



Methanol Chemicals (Chemanol)

KSA Petrochemical Sector | 2Q 2015 Preliminary Results | July 30, 2015

2Q15 review: A big miss vs. SFC and consensus; Maintain Hold

A surprise 2Q15 net loss possibly from price discounts: Chemanol reported a surprise 2Q15 net loss of SAR21m that included a SAR6mn one-off charge (for postponed projects) meaning restated clean net loss was SAR15m and came well short of SFC estimate of SAR8m profit and consensus estimate of SAR3m profit. While revenues of SAR196m (-12% yoy, flat qoq) was c.12% below our estimate, operational loss was SAR7m vs. our estimate of SAR16m profit. EBITDA margin was also soft at c.19% (vs. SFC est. c.27% and 1Q15 c.19%). Management attributed the weak quarterly performance to soft product prices and increasing competition in company's key geographies such as GCC/India/China/East Asia that resulted in Chemanol providing discounts to buyers to maintain market share. Chemanol's 2Q15 earnings also show that its performance was countertrend to most petrochemical companies' 2Q15 earnings that benefitted from increasing product spreads (qoq product price increase was much higher than qoq feedstock cost increase).

Stock lacks near to mid-term catalysts; Maintain Hold: We see Chemanol as a pure play on methanol derivatives and one that's devoid of any near term catalyst. While methanol prices are likely to remain subdued in the near term, the stock lacks meaningful growth prospects in the mid-term which in our view could lead to negative investor sentiment. Furthermore, after a Ytd c.4% increase (Tadawul Petchem c.6%) in stock price, on our 2015 numbers, Chemanol is trading at 43.7x P/E (Tadawul Petchem 17.0x, EM 16.8x, global 17.0x) primarily due to potentially depressed earnings. However, we consider 2016E earnings to be reflective of a normalized environment and as such consider 2016E multiple to be a more relevant metric for comparison. On our 2016E estimates, Chemanol trades at 24.3x P/E (Tadawul Petchem 14.2x, EM c.15.4x, Global 14.8x) which seems rich. Post publication of 2Q15 results, we maintain our Hold rating with an unchanged SAR13.5/share target price.

SAR mn	2Q15A	2Q15E	%diff	Cons*	%dev	1Q15	%qoq	2Q14	%yoy
Revenues	196	223	-12%	223	-12%	196	0%	223	-12%
Gross Profit	25	44	-43%	Na	Na	24	3%	47	-47%
EBITDA (est)**	37	60	-38%	Na	Na	38	-2%	65	-43%
EBITDA margin	19%	27%		Na	Na	19%		29%	
EBIT	-7	16	Nm	Na	Nm	-6	Nm	22	Nm
Net Profit	-21	8	Nm	3	Nm	-15	Nm	16	Nm
NP Restated	-15	8	Nm	3	Nm	-15	Nm	16	Nm

Source: Company, Saudi Fransi Capital analysis, * Bloomberg consensus, **estimated from available disclosure

Rating Summary

Recommendation	Hold
Target price (SAR)	13.5
Upside/ (downside)	9%

Stock Details

Closing price*	SAR	12.4
Market capitalization	SAR mn	1,495
Shares outstanding	Mn	121
52-Week High	SAR	18.3
52-Week Low	SAR	11.1
Price chg. (3 months)	%	-12%
EPS 2015E	SAR	0.28
Ticker (Reuters/ Bloomberg)	2001.SE	CHEMANOL AB

*Price as of July 29, 2015

Key Shareholding (%)

Public/Others	80.9
Zamil Group Holding	8.3
Mohammed Jalal and Sons Co.	5.0
Yusuf Bin Ahmed Kanoo Ltd.	5.8

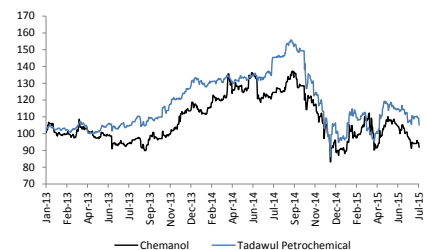
Source: Tadawul

Key Ratios

	2015E	2016E
P/E (x)	43.7	24.3
EV/EBITDA (x)	10.9	9.6
Dividend yield (%)	3.8	3.8

Source: Company, Saudi Fransi Capital analysis

Stock price movement vs. TASI



Source: Tadawul

Sector Coverage

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Recommendation Framework

BUY: The analyst recommends a BUY when our fair value estimate is at least 10% higher than the current share price.

HOLD: The analyst recommends a HOLD when our fair value estimate ranges within $\pm 10\%$ of the current share price.

SELL: The analyst recommends a SELL when our fair value estimate is lower by more than 10% from the current share price.

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