June 26, 2022

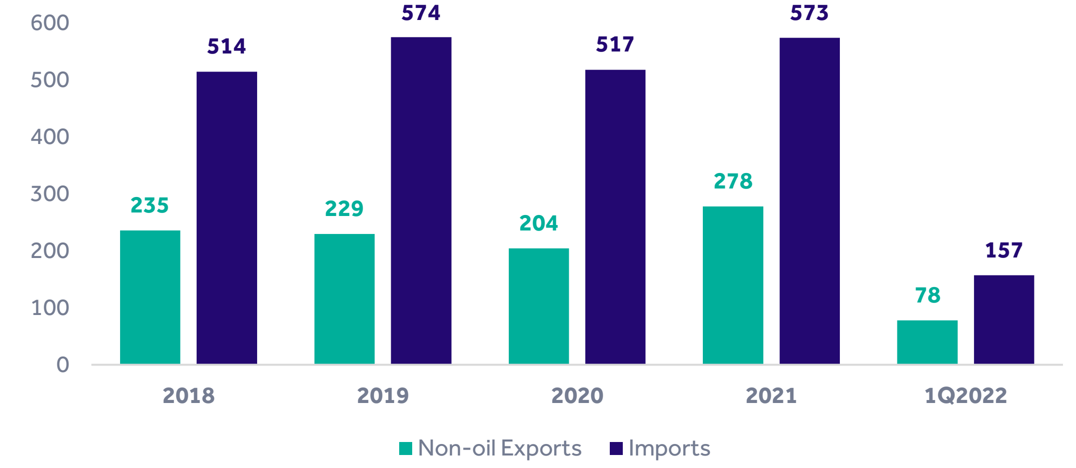
KSA PETROCHEMICALS
Sector Update

Petrochemical Sector Rides Global Recovery Wave

Saudi Arabia Petrochemical Sector

The Saudi petrochemical industry is vital to the Kingdom's non-oil economy. In value terms, chemical products were the most important non-oil export in 1Q2022 amounting to SAR 10.3 bln (increasing by +63% Q/Q) and comprising a substantial 13.5% share of total non-oil exports. Furthermore, plastics and rubber increased by +17.4% from 1Q2021 to SAR 3.5 bln, comprising 4.5% share of total non-oil exports.

Exhibit 1: Saudi Arabia Non-Oil Exports and Imports (SAR bln)

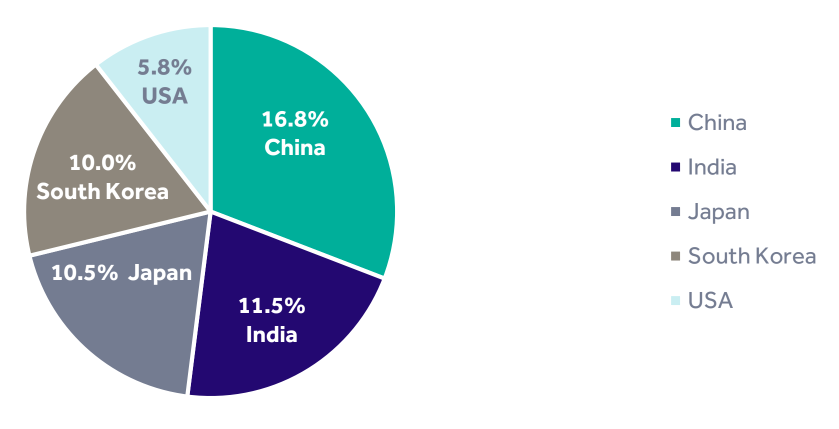


Source: RC, GASTAT

China is the main partner for Kingdom

In 1Q2022, China accounted for 16.8% of total exports, which amounted to SAR 60.5 bln, making the country the main destination for Saudi Arabia exports. India and Japan followed next with SAR 41.4 bln (11.5% of total exports) and SAR 37.6 bln (10.5% of total exports), respectively. South Korea and USA accounted for 10.0% and 5.8%, respectively.

Exhibit 2: Proportion of Exports for Saudi Arabia by Country



Source: RC, GASTAT

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Sector witnessed a banner year in 2021

The net income of our covered companies sector increased at a compounded annual growth rate (CAGR) of about +69.8% over 2019-2021, benefiting from capacity expansion and low production costs amid high petrochemical product prices and demand. Moreover, Saudi Arabia is in close proximity to major markets in Asia and Europe. The Kingdom's major petrochemical companies generated around SAR 221.3 bln in revenue during 2021, which reflects an increase of +55% Y/Y of which SAR 175 bln was earned by SABIC, which equates to nearly 79% of the aggregate value. We believe Saudi Arabia's petrochemical sector would see a good year in 2022 as well amid rising demand and strong oil prices, especially as oil prices continue to spike to record highs and pandemic-hit economies rebound although high feedstock prices would be a challenge.

Table 1: Petrochemical Covered Company's Net Income (SAR mln)

	2019	2020	2021	1Q2022
SABIC	5,198	67	23,758	6,475
SABIC Agri-Nut	1,474	1,294	5,310	2,513
Sipchem	300	176	3,791	1,079
Tasnee	(1,676)	(447)	1,500	309
SIIG	606	92	1,136	235
YANSAB	1,090	678	1,621	283
Kayan	(637)	(785)	2,408	209
Advanced	759	596	815	164
Total	**7,114**	**1,405**	**20,608**	**11,262**

Source: RC, Companies Financial Statement

Table 2: Petrochemical Covered Company's Revenue (SAR mln)

	2019	2020	2021	1Q2022
SABIC	135,396	116,949	174,883	51,308
SABIC Agri-Nut	3,288	3,328	9,592	3,703
Sipchem	5,440	5,323	9,982	2,589
Tasnee	2,979	2,272	3,673	1,105
SIIG	7,656	-	-	-
YANSAB	6,065	5,035	7,408	1,947
Kayan	9,536	8,007	12,656	3,138
Advanced	2,595	2,231	3,111	1,279
Total	**172,953**	**143,145**	**221,305**	**65,068**

Source: RC, Companies Financial Statement

SIIG and Petrochem acquisition

Recently, the sector witnessed some changes, Saudi Industrial Investment Group (SIIG) acquired all issued shares in National Petrochemical Company (Petrochem). The acquisition created a bigger and stronger entity in the field of industrial investment in the region and is expected to generate SAR 13-17 mln in annual cost synergies. As a result, we believe SIIG will become one of the top three petrochemical companies in Saudi Arabia.

Location is an advantage

Saudi Petrochemical companies have their end-consumers across the globe as the country is strategically located midway between both sets of major buyers US, Europe, as well as Asia-Pacific countries. Among western economies, the trend appears to be veering towards closure of older plants in the US and Europe, while replacement capex is not being added quickly enough, thereby creating an opportunity for the Saudi Petrochemical industry to expand market share in these economies.

Key player in Ethylene production

The Kingdom is a key global player in both ethylene and ethylene derivatives as most petrochemical firms use ethane as a key feedstock, which has a high production yield of ethylene. Saudi Arabia has a total production capacity of 17.5 mtpa of ethylene, which is about 9% of the total global capacity.

Advantages of low-cost feedstock

Saudi Arabia has fixed ethane feedstock prices at USD 1.75/mbtu for petrochemical producers. Moreover, other feedstocks such as propane and butane, are supplied at a discount to the market price. As a result, petrochemical producers in the Kingdom are considered among the most cost-competitive across the globe. Also, producers are in a better position to withstand any decline in prices or demand compared to their global peers. Worth noting, Aramco cut propane and butane prices for June 2022 to USD 750 per ton each.

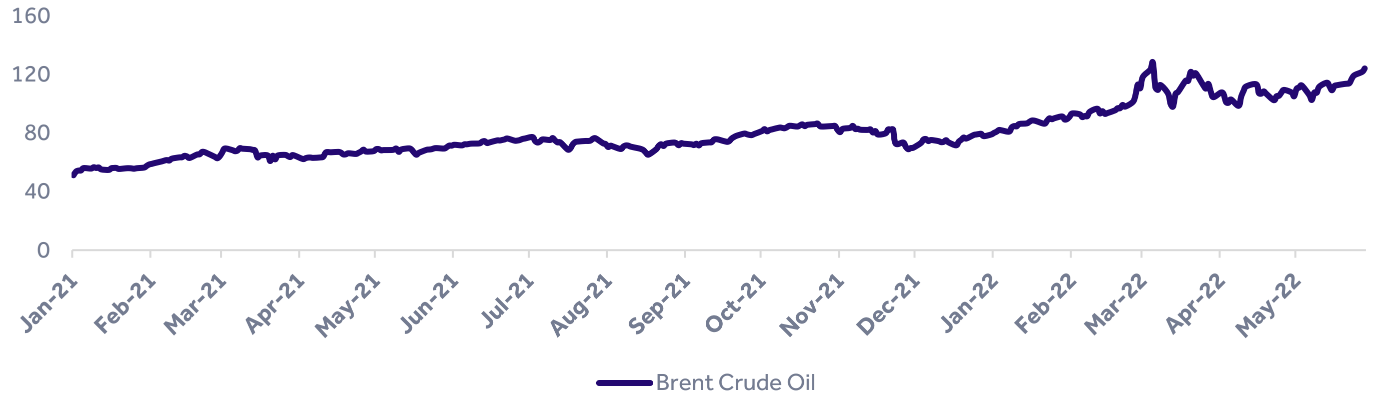
Global Petrochemical Industry

The petrochemicals market has witnessed exponential growth over the past decades, owing to the increasing demand from a range of end-use industries, including automotive, packaging, building, and construction. However, in the current scenario, mounting environmental concerns revolving around the production of petrochemicals have played a key role in transforming several manufacturing processes and other processes that contribute to climate change.

Crude oil and product prices

2021 year witnessed a significant rise in crude oil price. This increase has continued in 1Q2022 as well, which has resulted in positive trends in petrochemical product prices as a lot of the products hit their highs. A positive correlation is expected in petrochemical prices amid fluctuations in operating rates, be it on the basic or intermediate or specialty space. On the feedstock side, propane, butane and naphtha have seen similar volatility. According to EIA, supply of petroleum and other liquids continues increasing in both OPEC and non-OPEC regions to meet growing world demand through 2050.

Exhibit 3: Brent Crude Oil Prices (USD)



Source: RC, Bloomberg

Table 3: Major Product Prices (USD)

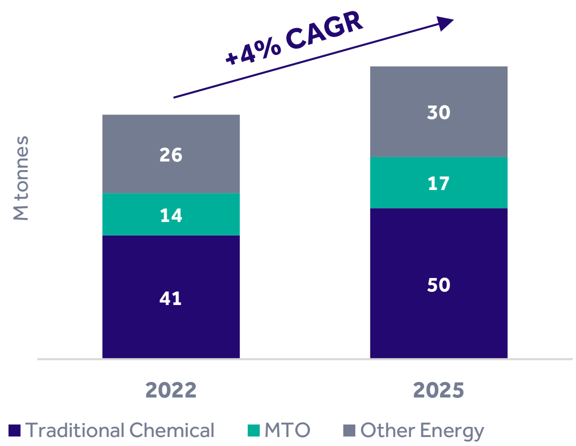
23-06-2022	Brent	Methanol	VAM	AA	PP	MEG	HDPE	LLDPE
Last Price ($)	110	408	2440	617	1332	768	1477	1341
Low-High (2022)	78-130	365-484	1554-2474	590-952	1251-1440	753-847	1354-1528	1335-1428
Q/Q Change	13.8%	1.6%	19.3%	(7.9%)	2.1%	(3.2%)	6.8%	1.8%
Y/Y Change	77.2%	7.4%	20.7%	(35.2%)	1.9%	(0.7%)	8.4%	9.1%
YTD Change	56.7%	11.8%	37.2%	(35.2%)	6.5%	1.7%	9.1%	0.1%

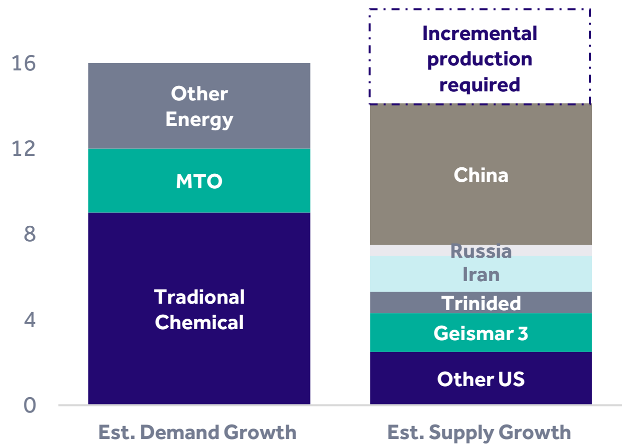
Source: RC, Bloomberg

1. Methanol expected to grow at a 4% CAGR for 2022-2025

The market for methanol is related to energy, which may result in a potential significant upside through the support by clean energy policies to lower emission fuel. China is the major driver of growth in the methanol space, with sustained demand due to China's increasingly Methanol to Olefin (MTO) projects. Methanol's price directions are partially influenced by Asia (including China) which holds around 70% of total demand. Global demand for methanol is expected to grow at a 4% CAGR as per IHS and is stated to reach 97 MT by 2025. On the supply side, there is slight overcapacity. Capacities continue to increase in this segment as it is expected in the near term to have new projects beyond 2022.

Exhibit 4: Methanol Expected to Grow at a 4% CAGR Between 2022-2025



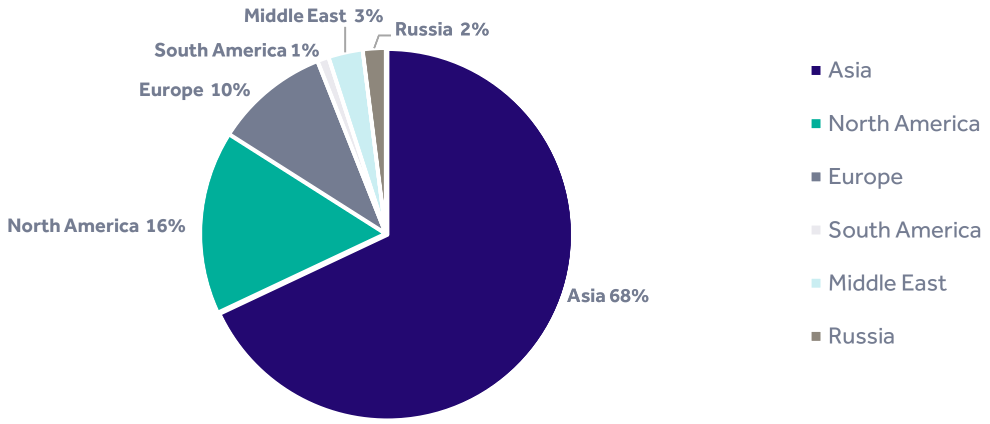


Source: RC, Methanex

2. Textile and packaging drive growth of Acetic Acid

Asian region, led by China (the world's largest producer and exporter) accounted for 68% of acetic acid demand. The growth of acetic acid demand is driven by its end-use applications, which include vinyl acetate monomer, purified terephthalic acid, acetic anhydride and ethyl acetate. Rapid growth of the textile and packaging industry is expected to drive growth of the global acetic acid market.

Exhibit 5: Proportion of Acetic Acid Demand by Region

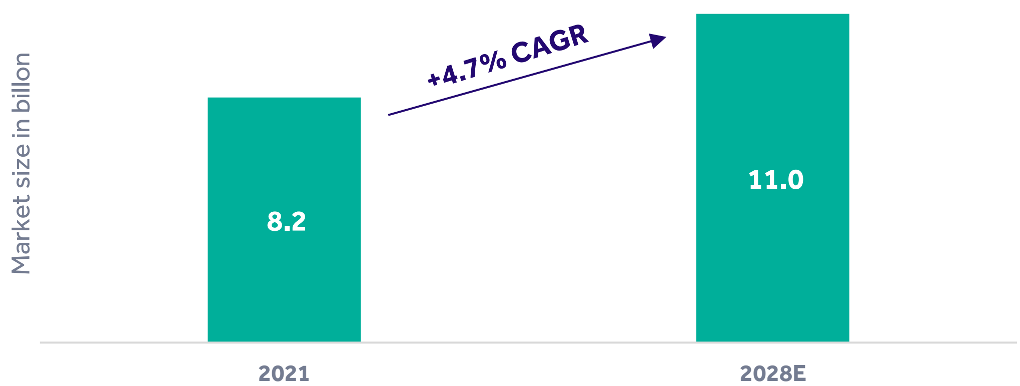


Source: RC, mmsa

3. Steady Rise in VAM, CAGR Expected at +4.7% through 2028

The Vinyl Acetate Monomer market was valued at USD 8.2 bln in 2021 and is expected to grow at a CAGR of +4.7% from 2022 to 2028 to reach USD 11.00 bln by 2028. Sipchem is one of the leading market players companies and is also known as the first Saudi company to supply VAM globally.

Exhibit 6: VAM Expected CAGR at +4.7% through 2028 (USD bln)



Source: RC, Global Market Insight

4. Monoethylene Glycol (MEG) CAGR of +6.5% through 2026

Monoethylene glycol is one of the broad raw materials for the making of polyesters and polyethylene terephthalate (PET). The global MEG market size was around USD 28.51 bln, at the end of 2021. It is expected that the market will grow at a CAGR of 6.5% to reach USD 35.85 bln by 2026. The key factor which drives expansion of the global MEG market is the expansion of the industry as increasing the use of MEG for growing textile and packaging end-use industries are increasing demand from Fiber and PET applications thus driving MEG market. Manufacturing polyesters fiber and PET will likely boost the MEG market size by 2022.

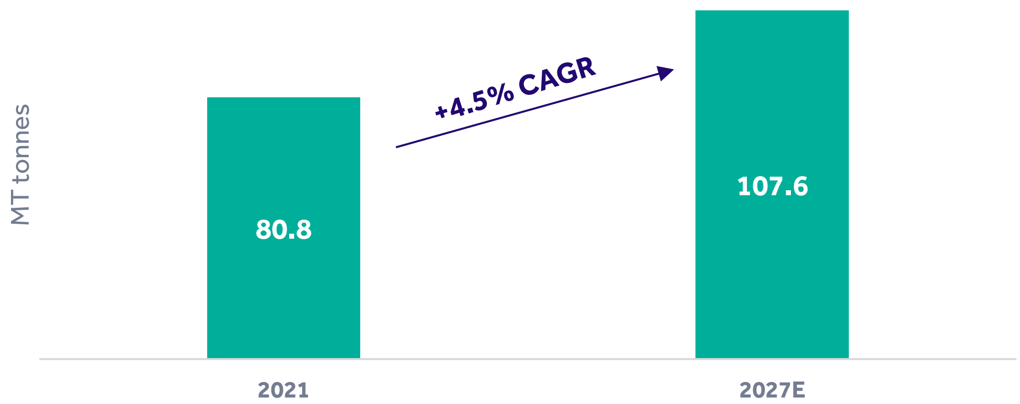
Exhibit 7: MEG Market to Grow at a CAGR of +6.5% (USD bln)

Source: RC, Market Data Forecast

5. Packaging is the key, PP to grow at a +4.5% CAGR

Polypropylene has become a substitute for a lot of minerals in the packaging industry. The global polypropylene market demand reached a volume of almost 80.8 mtpa in 2021. The demand is further expected to grow at a CAGR of 4.5% between 2022-2027 to reach a volume of almost 107.6 mtpa by 2027. Asia is the leading polypropylene market, accounting for nearly 62% of the total consumption of polypropylene and China is known as the largest consumer of the product within the region.

Exhibit 8: PP to Grow at a +4.5% CAGR (USD mln)

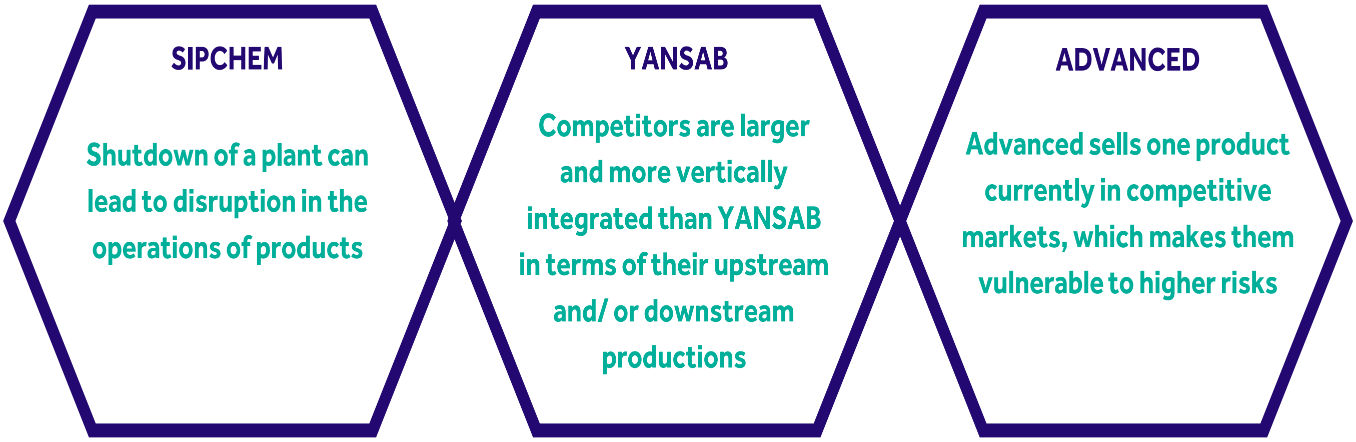


Source: RC, EMR

Risks for Petrochemical Sector

1. A large fall in oil and natural gas prices can have an impact on global petrochemical products prices as these are highly correlated. This would impact producers' revenues and margins.
2. Fluctuations and changes in the prices of raw materials.
3. Unscheduled shutdowns of plants can affect the business line of the product, which may result in a negative impact on our estimates.
4. Changeable weather events may lead to a number of operational risks, such as reducing utilization rates.
5. Distribution of final products may be a challenge due to an increase in transportation costs which may appear in the future.

Exhibit 9: Company Wise Risks



Source: RC

Rating	Buy
12- Month Target	SAR 59.0

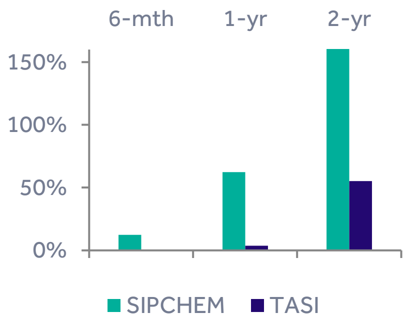
SAHARA INTERNATIONAL CO. (SIPCHEM)

Price as on Jun-23, 2022	SAR 46.00
Upside to Target Price	28.3%
Expected Dividend Yield	5.5%
Expected Total Return	33.8%

Market Data

52 Week H/L	SAR 60.0/28.4
Market Capitalization	SAR 33,733 mln
Shares Outstanding	733.3 mln
Free Float	88.95%
12-Month ADTV	3,572,719
Bloomberg Code	SIPCHEM AB

Price Performance



Source: Bloomberg

Many Significant Milestones

Raise Target Price to SAR 59, upgrade to Buy

Using DCF valuation with long terminal growth rate of 2.0% and 10 year-Saudi Government Sukuk as risk-free rate of 3.9% with an equity risk premium of 6.4% and 1.39 as adjusted Beta obtained from Bloomberg, we calculate WACC of 10.98% and arrive at a fair value of SAR 59.19. Thus, we raise our target price from SAR 49.00 to SAR 59.00 and upgrade to Buy rating. We expect dividends to reach SAR2.55/share for 2022, implying a healthy dividend yield of close to 5% at current prices.

Strong synergy realizations

Post-merger, Sipchem has become a leading company in the petrochemical industry and a stronger national entity. By 2021, Sipchem achieved total synergies of SAR 298 mln, ahead of its target date (June 2022). Furthermore, quicker synergy realizations, coupled with healthy product prices and better efficiencies will ensure sustainable and healthy earnings performance for the company in the upcoming period.

Reducing gearing ratio to 34%

Sipchem reduced long-term loans by SAR 2.1 bln in 2021.The gearing ratio went down to 34% in 2021 versus 54% in 2020. Sipchem has a total debt of SAR 5.4 bln and a cash and cash equivalent of SAR 2.7 bln, which makes it a relatively stress-free liquidity position. We expect Sipchem to deleverage further and improve its interest coverage.

Attractive dividend yield

Sipchem distributed a cash dividend per share of SAR2.25 for 2021. We expect dividends to increase to reach SAR 2.55 for 2022 as a result of increased cash flows driven by the rise in average product prices and better efficiencies on cost optimization. This implies a dividend yield of almost 5%.

Price-volume mix could trend downwards

Sipchem witnessed a strong rebound in 2021. This was driven by a strong macroeconomic environment, supply chain disruptions and strong demand, which has led to much higher product prices across the chemical and petrochemical businesses. For 2022, we expect product prices to stabilize. Revenues are expected to fall in 2023, but remain higher than the previous years.

Table 4: Key Financial Figures 2021-2025E (SAR mln)

	2021	2022E	2023E	2024E	2025E
Income Statement					
Sales	9,982	10,103	10,017	9,841	9,686
Gross profit	5,580	5,738	5,717	5,606	5,514
Operating profit	4,464	4,526	4,515	4,425	4,352
Net Income	3,592	3,668	3,824	3,743	3,681
Key Ratio's					
Gross Margin	56%	57%	57%	57%	57%
EBITDA Margin	52%	52%	53%	53%	54%
Net Margin	40%	39%	41%	41%	41%

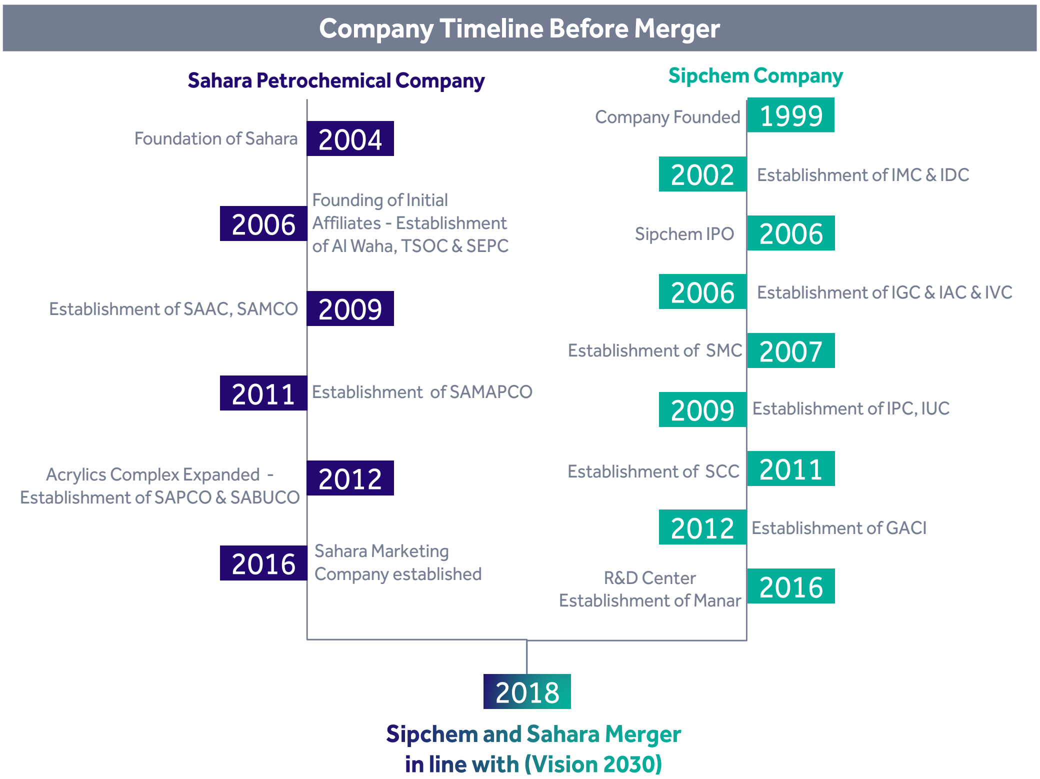
Source: RC

Company Overview

Sipchem was established in 1999 and is headquartered in Saudi Arabia. The company has a market presence in more than 40 countries with over 15 products, which made the company known globally as one of the leading and ambitious petrochemical companies. The company mainly operates in Methanol, VAM, AA, EVA, LLDPE, BDO through its different subsidiaries which provide a host of vertical and horizontal integration.

Sipchem and Sahara Petrochemical Co. went through several development stages over the past years before the merger in 2018. After the merger, Sipchem has become a leading company with many subsidiaries in the petrochemical industry.

Exhibit 10: Sipchem and Sahara Petrochemical Timeline



Source: RC, Company's website

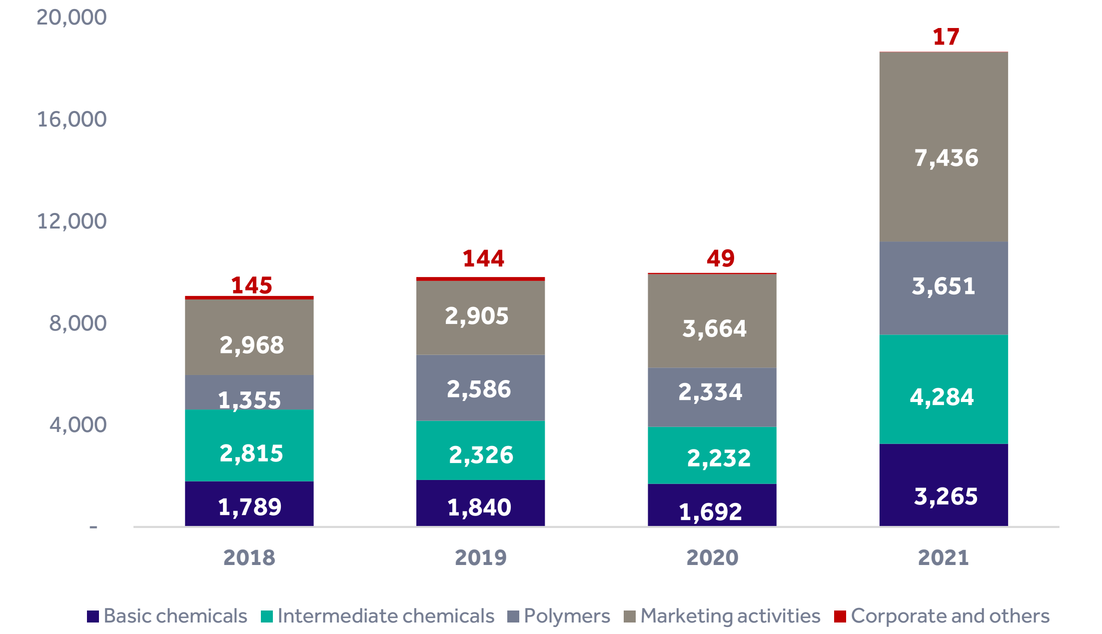
Stronger national entity

By 2021, Sipchem achieved total synergies of SAR 298 mln, ahead of target date (June 2022). The company indicated possible synergies of SAR 175-225 mln at EBITDA level after three years of its merger as well as the company's willingness to strengthen their product portfolio and gain value chain presence.

Demand increase improves outlook

For 2021, Sipchem's revenues rose to its highest level since inception to reach SAR 9.9 bln, increasing by +88% Y/Y. This was mainly due to an increase in average product prices as well as increased demand for products the company offers, especially in the Asian market. Moreover, 28% of its revenue come from the Asian market while 26% of the revenues are generated within the country.

Exhibit 11: Sipchem 's Topline Break-down (SAR mln)

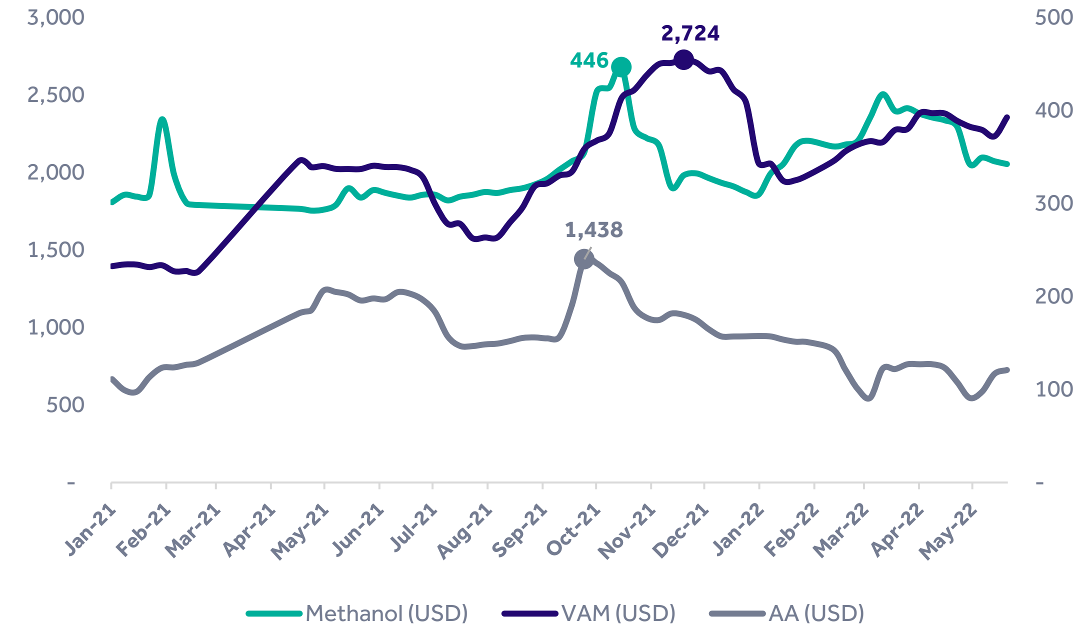


Source: RC, Company's financial statements

Major Products hit their highest in 2021

In 2021, Sipchem major products namely Methanol, VAM and AA hit their highest levels, which contributed to a significant increase in total revenues. It is worth mentioning that Sipchem has one of the highest methanol capacities in KSA supported by Aramco's supply of natural gas, priced at USD 1.25/mmbtu. The latest total production capacity is 4,173 mtpa, with the highest capacity of 1,300 mtpa that goes for methanol.

Exhibit 12: Sipchem's Major Products Hit Their Highest in 2021

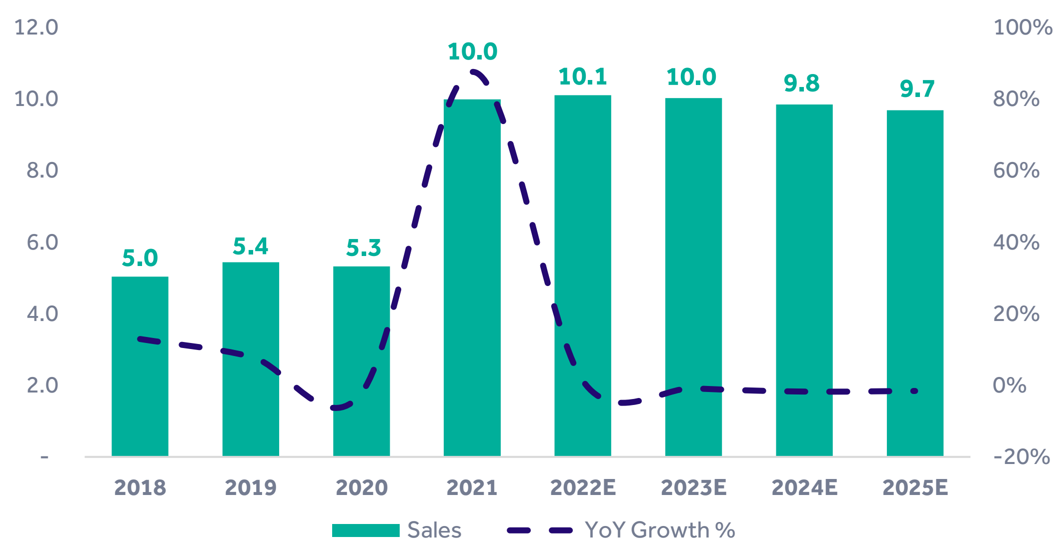


Source: RC, Bloomberg

Sales growth to be mixed

In 2021, Sipchem sales recorded an impressive increase by +88% Y/Y to reach SAR 9.9 bln. This was driven from healthy utilization rates and was supported by the increase in average product prices. However, sales are heading to fall on a yearly basis as we assume that average product prices will fall and normalize by the end of 2023. Our outlook for sales is optimistic, as we believe that the company will remain at higher levels compared to previous years as a result of the merger.

Exhibit 13: Sipchem's Sales Growth (SAR bln)

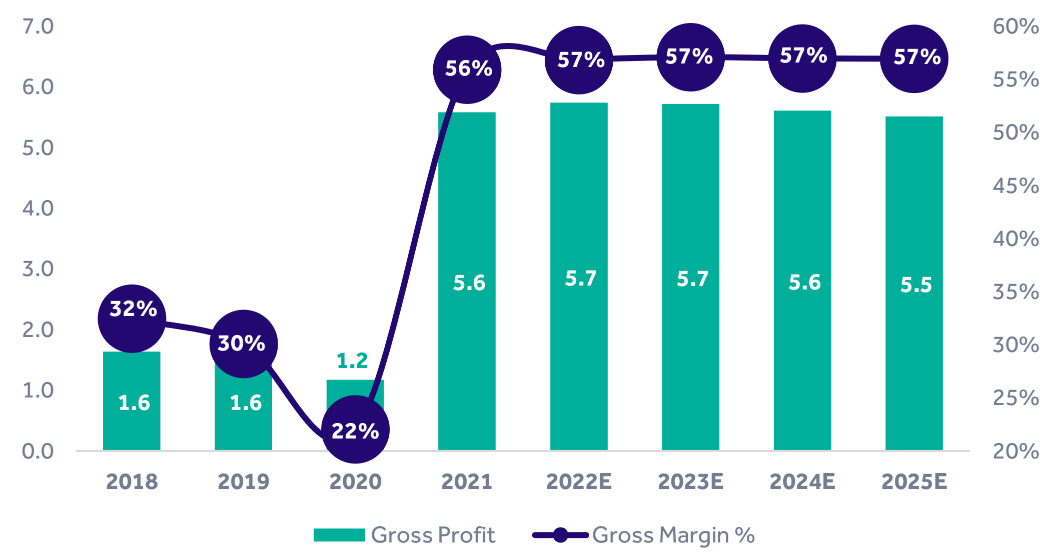


Source: RC, Company's financial statements

Gross margins to expand to an average of 57%

In 2021, gross profit increased by +376% Y/Y to reach SAR 5.6 bln, despite the increase in feedstock prices. The company managed their cost efficiency and gross margin has expanded from 22% in 2020 to 56% in 2021. For 2022-2025, we assume an average margin of 57%. We expect gross profit to decrease to SAR 5.5 bln by 2025.

Exhibit 14: Margin Shrinkage to an Average of 57% (SAR bln)

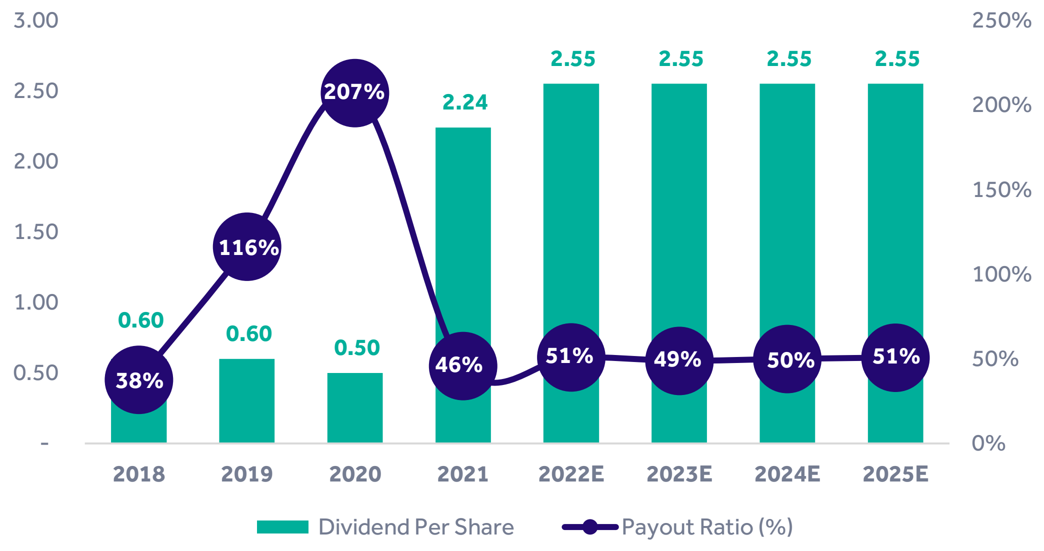


Source: RC, Company's financial statements

DPS likely at SAR 2.55 in 2022

Sipchem achieved the highest yearly earnings of SAR 3.6 bln in 2021. We expect the company to raise their dividends after the accomplishment of many significant milestones, especially the merger. Our forecasts show EPS of SAR 5.00 for 2022 and expected to reach SAR 5.02 in 2025. We expect DPS of SAR 2.55/share for the years 2022-2025. It is worth noting that Sipchem is aligned with Saudi Vision 2030 as it one of the 100 companies under the Shareek private sector investment program, which makes the company more attractive to investors.

Exhibit 15: DPS Increase to SAR 2.55 in 2022 (SAR)

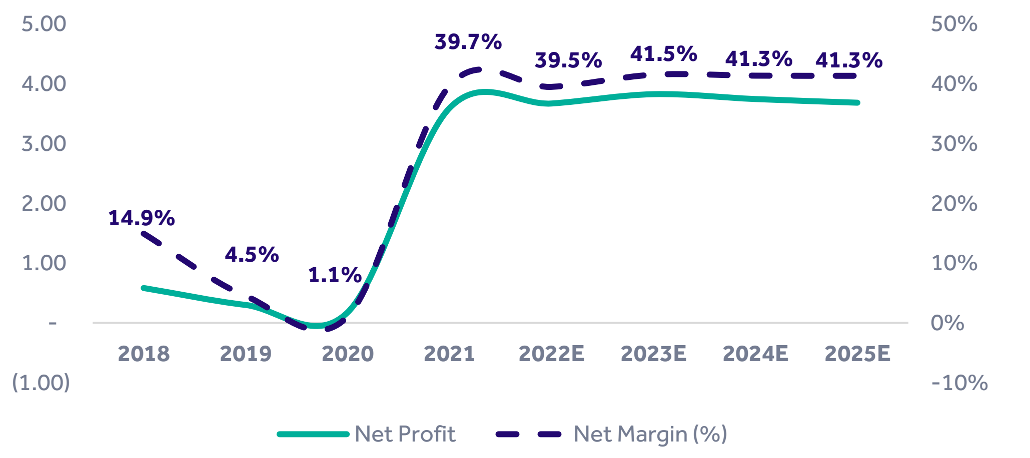


Source: RC, Company's financial statements

Net margin to expand to new levels

Sipchem net margin has expanded from 1.1% in 2020 to 39.7% in 2021. We expect the company to remain in the range of 39.7% to 41.5% going forward. For the forecast period 2022-2025, we assume that net margin will expand to an average of 40% and net profit would reach SAR 3.67 bln in 2022 considering that 2021 was an exceptional year with high product prices.

Exhibit 16: Net Margin Expand to New Levels (SAR bln)

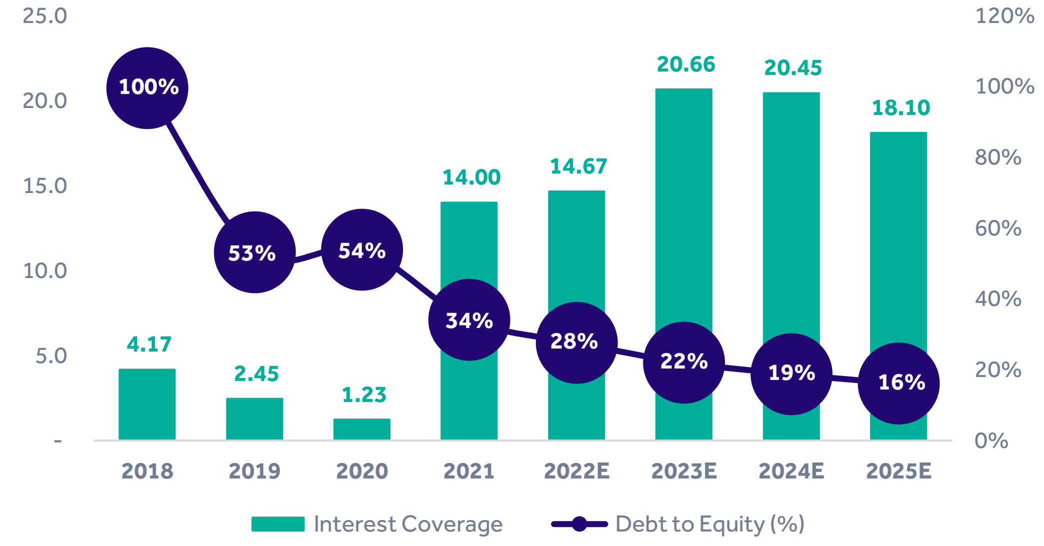


Source: RC, Company's financial statements

Gearing Ratio expected to decline gradually

For 2021, Sipchem succeeded in reducing the long-term loans by SAR 2.1 bln. The gearing ratio went down to 34% in 2021 versus 54% in 2020. For the year 2021, the company reported total debt of SAR 5.4 bln and cash and cash equivalent of SAR 2.7 bln, which makes it a relatively stress-free liquidity position. We expect Sipchem to deleverage and take pressure off its interest coverage.

Exhibit 17: Gearing Ratio Expected to Decline Gradually (%)



Source: RC, Company's financial statements

Valuation

DCF Fair Value at SAR 59.19/share

We have valued Sipchem using DCF. Our valuation incorporates forecasts assumed for the period 2022-2025E. We used a long terminal growth rate of 2.0% and 10 year-Saudi Government Sukuk as risk-free rate of 3.9% and an equity risk premium of 6.4%. We have used 1.39 as Beta from Bloomberg resulting in a Cost of Equity of 12.85%. We assumed a capital structure (Equity to Debt) of 75:25 and arrive at a WACC of 10.98%. Using our preferred valuation method, we arrive at a fair value of SAR 59.19 for Sipchem. Thus, we raise our target price from SAR 49.00 to SAR 59.00 and upgrade to a Buy rating.

Table 5: Discounted Cash Flow Valuation

SAR mln	2022E	2023E	2024E	2025E
EBIT	4,526	4,515	4,425	4,352
Zakat	(443)	(462)	(452)	(445)
Depreciation	683	746	815	888
Change in Working Capital	(81)	(66)	(65)	(72)
Capital Expenditure	(556)	(569)	(699)	(719)
Cash Flow to the Firm	4,129	4,165	4,025	4,003
Terminal Value				45,479
Total FCFF	4,129	4,165	4,025	49,482
Discounting Factor	1.00	0.90	0.81	0.73
Discounted Cash Flows	**4,129**	**3,753**	**3,268**	**36,201**

Long-term growth rate		2.0%
Enterprise value	43,222	
Less: Debt & Minority Interest	6,470	
Plus: Cash & Investment	6,654	
Equity Value	43,406	
Number of shares	733	
Fair Value per Share	59.2	

Source: RC

Table 6: Sensitivity Analysis of WACC and Terminal Growth Rate

		Growth					
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	10.2%	58.8	61.6	64.7	68.3	72.4	77.0
	10.4%	57.5	60.2	63.2	66.6	70.4	74.8
	10.6%	56.4	58.9	61.8	65.0	68.6	72.7
	11.0%	54.2	56.6	59.2	62.1	65.4	69.1
	11.2%	53.1	55.3	57.8	60.5	63.6	67.1
	11.4%	52.1	54.2	56.6	59.2	62.1	65.5
	11.6%	51.1	53.1	55.4	57.9	60.7	63.9

Source: RC

Financial Summary

The following are the consolidated Income Statement and Balance Sheet with major ratios and valuation metrics for Sipchem.

Table 7: Financial Summary 2018-2025E

SAR mln	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Income Statement								
Sales	5,036	5,440	5,323	9,982	10,103	10,017	9,841	9,686
Gross profit	1,635	1,635	1,173	5,580	5,738	5,717	5,606	5,514
Operating profit	1,096	906	360	4,464	4,526	4,515	4,425	4,352
Net Income	583	300	176	3,592	3,668	3,824	3,743	3,681
Balance Sheet								
Current Assets	3,032	4,128	4,973	5,946	7,873	9,962	12,098	14,247
Non-Current Assets	12,348	19,864	18,792	18,559	18,779	18,988	19,263	19,561
Current Liabilities	1,925	1,931	3,465	2,936	2,796	2,619	2,649	2,692
Non-Current Liabilities	6,330	7,722	6,464	5,873	5,650	5,432	5,216	5,003
Total Liabilities	8,255	9,653	9,929	8,809	8,446	8,051	7,865	7,695
Total Equity	7,125	14,338	13,836	15,696	18,206	20,899	23,496	26,112
Total Liabilities & Equity	15,380	23,991	23,765	24,504	26,652	28,950	31,361	33,808
Cash Flows								
CFO	1,661	1,795	1,603	4,898	4,589	4,837	4,819	4,817
CFI	(1,177)	(266)	58	(260)	(229)	(195)	(278)	(248)
CFF	(1,194)	(1,665)	(956)	(4,445)	(2,529)	(2,621)	(2,399)	(2,389)
Valuation								
P/E	12.6	34.5	72.2	8.5	11.8	11.3	11.6	11.8
P/B	1.2	1.0	1.0	2.1	2.4	2.1	1.8	1.7
EV/Sales	8.6	7.9	7.9	4.0	3.7	3.5	3.3	3.1
EV/EBITDA	23.4	25.2	34.3	7.6	7.2	6.7	6.2	5.8
Dividend Yield (%)	1.2%	1.2%	1.0%	4.4%	5.0%	5.0%	5.0%	5.0%
Growth								
Sales	13%	8%	(2%)	88%	1%	(1%)	(2%)	(2%)
Gross Profit	15%	0%	(28%)	376%	3%	0%	(2%)	(2%)
Net Income	33%	(49%)	(41%)	1942%	2%	4%	(2%)	(2%)
Margins								
Gross Margin	32%	30%	22%	56%	57%	57%	57%	57%
EBITDA Margin	37%	31%	23%	52%	52%	53%	53%	54%
Net Margin	15%	4%	1%	40%	39%	41%	41%	41%
Key Ratio's								
Net Debt to Equity	3.3	3.4	4.0	0.5	0.1	-	-	-
Debt to Equity	1.0	0.5	0.5	0.3	0.3	0.2	0.2	0.2
Current Ratio	1.6	2.1	1.4	2.0	2.8	3.8	4.6	5.3
ROA	4%	1%	1%	15%	14%	13%	12%	11%
ROE	10%	2%	1%	25%	22%	20%	17%	16%
Per Share (SAR)								
EPS	1.59	0.52	0.24	4.90	5.00	5.21	5.10	5.02
BVPS	9.72	19.56	18.88	21.41	24.84	28.51	32.05	35.62
DPS	0.60	0.60	0.50	2.24	2.55	2.55	2.55	2.55

Source: RC, Company's Report

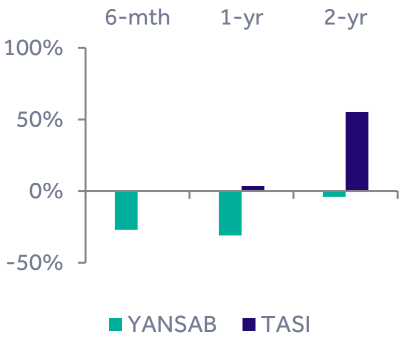
Rating	Buy
12- Month Target Price	SAR 64.0

Price as on Jun-23, 2022	SAR 49.70
Upside to Target Price	28.8%
Expected Dividend Yield	6.0%
Expected Total Return	34.8%

Market Data

52 Week H/L	SAR 86.5/48.2
Market Capitalization	SAR 27,956 mln
Shares Outstanding	562.5 mln
Free Float	49.00%
12-Month ADTV	942,692
Bloomberg Code	YANSAB AB

Price Performance



Source: Bloomberg

YANBU NATIONAL COMPANY (YANSAB)

Positive Long-term Outlook

Revise Target Price to SAR 64, maintain Buy Rating

We maintain our investment view on YANSAB, despite our slight revision on estimates. Our 12-month target price changes to SAR 64.00 from SAR 73.00 earlier. Our valuation is based on a mix of Dividend Discount Model (60%) and Discounted Cash Flow (40%). The investment case factors in a combination of attractive valuations and an improved operational outlook on healthy earnings growth amid better market dynamics. We tweak our model and reframe certain sets of assumptions but mainly stress on improvement in operating rates and product prices.

Strong business model

Yansab has the advantage of being affiliated with SABIC, which in turn is owned 70% by Aramco. The company's sales are better organized through SABIC, which has a widespread market presence, under a marketing agreement and markets products locally, regionally and globally. Access to feedstock at discounted prices is also a benefit to the company.

Environment friendly

Yansab's strategy is in-line with the vision of Kingdom of Saudi Arabia 2060 to protect the climate, the environment and reduce carbon dioxide (CO_2) and similar greenhouse gases. Furthermore, Yansab is targeting its direct and indirect emissions to reduce greenhouse gas emissions in 2030 by 20% compared to 2018.

Volumes likely to decrease in 2023 due to shutdowns

As a way of ensuring maximum performance and efficiency in their production, the company plans to carry out preventive maintenance work for its industrial complex in 2023, which would impact revenues and profitability.

Debt-free Balance Sheet, DPS increase likely

Yansab's debt-free balance sheet, high liquidity levels and attractive dividend yields are key advantages for the stock. The stock has delivered an average payout of 146% over the period (2018-2021) due to its strong balance sheet and cashflows. We expect dividends to increase to SAR 3.50 in 2024.

Table 8: Key Financial Figures 2021-2025E (SAR mln)

	2021	2022E	2023E	2024E	2025E
Income Statement					
Sales	7,408	7,946	7,542	8,155	8,400
Gross profit	2,154	2,237	1,982	2,347	2,434
Operating profit	1,651	1,704	1,470	1,787	1,858
Net Income	1,531	1,637	1,416	1,717	1,771
Key Ratio's					
Gross Margin	29%	28%	26%	29%	29%
EBITDA Margin	39%	37%	36%	37%	38%
Net Margin	21%	21%	19%	21%	21%

Source: RC

Company Overview

Yanbu National Petrochemical Company (YANSAB) was established in 2005, as an affiliate company of Saudi Basic Industries (SABIC). The company sells its products through SABIC, as per marketing agreements, which in turn works on marketing these products in all local, regional and global markets through a committee that reviews market trends, future price expectations, product costs and the adoption of the minimum acceptable price return on net products.

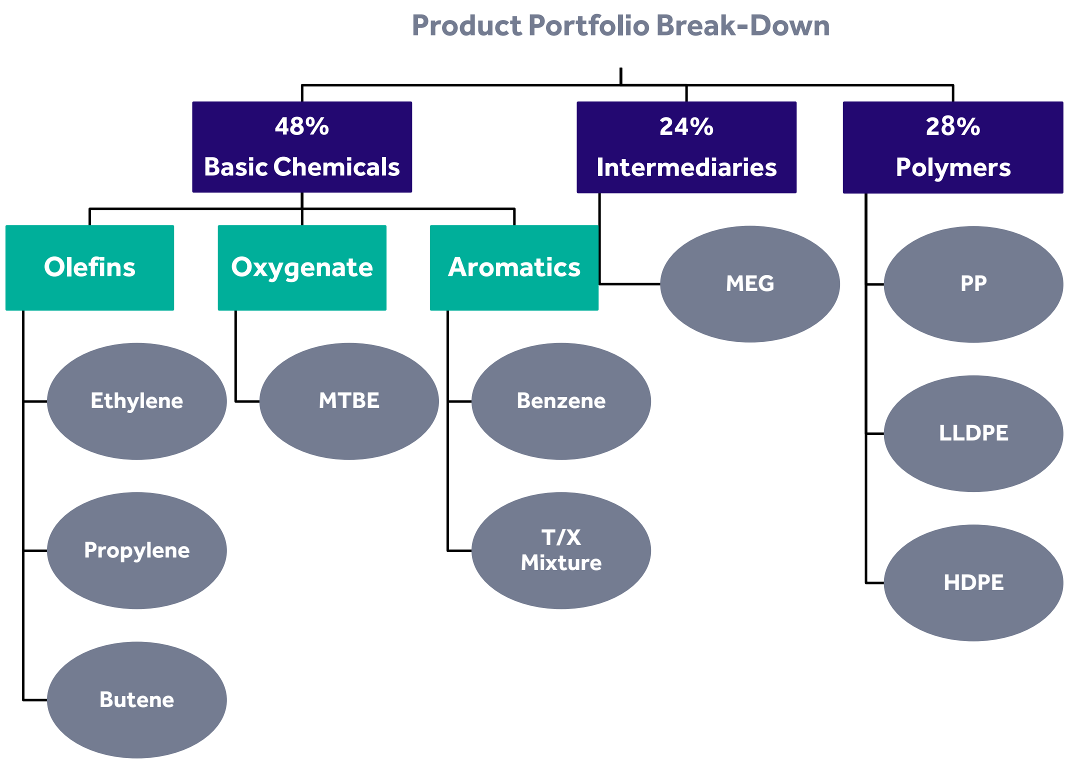
Converting crude oil into chemicals project

Yansab developed a clear future strategy to ensure growth in the petrochemical industry. As per management, the company is studying a project to convert crude oil into chemicals by thermal cracking and fossil cracking. In addition, Yansab is targeting their direct and indirect emissions to reduce greenhouse gas emissions in 2030 by 20% compared to 2018.

Diversified product portfolio

The company produces petrochemical materials in its industrial complex in Yanbu Industrial City (largest SABIC petrochemical complex) with a designed capacity of over 4 mtpa of various products. As of 2021, total capacity for basic chemicals was 48% and 28% for polymers. Yansab's key product, Mono Ethylene Glycol (MEG) comprises the intermediary products, which is about 24%.

Exhibit 18: Yansab's Product Portfolio

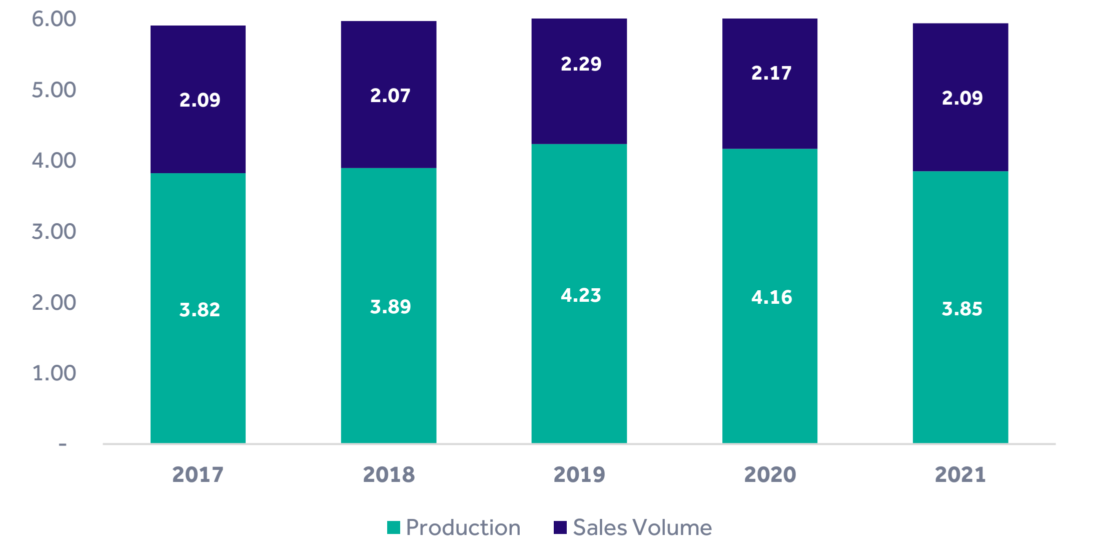


Source: RC, Company's website

Volumes affected by shutdowns

As a way of ensuring maximum performance and efficiency in their production, the company plans to carry out preventive maintenance work for its industrial complex in 2023. This would have a negative short-term effect on the profit margin due to loss of production as well as overhead accumulations during the maintenance period. In 2021, Yansab's production amounted to 3.85 mtpa versus 4.16 mtpa in 2020 (a fall in production by 7.5%). This was mainly due to a shutdown for MEG and olefins plants.

Exhibit 19: Volumes Affected by Shutdowns (Mtpa)

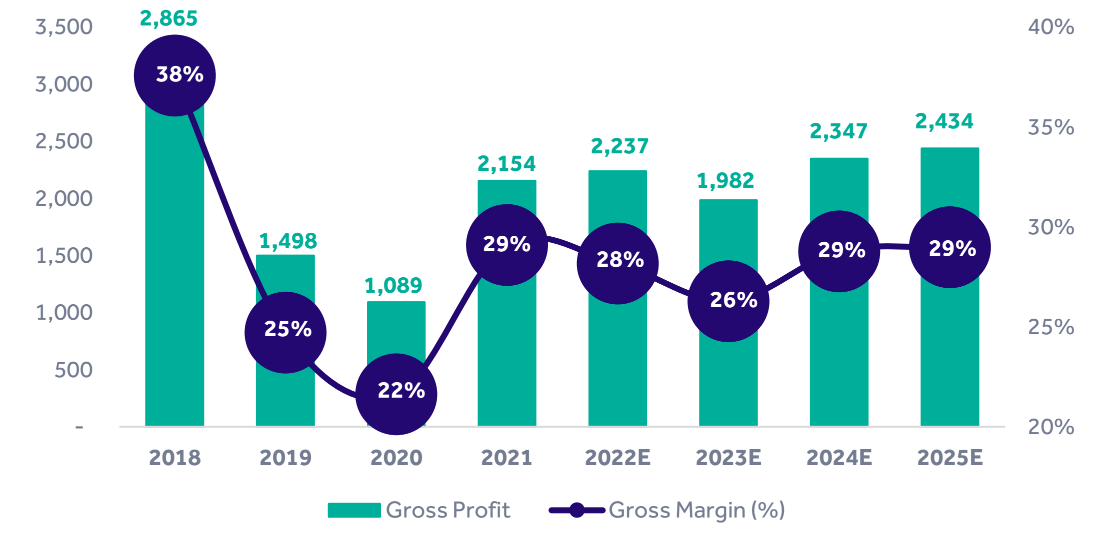


Source: RC, Company's financial statements

Gross profit growth likely at +2.9% CAGR for 2022-2025

In 2021, Yansab reported SAR 7,408 mln in sales, increasing by +47% Y/Y on the back of high average product prices, healthy utilization rates, and high demand for the company's products. Furthermore, we expect gross profit to grow at a CAGR of +2.9% to SAR 2,434 mln through 2025 as we believe sale volumes will rise despite the increase in feedstock prices (mainly Propane).

Exhibit 20: Gross Profit Grows at +2.9% CAGR for 2022-2025 (SAR mln)

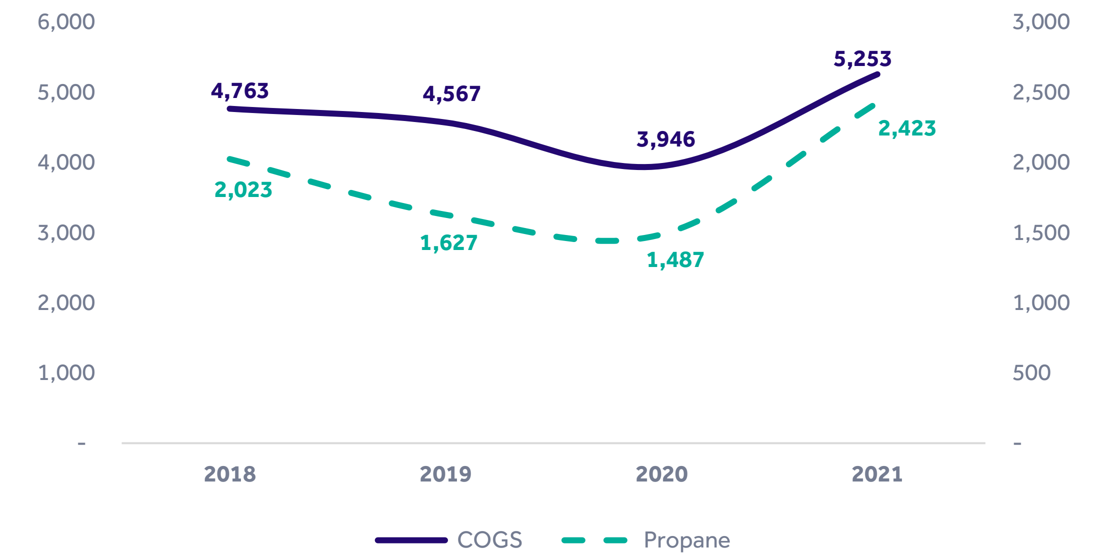


Source: RC, Company's financial statements

COGS follow Propane prices

Propane remains the key feedstock for the company, apart from Ethane. It accounts for 89.1% of the total feedstock cost for the company. A closer look at the relationship between COGS and propane costs can be seen in the chart below. For year 2023E, we expect gross margin to contract to 26% due to maintenance. During 2024-2025 period, we expect the company will maintain healthy growth with an average gross margin of 29%.

Exhibit 21: Yansab COGS and Propane Price Relationship (SAR mln)

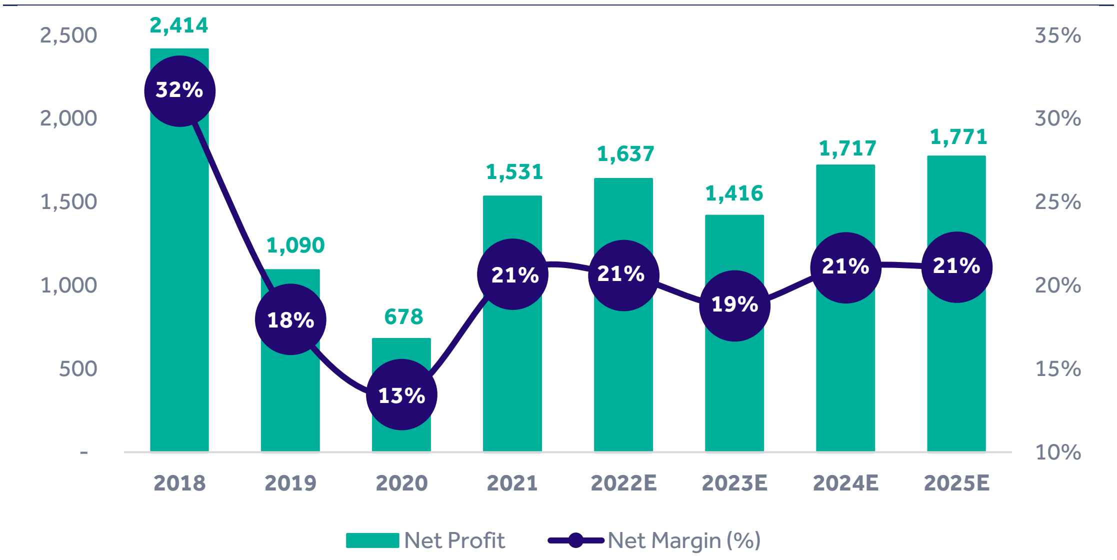


Source: RC, Company's financial statements, Argaam

Bottom-line to grow at a +2.7% CAGR for 2022-2025

During 2021, Yansab net income significantly increased by +126% Y/Y to SAR 1,531 mln. We expect bottom-line to grow at a +2.7% CAGR for 2022-2025 and reach SAR 1,771 mln in 2025 due to marginal revenues increase. However, for 2023 we expect bottom-line to decrease even though we assume feedstock prices to decrease as we expect volumes to be affected due to shutdown related to their key product (MEG).

Exhibit 22: Bottom-line Grows at +2.7% CAGR for 2022-2025 (SAR mln)

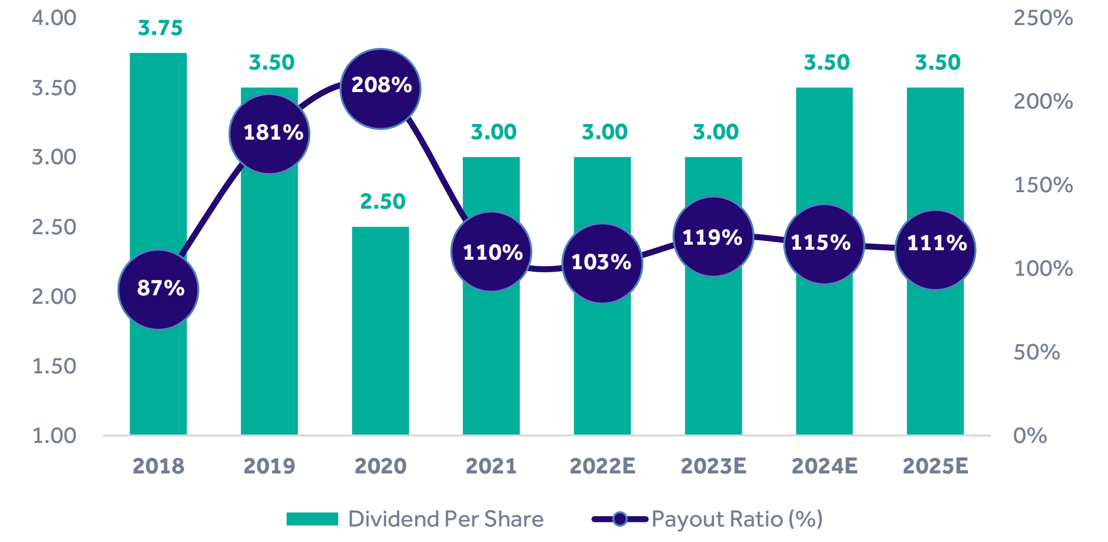


Source: RC, Company's financial statements

Debt- free Balance Sheet, expect higher DPS

Yansab's debt-free balance sheet, high liquidity levels and attractive dividend yields are key advantages for the stock. The stock has delivered a sustainable payout averaging 146% over the period (2018-2021) due to the strong balance sheet and cashflows. The movement of key product prices and how the company would like to preserve its capital may lead to an increase in DPS but considering the current prices, we don't expect DPS to go more than SAR 3.00/share for 2022 while we expect SAR 3.5/share for 2025.

Exhibit 23: Yansab's DPS and Payout Ratio



Source: RC,Company's financial statements

Valuations

Target price at SAR 64.0/share

We have valued Yansab using a mix of DDM (60% weight) and DCF (40% weight), to arrive at our target price of SAR 64.00. We believe that the Dividend Discount Model valuation method is appropriate for such stocks, which are primarily held for dividends. Therefore, we assign a greater weight (60%) for this approach. We use a 40% weight for DCF. Thus, we revise our target price from SAR 73.00 to SAR 64.00 and maintain our Buy rating.

Table 9: Valuation Summary

	Fair Value	Weight
Using DDM	71.1	60.0%
Using DCF	53.4	40.0%
Target Price	**64.0**	

Source: RC

DDM Method: Fair value at SAR 71.1/share

We believe that the Dividend Discount Model valuation method is appropriate for such stocks, which are primarily held for dividends. We assume a long-term growth rate of 3.00%, with expected dividend per share of SAR 3.00 for 2022-2023 and SAR 3.50 for 2024-2025. We arrive at a fair value of SAR 71.1.

Table 10: Dividend Discount Valuation

SAR mln		2022E	2023E	2024E	2025E
DPS Forecast		3.00	3.00	3.50	3.50
Terminal Value					74.64
Discounting Factor		1.00	0.93	0.86	0.80
Discounted Dividends		**3.00**	**2.78**	**3.01**	**2.79**
Long-term growth rate		3.0%			
Discounted TV	59.5				
Sum of DPS	11.6				
Number of shares	563				
Fair Value per Share	71.1				

Source: RC

DCF Method: Fair value at SAR 53.4/share

For DCF method, we used a long terminal growth rate of 2.00% and 10 year-Saudi Government Sukuk as risk-free rate of 3.9% with an equity risk premium of 6.4%. We used 0.9 as Adjusted Beta obtained from Bloomberg leading to a cost of equity of 9.66%. We assume a capital structure (Equity:Debt) of 99:1 since the company doesn't have any debt. We calculate the WACC to be at 9.61% and arrive at a fair value of SAR 53.4/share.

Table 11: Discounted Cash Flow Valuation

SAR mln	2022E	2023E	2024E	2025E
EBIT	1,704	1,470	1,787	1,858
Zakat	(182)	(166)	(180)	(192)
Depreciation	1,202	1,241	1,269	1,299
Change in Working Capital	(414)	(28)	(391)	(263)
Capital Expenditure	(454)	(695)	(596)	(587)
Cash Flow to the Firm	1,856	1,822	1,889	2,114
Terminal Value				28,341
Total FCFF	1,856	1,822	1,889	30,455
Discounting Factor	1.00	0.91	0.83	0.76
Discounted Cash Flows	**1,856**	**1,662**	**1,572**	**23,127**

Long-term growth rate		2.0%
Enterprise value	26,361	
Less: Debt	146	
Plus: Cash & Investment	3,795	
Equity Value	30,010	
Number of shares	563	
Fair Value per Share	53.4	

Source: RC

Financial Summary

The following are the consolidated Income statement and Balance Sheet with major ratios and valuation for Yansab:

Table 12: Financial Summary 2018-2025E (SAR mln)

SAR mln	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Income Statement								
Sales	7,628	6,065	5,035	7,408	7,946	7,542	8,155	8,400
Gross profit	2,865	1,498	1,089	2,154	2,237	1,982	2,347	2,434
Operating profit	2,362	1,096	728	1,651	1,704	1,470	1,787	1,858
Net Income	2,414	1,090	678	1,531	1,637	1,416	1,717	1,771
Balance Sheet								
Current Assets	6,228	5,843	5,938	7,614	8,388	8,604	9,244	9,952
Non-Current Assets	12,845	12,228	11,402	10,494	9,776	9,213	8,560	7,852
Current Liabilities	1,344	1,153	1,339	1,785	1,745	1,695	1,836	1,942
Non-Current Liabilities	472	775	1,015	1,280	1,271	1,262	1,253	1,243
Total Liabilities	1,816	1,928	2,354	3,066	3,016	2,957	3,089	3,185
Total Equity	17,256	16,143	14,985	15,042	15,074	14,803	14,551	14,354
Total Liabilities & Equity	19,072	18,070	17,340	18,108	18,091	17,760	17,640	17,539
Cash Flows								
CFO	3,850	2,552	1,875	2,632	2,424	2,629	2,595	2,807
CFI	(1,779)	(317)	(281)	(808)	(499)	(741)	(643)	(633)
CFF	(3,097)	(2,125)	(1,711)	(1,568)	(1,635)	(1,938)	(2,199)	(2,144)
Valuation								
P/E	14.9	28.8	53.3	25.6	22.3	25.8	21.3	20.6
P/B	2.1	2.0	2.4	2.6	2.4	2.5	2.5	2.5
EV/Sales	3.7	4.7	5.7	3.8	3.5	3.6	3.3	3.2
EV/EBITDA	8.2	12.7	15.3	9.8	9.5	10.1	8.9	8.4
Dividend Yield (%)	7.4%	6.9%	4.9%	5.9%	5.9%	5.9%	6.9%	6.9%
Growth								
Sales	6%	(20%)	(17%)	47%	7%	(5%)	8%	3%
Gross Profit	(0.2%)	(48%)	(27%)	98%	4%	(11%)	18%	4%
Net Income	2%	(55%)	(38%)	126%	7%	(13%)	21%	3%
Margins								
Gross Margin	38%	25%	22%	29%	28%	26%	29%	29%
EBITDA Margin	45%	37%	37%	39%	37%	36%	37%	38%
Net Margin	32%	18%	13%	21%	21%	19%	21%	21%
Key Ratio's								
Net Debt to Equity	0.0	0.0	0.1	0.0	-	-	-	-
Debt to Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio	4.6	5.1	4.4	4.3	4.8	5.1	5.0	5.1
ROA	13%	6%	4%	8%	9%	8%	10%	10%
ROE	14%	7%	5%	10%	11%	10%	12%	12%
Per Share (SAR)								
EPS	4.29	1.94	1.20	2.72	2.91	2.52	3.05	3.15
BVPS	30.68	28.70	26.64	26.74	26.80	26.32	25.87	25.52
DPS	3.75	3.50	2.50	3.00	3.00	3.00	3.50	3.50

Source: RC, Company's Report

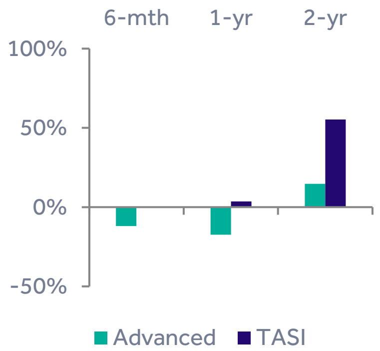
Rating	Buy
12- Month Target Price	SAR 72.0

Price as on Jun-23, 2022	SAR 50.40
Upside to Target Price	42.9%
Expected Dividend Yield	4.0%
Expected Total Return	46.9%

Market Data

52 Week H/L	SAR 75.0/48.0
Market Capitalization	SAR 13,104 mln
Shares Outstanding	260.0 mln
Free Float	87.22%
12-Month ADTV	528,829
Bloomberg Code	APPC AB

Price Performance



Source: Bloomberg

ADVANCED PETROCHEMICAL COMPANY (ADVANCED)

Expansion Projects Lead to Growth

Raise Target Price to SAR 72, upgrade to Buy

The DCF valuation methodology leads us to a fair value of SAR 72.30 for Advanced using a discount rate of 8.30% and a cost of equity of 9.21%. Thus, we raise our target price from SAR 68.00 to SAR 72.00, and upgrade our recommendation to Buy. Advanced is one of the largest producers of polypropylene across the MENA region. In addition, we expect dividends to reach SAR2.50/share for 2024.

Expanding PP, new production line

Advanced maintains a regionally diverse presence, with markets across the Middle East, Europe, India, Asia, Turkey, and China for its products. The company plans to expand its existing polypropylene capacity as well as add isopropanol to its product line with its capacity expansion.

Cracker complex project

Advanced announced two projects, the first project (cracker complex) is expected to start operations in the fourth quarter of 2024 while the company's subsidiary (AGIC) plans to start building a dehydrogenation (PHD) unit that will be able to produce 843 ktpa of propylene and is expected to be operational by 2H2024.

Agreement with Saudi Aramco

Advanced signed a short-term agreement with Saudi Aramco Total Refining and Petrochemical Co. (SATORP) for the supply of propylene. The companies agreed to increase the quantity of propylene from 100,000 MTA to 120,000 MTA.

Capital increases to SAR 2.6 bln

Advanced has increased 20.1% of capital by issuing one bonus share for every five shares held to support the current asset base and future expansions. The capital increased from SAR 2.16 bln to SAR 2.60 bln.

Revenues expected to reach SAR 4 bln in 2025

We expect Advanced topline to grow at +3.9% CAGR for 2022-2025E to reach SAR 4.1 bln in 2025. We believe the commercial operation at Advanced's Jubail facility which was announced to operate in 2025 is the key to growth.

Table 13: Key Financial Figures 2018-2025E (SAR mln)

	2021	2022E	2023E	2024E	2025E
Income Statement					
Sales	3,111	3,622	3,328	3,402	4,067
Gross profit	1,059	965	979	1,091	1,336
Operating profit	865	741	805	885	1,093
Net Income	812	653	728	815	1,037
Key Ratio's					
Gross Margin	34%	27%	29%	32%	33%
EBITDA Margin	35%	29%	37%	38%	38%
Net Margin	26%	18%	22%	24%	25%

Source: RC

Company Overview

Advanced Petrochemical Company was established in 2005. The Company focuses on developing integrated propane dehydrogenation and polypropylene. The main activity of the company is in the field of manufacturing and converting petrochemicals, which includes the production of propylene and polypropylene, marketing and selling of final product inside and outside the Kingdom through international offtakers.

Expanding PP, new production line

The company plans to expand its existing polypropylene capacity as well as add isopropanol to its product suite. Advanced is utilizing proven technologies provided by ABB Lumus and Novolen Technology Holdings (NTH).

Extension of Propylene supply to 120, 000 MTA

In 2021, Advanced has signed an agreement with Saudi Aramco Total Refining and Petrochemical Co. (SATORP) for the extension of annual propylene supply to 120,000 MTA. We believe it will positively affect the topline as this will increase the availability of propylene which will result in higher sales volume. Also, Advanced has signed agreements with major players in this domain, like Vinmar International, Mitsubishi Corporation, and Domo N.V

Targeting the Turkish market

Advanced seeks to be in better markets that have higher returns. Therefore, the company intends on increasing its share in Turkey. In 2021, the company reported 39% and 18% of its revenue in Turkey and Europe, respectively.

New projects expected to begin operations in 2024

In 2021, Advanced obtained allocation from the Ministry of Energy to set up an integrated world-scale cracker complex, which will focus on producing various downstream products. The new complex will be able to produce 1.15 mtpa of ethylene and 850 ktpa of propylene, as it will also include new types of aromatics and fuels such as benzene with a capacity of 400 ktpa. Also, Advanced subsidiary (AGIC) plans to start building dehydrogenation (PHD) unit that will be able to produce 843 ktpa of propylene. They also announced a polypropylene plant in Al-Jubail with a capacity of 800 ktpa.

Table 14: Advanced Capacity and Future Projects

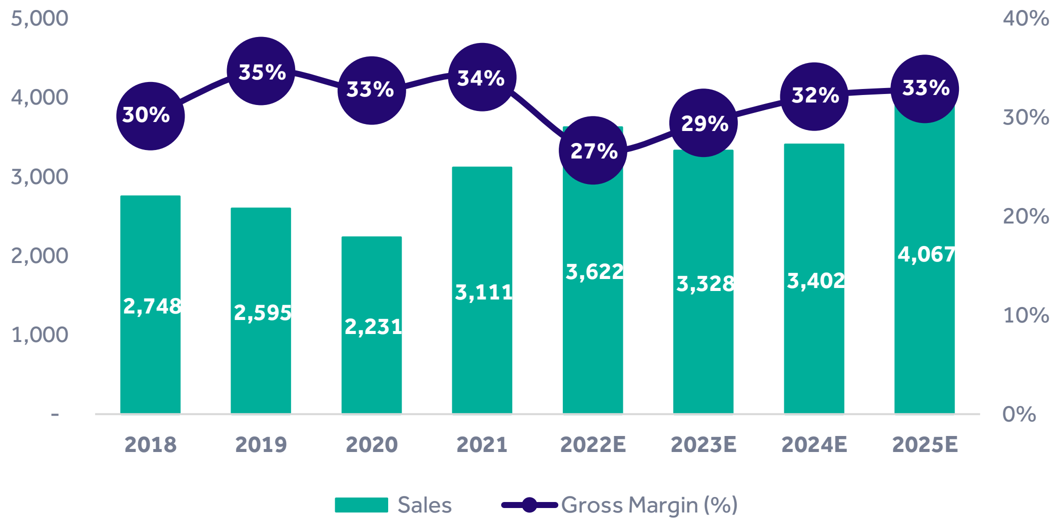
Product Name	Type	Production Capacity (ktpa)	Company	Advanced's share	(%)	Status	Expected Operations
Polypropylene	Finished	450	Advanced	450	100%	Completed	
Polypropylene	Finished	60	AGIC	60	100%	Completed	
Polypropylene	Finished	800	Advanced Polyolefins	680	85%	Announced	2H 2024
Propylene	Finished	180	AGIC	180	100%	Completed	
Isopropanol	Finished	70	Advanced Polyolefins	60	85%	Announced	2H 2024
Total Finished Products		**1,560**		**1,430**			
Propylene	Feedstock	455	Advanced	455	100%	Completed	
Propylene	Feedstock	843	Advanced Polyolefins	717	85%	Announced	2H 2024
Total Feedstock		**1,298**		**1,172**			
Total		**2,858**		**2,602**			

Source: RC, Argaam

Topline to grow significantly in 2025

For 2021, Advanced sales increased by +39% Y/Y to SAR 3,111 mln. This was mainly driven by the increase in polypropylene prices and global recovery. Sales are expected to grow at a +3.9% CAGR for 2022-2025. Topline is expected to grow significantly in 2025 in light of the operations of new projects, polypropylene price improvement and greater demand for company's products in addition to marketing agreements which will support sales and presence in better markets such as European and Turkish markets.

Exhibit 24: Topline to Grow Significantly in 2025 (SAR mln)

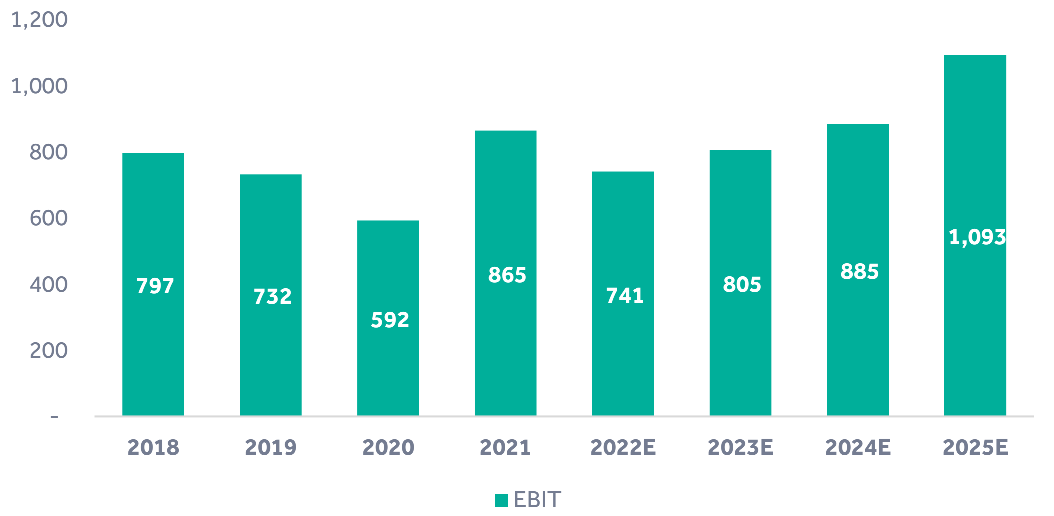


Source: RC, Company's financial statements

Operating profit growth expected at a +13.8% CAGR between 2022-2025

In 2021, operating profit was reported at SAR 865 mln, increasing by +46% Y/Y. We expect operating profit to grow at a +13.8% CAGR for 2022-2025 period as a result of improvement in operational efficiency and the company's ability to control expenses and operational costs, which in turn will support the growth in operating profit. EBIT is expected to reach SAR 1,093 mln in 2025.

Exhibit 25: Operating Profit for Advanced Company (SAR mln)

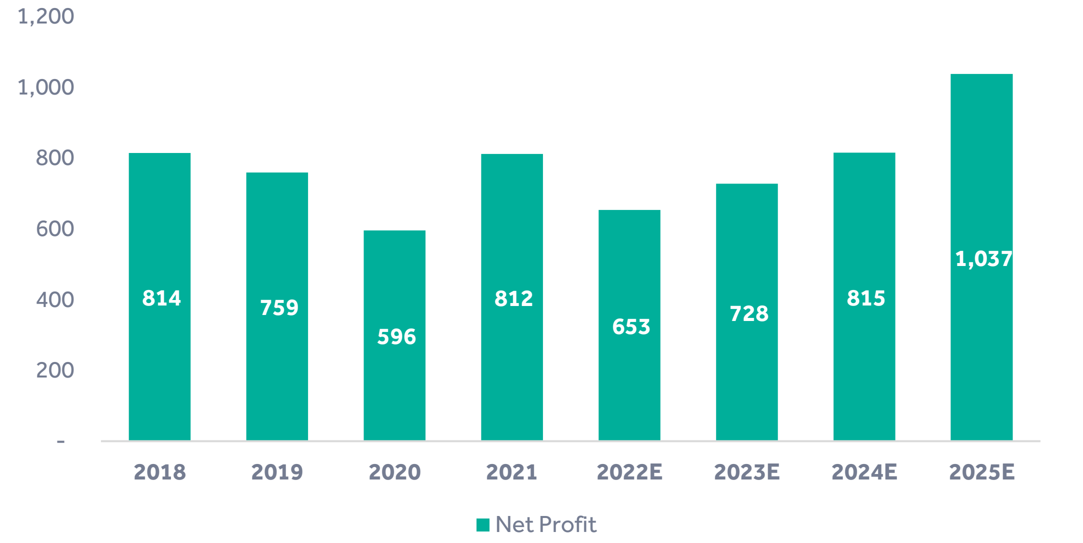


Source: RC, Company's financial statements

Expect +16.7% CAGR in bottom-line

We expect bottom-line to grow at +16.7% CAGR for 2022-2025 to SAR 1,037 mln, on the back of the increase in polypropylene prices and linked to the company's future strategy to expand its existing polypropylene capacity as well as adding isopropanol to their product line. In addition, we expect the company to generate profits from investment in joint venture in Republic of South Korea. We believe the announced projects will affect both topline and bottom-line.

Exhibit 26: Net Profit for Advanced Company (SAR mln)

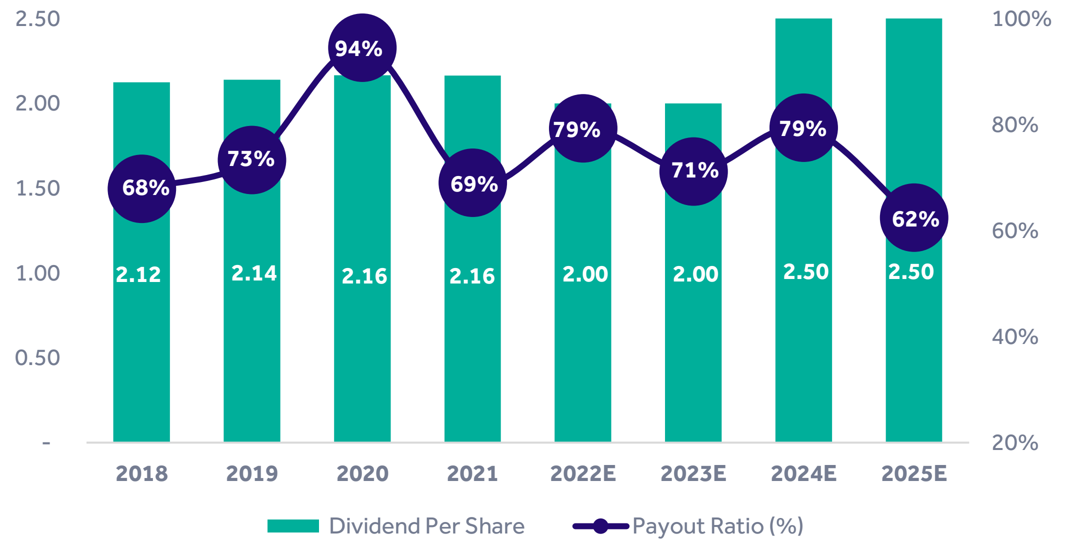


Source: RC, Company's financial statements

DPS expected to rise in 2024

We assume that the company will decrease dividends to SAR 2.00/share during 2022-2023 but we expect an increase in dividends to SAR 2.50/share in 2024-2025 due to its improved financial position and solid cash flows. We believe the capital increase was positive for the stock as this implies the company's confidence in its existing operations and future expansion projects.

Exhibit 27: DPS Expected to Increase in 2024 (SAR)



Source: RC, Company's financial statements

Valuation

DCF Method: Fair Value at SAR 72.3, upgrade to Buy

We have valued Advanced Company using the DCF valuation method to arrive at a fair price of SAR 72.3, We used a long terminal growth rate of 1.5% and 10 year-Saudi Government Sukuk as risk-free rate of 3.9%, equity risk premium is at 6.4% while adjusted Beta is at 0.83 leading to a 9.21% cost of equity. We assume a capital structure (Equity: Debt) of 78:22 to arrive at a WACC at 8.30%. We are positive on the company's medium to long-term growth. We raise our target price from SAR 68.00 to SAR 72.00 and upgrade to Buy. Our assumptions are illustrated below:

Table 15: Discounted Cash Flow Valuation

SAR mln	2022E	2023E	2024E	2025E
EBIT	741	805	885	1,093
Depreciation	327	421	420	446
Change in Working Capital	(2,709)	755	(10)	413
Capital Expenditure	(620)	(1,215)	(510)	(488)
Cash Flow to the Firm	(2,262)	768	785	1,464
Terminal Value				21,863
Total FCFF	(2,262)	768	785	23,327
Discounting Factor	1.00	0.92	0.85	0.79
Discounted Cash Flows	**(2,262)**	**709**	**669**	**18,366**

Long-term growth rate	1.5%
Enterprise value	19,744
Less: Debt & Minority Interest	1,825
Plus: Cash & Investment	880
Equity Value	18,799
Number of shares	260
Fair Value per Share	72.3

Source: RC

Financial Summary

The following are the consolidated Income statement and Balance Sheet with major ratios and valuation for Advanced:

Table 16: Financial Summary 2018-2025E (SAR mln)

SAR mln	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Income Statement								
Sales	2,748	2,595	2,231	3,111	3,622	3,328	3,402	4,067
Gross profit	828	899	729	1,059	965	979	1,091	1,336
Operating profit	797	732	592	865	741	805	885	1,093
Net Income	814	759	596	812	653	728	815	1,037
Balance Sheet								
Current Assets	1,343	530	653	1,056	3,264	2,438	2,396	2,461
Non-Current Assets	3,354	3,273	3,305	4,835	4,997	5,819	5,958	6,078
Current Liabilities	1,369	328	397	1,603	1,102	1,031	980	1,457
Non-Current Liabilities	103	124	142	332	3,503	3,340	3,301	2,597
Total Liabilities	1,472	452	540	1,935	4,605	4,372	4,281	4,054
Total Equity	3,224	3,350	3,419	4,178	4,022	4,274	4,481	4,933
Total Liabilities & Equity	4,696	3,803	3,959	5,891	8,261	8,257	8,355	8,539
Cash Flows								
CFO	3,850	2,552	1,875	2,632	2,424	2,629	2,595	2,807
CFI	(1,779)	(317)	(281)	(808)	(499)	(741)	(643)	(633)
CFF	(3,097)	(2,125)	(1,711)	(1,568)	(1,635)	(1,938)	(2,199)	(2,144)
Valuation								
P/E	13.9	14.1	24.4	18.7	28.5	25.6	22.9	18.0
P/B	3.1	3.2	4.2	4.1	5.1	4.8	4.6	4.2
EV/Sales	5.3	5.2	6.1	4.7	4.1	4.6	4.5	3.7
EV/EBITDA	14.4	14.4	16.8	13.3	13.8	12.5	11.7	9.7
Dividend Yield (%)	4.0%	4.1%	4.1%	4.1%	3.8%	3.8%	4.8%	4.8%
Growth								
Sales	15%	(6%)	(14%)	39%	16%	(8%)	2%	20%
Gross Profit	12%	9%	(19%)	45%	(9%)	1%	11%	22%
Net Income	29%	(7%)	(22%)	36%	(20%)	11%	12%	27%
Margins								
Gross Margin	30%	35%	33%	34%	27%	29%	32%	33%
EBITDA Margin	37%	36%	36%	35%	29%	37%	38%	38%
Net Margin	30%	29%	27%	26%	18%	22%	24%	25%
Key Ratio's								
Net Debt to Equity	1.0	0.0	0.0	1.0	3.3	2.7	2.5	1.8
Debt to Equity	0.3	0.0	0.0	0.3	1.0	0.9	0.8	0.6
Current Ratio	1.0	1.6	1.6	0.7	3.0	2.4	2.4	1.7
ROA	17%	20%	15%	14%	8%	9%	10%	12%
ROE	25%	23%	17%	21%	18%	19%	20%	23%
Per Share (SAR)								
EPS	3.13	2.92	2.29	3.14	2.52	2.81	3.15	4.01
BVPS	12.40	12.89	13.15	15.22	14.06	14.94	15.67	17.25
DPS	2.12	2.14	2.16	2.16	2.00	2.00	2.50	2.50

Source: RC, Company's Report

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

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