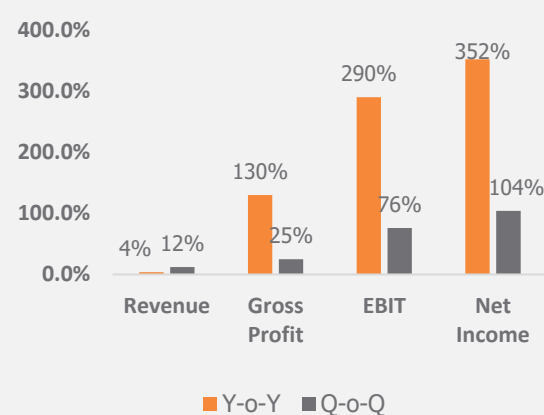
The company's strong top and bottom-line performance during Q4 2020, compared to the previous quarter and H1 2020, was mainly due to the sustained economic recovery, that translated into healthier demand on SABIC's products.

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (30-03-2021)	SAR111.2
Target Price (52 Weeks)	SAR105.1
Upside/ (Downside)	5.5%
Shariah Compliance	Pass

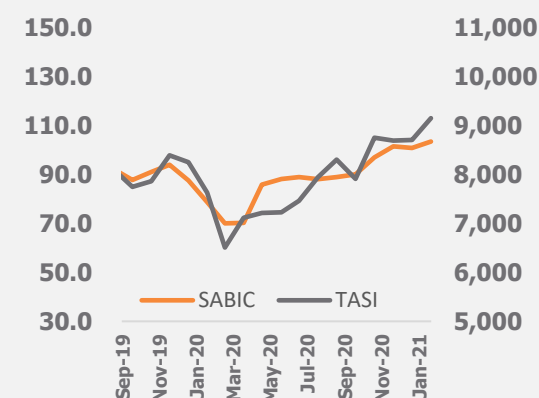
Key Financial Ratios

Ratio	Q4 2020	Q3 2020	Q4 2019
Revenue Growth	12.1%	19.0%	6.3%
Gross Margin	24.3%	22.3%	10.9%
EBIT Margin	9.5%	7.1%	-
Net Margin	6.8%	3.7%	-

Key Financial Results (Q4 2020)



Share Price Performance



Financial Overview

2020A Overview & Outlook

Despite a resilient H2 2020, the impact of COVID-19 significantly impacted the company's profitability FY2020A compared to FY2019A. While the impact of COVID-19 wasn't strong in the beginning of Q1 2020, SABIC's performance during Q1 2020 was significantly impacted by the challenging product pricing environment and the lower demand underpinned by COVID-19. Additionally, the quarter incurred non-recurring charges that resulted in net losses during Q1 2020 (SAR1.07bn). Therefore, Q1 2020 was a shaky foundation for the rest of the year. Furthermore, Q2 2020 was hit even harder, with a decrease in average prices by ~17.0% Q-o-Q, despite flat sales volumes. The decrease in prices was mainly due to weak demand and oversupply of the company's products. Similar to Q1 2020, the company incurred non-recurring charges of SAR1.18bn, leading to net losses in Q2 2020. Going into Q3 2020, SABIC started to recover on the back of the pickup in economic activity, higher product prices and higher sales volume, underpinned by an increase in oil prices. During the quarter, non-recurring gains netted to SAR0.69bn, which coupled with improved revenues, allowed for better margins compared to H1 2020. Finally, in Q4 2020, despite slightly lower volumes sold, the company made a stronger recovery in its topline numbers on the back of the improved demand that led to higher sales prices. Moreover, the company's non-recurring gains netted to SAR0.45bn in Q4 2020. That being said, the overall improvement in H2 2020 was significantly offset by the weak performance in H1 2020, leading to a drop of 13.6% Y-o-Y in revenue, were the company posted SAR116.95bn in 2020A, compared to SAR135.40bn in 2019A. The drop in revenues FY2020 is due to sharply lower average sales prices across key products, whereas sales volume increased by only 0.8%.

Weak demand, lower sales prices and non-recurring charges resulted in a 99.0% Y-o-Y drop in net income. The Global pandemic was a shock to the global economy that resulted in significant challenges in global supply chains. One of the main attributes to the COVID-induced shock in the global economy is the muted demand for SABIC's key products, that resulted in lower sales prices and a market oversupply. Coupled with the non-recurring charges in H1 2020, SABIC's margins were under pressure. While the feedstock prices decreased during the year (Naptha, Propane and Butane by 40%, 19% and 18% respectively), the company's operating income decreased by ~60.0% due to the 9.9% drop in gross profit margin, in addition to ~42.0% (SAR725mn) drop in the share of results of integral joint ventures, meanwhile, SG&A expenses dropped due to lower shipping costs during FY2020. During the year, the company posted other expenses of SAR71.2mn compared to other income of SAR431.5mn FY2019, mainly due to higher donation expenses and restructuring provisions. That being said, SABIC reported net income SAR66.8mn FY2020, representing a 98.7% drop compared to SAR5,198.1mn FY2019, despite an increase in sales volume of 0.8%. Net income margin stood at 0.1% FY2020 compared to 3.8% FY2019

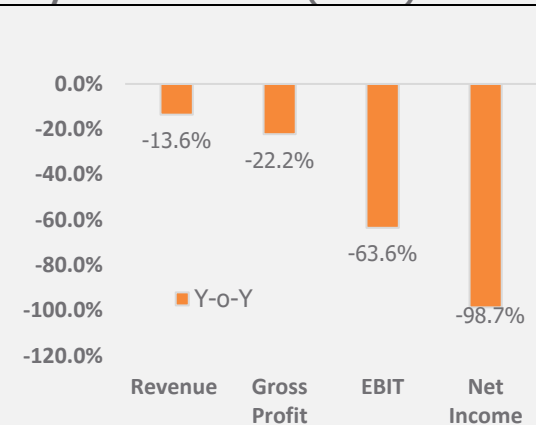
2020 was a year of significant strategic decisions for SABIC, ultimately impacting the company's future value. In June 2020, Saudi Aramco successfully acquired a 70% majority stake in SABIC, making SABIC the "chemical arm" of Aramco. The collaboration represent an excellent opportunity for both parties, were SABIC's share in the value creation and synergy is expected to amount to recurring annual value of USD1.5bn to USD1.8bn, which SABIC expects to achieve by 2025. Additionally, the company plans to maintain competitive advantage through marketing the share of "Saudi Aramco" in the products of Sadara Chemical Company, providing its customers a range of improved products, while boosting supply chain.

Going forward, we expect that the improving economic activity will be sustained throughout FY2021e, ultimately resulting in healthier margins through improved demand on SABIC's products and better average sales prices.

Key Financial Ratios

Ratio	FY2020	FY2019
Revenue Growth	-13.6%	-19.9%
Gross Profit Margin	19.6%	21.7%
EBIT Margin	7.2%	3.0%
Net Margin	0.1%	3.8%

Key Financial Results (2020A)



Segment Performance FY2020A



Financial Projection

DCF Valuation

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
EBITDA	15,752	23,008	26,788	29,913	33,123	36,359	37,833
Operating CF	17,038	21,195	26,386	29,745	32,497	36,335	38,049
Capex	(13,915)	(14,225)	(15,181)	(16,623)	(18,111)	(18,477)	(18,526)
FCFF	3,123	6,970	11,205	13,123	14,386	17,858	19,524
Stub Period (FCF to be discounted)	0	6,970	11,205	13,123	14,386	17,858	19,524
PV (FCFF)	0	6,436	9,570	10,336	10,480	11,995	12,131
WACC	8.16%						
Perpetuity Growth	3.00%						
PV-FCFF	60,948	We have valued SABIC using DCF approach, considering a cost of equity is equal to 8.16% (based on a risk-free rate of 2.7%, market risk premium 7.00%, Beta of 0.89.					
PV-TV	237,943						
Net Debt	(11,747)						
Less: End of services benefits	(19,656)						
Add: Investments	47,758	Based on the DCF valuation, the fair price of SABIC share price is SAR105.1, which is lower than the traded value by 5.5%.					
Intrinsic Values	315,246						
Shares Outstanding	3,000						
Equity value per share	105.1						
CMP (30-03-2020)	111.2						
Upside / (Downside%)	-5.50%						

Financial Ratios

	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Return on Average	1.7%	0.0%	2.9%	3.8%	4.7%	5.3%	6.1%	6.2%
Return on Average	3.0%	0.0%	5.0%	6.8%	8.5%	10.0%	11.5%	12.0%
Earnings Before Zakat	6.8%	2.8%	10.3%	11.6%	13.6%	15.1%	17.3%	18.0%
Net Income Margin	3.8%	0.1%	6.2%	7.6%	8.9%	10.0%	11.4%	11.9%
Revenue Growth (%)	-19.9%	-13.6%	13.9%	6.7%	4.6%	4.3%	2.0%	0.3%
EPS	1.7	0.0	2.8	3.6	4.4	5.2	6.0	6.3

Income Statement

	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Revenues	135,396	116,949	133,235	142,180	148,723	155,102	158,234	158,651
Cost of Revenues	(105,991)	(94,078)	(99,214)	(103,713)	(106,574)	(109,288)	(108,281)	(107,364)
Gross Profit	29,405	22,871	34,021	38,467	42,148	45,814	49,953	51,288
SG&A	(19,616)	(19,306)	(21,894)	(22,983)	(23,242)	(23,423)	(23,890)	(24,003)
Zakat	9,789	3,565	12,127	15,483	18,906	22,390	26,063	27,285
Net Income	5,198	67	8,278	10,760	13,309	15,468	18,033	18,869

Balance Sheet

	2019 A	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Current Assets	87,522	81,393	66,676	71,314	66,456	71,355	71,487	76,473
Non-Current Assets	212,958	214,076	214,442	215,735	218,503	222,644	227,069	231,239
Total Assets	300,481	295,469	281,118	287,049	284,959	293,999	298,555	307,712
Current Liabilities	37,543	37,493	39,866	41,554	43,136	44,395	44,934	44,039
Non-Current	56,125	63,739	51,668	57,461	52,152	55,598	53,575	58,040
Total Equity	93,668	101,232	91,535	99,015	95,289	99,993	98,509	102,079
Total Liabilities and	300,481	295,469	281,119	287,049	284,959	293,999	298,556	307,712

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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