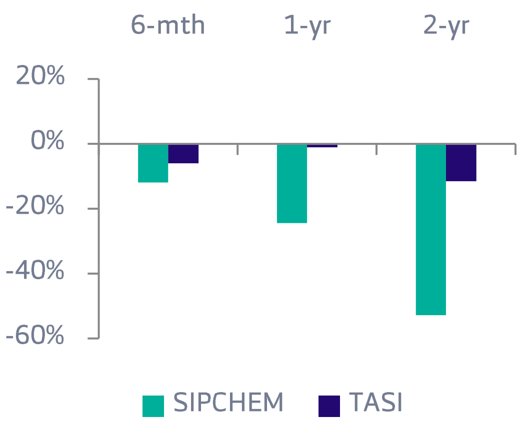
Thesis Right, Dividend Out, The Profit Center Out; Sell for Now

July 29, 2026

Upside to Target Price	(17.0%)	Rating	Sell
Expected Dividend Yield	0.0%	Last Price	SAR 13.36
Expected Total Return	(17.0%)	12-mth target	SAR 11.09

Market Data	
52-week high/low	SAR 21.2 / 13.1
Market Cap	SAR 9,797 mln
Shares Outstanding	733.3 mln
Free-float	88.95%
12-month ADTV	2,028,160
Bloomberg Code	SIPCHEM AB



SIPCHEM	2Q2026	2Q2025	Y/Y	1Q2026	Q/Q	RC Estimate
Sales	861	1,906	(55%)	1,227	(30%)	512
Gross Profit	(26)	293	-	78	-	(279)
Gross Margins	(3%)	15%		6%		(54%)
Operating Profit	(187)	87	-	(69)	(172%)	(438)
Net Profit	(592)	(169)	(250%)	(215)	(175%)	(581)

(All figures are in SAR mln)

- Sales of SAR 861 mln in 2Q26 (-55% Y/Y, -30% Q/Q) came in above our SAR 512 mln estimate, but the composition confirms our thesis on Sipchem's segments. Basic chemicals – the group's only consistently profitable segment, with SAR 448 mln of gross profit in 2025 – generated revenue of just SAR 67 mln in 2Q26 with external foreign sales effectively nil, and related-party methanol sales to JAMC at zero for the quarter (vs. 2Q25: SAR 94 mln). Management's Middle East conflict disclosure (Note 1.2) cites "disruptions to transportation routes to customers, periods of plant underutilization, increased logistics and freight costs, fluctuations in feedstock availability." The issue is unambiguous: Hormuz has switched off the one segment that was carrying the group, on top of an Intermediate business that was already running gross-losses throughout 2025. It is likely that Hormuz logistical disruption may continue through 3Q26, based on our 'oscillation regime' framework (formalized in our forthcoming sector update), driven by 30-day rolling average Hormuz transits.
- Net loss of SAR (592) mln widened from SAR (215) mln in 1Q26 in line with our estimate of a net loss of SAR (581) mln. SAR 328 mln reflects the full write-off of the Inochem stake (Note 8.1.1) – but even excluding it, the underlying loss of roughly SAR (264) mln deteriorated sequentially, and unrecognized SAMAPCO/LSIG losses of SAR 187 mln cumulative (Note 8.2.1) sit outside the P&L entirely. The quarter's real story is cash: 2Q26 operating cash flow was negative at roughly SAR (207) mln as inventories built a further SAR 154 mln – reversing 2025's deliberate destocking and returning stock to 2024 levels on nearly half the revenue. The Company borrowed an additional ~SAR 1.4 bln in 1H26 (total borrowings SAR 4.1 bln, +53% since year-end; Note 9) to hold ~SAR 2.5 bln of cash, and suspended the interim dividend it had maintained even through a loss-making 2025 (Note 18). The extra debt in 2Q26 is to stand still currently, which is not liquidity; it is the price of illiquidity elsewhere.
- In our previous report on Sipchem, we highlighted the balance sheet positioning reinforcing our cautious view, which is now confirmed, with Sipchem taking on an additional ~SAR 517 mln in debt Q/Q (debt levels do not include leases). With the shares having fallen through our prior target, we mark our valuation to the deteriorated fundamentals and lower our target price and rating on: higher debt, negative free cash flow, finance costs that will remain elevated regardless of logistical adaptation in 2026, Hormuz 30-day rolling transits falling to ~13 (July 28) from ~22 (July 12) – (RC Calculations, Bloomberg Data), and no interim dividend declared. We lower our target price to SAR 11.09 per share and our rating to Sell. We would revisit our rating on a sustained recovery in Hormuz transits toward the 2025 high-water mark, accompanied by normalizing freight and insurance – the same reassessment bar we apply across our coverage.

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Disclaimer

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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