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## Sector Coverage Team

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• **Outstanding 9M 2007 results:** Net profit for SABIC increased 42% from SAR 14.2 bn in 9M 2006 to SAR 20.2 bn in 9M 2007. The results have already beaten our full year 2007 net income estimate of SAR 20.7 bn. The positive results were achieved on the back of a longer and stronger than expected phase of high prices in the petrochemical industry cycle.

• **Capacity expansions on track:** SABIC's capacity expansion plan is on track with added capacities from a number of projects including the ethylene glycol plant at Jubail United Petrochemical company (UNITED), the reinforced steel plant at the Saudi Iron & Steel Company (HADEED), and urea and ammonia plants at Saudi Arabian Fertilizer Company (SAFCO). In addition, the company added production from the SABIC UK Company following the acquisition of Huntman's European base chemicals and polymers business in the UK at the end of 2006. Total production increased by 13% from 36.3 MT in 9M 2006 to 40.9 MT in 9M 2007. Total sales also increased by 13% to reach 32.6 MT in 9M 2007. SABIC is on track to meet our estimate for total production in 2007 of 53.0 MT, and is likely to slightly outperform our estimate of total sales of 41.5 MT.

• **Petrochemical prices maintaining their strong levels:** Contrary to consensus estimates of easing petrochemical prices in 2007, prices have maintained their strong levels. The average price per ton of ethylene in 9M 2007 reached USD 1,130, which is 1% above the 9M 2006 average. The average price per ton of polyethylene reached USD 1,357 in 9M 2007, up 3% from the same period last year.

• **Gross profit margin down on higher naphtha prices:** SABIC's gross profit margin (excluding depreciation) fell from 47% in 9M 2006 to 45% in 9M 2007. We attribute the fall to higher naphtha prices, which rose 10% during the period. It is important to note that the pricing mechanism for propane is different than the one for ethane. While SABIC purchases ethane at a fixed price of 75 cents per MTBU, the price of propane is linked to changes in the price of naphtha.

• **SABIC acquires GE Plastics:** Following its previous acquisitions of DSM and Huntsman's petrochemicals business in Europe, SABIC acquired GE Plastics from General Electric for a price of USD 11.6 bn in August 2007. The former GE unit has been renamed SABIC Innovative Plastics, focusing on the global growth of thermoplastics and engineering plastics. The acquisition is set to broaden SABIC's product portfolio and provide access to new technology and markets. In 2006, GE Plastics reported USD 6.6 bn in revenues and USD 674 mn in profits. We anticipate the acquisition to start impacting SABIC's P&L statement starting Q4 2007 through higher revenues, lower margins and higher financing charges.

• **Higher leverage resulting from the acquisition:** SABIC's consolidated debt increased by SAR 44.8 bn to reach SAR 84.3 bn in 9M 2007, primarily due to the acquisition of GE Plastics division, which had a debt balance of USD 8.2 bn (SAR 30.6 bn) at the time of the acquisition. In addition, SABIC had issued its second sukuk issue of SAR 8.0 bn in Q3 2007. As a result, SABIC's debt to equity ratio increased from 0.5x at end of 2006 to 1.0x at end of 9M 2007.

• **Estimates to be revised upwards:** We will be revising our estimates for SABIC upwards on the back of continued strength in the petrochemicals industry cycle and the company's acquisition of GE Plastics.

Current stock price (SAR)	168.75
52-week range (SAR)	93.5-170.5
Number of shares (mn)	2,500
Free float (%)	30
Market cap (SAR mn)	421,875
Market cap (USD mn)	112,500
Div. Yld 2006 (%)	2.37

(SAR mn)	Q3 2006	Q2 2007	Q3 2007	9M 2006	9M 2007
Sales	23,382	28,127	32,131	63,596	86,524
Cost of sales	(13,786)	(17,203)	(19,870)	(38,514)	(52,448)
Gross profit	9,596	10,924	12,261	25,081	34,077
SG&A expenses	(1,211)	(1,272)	(1,836)	(3,436)	(4,436)
Finance expenses	(513)	(467)	(623)	(1,282)	(1,670)
Other income	610	1,019	1,390	1,590	3,201
Minority interest	(2,858)	(3,170)	(3,403)	(7,279)	(9,510)
Zakat	(200)	(560)	(390)	(500)	(1,500)
Net income	5,424	6,474	7,400	14,174	20,161

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