

# SAHARA PETROCHEMICAL



This is an extract of our published report, the full version of which can be found on the [ncbc.com](http://ncbc.com) website

## CHANGE IN RECOMMENDATION

### Al Waha to start commercial operations in 2Q11

We are upgrading our rating to Overweight with a revised target price of SR23.7. Off the back of regional instability, the stock has underperformed the TASI petrochemical index by 5.4% in the last month, which we believe is unjustified. We expect Sahara's Al Waha project to start commercial operations in 2Q11 and believe the start up will be a positive trigger for the stock.

- Al Waha's commercial start in 2Q11 to boost 2011 earnings**  
 We believe Sahara will report revenues in 2Q11 as the Al Waha plant is scheduled to complete trial runs in 1Q11. The Al Waha plant is 75% owned by Sahara and has an annual capacity of 450k mt of polypropylene. We estimate a 75% YoY increase in Sahara's earnings in 2011 mainly due to contribution from Al Waha and higher earnings from SEPC on account of improving demand and higher petrochemical prices.
- The n-Butanol plant to start in 2014**  
 Sahara's 43% owned subsidiary, Saudi Acrylic Acid Co (SAAC), has signed a preliminary agreement with Saudi Kayan and a proposed JV between Saudi Aramco and Dow Chemicals to build a 330k mtpa n-Butanol plant in Jubail. All 3 partners will equally share the output from the SR1.8bn plant. SAAC's share of output would be fed to its acrylic acid plant, while the remaining output would be exported and marketed by SABIC. We expect the plant to start commercial operations in 3Q14.
- Petrochemical prices to remain firm in 2011**  
 We estimate petrochemical prices to remain high during 2011 benefiting from strengthening oil prices (currently above the USD100/bbl level). We estimate ethylene prices to rise 15% YoY in 2011 and polyethylene by 6%, while propylene prices are estimated to grow 13% and polypropylene by 6%.
- Upgrade to Overweight**  
 We upgrade Sahara to Overweight from Neutral and believe the news on the Al Waha start up will be a positive catalyst to the stock. Due to the regional political instability, we have increased the equity risk premium for Sahara, leading to a reduction in our target price to SR23.7/share, from SR24.9/share previously. However, given the stock unwarranted decline in the recent month, we believe that the current levels are an attractive entry price.

## Financials

		2009A	2010A	2011E	2012E	2013E	2014E	CAGR % 11E-14E
Sales	SR mn	0	0	1,777	2,440	3,696	3,497	25.3
Gross income	SR mn	0	0	547	820	1,168	1,067	25.0
Gross margin	%	-	-	30.8	33.6	31.6	30.5	
Operating income	SR mn	(39)	(11)	442	688	965	874	25.5
Operating margin	%	-	-	24.9	28.2	26.1	25.0	
Net income	SR mn	76	329	575	758	907	874	15.0
Net margin	%	-	-	32.4	31.1	24.5	25.0	
EPS	SR	0.35	1.13	1.97	2.59	3.10	2.99	15.0

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

## OVERWEIGHT

<b>Target price (SR)</b>	<b>23.7</b>
<b>Current price (SR)</b>	<b>20.1</b>

## STOCK DETAILS

52-week range H/L (SR)	28/15
Market cap (\$mn)	1,570
Shares outstanding (mn)	293
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(2.2)	(15.0)	(8.4)
Rel. to market	(2.3)	(11.2)	(3.1)

Avg daily turnover (mn)	SR	US\$
3M	32.3	8.6
12M	39.2	10.5

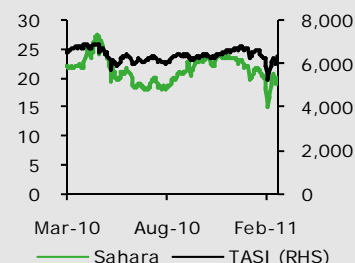
Reuters code	2260.SE
Bloomberg code	SPC AB
<a href="http://www.saharapcc.com">www.saharapcc.com</a>	

## VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	17.9	10.2	7.8
P/B (x)	1.8	1.5	1.3
EV/EBITDA (x)	-	10.4	7.5
Div Yield (%)	-	-	-

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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**OVERWEIGHT:** Target price represents expected returns in excess of 15% in the next 12 months

**NEUTRAL:** Target price represents expected returns 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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