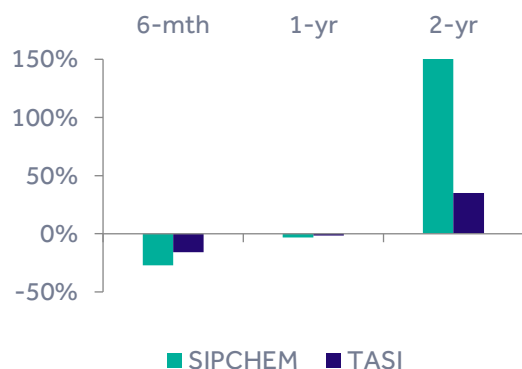


Market Data	
52-week high/low	SAR 60.00 / 38.05
Market Cap	SAR 30,947 mln
Shares Outstanding	733.3 mln
Free Float	88.98%
12-month ADTV	3,160,447
Bloomberg Code	SIPCHEM AB



## Lower Prices Shrink Margins

Upside to Target Price	20.9%
Expected Dividend Yield	5.9%
Expected Total Return	26.8%

October 18, 2022

Rating	Buy
Last Price	SAR 42.20
12-mth target	SAR 51.00

SIPCHEM	3Q2022	3Q2021	Y/Y	2Q2022	Q/Q	RC Estimate
Sales	2,939	2,506	17%	3,193	(8%)	2,446
Gross Profit	1,209	1,369	(12%)	1,679	(28%)	1,253
Operating Profit	909	1,140	(20%)	1,370	(34%)	1,039
Net Profit	774	1,030	(25%)	1,263	(39%)	1,008

(All figures are in SAR mln)

- Sipchem recorded revenues of SAR 2.9 bln (+17% Y/Y, and -8% Q/Q), in-line with our estimates. This came on the back of higher volumetric sales offset by decline in product prices. Acetic Acid and VAM prices fell dramatically on a quarterly basis by -26% and -25%, respectively while EVA prices were down -18% Q/Q.
- Feedstock prices began to decline gradually but this was followed by a decline in product prices, which in turn significantly affected the margins and also resulted in a decline in share of profits from associates and JVs. Propane and Butane prices were down on a quarterly basis by -20% and -22%, respectively. Gross margins shrank to 41% for the quarter versus 53% in the preceding quarter and significantly lower than 57% in 1Q2022. Gross profit declined by -12% Y/Y and -28% Q/Q to SAR 1.2 bln.
- Net profit came in at SAR 774 mln (-25% Y/Y and -39% Q/Q). Bottomline missed both our estimates and market consensus. Net margins of 26% is lower than 40% in the preceding quarter and much lower than 45% in 1Q2022.
- Petrochemical sector has recently been facing some challenges due to fluctuations in the prices of products as well as economic worries. However, we maintain our positive view of the company over the long term. While we reduce our target price to SAR 51.00 but we keep a Buy recommendation.

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## 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](mailto:research@riyadcapital.com)

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