



## EVENT FLASH

## Broadly in-line results supported by lower other expenses

Sipchem reported a 4Q16 net income of SR52.3mn, broadly in-line with the NCBC estimate of SR49.2mn. Net income increased 101.2% YoY and compares to a net loss of SR59mn in 3Q16. We believe higher than expected opex was mitigated by higher investment income and lower non-operating expenses. Gross profit was in-line with our estimate.

- Sipchem reported a net income of SR52.3mn in 4Q16, broadly in-line with the NCBC estimate of SR49.2mn but lower than the consensus estimate of SR58mn. This is the highest net income since 3Q15. We believe higher than expected opex were mitigated by lower than expected financial charges and higher investment income. Gross profit was in-line with our estimates. In 4Q16, average methanol increased 27.5% QoQ to US\$288, while VAM declined 5.2% QoQ to US\$729.
- Revenues stood at SR910mn in 4Q16, 7.0% higher than our estimate. This is an increase of 33.5% QoQ and 4.4% YoY. Based on our calculations, the facilities operated at 108% in 4Q16, higher than our estimate of 102% and 86% in 3Q16. We believe efficiency increased following to major shutdowns in 2Q16 and 3Q16. Moreover, in 3Q16, the company deferred methanol sales to 4Q16, which we believe also contributed to higher revenues in 4Q16.
- Gross profit stood at SR212mn in 4Q16, in-line with our estimates. However, gross margin came in at 23.3% in 4Q16, lower than our estimate of 25.1%. We believe higher than expected production costs impacted gross margins.
- Operating profit was 6.6% lower than our estimate mainly due to higher than expected G&A expenses. Opex stood at SR77.5mn in 4Q16, higher than our estimate of SR69.7mn. The increase in opex is due to additional cost related to IFRS conversion, audit fees and corporate social obligation program.
- Net income was 6.3% higher than our estimate, as higher opex was offset by higher investment income and lower financial charges. Based on our calculations, financial charges stood at SR60.6mn in 4Q16, lower than our estimate of SR64.3mn. We believe investment income stood at SR10.7mn in 4Q16, higher than our estimate of SR6.4mn. The increase in investment income is attributed to higher SAIBOR rates.
- We remain Overweight on SIPCHEM with a PT of SR16.0. Sipchem key strengths are 1) higher operational efficiency, 2) contributions from new projects and 3) positive methanol price outlook. The stock is trading at a 2017 P/E of 18.9x, higher than the sector average of 16.2x.

## 4Q16 Results Summary

| SR mn            | 4Q16A | 3Q16A  | % QoQ | 4Q15A | % YoY | 4Q16E | % Var <sup>^</sup> |
|------------------|-------|--------|-------|-------|-------|-------|--------------------|
| Revenues         | 910   | 681    | 33.5  | 872   | 4.4   | 851   | 7.0                |
| Gross income     | 212   | 84     | 152.0 | 102   | 107.3 | 213   | (0.8)              |
| Gross margin (%) | 23.3% | 12.3%  | 10.9  | 11.7% | 11.6  | 25.1% | (1.8)              |
| Operating income | 134   | 24     | 459.2 | 12    | 982.3 | 144   | (6.6)              |
| Net income       | 52    | (59)   | NM    | 26    | 101.3 | 49    | 6.3                |
| EPS (SR)         | 0.14  | (0.16) | NM    | 0.07  | 101.3 | 0.13  | 6.3                |

Source: Tadawul, NCBC Research, <sup>^</sup> % Var indicates variance from NCBC estimates

## OVERWEIGHT

|              |      |
|--------------|------|
| Target price | 16.0 |
|--------------|------|

|                    |      |
|--------------------|------|
| Current price (SR) | 17.9 |
|--------------------|------|

## STOCK DETAILS

|                         |         |
|-------------------------|---------|
| 52-week range H/L (SR)  | 20/10   |
| Market cap (\$ mn)      | 1,752   |
| Shares outstanding (mn) | 367     |
| Listed on exchanges     | TADAWUL |

| Price perform (%) | 1M   | 3M   | 12M  |
|-------------------|------|------|------|
| Absolute          | 9.3  | 48.3 | 76.4 |
| Rel. to market    | 13.2 | 22.8 | 52.3 |

| Avg daily turnover (mn) | SR   | US\$ |
|-------------------------|------|------|
| 3M                      | 13.3 | 3.5  |
| 12M                     | 9.2  | 2.5  |

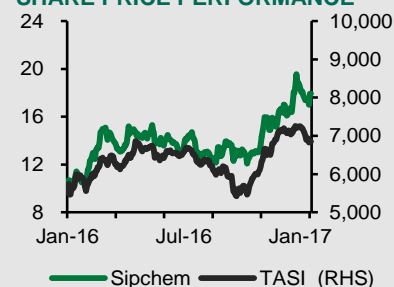
|                |  |
|----------------|--|
| Reuters code   | 2310.SE  |
| Bloomberg code | SIPCHEM AB   |
|                | <a href="http://www.sipchem.com">www.sipchem.com</a> |

## VALUATION MULTIPLES

|               | 15A  | 16A   | 17E  |
|---------------|------|-------|------|
| P/E (x)       | 24.9 | NM    | 18.9 |
| P/B (x)       | 1.1  | 1.1   | 1.1  |
| EV/EBITDA (x) | 11.9 | 11.4* | 10.3 |
| Div Yield (%) | 3.3  | 0.0   | 3.3  |

Source: NCBC Research estimates, \*-estimate

## SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam

+966 12 690 7811  
i.ghulam@ncbc.com

Kindly send all mailing list requests to [research@ncbc.com](mailto:research@ncbc.com)

**NCBC Research website**

<http://research.ncbc.com>

**Brokerage website**

[www.alahlitadawul.com](http://www.alahlitadawul.com)  
[www.alahlibrokerage.com](http://www.alahlibrokerage.com)

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**NCBC Investment Ratings**

|               |   |
|---------------|---|
| OVERWEIGHT:   | Target price represents an increase in the share price in excess of 15% in the next 12 months   |
| NEUTRAL:      | Target price represents a change in the share price between -10% and +15% in the next 12 months   |
| UNDERWEIGHT:  | Target price represents a fall in share price exceeding 10% in the next 12 months   |
| PRICE TARGET: | Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon |

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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