

August 16, 2020

Impairments & Lower Revenues Dent 2Q

Upside to Target Price	(9.9%)	Rating	Neutral
Expected Dividend Yield	3.9%	Last Price	SAR 88.80
Expected Total Return	(6.0%)	12-mth target	SAR 80.00

Market Data	
52-week high/low	SAR 104.8/61.9
Market Cap	SAR 266,400 mln
Shares Outstanding	3,000 mln
Free-float	29.83%
12-month ADTV	10,804,827
Bloomberg Code	SABIC AB

SABIC	2Q2020	2Q2019	Y/Y	1Q2020	Q/Q	RC Estimate
Sales	24.62	34.90	(29%)	30.19	(18%)	28.36
Gross Profit	3.47	8.54	(59%)	4.71	(26%)	6.24
Operating Profit	(1.26)	4.02	-	(0.06)	2000%	1.42
Operating Margins	(5%)	12%		0%		5%
Net Profit	(2.22)	2.03	-	(1.05)	111%	0.43

(All figures are in SAR mln)



- Sales volume decreased -3% Y/Y and -1% Q/Q while selling prices decreased -26% Y/Y and -17% Q/Q, as per management, with a continued challenging demand environment.
- Gross margin contracted to 14% from 16% last quarter and 24% last year. Similarly, Sabic recorded an operating margin of (5%) this quarter versus (0.2%) in the preceding quarter on shrinking product spreads.
- Net loss of SAR (2.2) bln was substantially worse than our SAR 431 million forecast and market consensus of SAR (208) million. Besides lower petrochemical prices, the loss was also driven by impairment provisions related to certain European petrochemical assets to the tune of SAR (1.2) billion, higher than impairments of SAR (1.1) billion last quarter.
- A decline in Brent prices of more 40% Q/Q drove down petrochemical prices. According to management, there were strong headwinds in 2Q due to Covid-19 while Aramco coming in as a shareholder will strengthen Sabic's position. Outlook for the remainder of 2020 appears to be challenging as economic activity is just starting to recover with ample petrochemical supply while demand remains under pressure.

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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
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