

Saudi Basic Industries Corporation (SABIC)

Solid cost-optimization initiatives coupled with higher sales volumes & improved margins boost profitability

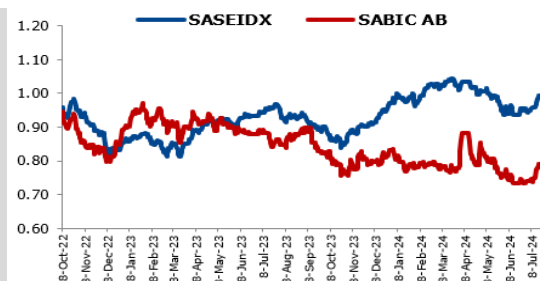
Current Price
SAR 74.50

Target Price
90.00

Upside/Downside (%)
+21%

Rating
BUY

- SABIC's average product selling price rose 1% YOY in 2Q24 while sales volume increased 4% YOY.
- SABIC launched a certified low-carbon products portfolio.
- SABIC announced the commissioning of its new hydrotreater plant in the Netherlands. The plant converts pyrolysis oil from post-consumer mixed plastic waste to alternative feedstock to produce certified circular polymers of the "TRUCIRCLE" portfolio.
- The Company plans to invest USD 4.0-5.0 Bn in FY2024.
- SABIC declared an interim dividend of SAR 1.70 per share for 1H24, amounting to USD 5.11 Bn.



Stock Information

Market Cap (SAR, mn)	223,500.00
Paid Up Capital (mn)	30,000.00
52 Week High	91.00
52 Week Low	73.40
3M Avg. daily value (SAR)	141,940,300

2Q24 Net Profit higher than our estimate

Saudi Basic Industries Corporation's ("SABIC", "The Company") net profit increased significantly from SAR 1.2 Bn in 2Q23 to SAR 2.2 Bn in 2Q24. The increase in net profit is mainly attributable to a decline in the cost of sales and recording a zakat reversal partially offset by a decline in revenue, an increase in operating expenses and R&D expenses coupled with higher net finance cost.

P&L Highlights

SABIC's revenue fell 3.9% YOY but rose 9.3% QOQ to SAR 35.7 Bn in 2Q24, mainly driven by increased sales volume and higher margins. SABIC's sales volumes increased 1% YOY and 11% QOQ in 2Q24, whereas the average selling price increased 4% YOY but declined 2% QOQ. Petrochemicals revenue grew 9.6% QOQ to SAR 33.3 Bn in 2Q24 mainly driven by higher sales volumes of methanol and higher average selling price. The average global selling price of Methyl tert-butyl ether (MTBE) maintained its level in 2Q24 compared to the previous quarter supported by strong gasoline blending demand due to peak summers. Similarly, global methanol prices maintained 1Q24 levels due to tight supply, low inventories in China, and strong demand from Asian markets. Additionally, global Polyethylene prices marginally increased on QOQ basis in 2Q24 due to delayed deliveries from the Middle East, tight supply from southeast Asia, and the shutdown of several plants in the region due to periodic maintenance. Global Polypropylene prices inched up on QOQ basis in 2Q24 due to the tight supply of vessels which impacted cargo deliveries. Revenue from the Agri-Nutrients segment rose 5.5% QOQ to SAR 2.4 Bn in 2Q24 owing to an increase in sales volumes due to the rescheduling of shipments from 1Q24 to 2Q24 partially offset by a decline in sales price due to seasonality. Urea prices declined in 2Q24 owing to downward pressure from high stock levels in India coupled with lower

2Q24 Result Review (SAR, mn)

Total Assets	285,088
Total Liabilities	93,793
Total Equity	191,294
EBITDA	5,700
Net Profit	2,184

Financial Ratios

Dividend Yield (12m)	4.56
Dividend Pay-out (%)	781.81
Price-Earnings Ratio(x)	116.24
Price-to-Book Ratio (x)	1.36
Book Value (SAR)	54.64
Return-on Equity (%)	-1.28

Stock Performance

5 Days	-2.10%
1 Months	-3.87%
3 Months	-6.41%
6 Months	-5.70%
1 Year	-13.47%
Month to Date (MTD%)	-5.46%
Quarter to Date (QTD%)	0.95%
Year to Date (YTD%)	-10.78%

demand on the back of floods in Brazil and off-season in South America. SABIC's cost of sales declined 10.3% YOY to SAR 28.5 Bn in 2Q24 driven by cost optimization initiatives and using feed cost with lower price and better margins. The Company's selling and marketing expenses rose 6.4% YOY to SAR 2.0 Bn in 2Q24, whereas G&A expenses increased 8.7% YOY to SAR 2.4 Bn. Besides, R&D expenses grew 5.7% YOY to SAR 480 Mn in 2Q24. SBIC recorded other operating expense of SAR 152 Mn in 2Q24 compared to operating income of SAR 657 Mn in 2Q23. As a result, total operating expenses rose 29.2% YOY to SAR 5.1 Bn in 2Q24. Furthermore, SABIC's operating profit increased 46.6% YOY to SAR 2.1 Bn in 2Q24. SABIC's overall EBITDA rose 12.6% YOY to SAR 5.7 Bn in 2Q24. Petrochemicals segment EBITDA jumped 37% QOQ to SAR 4.9 Bn in 2Q24, whereas Agri Nutrients segment EBITDA declined 14% QOQ to SAR 0.8 Bn. The Company's finance income fell 52.0% YOY to SAR 515 Mn in 2Q24, whereas finance cost grew 12.1% YOY to SAR 680 Mn. Moreover, Other income rose 16.9% YOY to SAR 317 Mn in 2Q24. The Company recorded a zakat reversal of SAR 545 Mn in 2Q24 compared to zakat charges of SAR 464 Mn in 2Q23. Similarly, Income tax expense more than doubled from SAR 14 Mn in 2Q23 to SAR 42 Mn in 2Q24. Furthermore, SABIC recorded SAR 48 Mn in loss from discontinued operations during 2Q24 compared to nil in 2Q23. The Company's share of profit attributable to non-controlling interest holders rose 2.0% YOY to SAR 524 Mn in 2Q24.

Balance Sheet Highlights

SABIC's cash and cash equivalents including short-term investments stood at SAR 36.9 Bn in 2Q24 compared to SAR 38.3 Bn in 1Q24. The Company's cash flow from operating activities declined from SAR 2.2 Bn in 1Q24 to SAR 629 Mn in 2Q24. In addition, the free cash flow stood at negative 1.44 Bn in 2Q24 compared to negative SAR 0.35 Bn in 1Q24.

Target Price and Rating

We maintain our BUY rating on SABIC with an unchanged target price of SAR 90.00. SABIC's profitability was boosted in 2Q24 mainly driven by a decline in the cost of sales coupled with higher sales volumes and margins. SABIC's average product selling price increased 4% YOY during 2Q24, while sales volumes rose marginally 1% YOY. Strategic cost optimization initiatives and leveraging low-cost feedstock improved the Company's cost of sales. The Company's margins improved by allocating sales to higher-margin regions along with a price and product differentiation strategy. The Company divested its stake in Hadeed to focus on its core petrochemicals business. SABIC launched a certified low-carbon products portfolio. Furthermore, SABIC focuses on maximizing shareholder value through strategic portfolio optimization, restructuring underperforming assets, prioritizing sustainability and innovation, and maintaining capital discipline. The Company plans to invest USD 4.0-5.0 Bn in FY2024. SABIC announced the commissioning of its new hydrotreater plant in the Netherlands. The plant converts pyrolysis oil from post-consumer mixed plastic waste to alternative feedstock to produce certified circular polymers of the "TRUCIRCLE" portfolio. The board announced an interim cash dividend of SAR 1.70 per share amounting to SAR 5.11 Bn for 1H24. Thus, considering the above-mentioned factors, we maintain our BUY rating on the stock.

SABIC - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024
PE	43.46	NM	9.79	13.67	NM	57.10
PB	1.09	1.16	1.07	1.04	1.16	1.12
EV/EBITDA	9.83	13.82	5.22	6.54	12.64	11.70
Dividend yield	5.8%	4.0%	5.3%	5.6%	4.5%	4.5%

FABS Estimates & Co Data

SABIC – P&L

SAR mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	37,167	32,686	35,719	35,880	-0.4%	-3.9%	9.3%	141,537	143,357	1.3%
Cost of Sales	-31,794	-26,823	-28,525	-28,636	-0.4%	-10.3%	6.3%	-119,463	-116,231	-2.7%
Gross profit	5,373	5,862	7,194	7,244	-0.7%	33.9%	22.7%	22,074	27,126	22.9%
Selling & marketing exp.	-1,914	-1,861	-2,036	-1,946	4.7%	6.4%	9.4%	-7,752	-7,873	1.6%
G&A expenses	-2,230	-2,363	-2,425	-2,393	1.3%	8.7%	2.6%	-9,120	-9,605	5.3%
R&D Expenses	-454	-505	-480	-509	-5.7%	5.7%	-5.0%	-1,893	-2,007	6.0%
Other operating inc./(exp.)	657	78	-152	-116	30.7%	NM	NM	411	-502	NM
Total operating expenses	-3,941	-4,652	-5,093	-4,965	2.6%	29.2%	9.5%	-18,354	-19,987	8.9%
Operating profit	1,432	1,210	2,101	2,279	-7.8%	46.6%	73.5%	3,720	7,139	91.9%
D&A expenses	3,694	3,300	3,601	3,579	0.6%	-2.5%	9.1%	14,214	14,339	0.9%
EBITDA	5,060	4,510	5,700	5,859	-2.7%	12.6%	26.4%	19,020	21,479	12.9%
Finance income	1,073	674	515	581	-11.3%	-52.0%	-23.5%	3,626	2,258	-37.7%
Finance cost	-606	-660	-680	-664	2.4%	12.1%	3.0%	-2,615	-2,672	2.2%
Other income/(expenses)	271	173	317	0	NM	16.9%	83.5%	-208	0	NM
Profit before zakat & tax	2,170	1,397	2,253	2,196	2.6%	3.8%	61.3%	4,524	6,725	48.7%
Zakat	-464	-332	545	-339	NM	NM	NM	-1,269	-471	-62.9%
Income Tax	-14	16	-42	-42	1.1%	NM	NM	438	-168	-138.4%
Profit from cont. operations	1,692	1,082	2,756	1,816	51.8%	62.9%	NM	3,693	6,086	64.8%
P&L from discontinued operations	0	-387	-48	16	NM	NM	-87.5%	-4,077	0	NM
Non-controlling interests	514	449	524	535	-2.1%	2.0%	16.7%	2,388	2,130	-10.8%
Profit attributable	1,178	246	2,184	1,296	68.4%	85.3%	NM	-2,772	3,956	NM

FABS estimate & Co Data
SABIC - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	14.5%	17.9%	20.1%	568	220	15.6%	18.9%	333
EBITDA	13.6%	13.8%	16.0%	234	216	13.4%	15.0%	154
Operating Profit	5.8%	4.3%	6.3%	47	203	3.2%	4.7%	149
Net Profit	3.2%	0.8%	6.1%	294	536	-2.0%	2.8%	472

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link

+971-2-6161777

Institutional Desk +971-4-4245765

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