

## Saudi Basic Industries Corporation (SABIC)

Significantly lower losses from discontinued operations drove profitability

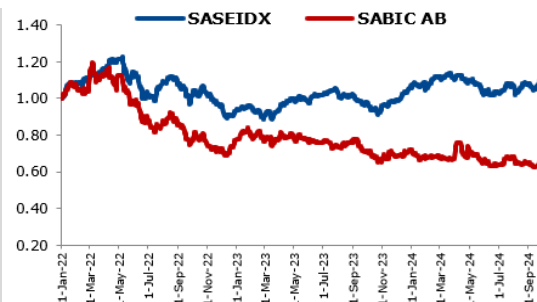
**Current Price**  
SAR 70.00

**Target Price**  
90.00

**Upside/Downside (%)**  
+29%

**Rating**  
BUY

- SABIC's average product selling price rose 3% YOY in 3Q24 while sales volume declined 1% YOY.
- Petrochemicals sales volumes grew 5% QOQ to 10.03 MMT in 3Q24 while Agri-Nutrients sales volume declined 1% QOQ to 1.84 MMT
- Achieved mechanical completion of the Pyoil plant.
- After the sale of Hadeed, the Company sold its stake in Aluminum Bahrain and divested from Functional Forms Business.
- Launched the world's largest circular solar installation in Belgium
- Revised its capex lower and now aims to invest USD 3.3 to 3.9 Bn during 2024.
- Paid a cash dividend of SAR 1.70 per share amounting to SAR 5.11 Bn in 1H24.



### 3Q24 Net Profit lower than our estimates

Saudi Basic Industries Corporation ("SABIC", "The Company") recorded a net profit of SAR 1.0 Bn in 3Q24 compared to a net loss of SAR 2.9 Bn in 3Q23. The increase in net profit is mainly attributable to significantly lower losses from discontinued operations and marginal growth in revenue partially offset by an increase in operating expenses and zakat charge along with a decline in finance income.

### P&L Highlights

SABIC's revenue increased 2.5% YOY to SAR 36.9 Bn in 3Q24, mainly driven by higher average sales price partially offset by lower volumes. Petrochemicals revenue increased 1.7% YOY and 2.3% QOQ to SAR 34.1 Bn in 3Q24 primarily driven by increased volumes on QOQ basis partially offset by lower prices. Petrochemicals sales volumes increased 5% QOQ to 10.03 MMT in 3Q24 owing to higher sales volume of polypropylene (PP) and polyethylene (PE) while average sales price including FX dropped 4% QOQ during the same period. Methyl tert-butyl and PE prices decreased in 3Q24 compared to 2Q24 due to lower demand while PP, mono ethylene, and polycarbonate prices were up in 3Q24 compared to the previous quarter owing to tight supply and demand recovery. Besides Global methanol prices remained stable on QOQ basis in 3Q24 driven by outages across multiple regions. On the other hand, revenue from Agri-Nutrients increased 13.2% YOY and 17.1% QOQ to SAR 2.8 Bn in 3Q24 attributable to 17% QOQ growth in average selling prices due to strong urea prices driven by tight supply. Agri-Nutrients sales volume declined 1% QOQ to 1.84 MMT in 3Q24. SABIC's cost of sales increased 1.0% YOY and 3.3% QOQ to SAR 29.9 Bn in 3Q24 owing to higher feedstock and variable costs. Gross profit rose 9.3% YOY to SAR 7.0 Bn in 3Q24. SABIC's selling and marketing expenses increased 20.4% YOY to SAR 2.2 Bn in 3Q24 while G&A expenses were

### Stock Information

|                           |             |
|---------------------------|-------------|
| Market Cap (SAR, mn)      | 210,000.00  |
| Paid Up Capital (mn)      | 30,000.00   |
| 52 Week High              | 89.00       |
| 52 Week Low               | 69.70       |
| 3M Avg. daily value (SAR) | 134,325,200 |

### 3Q24 Result Review (SAR, mn)

|                   |         |
|-------------------|---------|
| Total Assets      | 281,021 |
| Total Liabilities | 87,934  |
| Total Equity      | 193,087 |
| EBITDA            | 5,689   |
| Net Profit        | 1,004   |

### Financial Ratios

|                         |        |
|-------------------------|--------|
| Dividend Yield (12m)    | 4.71   |
| Dividend Pay-out (%)    | 781.81 |
| Price-Earnings Ratio(x) | 84.99  |
| Price-to-Book Ratio (x) | 1.27   |
| Book Value (SAR)        | 55.16  |
| Return-on Equity (%)    | 1.00   |

### Stock Performance

|                        |         |
|------------------------|---------|
| 5 Days                 | 0.29%   |
| 1 Months               | -4.24%  |
| 3 Months               | -6.04%  |
| 6 Months               | -10.83% |
| 1 Year                 | -13.04% |
| Month to Date (MTD%)   | -3.71%  |
| Quarter to Date (QTD%) | -6.54%  |
| Year to Date (YTD%)    | -16.17% |

up 6.4% YOY to SAR 2.5 Bn. Besides, R&D expenses grew 4.4% YOY to SAR 499 Mn in 3Q24. Moreover, SABIC recorded other operating income of SAR 641 Mn in 3Q24 compared to a loss of SAR 103 Mn in 3Q23. The Company's operating profit increased 47.4% YOY to SAR 2.5 Bn in 3Q24. D&A expenses dropped 23.9% YOY to SAR 3.2 Bn in 3Q24. Petrochemicals segment EBITDA declined 4% QOQ to SAR 4.7 Bn in 3Q24 while Agri-Nutrients EBITDA rose 24% QOQ to SAR 1.0 Bn. Furthermore, total EBITDA increased marginally 1.4% YOY to SAR 5.7 Bn in 3Q24. Finance income fell from SAR 843 Mn in 3Q23 to SAR 453 Mn in 3Q24 whereas finance cost rose 4.1% YOY to SAR 712 Mn in 3Q24. The Company recorded other income of SAR 4 Mn in 3Q24 compared to other expenses of SAR 196 Mn in 3Q23. Zakat charge rose 27.7% YOY to SAR 397 Mn in 3Q24 while SABIC recorded an income tax reversal of SAR 20 Mn in 3Q24 compared to a tax charge of SAR 27 Mn in 3Q23. Loss from discontinued operations significantly reduced to SAR 81 Mn in 3Q24, down from SAR 3.4 Bn in 3Q23. Additionally, the share of profit attributable to non-controlling interest holders moderated 1.3% YOY to SAR 760 Mn in 3Q24.

### Balance Sheet Highlights

SABIC's cash and cash equivalents including short-term investments stood at SAR 34.5 Bn in 3Q24 compared to SAR 36.9 Bn in 2Q24. The Company's cash flow from operating activities increased substantially from SAR 629 Mn in 2Q24 to SAR 6.6 Bn in 3Q24. In addition, the free cash flow stood at SAR 3.9 Bn in 3Q24 compared to negative SAR 1.4 Bn in 2Q24.

### Target Price and Rating

We maintain our BUY rating on SABIC with an unchanged target price of SAR 90.00. SABIC's profitability in 3Q24 is mainly supported by lower losses from discontinued operations while higher average selling prices drove YOY growth in the top line. SABIC's overall average product selling price including FX and other factors increased 3% YOY in 3Q24 while sales volumes declined marginally 1% YOY. Despite the ongoing geopolitical crisis and pressure from higher variable costs, SABIC's EBITDA margin declined marginally from 15.6% in 3Q23 to 15.4% in 3Q24. Furthermore, the Company achieved mechanical completion of the Pyoil plant in 3Q24 which converts pyrolysis oil from post-consumer mixed plastic waste to alternative feedstock to produce certified circular polymers of the "TRUCIRCLE" portfolio. SABIC also launched the world's largest circular solar installation in Belgium in 3Q24. After the sale of Hadeed, the Company sold its stake in Aluminum Bahrain and divested from Functional Forms Business which indicates the Company is optimizing its portfolio to improve its focus on core business for enhancing returns and relocating capital to higher-margin opportunities. Moreover, SABIC prioritizes sustainability, customer intimacy, and innovation alongside maintaining cost discipline. The Company revised its capex lower and now aims to invest USD 3.3 to 3.9 Bn during 2024. Additionally, SABIC benefited with synergies worth SAR 1.2 Bn in 3Q24 attributable to Aramco's investment in SABIC. The board paid a cash dividend of SAR 1.70 per share amounting to SAR 5.11 Bn in 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             | 40.40 | 31.43 | 9.10 | 12.70 | -75.75 | 57.63 |
| PB             | 1.02  | 1.08  | 0.99 | 0.96  | 1.08   | 1.13  |
| EV/EBITDA      | 9.17  | 12.91 | 4.87 | 6.08  | 11.75  | 11.64 |
| Dividend yield | 6.3%  | 4.3%  | 5.7% | 6.1%  | 4.9%   | 4.9%  |

FABS Estimates & Co Data

**SABIC – P&L**

| SAR mn                               | 3Q23          | 2Q24          | 3Q24          | 3Q24F         | Var.         | YOY Ch       | QOQ Ch        | 2023           | 2024F          | Change       |
|--------------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------|----------------|----------------|--------------|
| Sales                                | 35,975        | 35,719        | 36,880        | 37,476        | -1.6%        | 2.5%         | 3.3%          | 141,537        | 138,992        | -1.8%        |
| Cost of Sales                        | -29,572       | -28,525       | -29,880       | -30,441       | -1.8%        | 1.0%         | 4.8%          | -119,463       | -113,003       | -5.4%        |
| <b>Gross profit</b>                  | <b>6,403</b>  | <b>7,194</b>  | <b>7,000</b>  | <b>7,035</b>  | <b>-0.5%</b> | <b>9.3%</b>  | <b>-2.7%</b>  | <b>22,074</b>  | <b>25,989</b>  | <b>17.7%</b> |
| Selling & marketing exp.             | -1,838        | -2,036        | -2,213        | -2,153        | 2.8%         | 20.4%        | 8.7%          | -7,752         | -8,340         | 7.6%         |
| G&A expenses                         | -2,304        | -2,425        | -2,451        | -2,409        | 1.8%         | 6.4%         | 1.1%          | -9,120         | -9,729         | 6.7%         |
| R&D Expenses                         | -478          | -480          | -499          | -511          | -2.3%        | 4.4%         | 3.9%          | -1,893         | -1,946         | 2.8%         |
| Other operating inc./(exp.)          | -103          | -152          | 641           | 325           | NM           | NM           | NM            | 411            | 1,181          | NM           |
| <b>Total operating expenses</b>      | <b>-4,723</b> | <b>-5,093</b> | <b>-4,522</b> | <b>-4,747</b> | <b>-4.7%</b> | <b>-4.2%</b> | <b>-11.2%</b> | <b>-18,354</b> | <b>-18,833</b> | <b>2.6%</b>  |
| <b>Operating profit</b>              | <b>1,681</b>  | <b>2,101</b>  | <b>2,477</b>  | <b>2,288</b>  | <b>8.3%</b>  | <b>47.4%</b> | <b>17.9%</b>  | <b>3,720</b>   | <b>7,155</b>   | <b>92.3%</b> |
| D&A expenses                         | 4,221         | 3,601         | 3,212         | 3,719         | -13.6%       | -23.9%       | -10.8%        | 14,214         | 13,289         | -6.5%        |
| <b>EBITDA</b>                        | <b>5,610</b>  | <b>5,700</b>  | <b>5,689</b>  | <b>6,007</b>  | <b>-5.3%</b> | <b>1.4%</b>  | <b>-0.2%</b>  | <b>19,020</b>  | <b>20,444</b>  | <b>7.5%</b>  |
| Finance income                       | 843           | 515           | 453           | 534           | -15.3%       | -46.3%       | -12.2%        | 3,626          | 2,126          | -41.4%       |
| Finance cost                         | -684          | -680          | -712          | -666          | 6.9%         | 4.1%         | 4.7%          | -2,615         | -2,743         | 4.9%         |
| Other income/(expenses)              | -196          | 317           | 4             | 0             | NM           | NM           | NM            | -208           | 494            | NM           |
| <b>Profit before zakat &amp; tax</b> | <b>1,643</b>  | <b>2,253</b>  | <b>2,221</b>  | <b>2,156</b>  | <b>3.0%</b>  | <b>35.2%</b> | <b>-1.4%</b>  | <b>4,524</b>   | <b>7,032</b>   | <b>55.5%</b> |
| Zakat                                | -311          | 545           | -397          | -395          | 0.5%         | 27.7%        | NM            | -1,269         | -563           | -55.7%       |
| Income Tax                           | -27           | -42           | 20            | -71           | NM           | NM           | NM            | 438            | -70            | -116.0%      |
| <b>Profit from cont. operations</b>  | <b>1,305</b>  | <b>2,756</b>  | <b>1,844</b>  | <b>1,690</b>  | <b>9.1%</b>  | <b>41.2%</b> | <b>-33.1%</b> | <b>3,693</b>   | <b>6,399</b>   | <b>73.3%</b> |
| P&L from discontinued operations     | -3,412        | -48           | -81           | 0             | NM           | -97.6%       | 66.6%         | -4,077         | -515           | NM           |
| Non-controlling interests            | 769           | 524           | 760           | 579           | 31.3%        | -1.3%        | 45.0%         | 2,388          | 2,240          | -6.2%        |
| <b>Profit attributable</b>           | <b>-2,876</b> | <b>2,184</b>  | <b>1,004</b>  | <b>1,111</b>  | <b>-9.7%</b> | <b>NM</b>    | <b>-54.0%</b> | <b>-2,772</b>  | <b>3,644</b>   | <b>NM</b>    |

*FABS estimate & Co Data*
**SABIC - Margins**

|                  | 3Q23  | 2Q24  | 3Q24  | YOY Ch | QOQ Ch | 2023  | 2024F | Change |
|------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross Profit     | 17.8% | 20.1% | 19.0% | 118    | -116   | 15.6% | 18.7% | 310    |
| EBITDA           | 15.6% | 16.0% | 15.4% | -17    | -53    | 13.4% | 14.7% | 127    |
| Operating Profit | 4.6%  | 6.3%  | 6.0%  | 146    | -28    | 3.2%  | 5.1%  | 186    |
| Net Profit       | -8.0% | 6.1%  | 2.7%  | 1,072  | -339   | -2.0% | 2.6%  | 458    |

*FABS estimate & Co Data*

## Valuation:

We use Discounted Free Cash Flow (DCF), Relative Valuation (RV), and Discounted Dividend Method (DDM) to value Saudi Basic Industries Corporation. We have assigned 70% weight to DCF and 15% to RV and DDM.

| Valuation Method                        | Target | Weight | Weighted Value |
|---|--------|--------|----------------|
| DCF Method                              | 97.44  | 70.0%  | 68.21          |
| DDM Method                              | 68.52  | 15.0%  | 10.28          |
| Relative Valuation (RV)                 | 76.74  | 15.0%  | 11.51          |
| <b>Weighted Average Valuation (SAR)</b> |        |        | <b>90.00</b>   |
| Current market price (SAR)              |        |        | 70.00          |
| Upside/Downside (%)                     |        |        | +29%           |

### 1) DCF Method:

Saudi Basic Industries Corporation is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 8.0%. It is arrived after using the cost of equity of 8.6% and the cost of debt of 6.7%. Cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 0.9 and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

|  |                |
|--|----------------|
| Sum of PV (SAR, Mn)                        | 50,904         |
| Terminal value (SAR, Mn)                   | 252,825        |
| Cash (as of September 2024)                | -11,397        |
| <b>FV to Common shareholders (SAR, Mn)</b> | <b>292,333</b> |
| No. of share (Mn)                          | 3,000          |
| Current Market Price (SAR)                 | 70.00          |
| <b>Fair Value per share (SAR)</b>          | <b>97.44</b>   |

### DCF Method

| (All Figures in SAR Mn)              | FY 2024E     | FY 2025E      | FY 2026E      | FY 2027E      | FY 2028E      |
|--------------------------------------|--------------|---------------|---------------|---------------|---------------|
| NOPAT                                | 6,511        | 10,484        | 11,966        | 14,819        | 16,128        |
| Depreciation & Amortization          | 11,981       | 11,902        | 11,625        | 11,265        | 10,915        |
| Capex                                | -12,545      | -10,314       | -8,477        | -8,058        | -7,927        |
| Change in Working Capital            | -132         | -614          | -523          | -567          | -449          |
| <b>Free Cash Flow to Firm (FCFF)</b> | <b>5,815</b> | <b>11,458</b> | <b>14,590</b> | <b>17,459</b> | <b>18,666</b> |
| Discounting Factor                   | 0.99         | 0.92          | 0.85          | 0.79          | 0.73          |
| <b>Discounted FCFF</b>               | <b>672</b>   | <b>10,513</b> | <b>12,394</b> | <b>13,731</b> | <b>13,592</b> |

Source: FAB Securities

## 2) DDM Method:

Saudi Basic Industries Corporation regularly pays semi-annual dividends and is expected to continue paying dividends in the forthcoming period. The dividend is discounted at the cost of equity of 8.6%.

|  |                |
|--|----------------|
| Sum of PV (SAR, Mn)                        | 50,483         |
| Terminal value (SAR, Mn)                   | 155,087        |
| <b>FV to Common shareholders (SAR, Mn)</b> | <b>205,570</b> |
| No. of share (Mn)                          | 7,398          |
| Current Market Price (SAR)                 | 70.00          |
| <b>Fair Value per share (SAR)</b>          | <b>68.52</b>   |

| (All Figures in SAR Mn)          | FY 2024E      | FY 2025E      | FY 2026E      | FY 2027E      | FY 2028E      |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Dividend Paid</b>             |               |               |               |               |               |
| H1                               | 5,100         | 5,550         | 5,850         | 6,000         | 6,000         |
| H2                               | 5,100         | 5,550         | 5,850         | 6,000         | 6,000         |
| <b>Total Dividend</b>            | <b>10,200</b> | <b>11,100</b> | <b>11,700</b> | <b>12,000</b> | <b>12,000</b> |
| Discounting Factor               | 0.93          | 0.99          | 0.91          | 0.84          | 0.77          |
| <b>Present Value of Dividend</b> | <b>9,479</b>  | <b>10,993</b> | <b>10,667</b> | <b>10,072</b> | <b>9,272</b>  |

Source: FAB Securities

## 3) Relative Valuation:

We have used local as well as international peers to value Saudi Basic Industries Corporation and valued using the EV/EBITDA multiple of 12.7x in line with peers.

| Company                                     | Market<br>(USD Mn) | EV/EBITDA (x) |              | P/E (x)      |              |
|---|--------------------|---------------|--------------|--------------|--------------|
|   |                    | 2024F         | 2025F        | 2024F        | 2025F        |
| <b><u>Integrated &amp; Marine peers</u></b> |                    |               |              |              |              |
| Saudi Kayan Petrochemical Company           | 2,937              | 13.2          | 7.9          | NA           | NA           |
| Sahara International Petrochemical Company  | 4,916              | 12.2          | 9.1          | 35.1         | 16.5         |
| Saudi Arabian Mining Company                | 53,299             | 19.7          | 16.7         | 45.2         | 33.7         |
| LyondellBasell Industries                   | 27,020             | 8.1           | 7.1          | 11.9         | 9.7          |
| Yanbu National Petrochemical Company        | 5,963              | 11.2          | 9.9          | 38.1         | 27.9         |
| Advanced Petrochemical Company              | 2,403              | 41.8          | 12.6         | NM           | 16.4         |
| <b>Average</b>                              |                    | <b>17.7x</b>  | <b>10.6x</b> | <b>48.7x</b> | <b>20.8x</b> |
| <b>Median</b>                               |                    | <b>12.7x</b>  | <b>9.5x</b>  | <b>38.1x</b> | <b>16.5x</b> |
| <b>Max</b>                                  |                    | <b>18.1x</b>  | <b>11.9x</b> | <b>45.2x</b> | <b>27.9x</b> |
| <b>Min</b>                                  |                    | <b>11.5x</b>  | <b>8.2x</b>  | <b>35.1x</b> | <b>16.4x</b> |

Source: FAB Securities

