



## MENA Petrochemicals: A Global Advantage... Which companies do you buy?

- Will MENA emerge as a global petrochemical hub?
- What factors will drive future growth?
- Why are foreign petrochemical companies entering the MENA region?
- What role do MENA governments play to support the growth of the petrochemical sector?
- Will China be able to support near-term oversupply concerns of the Saudi petrochemical sector?
- Can Saudi Arabia sustain its feedstock advantage?
- Are capacity additions by China a threat to the petrochemical sector in the MENA region?





# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

## Executive Summary

Benefiting from a feedstock advantage, the MENA region is emerging as a global petrochemical hub. The increasing capacity additions in the MENA petrochemical sector, supported by the government's plan to diversify the economy, have been instrumental in the sector's growth over the past few years. Saudi Arabia, which accounts for 7% of the global supply of basic petrochemical products and 70% of the total GCC output, is the leader in the GCC petrochemical sector. Other countries in the MENA region with flourishing petrochemical sectors are Egypt, Qatar, Kuwait and Iran.

MENA petrochemical producers have a clear cost advantage over their global peers. Saudi Arabian producers get ethane from government-owned Saudi Aramco at a fixed price of US\$0.75/mmbtu, while petrochemical producers in Western and Asian countries obtain ethane at spot market rates ranging from US\$3.8–5.8/mmbtu. Even companies elsewhere in the MENA region enjoy a similar benefit—those in Iran, Qatar and the UAE receive ethane at a subsidized cost, in the range of US\$1.25–1.50/mmbtu. The cost of producing ethylene in an ethane-feed plant in Saudi Arabia and other Middle Eastern countries is approximately US\$200/mt relative to US\$480/mt and US\$500/mt in North America and Western Europe, respectively. Consequently, Saudi companies operate at significantly higher margins relative to their western counterparts.

Huge capacity additions are underway in the petrochemical sector in the MENA region. BMI expects the Middle East and Africa region's share of global ethylene capacity to reach 23.4% (equivalent to 174.8 mtpa) by 2014 compared to 17% (equivalent to 132.7 mtpa) in 2009. The fact that the MENA region is an ideal location for petrochemical production is also likely to support growth in the sector going forward. The region's proximity to demand-dense areas such as Asia (led by China and India) offers significant logistics advantages for petrochemical manufacturers.

Demand for ethylene, a major petrochemical product, increased at a CAGR of 3.1% during 2004–07. However, demand for petrochemical products took a hit due to the economic slowdown that started in the second half of 2008. This resulted in a major supply glut in the petrochemical sector worldwide. To avoid an inventory pile-up, petrochemical producers sold their products at low prices consequently hurting their margins. The situation started to improve at the end of 2009, as the global economic recovery gained momentum. As a result, demand for petrochemicals started to rise along with that for crude oil. The long-term demand outlook for petrochemical products seems positive, supported by rising consumption rates in emerging economies of Asia, primarily China and India. BMI expects that China would remain dependent on imports of polyethylene and polypropylene for the next five years until it builds its own capacity and becomes self-sufficient. Robust investments in infrastructure and growth in the building materials & fixtures market in India and China could boost demand in these countries as these are key end-user markets for petrochemical products. Demand from China is likely to absorb the additional output of MENA petrochemical producers in the short term. However, in the long term, internal capacity build-up in China could potentially dampen demand for Middle Eastern products. BMI expects China's ethylene capacity to increase to 20.9 mmt by 2014 from an estimated 12.6 mmt in 2009, while India's ethylene capacity is likely to rise to 8.7 mmt from an estimated 3.0 mmt over the same period.

The MENA petrochemical sector comprises 21 listed companies (as per our classification), of which 14 are present in Saudi Arabia itself. SABIC leads the sector with 61.95% market share in terms of revenue generated in 2009, followed by Rabigh Refining & Petrochemical Co. (17.69% market share), Industries Qatar (5.98%) and Saudi Industrial Investment Group (2.26%). Almost two-third of SABIC's production is exported, with approximately 50% to Asia. One of its important upcoming petrochemical projects is the company's US\$8–10 billion joint venture with Saudi Kayan, another petrochemical major in Saudi Arabia. Besides listed players, several small and large unlisted companies operate in the MENA region.



# MENA Petrochemicals: A Global Advantage...

## Which companies do you buy?

MENA has witnessed the influx of several foreign petrochemical producers over the last few years. These companies are lured in by the cheap feedstock that the region offers. In fact, some western players have closed existing facilities in Western countries and entered into joint ventures with regional companies.

The major challenge for the MENA petrochemical sector is sustaining the feedstock advantage. Rising alternative uses of ethane in the utility sector (for example, electricity and water desalination) poses a threat to the availability of cheap feedstock in the long term. According to the International Energy Agency, the share of natural gas in electricity generation in Saudi Arabia would reach 60% by 2030 from 45% in 2007. In addition, Saudi Arabia lacks natural water resources; therefore, seawater is desalinated mainly using natural gas as the energy source. Demand for water increased at a CAGR of 4.4% during 2000–08 to 240.1 billion gallons. In fact, the Kingdom is the largest user of desalinated water across the globe (approximately 36% of the world's total) and demand is growing at around 3.4% every year. The EIU expects demand for water in KSA to reach 373.4 billion gallons by 2020 (a 56% increase over 2008). Industry estimates suggest that government aided oil producers in Saudi Arabia are planning to raise the cost of natural gas to US\$1.25/mmbtu for petrochemical producers from 2012. Such a scenario would hurt margins but would nevertheless keep MENA producers competitive compared to most global producers.

Although the MENA petrochemical sector would be facing the challenges mentioned above, it is likely to maintain a high growth trajectory, going forward. Rising demand for petrochemical products globally and the commitment of MENA governments to expand the sector are likely to aid growth in the region's petrochemical industry.

With a flourishing petrochemical industry and a very positive future ahead, how does one participate in this growth? Based on our proprietary valuation model, we have identified 10 stocks that best reflect the future potential. We have also ranked these companies by order of preference as follows:

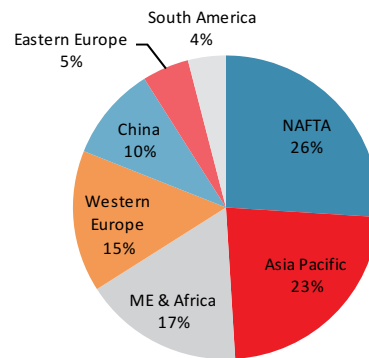
1. Sidi Kerir Petrochemicals (Sidi Kerir)
2. Industries Qatar (IQ)
3. Saudi Basic Industries Corp (SABIC)
4. Saudi Arabian Fertilizer Company (SAFCO)
5. Advanced Petrochemicals (APC)
6. Saudi International Petrochemical (Sipchem)
7. Sahara Petrochemical (Sahara)
8. Yanbu National Petrochemicals (Yansab)
9. Saudi Kayan Petrochemical (Kayan)
10. Rabigh Refining & Petrochemicals (Petro Rabigh)

## The MENA Region's Emergence as a Global Petrochemical Hub

**The Middle East & Africa contributed 17% of global ethylene capacity in 2009**

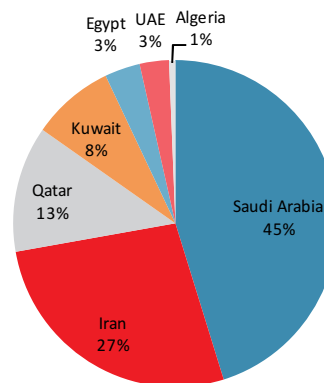
The petrochemical sector in the MENA region is one of the largest in the world, as the region possesses huge petroleum reserves. According to BMI's estimates, the Middle East and Africa accounted for 17% of total ethylene capacity in 2009 (equivalent to 132.7 million tpa), followed by North America Free Trade region (NAFTA) contributing 26% and Asia-Pacific contributing 23%. Nevertheless, this distribution is expected to change in the medium to long term as companies in the Middle East and Africa enhance their capacity and western companies set up their operations in the region (mostly as JVs) to capitalize on the low-cost (natural gas) feedstock.

Exhibit 1: Estimated global ethylene capacity - 2009



Source: BMI

Exhibit 2: Estimated MENA ethylene capacity - 2009



Source: BMI

### Saudi Arabia

The petrochemical industry in the MENA region is concentrated in Saudi Arabia, which accounts for 7% of the global supply of basic petrochemical products and 70% of the total GCC output. Saudi Arabia supplies petrochemicals to almost 100 countries across the globe and its petrochemical sector is the largest non-oil sector in the country.

**Saudi Arabia accounts for 7% of the global supply of basic petrochemical products**

The evolution of the petrochemical industry in Saudi Arabia can be traced back to 1970s when the government decided to tap into its gas reserves and put them to use as the primary feedstock for the production of fertilizers, polymers and basic chemicals. The establishment of Saudi Arabian Oil Company (Saudi Aramco) in the early 1970s proved to be a landmark development for the Saudi petrochemical industry. Saudi Aramco was established with the objective of building a master gas system to procure process and distribute associated gas from oil wells. The Kingdom then marked its presence in the global petrochemical industry with the establishment of Saudi Basic Industries Corporation (SABIC) in 1976. This highlighted Saudi Arabia's efforts to produce value-added commodities such as chemicals, polymers and fertilizers for export. SABIC is also focused on developing value-added downstream industry products such as plastics. The major turning point in the Saudi Arabian plastic industry came when SABIC started producing plastic resins for plastic manufacturing units in 1987. SABIC is now a key source of raw materials for several national and international chemical as well as plastic processing companies.

**Exhibit 3: Total current capacity and output – Saudi Arabia**

Company	Segment	2009 Production ('000 tons)	Current Capacity ('000 tpa)
SABIC	Petrochemical	47,178	69,700
SABIC	Fertilizer	6,542	8,000
SABIC	Metal	4,776	5,500
Sipchem	Petrochemical	1,115	2,210
National Industrialization Company	Petrochemical	1,659	NA
National Industrialization Company	Industrial	NA	NA
Yansab	Petrochemical	764	4,000
Sahara	Petrochemical	-	800
Petrochem	Petrochemical	-	-
Saudi Kayan	Petrochemical	-	-
Rabigh Refining & Petrochemical Co.	Petrochemical	2,400	2,400
Saudi Industrial Investment Group	Petrochemical	NA	NA
Advanced Petrochemical Co Ltd	Petrochemical	905	905
Methanol Chemicals Company (Chemanol)	Petrochemical	NA	1,021
Nama Chemicals Co.	Petrochemical	NA	60
Alujain Corporation	Petrochemical	NA	405
Saudi Arabian Fertilizer Company	Petrochemical	NA	NA

Source: Zawya, Company Reports

## Egypt

**Egypt's petrochemical landscape changed with the establishment of Sidi Kerir Petrochemical Company in 1997**

Egypt's petrochemical roots can be traced back to the 1950s when ammonia was produced from surplus fuel gas provided by refineries in the Suez. Petrochemical production commenced in two plants – Aromatic Complex in Suez and Olefins Complex in Ameraya near Alexandria – in the early 1980s. This was followed by the establishment of two more plants for producing 300,000 tons per annum (tpa) of ethylene and 200,000 tpa of polyethylene (HDPE and LDPE). The establishment of Sidi Kerir Petrochemical Company (Sidpec) in 1997 is considered as a major development in the Egyptian petrochemical sector. Sidpec was formed as part of Egyptian government's efforts to expand the downstream oil and gas industries so that the rising demand for petrochemical products can be fulfilled. Sidpec is the sole producer of ethylene and polyethylene in Egypt. The Company manufactures polyethylene under two different grades: linear low density polyethylene (LDPE) and high density polyethylene (HDPE). Sidpec's products are traded under the brand name of "Egyptene" Polymers.

# MENA Petrochemicals: A Global Advantage...

## Which companies do you buy?

Exhibit 4: Total current capacity and output – Egypt

Company	Segment	2009 Production ('000 tons)	Current Capacity ('000 tpa)
Sidi Kerir Petrochemicals	Petrochemical	NA	585
Abu Qir Fertilizers and Chemical Industries	Fertilizers	NA	2,400
Egyptian Chemical Industries (Kima)	Petrochemical	NA	NA

Source: Zawya, Company Reports

### Qatar

The petrochemical sector in Qatar started budding during the 1970s when the government started nationalizing the oil sector. State-owned Qatar Petroleum (QP) was established in 1974 and has strongly influenced the growth of the petrochemical sector in Qatar ever since. Industries Qatar (IQ), a subsidiary of QP which owns a 70.0% stake in it, is the major petrochemical company in Qatar. It operates through its subsidiaries – Qatar Petrochemical Company (QAPCO), Qatar Fertilizer Company (QAFCO), Qatar Steel Company (QASCO) and Qatar Steel Additives Company (QAFAC).

Established in 1974, QAPCO which is IQ's petrochemical subsidiary is 80% owned by IQ and 20% by Total Petrochemicals of France. It produces products such as ethylene, LDPE and sulphur. IQ's fertilizer subsidiary – QAFCO was established in 1969 and manufactures ammonia and urea by utilizing Qatar's abundant gas resources. QAFCO is expanding its ammonia and urea capacity by building QAFCO-V and QAFCO VI fertilizer complexes. While QAFCO V is expected to be completed by Q1 2011, QAFCO VI is likely to become operational by Q3 2012. IQ's steel subsidiary – QASCO, which was established in 1974, is the first integrated steel plant in the Arabian Gulf. It commenced commercial production of steel from 1978. IQ formed its fuel additives subsidiary – QAFAC, in 1991 as a joint venture with three other international corporations – Chinese Petroleum Company (via OPIC Middle East Corporation), Lee Chang Yung Chemical Industry Corporation (via LCY Investments Corporation), and Dutco Group (via International Octane). The company commenced its commercial operations from 1999. QAFAC primarily produces methanol and MTBE.

**Qatar Petroleum contributed to the growth of the petrochemical sector in Qatar**

Exhibit 5: Total current capacity and output – Qatar

Company	Segment	2009 Production ('000 tons)	Current Capacity ('000 tpa)
Industries Qatar Q.S.C. (QAPCO)	Petrochemical	NA	935

Source: Zawya, Company Reports

### Kuwait

Kuwait's petrochemical sector started evolving with the establishment of Kuwait Petroleum Corporation (KPC) in January 1980. Major subsidiaries included Kuwait Oil Company (KOC), Kuwait National Petroleum Company (KNPC), Petrochemicals Industries Company, and Kuwait Oil Tanker Company (KOTC). Another company, Boubyan Petrochemical Company, commenced operations in February 1995 by taking 10% equity stake in Equate Petrochemical Company, the world-scale petrochemical joint venture between government-owned Petrochemical Industries Company and Union Carbide Corporation (now a wholly-owned subsidiary of The Dow Chemical Company) of the United States. Qurain Petrochemical Industries Company (QPIC) was established by PIC in 2004. This resembled KPC's strategic initiative to promote more private sector engagement in major petrochemical projects in Kuwait.

**With the establishment of Kuwait Petroleum Corporation, Kuwait's petrochemical sector started evolving**

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Exhibit 6: Total current capacity and output – Kuwait

Company	Segment	2009 Production ('000 tons)	Current Capacity ('000 tpa)
Boubyan Petrochemical Company KSC	Petrochemical	NA	NA
Qurain Petrochemical Industries Company	Petrochemical	NA	696
Ikarus Petroleum Industries K.S.C.C.	Petrochemical	NA	NA

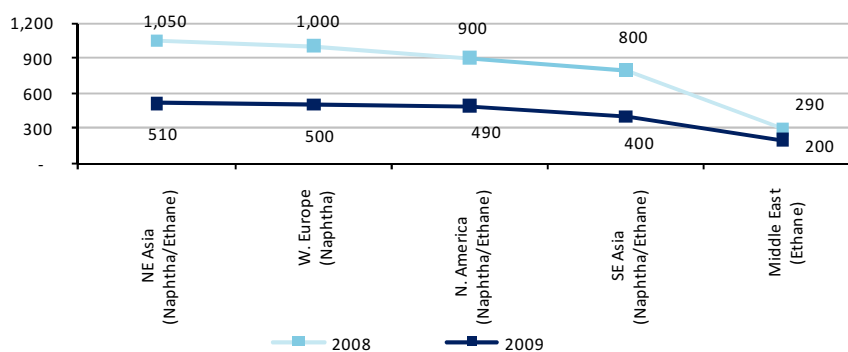
Source: Zawya, Company Reports

## Feedstock Advantage Driving the MENA Petrochemical Sector

**Petrochemical producers in MENA benefit from low feedstock cost compared to western peers, due to huge ethane reserves**

Naphtha and ethane gas are a major feedstock for petrochemical companies across the globe. Almost 54% of ethylene plants in the world depend on naphtha as a primary feedstock, while 28% depend on ethane. However, petrochemical producers in Saudi Arabia and other MENA countries prefer ethane as the region has huge reserves available at a relatively cheap rate compared to rest of the world. Petrochemical producers in Saudi Arabia have entered into long-term feedstock supply contracts for ethane with government-owned Saudi Aramco at a fixed price of US\$0.75/mmbtu. On the other hand, petrochemical producers in Western and Asian countries obtain ethane at spot market rates ranging from US\$3.8–5.8/mmbtu, highlighting Saudi Arabia's high cost advantage.

Exhibit 7: Global feedstock costs (US\$/metric ton)



Source: CMAI, Alpen Capital

**Naphtha-based crackers in Saudi Arabia get naphtha at 31% discount to the prevailing benchmark Japanese naphtha prices**

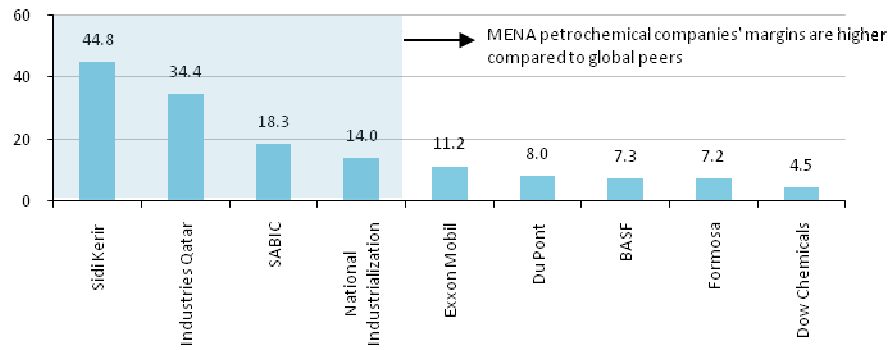
The cost of producing ethylene in an ethane-feed plant in Saudi Arabia and other Middle Eastern countries is approximately US\$200/mt (metric ton) relative to US\$480/mt and US\$500/mt for petrochemical plants in North America and Western Europe, respectively. Moreover, naphtha-based crackers in Saudi Arabia receive naphtha at 31% discount to the prevailing benchmark Japanese naphtha prices thanks to government subsidies. Other MENA countries such as Iran, Qatar and UAE also receive ethane at a subsidized cost, but in a price range of US\$1.25–1.50/mmbtu. Hence, Saudi petrochemical producers not only enjoy cost advantage compared to global peers but also against regional peers.

**MENA petrochemical companies enjoy higher margins relative to their global peers on account of low raw material costs**

Since most ethylene plants in North America and Western Europe use naphtha as a major feedstock, ethylene cost is directly related to the prices of crude oil. Therefore, the low feedstock advantage that Saudi companies enjoy enables them to report higher operating margins compared to their global peers.

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Exhibit 8: Operating margins of major global petrochemical companies in 2009 (%)



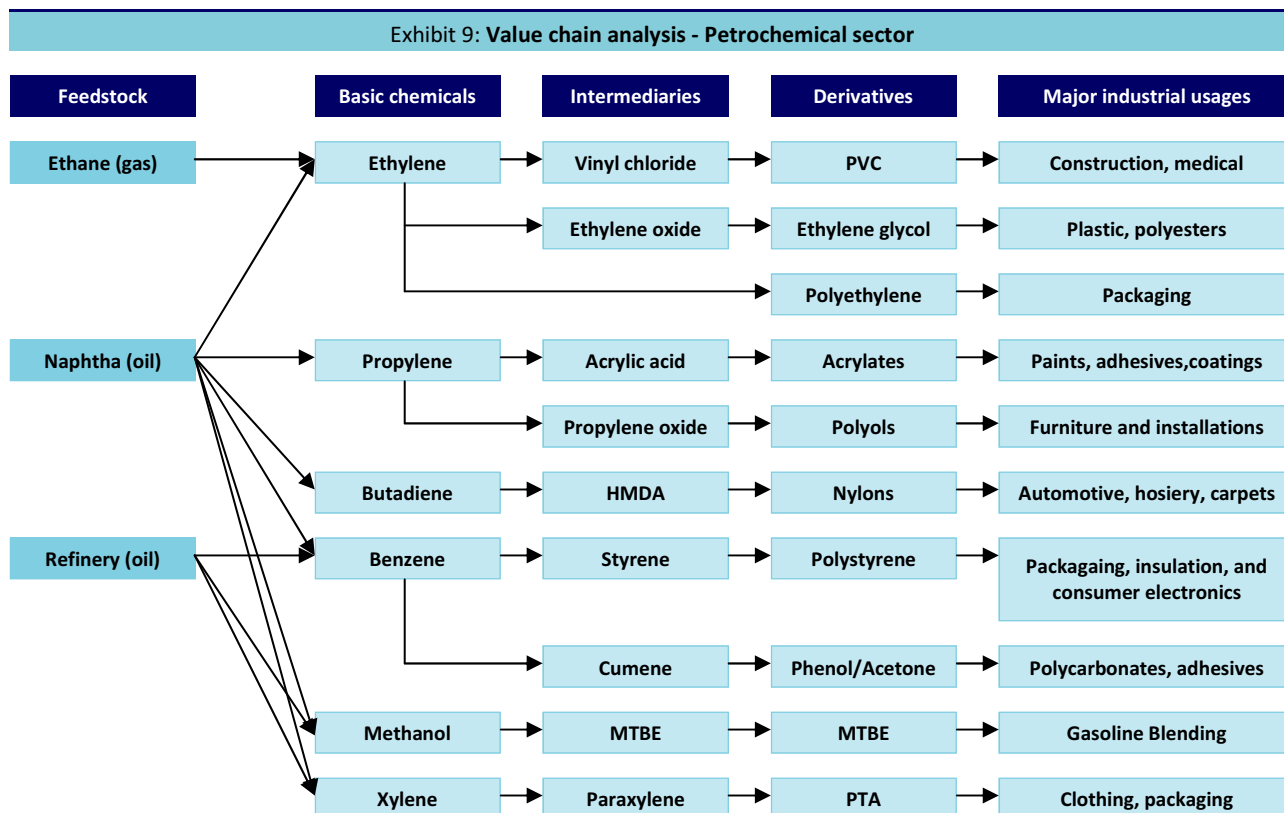
Source: Reuters Knowledge

## Value Chain Analysis of the Petrochemical sector

Petrochemicals (basic chemical products) are derivatives of petroleum and natural gas. These chemicals are mainly obtained through the cracking of a petroleum feedstock. The production of petrochemicals is a three-stage process:

- The first stage involves cracking of feedstock such as naphtha, natural gas, and gas oil to produce basic chemicals, which include ethylene, propylene, benzene, butadiene, toluene and xylene. Ethylene, propylene and butadiene are generally known as olefins, while benzene, toluene and xylene are known as aromatics. Ethylene is the most popular olefin whereas both ethylene and propylene are primarily used in the plastic industry.
- The second stage involves the processing of the above mentioned basic chemicals to yield intermediate products such as vinyl chloride, ethylene oxide, propylene oxide, and styrene.
- In the final stage, intermediate products are further processed to get petrochemical derivatives such as polyethylene (PE), polypropylene (PP) and polyvinyl chloride (PVC). These derivatives are used to produce a broad range of products such as plastics, polyethylene bags, synthetic rubber, and polyester fibers, construction and medical equipment.

Exhibit 9: Value chain analysis - Petrochemical sector



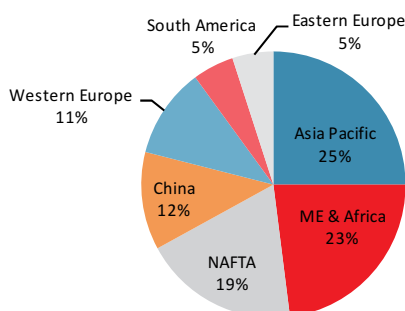
Source: Al Masah Capital Research

## Huge Capacity Additions in the Middle East and Africa Petrochemical Sector by 2014

**Middle East & Africa region's ethylene capacity expected to reach 23.4% by 2014 due to rapid expansion of the petrochemical sector**

BMI expects the Middle East and Africa region's contribution to global ethylene capacity to reach 23.4% (equivalent to 174.8 mtpa) by 2014. Among the new capacity additions globally, 50% of projects are being developed in the Middle East and Africa. Saudi Arabia represents 63% of the total investment in the region, followed by Qatar (14%). According to the Middle East-based Gulf Petrochemicals and Chemical Association (GPCA), the region will account for 40% of global petrochemical production by 2020. However, GPCA is also concerned about the need to secure feedstock by the region's producers until that time. The Arab Oil & gas directory has forecasted US\$90 billion worth of new petrochemical projects in Saudi Arabia, which would lead to growth of the sector.

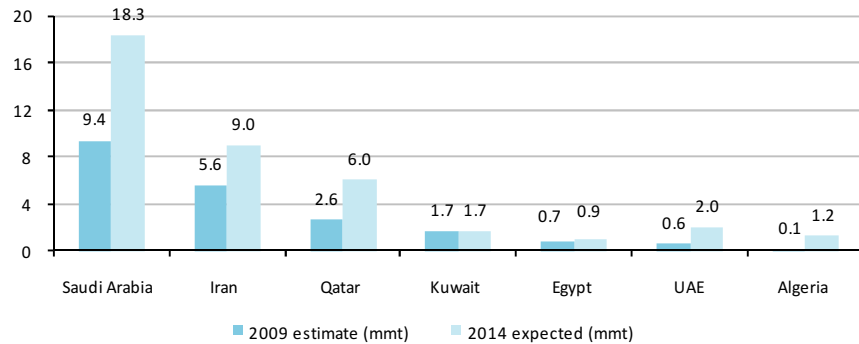
Exhibit 10: Expected global ethylene capacity – 2014



Source: BMI

# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

Exhibit 11: Rise in MENA ethylene capacities by countries

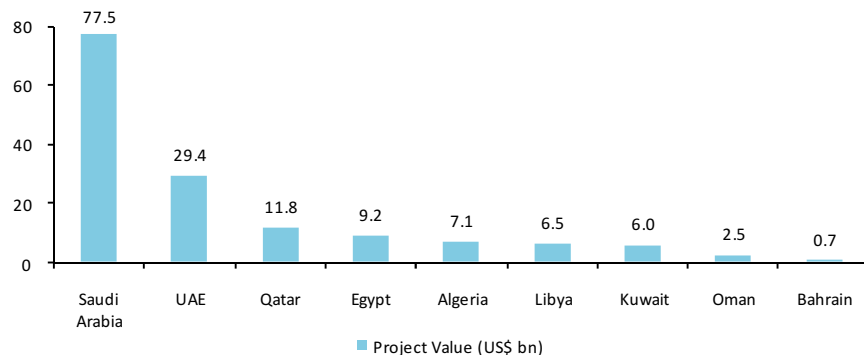


Source: BMI

**Saudi Arabia accounts for more than 50% of the ongoing petrochemical projects in the MENA region**

According to the latest Zawya Project Monitor report, petrochemical projects worth US\$150.7 billion are ongoing in the MENA region, of which Saudi Arabia accounts for more than 50% or US\$77.5 billion. Most of the petrochemical projects are based in the industrial city of Jubail, Dammam and Yanbu. Apart from Saudi Arabia, other MENA economies are also witnessing significant increase in petrochemical projects. UAE based Borouge (formed as a result of joint venture between the Abu Dhabi National Oil Company (ADNOC) and Austria based Borealis), which is a leading provider of innovative, value creating plastics solutions is expanding its petrochemical facilities. Currently, US\$16.0 billion worth of petrochemical projects are ongoing for Borouge. Besides this, ADNOC is setting up a US\$1.0 billion of Purified Terephthalic Acid (PTA), Polyvinyl Chloride (PVC) and Polyethylene Teraphthalate (PET) resin complex in Ruwais together with its foreign partner, Chinese Petroleum Corporation (CPC) of Taiwan. In Qatar, a joint venture between Qatar Petroleum and ExxonMobil Chemical is building a huge petrochemical complex worth US\$6.0 billion in Ras Laffan Industrial City, Qatar. The complex includes construction of a 1.6 mtpa steam cracker, two 650,000 tpa polyethylene plants, and a 700,000 tpa ethylene glycol plant and is expected to be completed by 2015. Similarly, a joint venture of Petrochemical Industries Company and Dow Chemical Company is building an olefins complex in Shuaiba Industrial Area of Kuwait. The project is valued at US\$5.0 billion and is expected to be completed by 2015. BMI expects Middle East and African countries' share in global ethylene capacity to rise from 19% in 2009 to 23% in 2014.

Exhibit 12: Ongoing petrochemical projects in MENA region



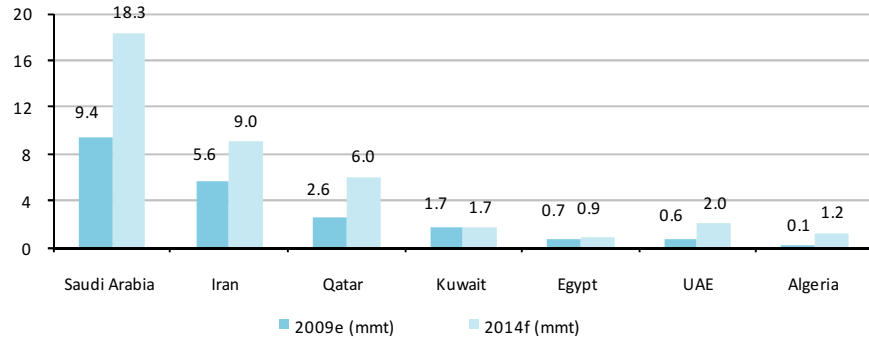
Source: Zawya

**Ethylene capacity estimated to double by 2014 in Saudi Arabia**

Among MENA countries, Saudi Arabia's ethylene capacity is expected to nearly double to 18.3 mmt by 2014. As a result, the Kingdom's share in global ethylene capacity is estimated to increase to 10.5% by 2014 from 7.1% in 2009. Iran is likely to rank second with its ethylene capacity reaching 9.0 mmt by 2014 from 5.6 mmt in 2009.

# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

Exhibit 13: Breakdown of MENA ethylene production

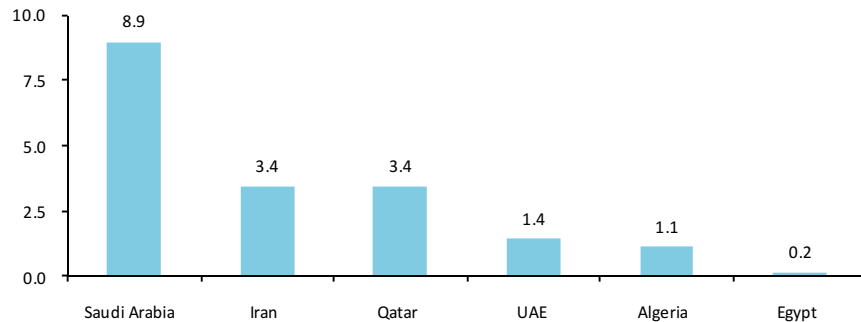


Source: BMI

**Saudi Arabia could account for 49% of the additional ethylene capacity in the MENA region by 2014**

In addition, Saudi Arabia is expected to account for 49% of the additional ethylene capacity, followed by Iran and Qatar accounting for 18.5% each by 2014.

Exhibit 14: Expected additional ethylene capacity (mmt) in MENA by 2014



Source: BMI

## Government Support Aiding Capacity Addition Plans

In a bid to diversify the economy into non-oil sectors and thereby reduce the region’s dependence on oil, most MENA governments are taking initiatives in the petrochemical field, primarily in the downstream sector. Authorities are supporting local industries and hope to encourage a gradual shift from export-oriented petrochemicals products to the manufacture of value-added specialty chemicals and engineering thermoplastics. These specialty chemicals would be supplied to domestic industries such as automotive appliances and consumer products businesses, aiding diversification. Governments are also focusing on capacity expansion to cater to the huge demand for petrochemical products. The Saudi government, for instance, offers significant tax advantages to promote foreign investment in the petrochemical sector. International companies investing in primary ethane and methane-based industries are offered 30-year fixed and renewable leases to operate in industrial cities. Secondary industries, such as plastics and synthetic polymer manufacturers, are granted 20-year leases. Also, corporate tax is reduced to 20% from 45%. In addition, the Kingdom’s petrochemical sector is exempted from import duty on industrial machinery and equipment. Furthermore, removal of trade barriers, post WTO accession in 2005, has allowed Saudi petrochemical producers to offer petrochemical products at low prices to tariff-protected markets such as the US and Japan. As a result, Saudi petrochemical producers can increase their competitiveness in these markets. With a number of financial incentives and liberal national policy, the Saudi government also encourages joint ventures in the petrochemical sector. Hence, expansion of the petrochemical sector is on the Saudi government’s list of priorities. Other GCC countries such as Qatar, Oman and Bahrain also offer exemption from import duty on industrial machinery and equipment.

**Government of Saudi Arabia offers considerable tax advantages to boost foreign investment in petrochemical sector**

Exhibit 15: Regulatory framework governing export /import and taxation in KSA		
Export	Import	Tax
<ul style="list-style-type: none"> <li>Exemption on import duty of industrial machinery and equipment</li> <li>Reduction in tariffs post WTO agreement</li> </ul>	<p>Post accession to WTO in 2005, removal of trade barriers has allowed Saudi Petrochemical producers to offer lower prices to tariff protected markets such as US and Japan leading to sizable increase in petrochemical product exports</p>	<ul style="list-style-type: none"> <li>Corporate tax reduced from 45% to 20%</li> <li>Allows companies to carry forward losses indefinitely, thus relieving the tax burden until the business generates profit</li> </ul>

Source: Ministry of Commerce and Industry of Saudi Arabia

**Egypt’s government is expanding its petrochemical sector through public private partnerships**

The Government of Egypt is also working with the private sector to expand the petrochemical sector by way of public private partnerships (PPP). The government has set up a three-phase, 20-year master plan (2002-2022) to direct investment decisions in the petrochemical industry, with an investment outlay of US\$20 billion. Currently, phase two (2009–2015) of the master plan is going on with planned projects worth US\$6 billion. The master plan is focused on reducing imports by providing investors with financial and technical assistance to support domestic projects in the petrochemical sector. Also, 33 million sq m of land across seven governorates has been reserved for petrochemical projects. Furthermore, the government offers a 10-year tax holiday to petrochemical companies in a number of tax free zones in Egypt.

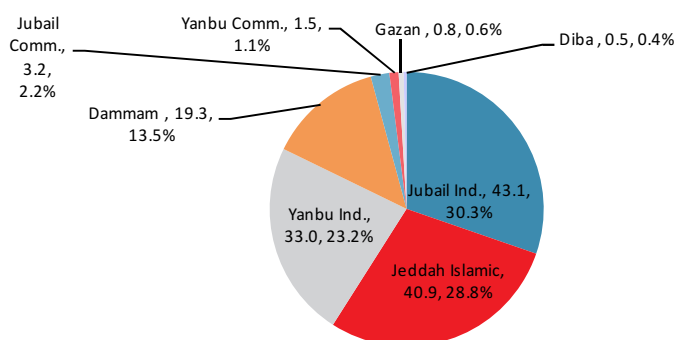
## Proximity to Growing Markets makes MENA an Ideal Petrochemical Market

**Proximity to growing markets gives MENA petrochemical producers a competitive edge against global competitors**

**Jubail and Yanbu considered two most important destinations for petrochemical production in Saudi Arabia**

The fact that the MENA region is an ideal location for petrochemical production supports the future growth of the sector. The region's proximity to demand dense regions such as Asia offers significant logistics advantage for petrochemical manufacturers. Saudi Arabia, the largest producer and exporter of oil in the MENA region, enjoys the perfect location for petrochemical production. The Kingdom's strategic location between the Americas and the Far East facilitates easy access to both markets. The country's port infrastructure is also well developed relative to other regional peers—the Kingdom's eight ports handled 142.3 million tons of cargo in 2009. The Saudi government developed Yanbu and Jubail, two key port and industrial cities, specifically for exporting petrochemical and other manufacturing goods. Yanbu, situated on the Red Sea coast and in proximity to the Suez Canal, is an ideal location for trade with European nations. The city has an important shipping terminal, three oil refineries and many petrochemical plants. Jubail, on the other hand, is located on the eastern shore of the Arabian Peninsula, providing easy access to fast-growing Asian markets such as China. Jubail Industrial Port handled the highest volume (30.3%) of total cargo throughput in 2009, followed by Jeddah Islamic (28.8%) and Yanbu Industrial port (23.2%). Both cities – Jubail and Yanbu – are also well connected to major oilfields in the Kingdom through intra-country pipeline infrastructure. This facilitates efficient transportation of crude oil and natural gas to petrochemical projects in these two cities. Both cities also have world-class infrastructure in terms of roads, sewage, airports and telecommunication networks.

Exhibit 16: Cargo volumes (in mln tons and % of total) at major ports of Saudi Arabia in 2009



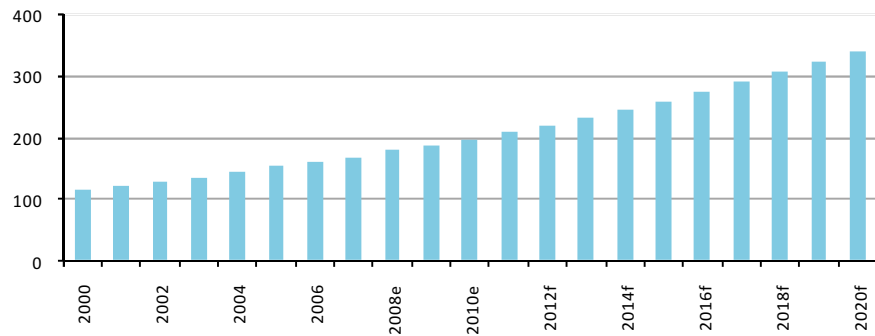
Source: Saudi Ports Authority

## Sustainability of Feedstock Competitive Advantage

**Saudi Arabia's energy consumption grew at a CAGR of 5.7% during 2000-07**

Although countries in the MENA region benefit from cheap feedstock, sustainability of feedstock is a cause for concern as alternative uses of ethane are growing. In the case of Saudi Arabia, the government started delivering subsidized ethane to petrochemical producers during the late 1970s. Driven by significant reserves, supply exceeded demand; therefore, prices were less volatile. Moreover, during that period, the alternative usage of ethane was insignificant. However, with the economic growth in Saudi Arabia, scenario reversed in 2009; demand exceeded supply mainly due to the large use of ethane for other purposes such as electricity generation and water desalination. Significant growth in economic activity required large use of power. Energy consumption in Saudi Arabia increased at a CAGR of 5.7% during 2000–07 reaching 169.0 million tons of oil equivalent (mtoe). EIU estimates energy consumption in the Kingdom to be 198.0 mtoe in 2010 and reach 341.6 mtoe in 2020 due to rising demand as a result of the significant population growth. As a result, the Kingdom became a net importer of natural gas to cater to the demand from power companies. This trend has been rising at a rapid pace.

Exhibit 17: Energy consumption in Saudi Arabia (million tons of oil equivalent)



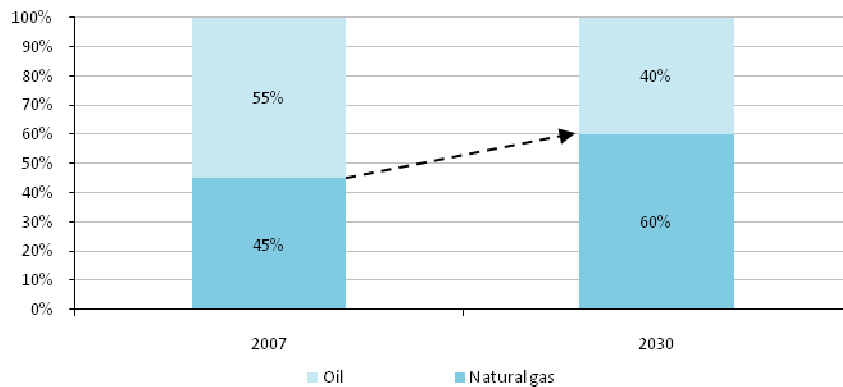
Source: EIU; e-estimate, f-forecast

### Rising Usage of Subsidized Gas for Electricity Production

Saudi Arabia produced 189,076 GWh of power in 2007, of which 45% was generated using gas. According to the International Energy Agency, the share of natural gas in electricity generation would reach 60% by 2030. This indicates the rising dependency on gas for electricity production in the Kingdom. Although, Saudi Electricity Company (SECO), the largest utility company in Saudi Arabia gets subsidized ethane at a rate of US\$0.75/mmbtu for electricity production, the growing use of ethane for electricity production is a threat for the sustenance of cheap feedstock in the petrochemical sector.

**By 2030, Saudi Arabia would be producing 60% of its electricity by using natural gas**

Exhibit 18: Input mix for electricity generation in Saudi Arabia



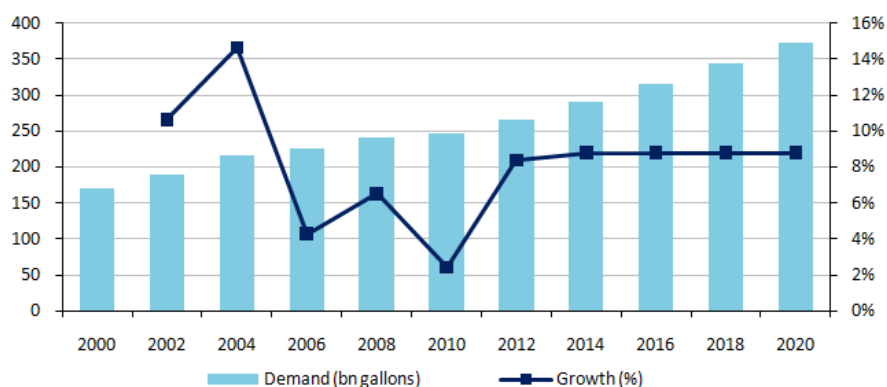
Source: IEA

**Saudi Arabia is the largest user of desalinated water in the world**

## Usage of Gas for Water Desalination is also Accelerating

Apart from usage in power production, natural gas has also been used for water desalination in the Kingdom. As the region lacks natural water resource, sea-water is desalinated. Demand for water increased at a CAGR of 4.4% during 2000–08 and reached 240.1 billion gallons. EIU expects demand for water to reach 373.4 billion gallons by 2020. BMI states that Saudi Arabia is the third-largest consumer of water per capita in the world, but has limited groundwater to tap. Also, the Kingdom is the largest user of desalinated water across the globe (approximately 36% of the world's total) and demand is growing around 3.4% every year. Around 30 desalination plants have been built in Saudi Arabia, until now. With a rising population base, demand for potable water is expected to increase, thereby exerting pressure on the natural gas usage. Although, there have been talks for use of nuclear energy for desalination of water, there is still a long way for executing its commercial production. Therefore, capacity additions for natural gas have increased to support demand from other sectors. Under the 2010 budget, the Saudi government has earmarked SAR140 billion for the power and water sectors. Therefore, the government would utilize a portion of the increased natural gas production for power and water sectors.

Exhibit 19: Projected water demand in Saudi Arabia



Source: Saline Water Conversion Corp (Saudi Arabia), EIU estimates & forecasts

## Subsidized Ethane Cost to Increase

According to an article published in Chemical Week (a chemical industry news website) and a KPMG report, government supported oil producers in Saudi Arabia have announced plans to raise the cost of gas for petrochemical producers from 2012. The initial estimate suggests that the cost would be increased to US\$1.25/mmbtu. Hence, the current feedstock advantage for Saudi Arabia is likely to diminish going forward. Saudi Arabia has not granted any new allocation of ethane to petrochemical producers since 2006. Thus, any possible increase in the cost of subsidized ethane appears more likely in the medium term.

The rising usage of gas for electricity generation and for water desalination, and the likelihood of increase in the subsidized cost of gas being supplied to petrochemical companies would lower the feedstock advantage currently being enjoyed by the region's petrochemical companies, in our view.

**MENA petrochemical sector broadly consists of 21 companies—14 from Saudi Arabia**

## Structure of the MENA Petrochemical Sector

MENA petrochemical sector has 21 listed companies—14 in Saudi Arabia. In terms of market share (based on total revenues for 2009), SABIC leads the MENA petrochemical sector with 61.95% share, followed by Rabigh Refining & Petrochemical Co. (17.69%), Industries Qatar (5.98%) and Saudi Industrial Investment Group (2.26%). The remaining companies have smaller market shares. Besides the 21 listed entities, several small and medium-size private petrochemical companies operate in the region. Saudi Arabia's huge petroleum reserves and relatively better infrastructure facilities compared to its peers in the region support the growth of its petrochemical sector.

**Exhibit 20: Market share of MENA Petrochemical companies**

Company	Country	Revenue - Latest FY (US\$ mn)	Market Share (%)
Saudi Basic Industries Corporation	Saudi Arabia	27,477.65	61.95%
Rabigh Refining & Petrochemical Co.	Saudi Arabia	7,844.49	17.69%
National Industrialization Company	Saudi Arabia	2,896.21	6.53%
Industries Qatar Q.S.C.	Qatar	2,651.84	5.98%
Saudi Industrial Investment Group	Saudi Arabia	1,002.58	2.26%
Saudi Arabia Fertilizers Co.	Saudi Arabia	730.71	1.65%
Abu Qir Fertilizers and Chemical Industries	Egypt	440.76	0.99%
Advanced Petrochemical Co Ltd	Saudi Arabia	391.08	0.88%
Sidi Kerir Petrochemicals	Egypt	306.83	0.69%
Saudi International Petrochemical Co.	Saudi Arabia	221.40	0.50%
Methanol Chemicals Company (Chemanol)	Saudi Arabia	107.26	0.24%
Nama Chemicals Co.	Saudi Arabia	106.02	0.24%
Boubyan Petrochemical Company KSC	Kuwait	86.56	0.20%
Qurain Petrochemical Industries Company	Kuwait	49.22	0.11%
Egyptian Chemical Industries (Kima)	Egypt	37.74	0.09%
Alujain Corporation	Saudi Arabia	3.59	0.01%
Sahara Petrochemicals Company	Saudi Arabia	0.34	0.00%
National Petrochemical Co (Petrochem)	Saudi Arabia	NA	-
Saudi Kayan Petrochemical Company	Saudi Arabia	NA	-
Yanbu National Petrochemicals Company	Saudi Arabia	NA	-
Ikarus Petroleum Industries K.S.C.C.	Kuwait	NA	-

Source: Reuters Knowledge, Company Reports

## Competitive Landscape – Influx of Foreign Firms

**Foreign players are entering into MENA petrochemical sector to take advantage of the low cost feedstock**

The petrochemical sector in the MENA region is increasingly attracting foreign players due to inherent supply side advantages of the region. Saudi Arabia is one of the preferred destinations due to its significant petroleum reserves. Though the Saudi government continues to dominate the petrochemical sector through SABIC, it is now allowing larger private participation. This move would also enhance the government's objective to encourage additional investments in the sector as well as speed-up growth in the downstream petrochemical sector. Major private players developing large-scale petrochemical projects in Saudi Arabia include Tasnee, Saudi Chevron, Kayan Petrochemical and Sahara Petrochemical Company.



# MENA Petrochemicals: A Global Advantage...

## Which companies do you buy?

### Overview of Listed MENA Petrochemicals

#### Saudi Arabia

***Saudi Arabia's SABIC is the leader in the MENA petrochemical sector with 61.9% market share***

SABIC is the largest petrochemical company in the region. The company ranks among the top six global producers. The company's petrochemical output doubled over the past three years, and now accounts for 8% of total sales of the world's top ten petrochemical companies. SABIC is also a partner in three regional ventures in Bahrain. Almost two-third of the company's production is exported, with approximately 50% going to Asia. One of SABIC's most important petrochemical project is its US\$8-10 billion joint venture with Saudi Kayan, another petrochemical major in Saudi Arabia. The JV includes ethylene cracker and units producing ethylene glycol, high-density polyethylene (HDPE), polypropylene and low-density polyethylene (LDPE). SABIC is also planning to produce a range of specialty chemicals for the domestic market in a bid to support the government's diversification plans.

Saudi Aramco, the state-owned oil producer and major feedstock supplier to petrochemical companies, is venturing into the petrochemical sector with a US\$20-billion joint venture project with Dow Chemicals. The project is expected to be complete by 2015. Saudi Aramco's Yanbu Petrochemical Complex, which entails the development of an ethylene steam cracker and an aromatics complex, is also in the development stage. This project is expected to be completed by 2011.

***Sipchem signed various agreements with French company, Rhodia, to expand its petrochemical capacity***

Saudi International Petrochemical Company (Sipchem), another petrochemical giant recently signed various agreements (Technology License Agreement, Marketing Agreement and a Term Sheet Agreement for Ethanol Procurement) with French chemicals company Rhodia to build a new ethyl acetate plant worth US\$106 million in Saudi Arabia. The company would construct and operate the 100,000 metric ton per annum ethyl acetate plant in Jubail Industrial City as part of its Phase-III expansion program.

Saudi-based, National Industrialization Company (Tasnee) is setting up a plant, which will have a capacity to produce 1.8 mtpa of methanol, 500,000 tpa of acetic acid and 275,000 tpa of vinyl acetate monomer, at an estimated cost of US\$1.5 billion.

#### Qatar

Industries Qatar is the largest petrochemical company in Qatar which operates through its subsidiary – QAPCO. QAPCO is located in the Mesaieed Industrial City and produces fertilizers, steel, refined petroleum products and natural gas liquids. QAPCO commenced commercial production in 1981 and expanded to reach 525,000 tpa of ethylene and 410,000 tpa of LDPE production capacity by 2007. Currently, QAPCO's manufacturing facilities include an ethylene plant, two LDPE plants, and a sulfur plant with capacities of 720,000 tpa, 360,000 tpa and 70,000 tpa, respectively. QAPCO is further expanding its petrochemical capacity and expects to produce 660,000 tpa of ethylene and an additional 250,000 tpa of LDPE by the end of 2010.

#### Kuwait

There are three main petrochemical companies in Kuwait - Boubyan Petrochemical Company (Boubyan), Qurain Petrochemical Industries Company (Qurain) and Ikarus Petroleum Industries (Ikarus). Established in 1995, Boubyan is a holding company with investments in petrochemical and chemical industries in Kuwait. Qurain also invests in companies that are producing, trading and storing petrochemical products and its by-products. Owned petrochemical capacity of Qurain stood 696,000 tpa in 2009, increasing 19.8% YoY. Ikarus also develops and invests in petrochemical ventures in Kuwait.

### Egypt

Egypt has three major petrochemical companies – Sidi Kerir Petrochemicals (Sidpec), Abu Qir Fertilizers and Chemical Industries (AFC) and Egyptian Chemical Industries (Kima). Established in 1997, Sidpec is the only producer of ethylene and polyethylene in the Egypt. The Company manufactures polyethylene under two different grades: LDPE and HDPE. Sidpec's products are traded under the brand name of "Egyptene" Polymers. Another company, AFC got established in 1976 in Egypt. The Company is a producer, distributor and exporter of chemical fertilizers and related products. AFC is a partner in two new Egyptian fertilizer projects with a total investment of US\$62.5 million. One of those new projects include Alexandria Fertilizer Company's fertilizer project with a total capacity of 1,200 ton ammonia per day and 2,000 ton per day of granular area. Kima is involved in the production and distribution of ammonium nitrate, ferrosilicon, hydrochloric acid, nitrogen, oxygen, ammonia water, nitric acid and silica dust.

### Western Producers Attracted by Fundamentals

***Western petrochemical manufacturers entering the MENA region owing to the availability of cheap feedstock***

Rapid capacity expansion in the petrochemical sector in the MENA region is supported by the growing influx of several foreign players. Historically, the US and Western European countries were leaders in petrochemical production and accounted for a major portion of the global production. North America benefited the most, aided by the region's vast reserves of natural gas, which was much cheaper compared to crude oil. However, this advantage diminished in late 2000 when natural gas prices surged manifold. Consequently, western petrochemical producers that used ethane as their feedstock, started searching for low-cost destinations. The MENA region, which benefited from low-cost ethane feedstock, turned out to be the most appropriate destination for these petrochemical producers. As a result, large petrochemical producers closed their existing facilities.

***Dow Chemicals shut down its three refineries in US and has entered into a joint venture with Saudi Aramco for petrochemical expansion***

For instance, BASF shut its polystyrene plant in Ludwigshafen, Germany, in 2009. Dow Chemicals closed down its ethylene oxide and ethylene glycol plants in Wilton, UK, during the same period. Furthermore, Dow Chemicals closed down three Louisiana factories that produced ethylene and derivatives to meet cost-reduction targets following the acquisition of Rohm & Haas Co. At the same time, major players from the US and Europe are entering the Middle East region, especially Saudi Arabia, by way of joint venture agreements with local players. For example, Exxon Mobil, the leading oil company across the globe, entered into cooperation agreements with SABIC for the Al-Jubail Petrochemical Plant (Kemya) and Yanbu Petrochemical Complex (Yanpet). Another international oil company, Royal Dutch Shell, is operating a 50:50 joint venture with SABIC. Dow Chemicals and Saudi Aramco also entered into a joint venture to set up a 1.4/mmt ethane/naphtha cracker at the Ras Tanura petrochemical complex. In addition, Chevron Phillips and National Petrochemicals Co entered into a joint venture to construct 1.2/mmt ethylene cracker plant in Saudi Arabia. As a result, capacity expansion plans of petrochemical producers in the MENA region has increased.

## Comparison between MENA and Global Petrochemical Companies

In order to assess the attractiveness of petrochemical producers in the MENA region, we present their relative comparison with global peers based on key parameters such as costs, target markets and product portfolio.

### Feedstock Costs

***MENA petrochemical companies are expected to enjoy higher utilization rates relative to their global competitors***

As discussed earlier, petrochemical companies in the MENA region enjoy significant feedstock advantage over their counterparts in the US and Europe due to their access to cheap ethane and naphtha. Also, low feedstock cost for MENA petrochemical companies is reflected in high margins compared to their Western and Asian counterparts. Going forward, low feedstock cost enjoyed by MENA petrochemical companies could enable them to enjoy a higher utilization rate and efficiency relative to their global competitors.

### Product Portfolio

***MENA petrochemical companies are focusing on expanding the capacity of specialty chemicals***

Majority of the MENA petrochemical companies are primarily engaged in the production of basic chemicals such as ethylene and ethylene derivatives. This could be ascribed to the fact that these companies use ethane as a primary feedstock, which yields comparatively lower value-added products. Ethane produces only basic olefins such as ethylene and, as a result, the majority of the petrochemical producers in the MENA region primarily export basic chemical products to markets in India and China where they are further processed to be exported to the US and other markets worldwide. On the other hand, petrochemical producers in the US and Europe use naphtha as a primary feedstock which unlocks more sophisticated derivatives. Thus, they have a significant presence across the petrochemical value chain compared to MENA petrochemical companies. However, petrochemical companies in the MENA region are now increasingly focusing on moving higher in the petrochemical value chain by producing additional value-added products. For instance, SABIC's affiliates are increasingly investing in expanding the capacity of specialty chemicals. The company is also partnering with Mitsubishi Rayon of Japan to set up a US\$1 billion plant producing materials for cars and household appliances. Petrochemical producers in the MENA region can maximize profit by catering to the finished and semi-finished plastics markets instead of exporting the relatively-cheap raw material to manufacturers in China. Thus, producing higher value-added products would not only serve the objective of diversification, but also allow the government to generate more employment opportunities and ensure stability in the earnings of petrochemical companies based in MENA.

### Target Geographic Market

Major geographic markets for MENA petrochemical producers include emerging Asian countries such as India and China. Although, companies, such as SABIC, export to more than 40 countries, China and India continue to be the major target market for them. Though, petrochemical producers in the US and Europe export to emerging Asian markets, their product portfolio (in terms of geography) is fairly diversified compared to that of MENA petrochemical companies.

## Social Impact of Expansion in the MENA Petrochemical Sector

**Capacity expansion in the MENA petrochemical sector could create employment opportunities**

Expansion in the petrochemical sector is expected to have a positive impact on the society, primarily in terms of employment opportunities. Although the sector generates fewer job opportunities due to its capital-intensive nature as against refining and other downstream operations, various MENA governments' directive to employ more of the local workforce could have a significant societal impact. In Saudi Arabia, the government commenced the 'Saudization program', whereby private petrochemical companies have to employ a fixed percentage of Saudi nationals. SABIC, the sector's largest player offers employment to 33,000 people globally and the 'Saudization' rate at the company's manufacturing plants in the Kingdom stands at 90–95%. Similarly, expansion of the petrochemical sector in the MENA region will create more job opportunities in Qatar, the UAE, Kuwait and Egypt. Governments are also emphasizing on grooming the local talent pool by promoting education and other skill-development activities. In addition to the employment benefit, local people will gain technological expertise from their western counterparts that, in turn, could enhance their overall knowledge base.

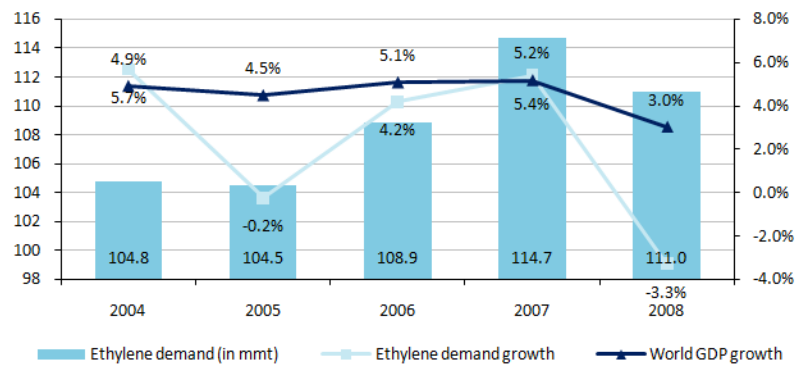
## Demand and Supply Analysis

### Demand for Petrochemicals Surged during 2000–07...

**Rising global economic activity led to the growth of the petrochemical sector during 2004-2007**

Demand for petrochemical products is mostly cyclical and is highly correlated to the overall GDP growth rate. Rising economic activity worldwide led to an increase in demand for petrochemical products during 2004–07. Demand for ethylene, a major petrochemical product, increased at a CAGR of 3.1% during 2004–07 and reached 114.7 mmt by the end of 2007.

Exhibit 21: Global ethylene demand (2004-2008)



Source: CMAI, IMF

### ...Economic Slowdown Led to a Downfall in 2008

**Global economic turmoil led to a slowdown in the petrochemical sector**

Demand for petrochemical products plunged in the second half of 2008 due to the global economic slowdown. This is clearly reflected in the 3.3% fall in demand for ethylene in 2008. A decline in demand for petrochemical products led to a rise in inventory levels for global petrochemical producers. This, in turn, resulted in a significant supply glut for major petrochemical producers worldwide. In order to avoid an inventory pile up, producers had to sell their products at cheap prices.

Lower pricing adversely impacted the margins of these producers; some even incurred significant losses. Producers in the Middle East were also negatively affected by the slowdown as they are heavily reliant on exports. Subdued demand led to a delay or cancellation of several petrochemical projects across the globe in 2009. According to the Zawya Project Monitor report, petrochemical projects worth US\$5.53 billion were cancelled, while those worth US\$4.7 billion and US\$20.7 billion were either delayed or put on hold, respectively, in the MENA region. Western regions, primarily North America and Europe, accounted for major project delays/cancellations as these economies were the worst affected by the recessionary headwinds. A slowdown in the Western world directly impacted the capacity addition plans of petrochemical producers in the MENA region as the former is a major consumer of petrochemical products.

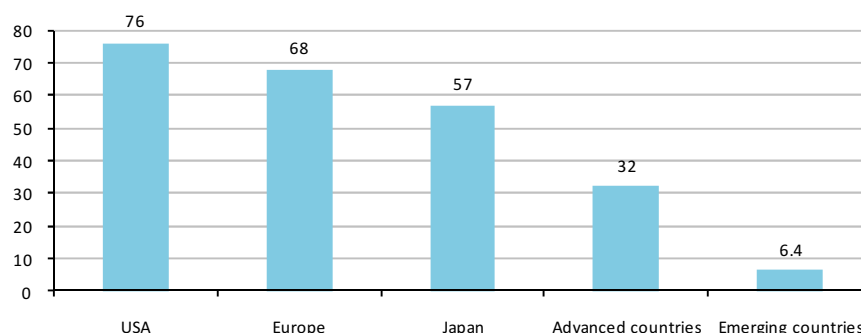
Nonetheless, the situation started improving at the end of 2009, as the global economy indicated some signs of recovery. As a result, demand for petrochemicals also gained momentum along with demand for crude oil.

### Oversupply Concerns Prevail; China to Support Demand in the Medium-term

**China to support over-supply problem in Saudi Arabia in the near term**

In the near-term, demand for petrochemicals is expected to be restricted as the recovery is not complete and it would take some more time for the global economy to be on track. However, the long-term demand outlook for petrochemical products seems to be encouraging, supported by rising consumption rates in emerging economies in Asia (primarily China and India). We believe once the global economy recovers from the economic recession, China and India are likely to be on the high-growth trajectory. According to IMF, China's GDP is expected to grow at an average rate of 9.8%, while that for India is estimated to be 8.2% during 2009–15. Consequently, in the medium-term, demand could continue to be supported by the healthy economic growth in these emerging countries. According to BMI, China would remain dependent on imports of polyethylene and polypropylene for the next five years, until it builds its own capacity and becomes self-sufficient. Considering the sheer size of the population in both India and China, petrochemical consumption in these countries is still low. For instance, polyethylene consumption in emerging countries, such as China, stands on an average at 6.4 per kg per person relative to 76 for the US, 68 for Europe and 57 for Japan. Given the favorable demographic profile in these countries, there is significant scope for growth in petrochemical consumption.

Exhibit 22: Per capita polyethylene consumption (kgs) across the globe



Source: Nova Chemicals presentation, November 16, 2009

***Huge investments in Asian infrastructure sector is expected to support the growth of MENA petrochemical industry***

Strong infrastructure investments and growth in the building materials & fixtures market in India and China could further fuel demand in these countries as they are key end-use markets for petrochemical products. The total capital investment in Chinese construction industry is expected to increase from an estimated US\$2,187.34 billion in 2009 to US\$3,361.83 billion in 2013. Besides local demand for petrochemical products from India and China, Middle Eastern petrochemical producers could also benefit from demand arising in developed markets. Currently, key Asian markets only import basic chemicals from Middle Eastern producers which are further processed domestically to be exported to the US and European countries. However, as Middle Eastern petrochemical producers move further in the value chain and produce more value-added products, there is significant opportunity to benefit from derived demand in developed markets.

Nonetheless, the petrochemical industry is exposed to the risk of oversupply in the short-term due to higher capacity additions planned over the next five years, especially in the Middle East and China. Though demand would be supported by strong growth in China and India in the long-term, it may not be sufficient to completely absorb the considerable amount of new supply as China is expected to add 8.3 million tons of capacity in the next five years. Consequently, utilization rates and prices would be strained. However, petrochemical producers in Saudi Arabia would continue to gain from relatively cheap feedstock.

### **Demand-Supply Trend in China**

***New capacity additions are expected to reduce the imports of petrochemical products in China***

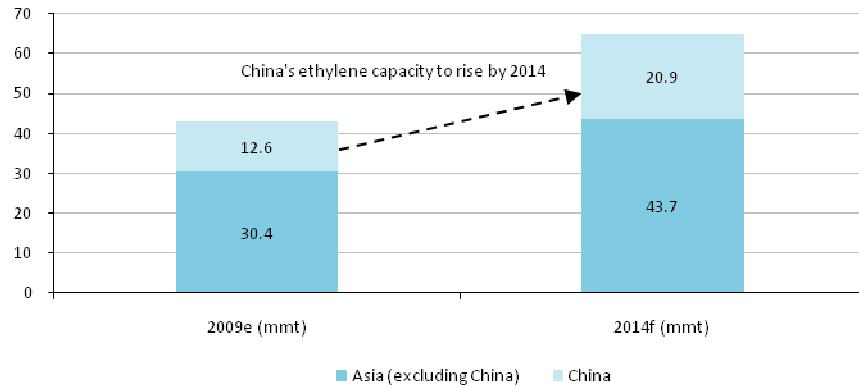
China is the fifth-largest producer of ethylene worldwide. Despite this, the historical demand for ethylene has surpassed supply. According to BMI, the country's ethylene production expanded at a CAGR of 14% during 2003–07 due to a rise in capacity. During the same period, demand for ethylene increased at a CAGR of 16%. Therefore, there exists a demand-supply gap in the petrochemical sector in China. Although the current deficit in demand is catered to by Saudi Arabia, China is rapidly building its own capacity; by 2014, ethylene capacity is expected to reach 20.91 mtpa owing to major planned investments. In China, major petrochemical projects are situated in south-eastern and eastern provinces of Guangdong, Fujian, Zhejiang and Jiangsu as well as in the Shanghai municipality. In addition, Xinjiang in the north-west is also a major petrochemical destination as it is situated close to the Central Asian oil and gas fields. BMI expects demand for polyethylene to grow 8–9% in China in 2010 and 2011. However, new capacity additions could reduce imports by up to 14% from the 7.4 mtpa imported in 2009. Transportation, automotive and construction sectors are expected to be the major drivers of future demand for petrochemicals in China. In addition, agricultural development is expected to increase revenues from chemical fertilizers, pesticide and plastic sheeting.

### **China Building its Own Capacity**

***China rapidly boosting petrochemical capacity to support local demand***

China is the largest consumer of petrochemical products from Saudi Arabia and is also the largest ethylene consumer in Asia. The country reports double-digit economic growth supported by heightened activities in the infrastructure and construction sectors. The growth in the construction sector has also led to the increased demand for petrochemical products. Although China is the major market to alleviate oversupply concerns of MENA petrochemical producers, the country is rapidly building its own capacity and has significant potential to raise its global market share. Currently, Asia (including China) is the largest contributor to the global ethylene capacity (33%) after countries in the NAFTA region. Ethylene capacity in China contributes around 29% to the total capacity of Asian countries. Going forward, the country is set to raise its ethylene capacity with 8.3 mmt of new ethylene capacity by 2014. Consequently, China's share in Asia's total ethylene capacity is projected to rise to 32% during the same period.

Exhibit 23: China's ethylene capacity growth



Source: BMI

China is still likely to remain a net ethylene importer over the next five years, despite additional new production capacity underway. However, BMI expects Chinese imports to decline from an estimated 13.49 mtpa in 2008 to 8.89 mtpa by 2013. Moreover, the country's cracker capacity is expected to reach 22.11 mtpa by 2013, making it self-reliant in the petrochemical sector. Going forward, China could pose a competitive challenge to Saudi Arabia's petrochemical producers.

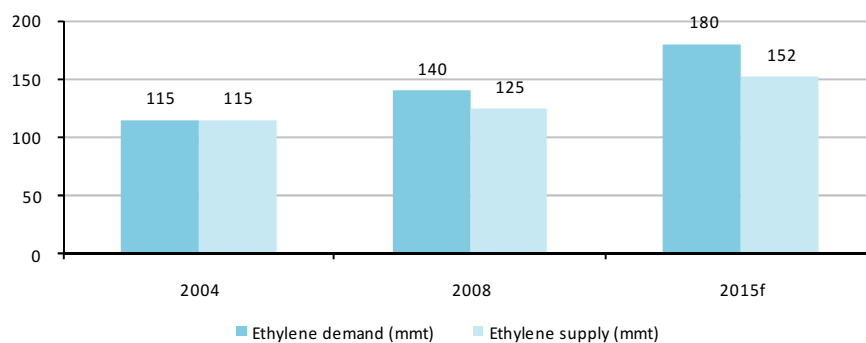
## Demand-Supply Pattern in India

In India, demand for ethylene increased at a CAGR of 5.0% to 140 mmt during 2004–08. However, supply expanded at a CAGR of 2.1% and reached 125 mmt during the same period. Demand for propylene also rose 4.5% to 74 mmt, relative to supply that increased 0.7% to 70 mmt during the same period. The Indian petrochemical sector is projected to witness strong growth in 2010 and thereafter led by strong demand in the domestic market fuelled by rising private consumption and fixed income levels; in addition, a recovery in the export markets could support growth in the sector. An improvement in the economy is also expected to revive stalled projects during the downturn phase. The Indian government has formulated policies to promote investment in the petrochemical sector; several key domestic companies have also unveiled ambitious expansion plans over the next few years. The government's initiatives include the decision to allow 100% foreign direct investment in projects in this sector, and establishment of a series of special economic zones (SEZs) and a number of petroleum, chemicals, and petrochemical investment regions (PCPIRs).

According to the Department of Chemicals & Petrochemicals (Government of India), demand for ethylene would expand at a CAGR of 3.7% during 2008–15 and reach 180 mmt. It also forecasted ethylene supply to increase at a CAGR of 2.8% to 152 mmt during the same period.

***During 2004-08, India's ethylene demand surpassed supply***

**Exhibit 24: India's demand-supply pattern of ethylene (mmt)**

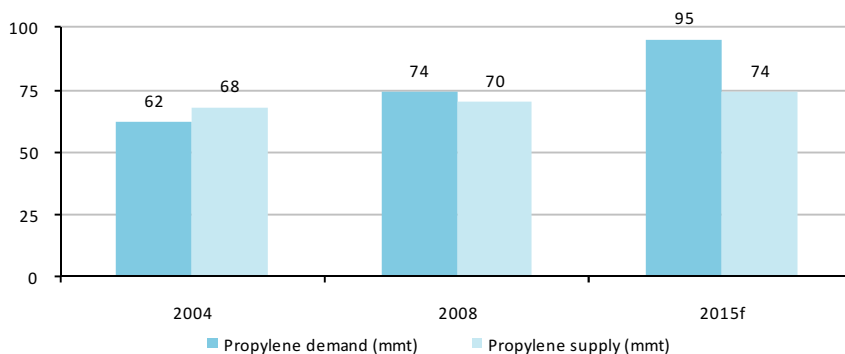


Source: Department of Chemicals & Petrochemicals presentation, Gol

**India's ethylene and propylene demand is expected to rise by 2015**

The department expects demand for propylene to increase at a CAGR of 3.6% during 2008–15 and reach 95 mmt. However, the demand-supply mismatch would still exist as supply is expected to grow at a meager 0.8% and reach 74 mmt during 2008–15. Therefore, there is an urgent need to cater to the rising demand for petrochemical products in India.

**Exhibit 25: India's demand-supply trend of propylene (mmt)**



Source: Department of Chemicals & Petrochemicals presentation, Gol

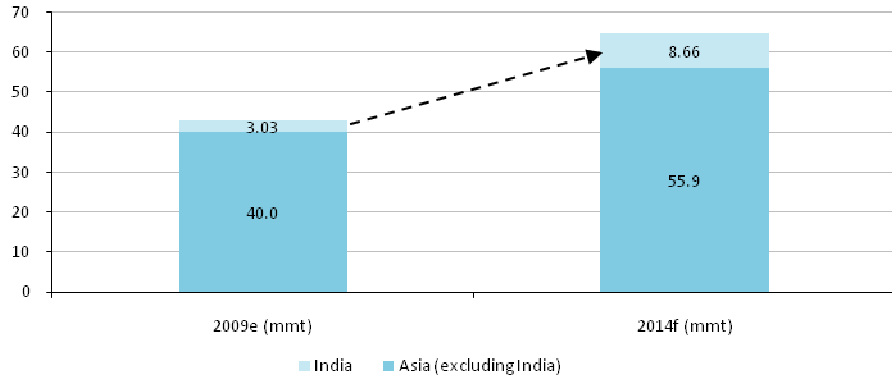
**According to BMI, India's ethylene capacity will increase from 3.03 mtpa in 2009 to 8.66 mtpa in 2014**

Considering the higher demand for petrochemical products, BMI expects India to increase its ethylene capacity from an estimated 3.03 mtpa in 2009 to 8.66 mtpa in 2014. The petrochemical industry in India is oligopolistic in nature with four major players dominating the market – Reliance Industries Ltd. (RIL), Indian Petrochemical Ltd. (IPCL), Gas Authority of India Ltd (GAIL) and Haldia Petrochemicals Ltd. (HPL). These companies are expected to enhance their capacity to fulfill the rising demand in this sector.

# MENA Petrochemicals: A Global Advantage...

## Which companies do you buy?

Exhibit 26: India's ethylene capacity growth (mmt)



Source: BMI

### Our Top Picks

We have utilized a proprietary ranking methodology to come up with the ranking for petrochemical companies in the MENA region. Based on this methodology, we have ranked the top ten companies in the MENA petrochemical sector as follows:

1. Sidi Kerir Petrochemicals (Sidi Kerir)
2. Industries Qatar (IQ)
3. Saudi Basic Industries Corp (SABIC)
4. Saudi Arabian Fertilizer Company (SAFCO)
5. Advanced Petrochemicals (APC)
6. Saudi International Petrochemical (Sipchem)
7. Sahara Petrochemical (Sahara)
8. Yanbu National Petrochemicals (Yansab)
9. Saudi Kayan Petrochemical (Kayan)
10. Rabigh Refining & Petrochemicals (Petro Rabigh)

In addition to profiling each of our top picks in the following pages, we have also performed a comparison between these regional petrochemicals and their western counterparts as detailed below.

#	Country	Company Name	P/E			P/B			P/S			EV/EBITDA			EV/Sales		
			09A	10E	11E	09A	10E	11E	09A	10E	11E	09A	10E	11E	09A	10E	11E
1	Egypt	Sidi Kerir	7.1	7.4	7.8	2.3	3.0	2.7	3.2	3.3	3.1	4.8	5.7	5.2	2.6	2.9	2.7
2	Qatar	IQ	11.5	12.0	10.0	2.9	2.7	2.4	5.8	5.1	4.2	15.4	12.2	9.7	6.1	5.3	4.5
3	KSA	SABIC	25.3	12.8	10.4	2.4	2.2	1.9	2.5	1.8	1.6	12.1	7.7	6.7	3.5	2.5	2.2
4	KSA	SAFCO	20.2	13.1	13.3	5.0	4.8	4.7	12.8	10.8	9.7	17.3	13.7	12.0	11.9	10.1	9.1
5	KSA	APC	20.6	11.0	9.8	1.6	1.5	1.4	1.8	1.3	1.3	9.1	7.4	7.5	2.4	1.8	1.7
6	KSA	Sipchem	55.2	17.6	10.8	-	1.5	1.3	9.3	3.7	2.8	37.0	10.4	8.1	15.1	6.0	4.5
7	KSA	Sahara	53.6	11.8	8.8	1.7	1.7	1.6	-	3.4	2.4	97.5	20.1	10.9	-	4.9	3.4
8	KSA	Yansab	-	12.3	8.6	-	2.7	2.3	-	3.2	2.5	-	12.3	9.3	-	5.5	4.3
9	KSA	Kayan	-	-	-	1.6	1.6	1.5	-	26.5	3.3	-	-	10.6	-	-	6.1
10	KSA	Petro Rabigh	-	26.2	13.3	2.6	2.4	2.1	0.7	0.5	0.4	-	16.2	13.2	1.6	1.0	0.9
MENA Average			<b>27.6</b>	<b>13.8</b>	<b>10.3</b>	<b>2.5</b>	<b>2.4</b>	<b>2.2</b>	<b>5.2</b>	<b>5.9</b>	<b>3.1</b>	<b>27.6</b>	<b>11.7</b>	<b>9.3</b>	<b>6.2</b>	<b>4.4</b>	<b>3.9</b>
11	USA	Exxon Mobil	15.2	10.5	9.3	2.6	2.3	2.1	1.0	0.8	0.7	6.8	4.9	4.2	1.0	0.8	0.7
12	USA	Du Pont	20.7	14.0	13.0	5.4	4.4	3.7	1.5	1.2	1.2	10.6	8.0	7.8	1.7	1.5	1.4
13	Germany	BASF	18.9	10.0	9.3	2.3	2.0	1.8	0.8	0.7	0.6	7.3	5.3	5.0	1.1	0.9	0.8
14	Taiwan	Formosa	16.2	18.7	17.9	3.0	3.0	2.9	1.1	1.0	0.9	10.3	11.5	10.9	1.3	1.2	1.1
15	USA	Dow Chemical	40.6	15.3	10.4	1.8	1.4	1.3	0.7	0.6	0.5	9.6	7.5	6.5	1.2	1.0	1.0
International Average			<b>27.5</b>	<b>14.7</b>	<b>11.2</b>	<b>2.6</b>	<b>2.4</b>	<b>2.1</b>	<b>1.6</b>	<b>4.4</b>	<b>1.6</b>	<b>24.2</b>	<b>10.8</b>	<b>8.8</b>	<b>2.0</b>	<b>2.4</b>	<b>2.4</b>

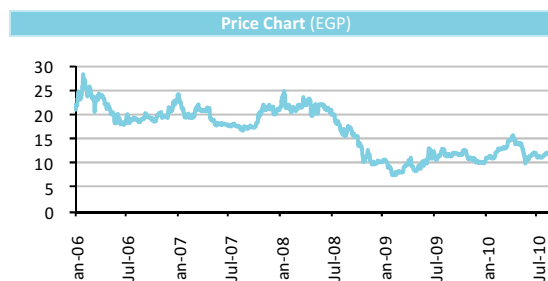
Source: Reuters Knowledge

## #1: Sidi Kerir Petrochemicals (Egypt)

Key Statistics (EGP)	
Price (1-Sep-10)	12.1
Market Capitalization	6.4 bln
Shares Outstanding	525.0 mln
Price 52 week High/Low	15.8/9.6
Bloomberg/Reuters Tickers	SKPC EY/SKPC.CA

Major Shareholders	
Corporate	38%
Government of Egypt	39%
Public	23%

Source: Reuters Knowledge



Sidi Kerir Petrochemical Company (Sidpec) is an Egyptian Joint Stock Company established in 1997. It operates in the petrochemical sector of Egypt, and is the sole producer of ethylene and polyethylene in the country. Sidpec was formed as part of Egyptian government's efforts to expand the downstream oil and gas industries so that the rising demand of petrochemical products can be fulfilled. Hence, formation of Sidpec is regarded as a major development in the Egyptian petrochemical sector.

### Business Description

Sidpec primarily manufactures ethylene and polyethylene. The Company manufactures polyethylene under two different grades: linear low density polyethylene (LDPE) and high density polyethylene (HDPE). Sidpec's products are traded under the brand name of "Egyptene" Polymers. The Company also produces secondary products which are extracted as co-products in the production of ethylene. These include butene-1, butagas and liquefied petroleum gas (LPG). Sidpec has been diversifying its products; it has currently undertaken projects to manufacture polyethylene pipes for high-pressure transmission of water and natural gas as well as butadiene, a key component for making synthetic rubber.

### Financial Performance

Sidpec's revenue fell 20.6% to EGP 1,682.9 million in 2009, primarily due to the decline in the prices of ethylene and polyethylene. Consequently, Sidpec registered a 24.3% drop in its net profit (EGP759.8 million) for 2009. However, during Q2 2010, the Company posted a net profit of EGP207.2 million, an increase of 21.6% compared to same period last year. The rise in net profit can be ascribed to the rebound in ethylene and propylene prices during the first half of 2010.

### Capacity & Expansion Plans

Currently, Sidpec's production capacity stands at 300,000 tpa of ethylene, 225,000 tpa of polyethylene, 50,000 tpa of butagas and 10,000 tpa of butene-1. Sidpec is not undergoing any capacity expansion till date.

### Sidi Kerir Petrochemicals — Data & Financials

Income Statement (EGP mln)	2005	2006	2007	2008	2009
<b>Revenues</b>	<b>1,702.2</b>	<b>1,969.4</b>	<b>2,084.0</b>	<b>2,119.3</b>	<b>1,682.9</b>
% change		15.7%	5.8%	1.7%	-20.6%
Cost of Revenue	827.5	910.0	886.6	1,105.6	983.1
<b>Gross Profit</b>	<b>874.7</b>	<b>1,059.4</b>	<b>1,197.4</b>	<b>1,013.7</b>	<b>699.8</b>
Margin (%)	51.4%	53.8%	57.5%	47.8%	41.6%
Selling/General/Admin. Expenses, Total	(28.0)	(29.8)	(33.1)	(37.7)	(38.6)
Other Operating Expenses, Total	(26.5)	(11.5)	(8.3)	(15.0)	91.8
Operating Income	820.3	1,018.2	1,156.1	961.0	753.1
Margin (%)	48.2%	51.7%	55.5%	45.3%	44.7%
Interest Inc.(Exp.),Net-Non-Op., Total	(25.8)	2.7	29.7	42.7	(0.7)
Gain (Loss) on Sale of Assets	0.2	0.1	0.4	-	0.1
<b>Net income before taxes</b>	<b>794.7</b>	<b>1,020.9</b>	<b>1,186.1</b>	<b>1,003.7</b>	<b>752.5</b>
Provision for income taxes	-	20.0	19.0	0.3	(7.3)
Minority Interest	-	-	-	-	-
<b>Net Income</b>	<b>794.7</b>	<b>1,000.9</b>	<b>1,167.1</b>	<b>1,003.5</b>	<b>759.8</b>
Net margin (%)	46.7%	50.8%	56.0%	47.3%	45.1%
EPS	1.51	1.91	2.22	1.91	1.45

Balance Sheet (EGP mln)	2005	2006	2007	2008	2009
Cash and Short Term Investments	842.3	1,392.8	1,427.2	1,166.2	985.3
Accounts Receivable - Trade, Net	126.9	136.4	141.7	107.0	219.4
Notes Receivable - Short Term	22.0	25.6	38.0	9.9	-
Inventories - Other	123.7	125.2	-	-	151.3
Total Inventory	193.0	179.6	181.5	241.5	222.1
Total Current Assets	1,377.8	1,923.4	2,056.3	2,175.1	1,572.0
Property/Plant/Equipment, Total - Gross	-	2,346.8	-	2,357.7	2,370.9
Accumulated Depreciation, Total	-	(879.0)	-	(1,212.8)	(1,376.6)
Property/Plant/Equipment, Total - Net	1,610.9	1,467.8	1,305.4	1,144.9	994.4
<b>Total Assets</b>	<b>3,018.8</b>	<b>3,421.8</b>	<b>3,424.0</b>	<b>3,384.7</b>	<b>2,632.9</b>
Accounts Payable	220.8	421.6	353.0	598.7	91.5
Current Port. of LT Debt/Capital Leases	170.7	173.1	166.1	4.7	4.7
Other Current liabilities, Total	180.8	231.1	217.5	198.6	162.8
Total Long Term Debt	349.6	178.6	11.7	7.0	4.3
Deferred Income Tax	-	-	39.0	39.3	32.0
Other Liabilities, Total	20.0	10.1	2.2	2.1	-
<b>Total Liabilities</b>	<b>941.9</b>	<b>1,014.5</b>	<b>789.6</b>	<b>850.4</b>	<b>295.2</b>
Common Stock, Total	1,050.0	1,050.0	1,050.0	1,050.0	1,050.0
Retained Earnings (Accumulated Deficit)	1,026.9	1,357.3	1,584.4	1,484.3	1,287.6
<b>Total Equity</b>	<b>2,076.9</b>	<b>2,407.3</b>	<b>2,634.4</b>	<b>2,534.3</b>	<b>2,337.6</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>3,018.8</b>	<b>3,421.8</b>	<b>3,424.0</b>	<b>3,384.7</b>	<b>2,632.9</b>

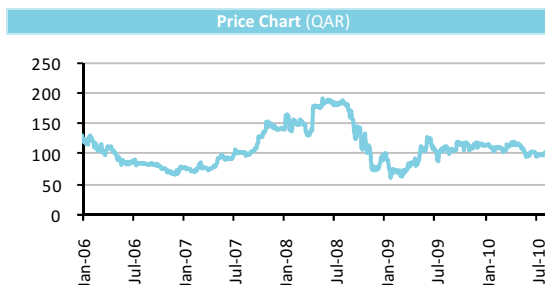
Cash Flow Statement (EGP mln)	2005	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>922.4</b>	<b>921.5</b>	<b>1,309.7</b>	<b>1,036.9</b>	<b>798.7</b>
<b>Cash flow from inv. (b)</b>	<b>(47.7)</b>	<b>(47.7)</b>	<b>(31.7)</b>	<b>(6.6)</b>	<b>(17.6)</b>
<b>Cash flow from fin. (c)</b>	<b>(586.5)</b>	<b>(585.6)</b>	<b>(1,124.3)</b>	<b>(1,277.5)</b>	<b>(961.4)</b>
Foreign Exchange Effects	-	-	15.0	13.8	0.6
Net chg. in cash (a+b+c)	288.2	288.2	168.7	(233.4)	(179.8)
Cash at start of the year	554.1	554.1	1,288.5	1,427.2	1,166.2
Cash at end of the year	842.3	842.3	1,457.1	1,193.8	986.4

## #2: Industries Qatar (Qatar)

Key Statistics (QAR)	
Price (1-Sep-10)	101.9
Market Capitalization	56.0 bln
Shares Outstanding	550.0 mln
Price 52 week High/Low	124.8/94.0
Bloomberg/Reuters Tickers	IQCD QD/ IQCD.QA

Major Shareholders	
Government of Qatar	70.1%
Corporate	4.2%
Public	25.7%

Source: Reuters Knowledge



Industries Qatar (IQ) is a subsidiary of state-owned Qatar Petroleum which owns a 70.0% stake in it. IQ was privatized in 2003 as a holding company in Qatar with interests in petrochemicals, basic materials, fertilizers, steel and fuel additive industries. The Company is a leader in the petrochemical sector of Qatar. IQ operates through its four subsidiaries namely – Qatar Petrochemical Company (QAPCO), Qatar Fertilizer Company (QAFCO), Qatar Steel Company (QASCO) and Qatar Steel Additives Company (QAFAC). QAPCO, the petrochemical subsidiary of IQ was established in 1974. QAPCO is 80% owned by IQ and 20% by Total Petrochemicals of France.

### Business Description

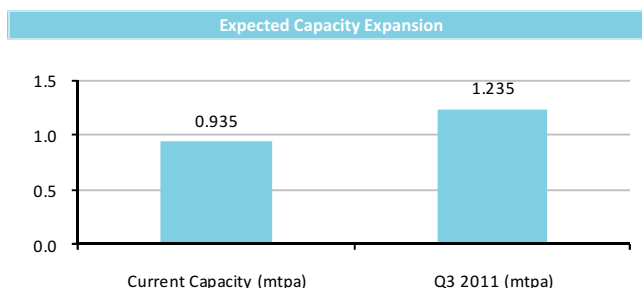
QAPCO, located in the Mesaieed Industrial City (MIC) in Qatar, produces fertilizers, steel, refined petroleum products and natural gas liquids. The QAPCO plant is situated on the seacoast with jetty facilities and exports its entire range of products worldwide.

### Financial Performance

IQ's revenues declined 34.5% YoY to QAR9,656.7 million in 2009 due to the global economic slow-down. Net profit also fell 33.0% to 4,875.7 million during the same period. Nevertheless, the company turned profitable in Q2 2010 by posting a 16.7% rise in net profit to QAR1,416.7 million compared to the same quarter of the previous year. The increase in profit was mainly ascribed to the improvement in average prices of products and the global rise in demand for petrochem products.

### Capacity & Expansion Plans

QAPCO commenced commercial production in 1981; it eventually expanded to record production capacities of 525,000 tpa of ethylene and 410,000 tpa of LDPE by 2007. Currently, QAPCO's manufacturing facilities include an ethylene plant, two LDPE plants, and a sulfur plant with capacities of 720,000 tpa, 360,000 tpa and 70,000 tpa, respectively. QAPCO is further expanding its petrochemical capacity and expects to produce 660,000 tpa of ethylene and an additional 250,000 tpa of LDPE by the end of 2010. It is also building a low density polyethylene plant (LDPE-3) worth US\$410 million with a capacity of 300,000 tpa. The work of building this plant is expected to be completed by Q3 2011. In addition, IQ's fertilizer subsidiary QAFCO is increasing capacity by setting up a new plant QAFCO V, at a cost of US\$3.2 billion, in Mesaieed Industrial City and an ammonia and urea complex QAFCO VI worth US\$610 million.



Source: Zawya, Zawya Project Monitor, Company Reports, News Articles

# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

## Industries Qatar — Data & Financials

Capacity Expansion						
Company	Project Name	Product	Capacity	Start Date	Expected Completion	Est. Cost (US\$ mn)
QAFCO	Qafco V	Ammonia	4,600 t/d	30-Jan-07	Q1 2011	3,200
		Urea	3,850 t/d			
QAFCO	Qafco VI: Ammonia and Urea Complex Expansion	Urea	3,100,000 t/y	11-Oct-09	Q3 2012	610
QAPCO	Qapco: Low Density Polyethylene Plant (LDPE 3)	LDPE	300,000 t/y	17-Apr-07	Q3 2011	410

Source: Zawya Project Monitor

Income Statement (QAR mln)	2005	2006	2007	2008	2009
<b>Revenues</b>	<b>6,578.0</b>	<b>7,778.1</b>	<b>9,325.9</b>	<b>14,743.1</b>	<b>9,656.7</b>
% change		18.2%	19.9%	58.1%	-34.5%
Cost of Revenue	3,097.8	4,091.9	4,394.6	7,412.6	5,757.0
<b>Gross Profit</b>	<b>3,480.3</b>	<b>3,686.1</b>	<b>4,931.3</b>	<b>7,330.5</b>	<b>3,899.7</b>
Margin (%)	52.9%	47.4%	52.9%	49.7%	40.4%
Selling/General/Admin. Expenses, Total	(375.0)	(414.0)	(455.9)	(554.0)	(534.5)
Depreciation/Amortization	-	-	-	(38.8)	(42.5)
Operating Income	3,105.3	3,272.2	4,475.4	6,737.7	3,322.7
Margin (%)	47.2%	42.1%	48.0%	45.7%	34.4%
Interest Expense, Net Non-Operating	(55.5)	(44.2)	(79.9)	(143.7)	(99.8)
Interest/Invest Income - Non-Operating	61.9	194.1	297.0	588.9	411.0
<b>Net income before taxes</b>	<b>3,215.8</b>	<b>3,621.7</b>	<b>4,984.6</b>	<b>7,277.1</b>	<b>5,003.3</b>
Provision for income taxes	-	-	-	-	125.1
Net income after taxes	3,215.8	3,621.7	4,984.6	7,277.1	4,878.2
Minority Interest	(2.3)	(2.5)	(1.3)	(1.6)	(2.5)
<b>Net Income</b>	<b>3,213.6</b>	<b>3,619.2</b>	<b>4,983.3</b>	<b>7,275.6</b>	<b>4,875.7</b>
Net margin (%)	48.9%	46.5%	53.4%	49.3%	50.5%
EPS	5.84	6.58	9.06	13.23	8.86

Balance Sheet (QAR mln)	2005	2006	2007	2008	2009
Cash and Short Term Investments	4,653.5	6,274.3	6,274.3	9,691.0	5,964.6
Inventories - Raw Materials	775.1	966.3	966.3	1,403.6	898.2
Inventories - Other	(73.1)	(88.5)	(88.5)	(96.4)	(100.4)
Total Inventory	1,141.8	1,373.2	1,373.2	2,520.9	1,377.0
Other Property/Plant/Equipment - Gross	-	-	-	-	1,095.3
Property/Plant/Equipment, Total - Gross	14,187.7	16,684.6	14,554.6	14,767.7	17,191.2
Accumulated Depreciation, Total	(7,802.0)	(8,190.3)	(8,190.6)	(8,630.1)	(9,076.4)
Other Long Term Assets, Total	163.2	250.3	104.5	119.0	134.8
<b>Total Assets</b>	<b>14,880.5</b>	<b>20,142.1</b>	<b>20,141.8</b>	<b>27,449.7</b>	<b>27,121.3</b>
Accounts Payable	591.6	1,392.3	2,019.1	1,367.3	1,116.8
Other Current liabilities, Total	898.1	1,372.8	745.7	1,024.0	506.5
Total Current Liabilities	1,695.2	3,848.9	3,848.6	5,059.4	1,930.0
Total Long Term Debt	1,961.6	2,358.0	2,358.0	3,369.0	5,691.7
Other Liabilities, Total	159.3	257.2	257.2	766.8	439.5
<b>Total Liabilities</b>	<b>3,828.0</b>	<b>6,475.1</b>	<b>6,474.7</b>	<b>9,206.7</b>	<b>8,074.0</b>
Common Stock, Total	5,000.0	5,000.0	5,000.0	5,500.0	5,500.0
Retained Earnings (Accumulated Deficit)	6,052.4	8,667.0	8,667.0	12,743.0	13,547.3
<b>Total Equity</b>	<b>11,052.4</b>	<b>13,667.0</b>	<b>13,667.0</b>	<b>18,243.0</b>	<b>19,047.3</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>14,880.5</b>	<b>20,142.1</b>	<b>20,141.8</b>	<b>27,449.7</b>	<b>27,121.3</b>

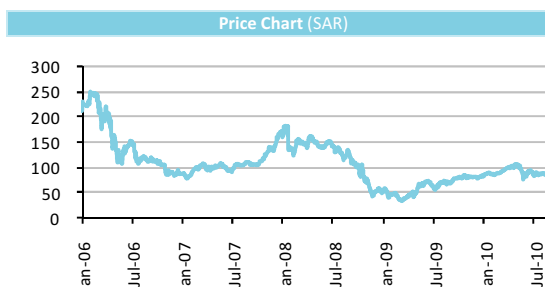
Cash Flow Statement (QAR mln)	2005	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>4,101.0</b>	<b>6,074.5</b>	<b>5,919.4</b>	<b>5,613.8</b>	<b>4,216.1</b>
<b>Cash flow from inv. (b)</b>	<b>(2,410.9)</b>	<b>(4,309.7)</b>	<b>(4,241.5)</b>	<b>(3,935.9)</b>	<b>(2,038.1)</b>
<b>Cash flow from fin. (c)</b>	<b>(1,242.7)</b>	<b>(1,227.6)</b>	<b>594.2</b>	<b>594.2</b>	<b>(3,274.1)</b>
Net chg. in cash (a+b+c)	447.3	537.3	2,272.1	2,272.1	(1,096.0)
Cash at start of the year	2,679.5	3,126.8	3,664.1	3,664.1	5,936.2
Cash at end of the year	3,126.8	3,664.1	5,936.2	5,936.2	4,840.2

Source: Reuters Knowledge

## #3: Saudi Basic Industries Corporation (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	86.0
Market Capitalization	258.0 bln
Shares Outstanding	3,000.0 mln
Price 52 week High/Low	108.3/66.8
Bloomberg/Reuters Tickers	SABIC AB/2010.SE

Major Shareholders	
Government of Saudi Arabia	70%
Private	30%



Source: Reuters Knowledge

SABIC, established in 1976, is the world's sixth largest petrochemical company and the largest in the MENA region. SABIC was established by the Government of Saudi Arabia, which owns 70% of its shares. The company is primarily engaged in the production of basic, intermediate and industrial chemicals and plastics. SABIC also produces fertilizers and metals through wholly-owned subsidiaries – SAFCO, Ibn Al-Baytar, and Al-Bayroni produce fertilizers, while Hadeed, ALBA, and GARMCO manufacture metals.

### Business Description

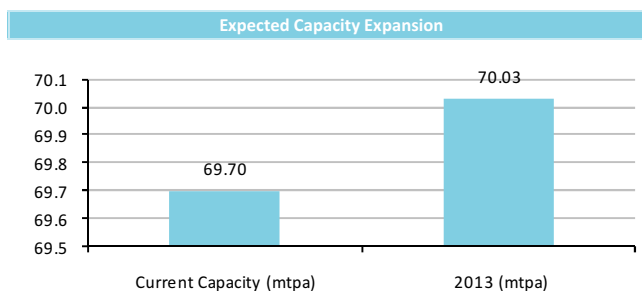
SABIC operates through six business units – Chemicals, Polymers, Performance Chemicals, Fertilizers, Metals and Innovative Plastics. The company has wide geographic presence through various subsidiaries and associates. Besides domestic locations of the industrial cities of Al-Jubail and Dammam on the Arabian Gulf and Yanbu on the Red Sea, the company's global markets include the Middle East, Africa, Asia, the Americas and Europe. SABIC's manufacturing and compounding complexes are spread across the world – 24 in the Middle East, 11 in Asia, 12 in Europe and 17 in the Americas.

### Financial Performance

SABIC's financial performance in 2009 was severely hurt by the global economic slowdown and the resultant decline in prices of petrochemical products. On YoY basis, revenues and net income fell 31.7% and 58.8%, respectively, in 2009. However, the company has shown resilience so far in 2010 aided by the uptrend in petrochemical prices. Revenues grew 63.6% YoY in Q2 2010, while net income jumped 177.9% YoY during the same period.

### Capacity & Expansion Plans

The capacity additions in 2010 until date included the Yansab plant encompassing a production capacity of 4.0 mtpa of petrochemical products and the Sinopec-SABIC joint venture petrochemical complex at Tianjin (China) having a production capacity of 3.2 mtpa. The total capacity of SABIC for petrochemical and other chemical products currently stands at 69.7 mtpa. The capacity is expected to reach 70.03 mtpa by 2013 with the SABIC-Celanese and SABIC-MRC joint ventures commencing operations of their petrochemical plants. In fact, SABIC believes that the Company's aggressive expansion strategy would help increase its total production capacity to 130.0 mtpa by 2020.



Source: Zawya, Zawya Project Monitor, Company Reports, News Articles

### Saudi Basic Industries Corporation — Data & Financials

Capacity Expansion						
Company	Project Name	Product	Capacity	Start Date	Expected Completion	Est. Cost (US\$ mn)
SABIC and Celanese	SABIC/Celanese	Polyacetal	50,000 t/y	20-Apr-10	NA	400
SABIC and Mitsubishi Rayon Company (MRC)	SABIC/MRC	Acrylates - methyl methacrylate	250,000 t/y	19-Sep-09	2013	1,000
		Acrylates - polymethyl methacrylate	30,000 t/y			

Source: Zawya Project Monitor

Income Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Revenues</b>	<b>78,253.5</b>	<b>86,327.9</b>	<b>126,204.4</b>	<b>150,809.6</b>	<b>103,061.8</b>
% change		10.3%	46.2%	19.5%	-31.7%
Cost of Revenue	45,169.2	51,099.8	78,254.2	105,046.3	74,441.9
<b>Gross Profit</b>	<b>33,084.3</b>	<b>35,228.0</b>	<b>47,950.2</b>	<b>45,763.3</b>	<b>28,620.0</b>
Margin (%)	42.3%	40.8%	38.0%	30.3%	27.8%
Selling/General/Admin. Expenses, Total	(3,520.2)	(4,341.9)	(6,903.7)	(8,482.2)	(8,003.7)
Unusual Expense (Income)	-	-	-	-	(1,181.3)
Operating Income	29,170.0	30,886.1	41,046.5	36,591.3	18,804.5
Margin (%)	37.3%	35.8%	32.5%	24.3%	18.2%
Provision for income taxes	750.0	1,050.0	1,800.0	1,400.0	900.0
Net income after taxes	28,260.2	30,821.5	40,607.6	35,935.0	16,375.3
Minority Interest	(9,100.5)	(10,527.5)	(13,585.3)	(13,905.2)	(7,301.5)
<b>Net Income</b>	<b>19,159.7</b>	<b>20,293.9</b>	<b>27,022.3</b>	<b>22,029.8</b>	<b>9,073.7</b>
Net margin (%)	24.5%	23.5%	21.4%	14.6%	8.8%
EPS	6.39	6.76	9.01	7.34	3.02

Balance Sheet (SAR mln)	2005	2006	2007	2008	2009
Cash and Short Term Investments	39,556.8	45,876.8	51,027.6	51,027.6	56,377.4
Inventories - Finished Goods	8,216.6	12,193.5	12,671.0	12,671.0	10,626.1
Inventories - Work In Progress	131.5	924.9	1,486.5	1,486.5	2,331.8
Inventories - Raw Materials	2,124.4	6,171.1	6,438.8	6,438.8	5,797.7
Buildings - Gross	13,224.4	13,500.6	19,816.8	19,816.8	20,657.4
Machinery/Equipment - Gross	107,105.6	135,026.8	131,525.0	131,525.0	142,456.8
Construction in Progress - Gross	22,551.4	43,711.7	68,393.9	68,393.9	80,307.3
Goodwill - Gross	-	-	-	-	15,242.2
Accumulated Goodwill Amortization	-	-	-	-	(1,181.3)
Goodwill, Net	-	-	-	14,972.2	14,061.0
Intangibles, Net	5,094.0	22,964.0	22,979.1	8,006.9	7,840.4
Other Long Term Assets, Total	4,017.9	3,327.4	3,189.9	3,092.8	2,658.5
<b>Total Assets</b>	<b>166,588.8</b>	<b>253,731.1</b>	<b>271,760.0</b>	<b>271,760.0</b>	<b>296,861.3</b>
Accrued Expenses	7,747.7	12,279.0	11,864.4	11,864.4	12,268.4
Notes Payable/Short Term Debt	607.6	1,399.2	1,235.5	1,235.5	939.8
Current Port. of LT Debt/Capital Leases	5,521.2	3,272.0	3,053.3	3,053.3	5,537.2
Other Current liabilities, Total	-	1,767.0	2,165.6	2,165.6	1,721.0
Minority Interest	27,607.1	43,342.2	43,709.1	43,709.1	44,375.4
Other Liabilities, Total	7,545.1	10,114.6	10,170.9	10,170.9	9,844.6
<b>Total Liabilities</b>	<b>93,705.7</b>	<b>162,577.1</b>	<b>168,827.5</b>	<b>168,827.5</b>	<b>188,606.5</b>
Common Stock, Total	25,000.0	25,000.0	30,000.0	30,000.0	30,000.0
Retained Earnings (Accumulated Deficit)	47,883.2	66,154.0	72,932.5	72,932.5	78,254.8
<b>Total Equity</b>	<b>72,883.2</b>	<b>91,154.0</b>	<b>102,932.5</b>	<b>102,932.5</b>	<b>108,254.8</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>166,588.8</b>	<b>253,731.1</b>	<b>271,760.0</b>	<b>271,760.0</b>	<b>296,861.3</b>

Cash Flow Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>34,734.9</b>	<b>46,655.3</b>	<b>45,225.7</b>	<b>46,229.9</b>	<b>26,012.4</b>
<b>Cash flow from inv. (b)</b>	<b>(17,867.0)</b>	<b>(73,703.9)</b>	<b>(28,802.5)</b>	<b>(29,806.6)</b>	<b>(24,635.6)</b>
<b>Cash flow from fin. (c)</b>	<b>(5,483.7)</b>	<b>33,520.7</b>	<b>(11,272.5)</b>	<b>(11,272.5)</b>	<b>3,973.1</b>
Net chg. in cash (a+b+c)	11,384.2	6,472.0	5,150.8	5,150.8	5,349.9
Cash at start of the year	28,172.6	39,404.8	45,876.8	45,876.8	51,027.6
Cash at end of the year	39,556.8	45,876.8	51,027.6	51,027.6	56,377.4

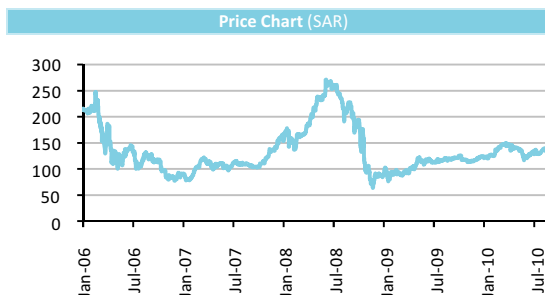
Source: Reuters Knowledge

## #4: Saudi Arabian Fertilizers (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	140.0
Market Capitalization	35.0 bln
Shares Outstanding	250.0 mln
Price 52 week High/Low	149.5/112.3
Bloomberg/Reuters Tickers	SAFCO AB/ 2020.SE

Major Shareholders	
Corporate	43.6%
Government of Saudi Arabia	16.5%
Public	39.9%

Source: Reuters Knowledge



Saudi Arabian Fertilizer Company (SAFCO), established in 1965, is the oldest petrochemical company in Saudi Arabia. Currently, Saudi Arabian Basic Industries Corporation (SABIC) is the majority shareholder (42.99%) in SAFCO.

### Business Description

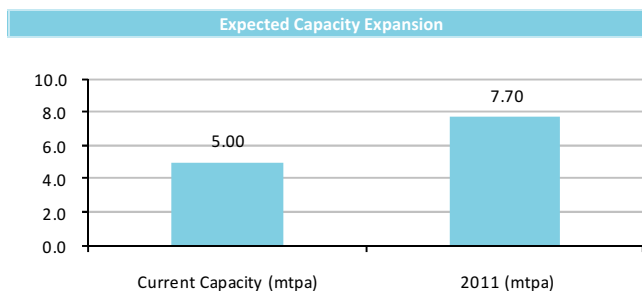
SAFCO undertakes fertilizer manufacturing operations, producing chemicals such as ammonia, urea, sulfuric acid and melamine, a product used to make gum and paint.

### Financial Performance

SAFCO's profit declined 57.8% during 2009, primarily on account of the fall in average prices of fertilizer products. However, as the Company maintained its capacity utilization at a higher level during 2009, its gross margin and net margin stood at 62.4% and 65.8%, respectively. During Q2 2010, SAFCO posted a YoY increase of 89% in net profit to SAR907 million on account of high international prices and revenue generated from the sale of the Company's land in Dammam.

### Capacity & Expansion Plans

SAFCO is one of the world's largest producers of urea and ammonia, with annual production capacities of 2.6 mtpa (urea) and 2.4 mtpa (ammonia). Besides this, the Company also produces 100,000 tpa of sulfuric acid. The Company is building another plant, SAFCO-5, a urea and ammonia plant worth US\$500 million in Jubail, Saudi Arabia. The plant would have a capacity of 1.5 mtpa (urea) and 1.2 mtpa (ammonia); it is expected to be completed by 2011.



Source: Zawya, Zawya Project Monitor, Company Reports, News Articles

# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

## Saudi Arabian Fertilizers — Data & Financials

Capacity Expansion						
Company	Project Name	Product	Capacity	Start Date	Expected Completion	Est. Cost (US\$ mn)
SAFCO	Safco 5 - Urea and Ammonia Plant SABIC/MRC	Ammonia	1,200,000 t/y	28-Feb-08	2011	500
		Urea	1,500,000 t/y			

Source: Zawya Project Monitor

Income Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Revenues</b>	<b>1,824.0</b>	<b>1,831.3</b>	<b>3,104.7</b>	<b>5,235.8</b>	<b>2,740.7</b>
% change		0.4%	69.5%	68.6%	-47.7%
Cost of Revenue	749.3	741.0	816.0	895.1	1,031.0
<b>Gross Profit</b>	<b>1,074.7</b>	<b>1,090.3</b>	<b>2,288.8</b>	<b>4,340.7</b>	<b>1,709.8</b>
Margin (%)	58.9%	59.5%	73.7%	82.9%	62.4%
Selling/General/Admin. Expenses, Total	(66.5)	(73.4)	(107.6)	(14.9)	(11.8)
Research & Development	(26.7)	(28.5)	(44.8)	(76.3)	(40.4)
Operating Income	981.6	988.5	2,136.4	4,249.6	1,657.6
Margin (%)	53.8%	54.0%	68.8%	81.2%	60.5%
Interest Inc.(Exp.),Net-Non-Op., Total	200.4	209.3	193.3	464.8	178.8
Other Non-Operating Income (Expense)	(39.6)	(19.4)	(33.3)	(74.6)	(7.6)
Provision for income taxes	42.2	27.0	77.0	109.4	95.7
Net income after taxes	1,100.2	1,151.3	2,219.4	4,530.4	1,733.2
Total Extraordinary Items	-	-	(10.2)	(250.6)	71.1
<b>Net Income</b>	<b>1,100.2</b>	<b>1,151.3</b>	<b>2,209.2</b>	<b>4,279.8</b>	<b>1,804.3</b>
Net margin (%)	60.3%	62.9%	71.2%	81.7%	65.8%
EPS	4.40	4.61	8.88	18.12	6.93

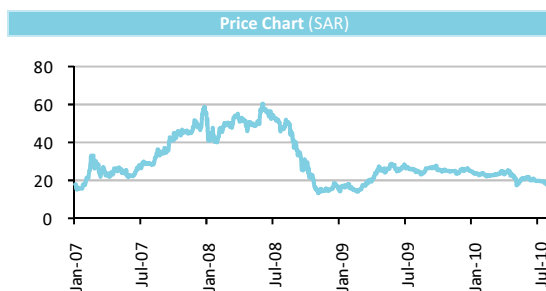
Balance Sheet (SAR mln)	2005	2006	2007	2008	2009
Cash and Short Term Investments	304.1	594.2	1,572.1	3,924.8	2,964.5
Total Receivables, Net	557.7	674.5	855.1	764.6	779.9
Prepaid Expenses	16.6	18.8	11.8	128.2	-
Total Current Assets	1,113.6	1,555.3	2,832.6	5,160.9	4,075.0
Land/Improvements - Gross	751.9	752.1	821.0	821.0	734.5
Accumulated Depreciation, Total	(2,026.7)	(2,171.3)	(2,410.2)	(2,655.3)	(2,282.1)
Property/Plant/Equipment, Total - Net	3,799.1	4,025.6	3,660.9	3,457.6	3,452.4
Intangibles, Net	51.7	63.3	75.2	-	-
Long Term Investments	975.8	908.1	1,281.8	234.7	379.9
Other Long Term Assets, Total	267.2	121.7	303.1	996.9	900.5
<b>Total Assets</b>	<b>6,207.3</b>	<b>6,674.0</b>	<b>8,153.4</b>	<b>9,850.0</b>	<b>8,807.8</b>
Accounts Payable	173.8	189.2	393.3	321.7	654.5
Accrued Expenses	83.5	78.4	262.1	-	-
Other Current liabilities, Total	158.4	89.8	119.5	180.0	138.3
Total Long Term Debt	695.0	1,063.2	826.4	589.6	352.9
Other Liabilities, Total	308.6	337.2	389.5	487.9	410.6
<b>Total Liabilities</b>	<b>1,419.3</b>	<b>1,934.6</b>	<b>2,139.1</b>	<b>1,816.1</b>	<b>1,793.1</b>
Common Stock, Total	2,000.0	2,000.0	2,000.0	2,500.0	2,500.0
Retained Earnings (Accumulated Deficit)	2,788.1	2,739.4	4,014.3	5,534.0	4,514.8
<b>Total Equity</b>	<b>4,788.1</b>	<b>4,739.4</b>	<b>6,014.3</b>	<b>8,034.0</b>	<b>7,014.8</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>6,207.3</b>	<b>6,674.0</b>	<b>8,153.4</b>	<b>9,850.0</b>	<b>8,807.8</b>

Cash Flow Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>922.7</b>	<b>1,005.0</b>	<b>2,415.0</b>	<b>4,231.3</b>	<b>2,231.2</b>
<b>Cash flow from inv. (b)</b>	<b>(782.8)</b>	<b>138.2</b>	<b>29.0</b>	<b>162.2</b>	<b>52.1</b>
<b>Cash flow from fin. (c)</b>	<b>(211.3)</b>	<b>(853.1)</b>	<b>(1,465.2)</b>	<b>(2,048.4)</b>	<b>(3,236.8)</b>
Net chg. in cash (a+b+c)	(71.4)	290.1	978.8	2,345.1	(953.6)
Cash at start of the year	375.5	304.1	594.2	1,573.0	3,918.1
Cash at end of the year	304.1	594.2	1,573.0	3,918.1	2,964.5

## #5: Advanced Petrochemicals (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	18.6
Market Capitalization	2.6 bln
Shares Outstanding	141.4 mln
Price 52 week High/Low	27.7/16.6
Bloomberg/Reuters Tickers	APPC AB/2330.SE

Major Shareholders	
Corporate	14.6%
Private	37.4%
Public	48.0%



Source: Reuters Knowledge

Established in 2005, Advanced Petrochemicals Company (APPC) is a Saudi joint stock business enterprise. The Company has an integrated propane dehydrogenation and polypropylene complex in Jubail Industrial City, Saudi Arabia, which produces 450,000 tpa of polypropylene. The commercial production started in Q1 2008.

### Business Description

APPC uses the technology provided by ABB Lumus and Novolen Technology Holdings (NTH). CATO-FIN-ABB Lumus technology is used to convert propane gas received from Saudi Aramco into propylene with a capacity of 455,000 tpa. Separately, NOVOLEN Technology is utilized to produce 450,000 tpa of polypropylene in two production lines. While the first line produces both Homopolymer and Random copolymer grades with a total capacity of 180,000 tpa, the second line produces Homopolymer grades with a capacity 270,000 tpa. APPC's products are marketed locally and globally with high quality packaging materials through its approved partners.

### Financial Performance

APPC registered a net profit of SAR127.1 million in 2009, a decline of 39.5% compared to 2008. The decline in the yearly profit is mainly attributable to the global economic slowdown. During Q2 2010, the Company's net profit stood at SAR65.3 million compared to the net profit of SAR34.6 million for the same quarter last year. Profit increased in Q2 2010 on account of a rise in products prices in the international markets.

### Capacity & Expansion Plans

Currently, APPC operates a propylene plant with a capacity of 400,000 tpa and a polypropylene plant with a total capacity of 450,000 tpa. APPC is not undergoing any capacity expansion till date.

### Advanced Petrochemicals — Data & Financials

Income Statement (SAR mln)	2006	2007	2008	2009
<b>Revenues</b>	-	-	<b>1,459.2</b>	<b>1,466.8</b>
% change	NM	NM	NM	0.5%
Cost of Revenue	-	-	1,179.7	1,248.9
<b>Gross Profit</b>	-	-	<b>279.5</b>	<b>217.9</b>
Margin (%)	NM	NM	19.2%	14.9%
Selling/General/Admin. Expenses, Total	(2.3)	(0.6)	(25.4)	(45.0)
Other Operating Expenses, Total	4.1	2.8	4.4	2.0
Operating Income	1.7	2.2	258.5	175.0
Margin (%)	NM	NM	17.7%	11.9%
Other Non-Operating Income (Expense)	-	-	(48.3)	(47.8)
<b>Net income before taxes</b>	<b>1.7</b>	<b>2.2</b>	<b>210.2</b>	<b>127.1</b>
Net income after taxes	1.7	2.2	210.2	127.1
Total Extraordinary Items	-	-	-	-
<b>Net Income</b>	<b>1.7</b>	<b>2.2</b>	<b>210.2</b>	<b>127.1</b>
Net margin (%)	NM	NM	14.4%	8.7%
EPS	0.01	0.02	1.49	0.90

Balance Sheet (SAR mln)	2006	2007	2008	2009
Cash and Short Term Investments	361.3	88.8	216.4	308.6
Total Receivables, Net	5.4	9.4	364.8	303.4
Inventories - Finished Goods	-	-	118.9	108.7
Buildings - Gross	-	-	2,644.6	2,647.4
Machinery/Equipment - Gross	-	-	102.7	110.6
Construction in Progress - Gross	1,407.8	2,337.1	-	-
Intangibles, Net	39.4	60.8	88.2	82.7
<b>Total Assets</b>	<b>1,815.2</b>	<b>2,545.2</b>	<b>3,507.0</b>	<b>3,413.8</b>
Other Current liabilities, Total	-	-	-	0.9
Total Current Liabilities	271.2	56.7	484.2	496.1
Total Long Term Debt	128.0	1,070.0	1,400.0	1,240.0
Other Liabilities, Total	0.6	2.1	5.4	7.4
<b>Total Liabilities</b>	<b>399.7</b>	<b>1,128.8</b>	<b>1,889.6</b>	<b>1,743.4</b>
Common Stock, Total	1,413.8	1,413.8	1,413.8	1,413.8
Retained Earnings (Accumulated Deficit)	1.7	2.7	203.7	256.6
<b>Total Equity</b>	<b>1,415.4</b>	<b>1,416.4</b>	<b>1,617.5</b>	<b>1,670.4</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>1,815.1</b>	<b>2,545.2</b>	<b>3,507.0</b>	<b>3,413.8</b>

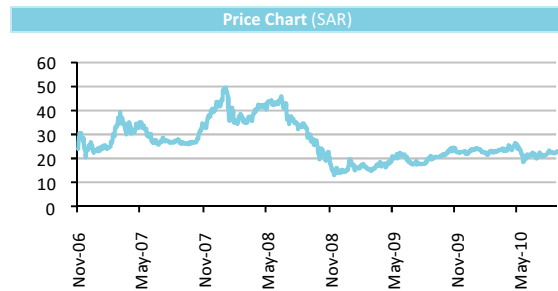
Cash Flow Statement (SAR mln)	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>(1,325.4)</b>	<b>(75.9)</b>	<b>(113.5)</b>	<b>434.3</b>
<b>Cash flow from inv. (b)</b>	-	<b>(993.7)</b>	<b>(401.4)</b>	<b>(45.9)</b>
<b>Cash flow from fin. (c)</b>	<b>1,686.7</b>	<b>797.1</b>	<b>642.5</b>	<b>(308.6)</b>
Net chg. in cash (a+b+c)	361.3	(272.5)	127.6	79.9
Cash at start of the year	-	361.3	88.8	216.4
Cash at end of the year	361.3	88.8	216.4	296.3

## #6: Saudi International Petrochemicals (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	23.2
Market Capitalization	7.7 bln
Shares Outstanding	333.3 mln
Price 52 week High/Low	27.1/18.7
Bloomberg/Reuters Tickers	SIPCHEM AB/2310.SE

Major Shareholders	
Corporate	18.5%
Private	2.3%
Government of Saudi Arabia	9.6%
Public	64.0%

Source: Reuters Knowledge



Established in 1999, Saudi International Petrochemical Co. (Sipchem) is a Saudi Joint Stock Company. It is majorly owned by public (64.0%).

### Business Description

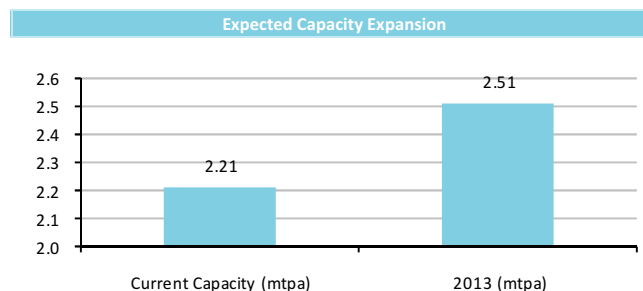
Sipchem develops and invests in the petrochemical and chemical industries to produce chemicals used for manufacturing various products. The Company operates through its five affiliates, which have been developed over a period of time in different phases. Sipchem's petrochemical investments are expected to reach SAR13.0 billion by the end of the year 2013. Also, total production of its various petrochemical products is likely to reach 2.8 mtpa by that year.

### Financial Performance

Sipchem recorded a 73.8% decline in its net profit (SAR140.9 million) for 2009 on account of negative repercussions of the global economic recession. However, it posted a net profit of SAR87.7 million in Q2 2010 compared to SAR0.51 million during the same quarter a year earlier. The rise in net profit during Q2 2010 is attributable to the improvement in related product prices, higher sales and enhanced utilization rate, primarily due to the commencement of newly completed plants that were developed under the Phase-2 expansion process.

### Capacity & Expansion Plans

Under Phase-1 of its petrochemical expansion, Sipchem developed two manufacturing facilities: (i) International Methanol Company (IMC) that produces 1.0 mtpa of methanol; and (ii) International Diol Company (IDC) that produces 75,000 tpa of maleic anhydride, butanediol and derivatives. Further, under Phase-2, Sipchem built three more affiliates: (i) International Gases Company (IGC) that produces 0.345 mtpa of carbon monoxide; (ii) International Acetyl Company (IAC) that produces 0.460 mtpa of acetic acid and acetic anhydride; and (iii) International Vinyl Acetate Company (IVC) that produces 0.330 mtpa of vinyl acetate monomer. While IGC and IAC became operational in June 2010, IVC came into force in August 2010. As a part of its Phase-III expansion program, Sipchem established a new petrochemical company, International Polymers Company (IPC), which would produce 0.3 mtpa of ethylene vinyl acetate (EVA) and other products. The project is valued at SAR4.0 billion and is scheduled to start operations in 2013.



Source: Zawya, Zawya Project Monitor, Company Reports, News Articles

# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

## Saudi International Petrochemicals — Data & Financials

Capacity Expansion						
Company	Project Name	Product	Capacity	Start Date	Expected Completion	Est. Cost (US\$ mn)
Sipchem and Hanwha Saudi Contracting Company	Sipchem Phase 3 - Jubail Polyolefins Complex	Ethylene and Propylene	1,300,000 t/y	26-Dec-06	Q4 2014	7,000
		Petrochemicals	800,000 t/y			
Sipchem and Hanwha Saudi Contracting Company	Sipchem Phase 3 - Jubail Polyolefins Complex - Olefins Cracker Package	Phenol ethylene	200,000 t/y	18-Jul-07	Q4 2014	1,100
		Polyphenols	125,000 t/y			

Source: Zawya Project Monitor

Income Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Revenues</b>	<b>726.1</b>	<b>1,334.0</b>	<b>1,527.7</b>	<b>1,708.6</b>	<b>830.4</b>
% change		83.7%	14.5%	11.8%	-51.4%
Cost of Revenue	250.0	512.3	575.0	693.8	594.7
<b>Gross Profit</b>	<b>476.1</b>	<b>821.7</b>	<b>952.7</b>	<b>1,014.8</b>	<b>235.7</b>
Margin (%)	65.6%	61.6%	62.4%	59.4%	28.4%
Selling/General/Admin. Expenses, Total	(20.0)	(40.2)	(47.8)	(70.7)	(67.4)
Other Operating Expenses, Total	(25.0)	(87.3)	(70.3)	(146.2)	27.4
Operating Income	462.9	740.0	863.8	850.7	210.4
Margin (%)	63.7%	55.5%	56.5%	49.8%	25.3%
<b>Net income before taxes</b>	<b>462.9</b>	<b>740.0</b>	<b>863.8</b>	<b>850.7</b>	<b>210.4</b>
Provision for income taxes	7.8	25.5	19.8	30.4	40.4
Net income after taxes	455.0	714.5	844.0	820.3	170.1
Minority Interest	(130.1)	(220.8)	(250.0)	(283.5)	(29.2)
<b>Net Income</b>	<b>325.0</b>	<b>493.7</b>	<b>594.0</b>	<b>536.8</b>	<b>140.9</b>
Net margin (%)	44.8%	37.0%	38.9%	31.4%	17.0%
EPS	1.15	1.75	2.11	1.66	0.42

Balance Sheet (SAR mln)	2005	2006	2007	2008	2009
Cash and Short Term Investments	1,163.6	1,507.1	1,562.0	2,581.0	1,831.2
Buildings - Gross	42.5	48.3	48.4	48.4	50.4
Machinery/Equipment - Gross	1,402.6	2,444.9	2,456.7	2,461.3	2,803.2
Construction in Progress - Gross	1,135.5	948.1	3,298.7	5,712.0	7,500.7
Long Term Investments	259.6	-	-	-	-
Other Long Term Assets, Total	265.3	40.8	170.7	109.7	52.0
<b>Total Assets</b>	<b>4,427.9</b>	<b>5,262.2</b>	<b>7,750.1</b>	<b>10,833.4</b>	<b>11,818.2</b>
Current Port. of LT Debt/Capital Leases	64.9	124.6	172.6	145.9	263.4
Other Current liabilities, Total	112.0	234.9	640.1	-	-
Total Current Liabilities	211.5	601.2	2,163.6	979.4	903.1
Total Long Term Debt	1,853.6	1,688.0	1,572.5	3,580.6	4,642.1
Other Liabilities, Total	8.0	13.0	121.9	415.2	441.0
<b>Total Liabilities</b>	<b>2,516.0</b>	<b>2,856.7</b>	<b>4,753.2</b>	<b>5,868.8</b>	<b>6,896.1</b>
Additional Paid-In Capital	68.2	117.6	177.0	-	-
Retained Earnings (Accumulated Deficit)	343.6	788.0	819.9	1,631.3	1,588.8
<b>Total Equity</b>	<b>1,911.8</b>	<b>2,405.5</b>	<b>2,996.9</b>	<b>4,964.6</b>	<b>4,922.1</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>4,427.9</b>	<b>5,262.2</b>	<b>7,750.1</b>	<b>10,833.4</b>	<b>11,818.2</b>

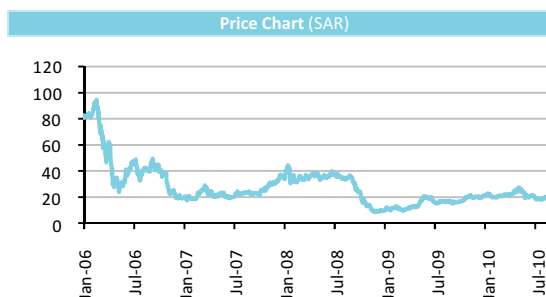
Cash Flow Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>501.8</b>	<b>711.5</b>	<b>1,306.2</b>	<b>1,214.1</b>	<b>(174.9)</b>
<b>Cash flow from inv. (b)</b>	<b>(753.6)</b>	<b>(295.2)</b>	<b>(2,298.0)</b>	<b>(2,807.3)</b>	<b>(1,327.2)</b>
<b>Cash flow from fin. (c)</b>	<b>1,384.4</b>	<b>(72.8)</b>	<b>1,046.8</b>	<b>2,612.2</b>	<b>752.2</b>
Net chg. in cash (a+b+c)	1,132.6	343.5	54.9	1,019.0	(749.8)
Cash at start of the year	31.0	1,163.6	1,507.1	1,562.0	2,581.0
Cash at end of the year	1,163.6	1,507.1	1,562.0	2,581.0	1,831.2

## #7: Sahara Petrochemical (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	18.8
Market Capitalization	5.5 bln
Shares Outstanding	292.5 mln
Price 52 week High/Low	28.0/14.9
Bloomberg/Reuters Tickers	SPC AB/2260.SE

Major Shareholders	
Corporate	7.9%
Other Investors	65.5%
Public	20.0%
Private	6.6%

Source: Reuters Knowledge



Established in 2004, Sahara Petrochemicals is a Saudi Joint Stock Company located in Saudi Arabia. The Company operates in the petrochemical sector through joint ventures with local and foreign partners to produce and market materials such as propylene, polypropylene and polyethylene.

### Business Description

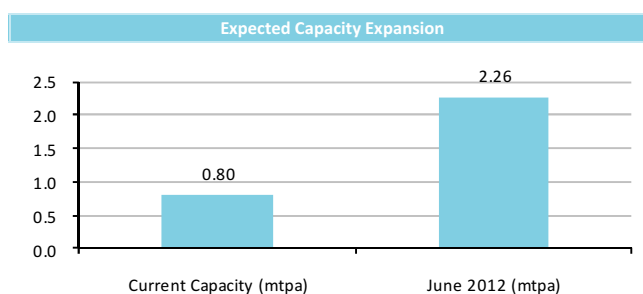
Sahara Petrochemical conducts its operations through three subsidiaries: Al Waha Petrochemicals, Arabian Chlorvinyl Company, and Tasnee and Sahara Olefins Company. Al Waha Petrochemicals Company was established in 2006 through a 75:25 joint venture between Sahara Petrochemical and Lyondell Basell. It was formed to construct, own and operate a petrochemical complex on a global scale, and produce 460,000 tons of propylene which is the feedstock for the production of 450,000 tons of polypropylene. Arabian Chlorvinyl Company is a 50:50 joint venture between Sahara Petrochemicals and Saudi Arabian Mining Company (Ma'aden). It was formed to construct, operate and own an ethylene dichloride project in Jubail Industrial City, Saudi Arabia. Tasnee and Sahara Olefins Company is a JV, wherein Sahara owns a 32.55% stake. It operates two projects – Saudi Ethylene and Polyethylene Company (SEPC) and Saudi Acrylic Company.

### Financial Performance

Sahara Petrochemical registered a net profit of SAR76.5 million in 2009 compared to a net loss of SAR41.2 million in 2008. The Company registered profit due to the start of its SEPC plant in June 2009. Also, during Q2 2010, Sahara Petrochemical reported a net profit of SAR101 million compared to a net loss of SAR6 million in the corresponding period last year.

### Capacity & Expansion Plans

Sahara Petrochemical's operational plant – SEPC – produces 400,000 tons of HDPE and 400,000 tons of LDPE. Al Waha plant is expected to start operations in Q3 2010; it will have an annual capacity of producing 460,000 tons of propylene and 450,000 tons of polypropylene. Besides this, Sahara Petrochemical's subsidiary – Arabian Chlor Vinyl Company – is building an Alkali Complex in Jubail Industrial City, which is likely to produce 250,000 tons of caustic chlorine and 300,000 tons of ethylene chloride per year. The estimated cost of the project is US\$400 million; it is likely to be completed by June 2012.



Source: Zawya, Zawya Project Monitor, Company Reports, News Articles

# MENA Petrochemicals: A Global Advantage...

## Which companies do you buy?

### Sahara Petrochemical — Data & Financials

Capacity Expansion						
Company	Project Name	Product	Capacity	Start Date	Expected Completion	Est. Cost (US\$ mn)
Arabian Chlor Vinyl Company	Arabian Chlor Vinyl Company - Jubail Alkali Complex	Caustic Chlorine	250,000 t/y	2-Apr-07	Jun 2012	400
		Ethylene dichloride	300,000 t/y			

Source: Zawya Project Monitor

Income Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Revenues</b>	<b>376.6</b>	<b>192.0</b>	<b>14.4</b>	<b>0.1</b>	<b>1.3</b>
% change		-49.0%	-92.5%	-99.5%	1714.3%
Cost of Revenue	-	-	-	-	-
<b>Gross Profit</b>	<b>376.6</b>	<b>192.0</b>	<b>14.4</b>	<b>0.1</b>	<b>1.3</b>
Margin (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Selling/General/Admin. Expenses, Total	(6.3)	(13.6)	(12.4)	(40.2)	(39.4)
Other Operating Expenses, Total	(12.7)	(16.4)	(5.0)	(3.8)	(38.3)
Operating Income	357.7	162.0	(3.0)	(43.9)	(76.5)
Margin (%)	95.0%	84.4%	NM	NM	NM
Other Non-Operating Income (Expense)	-	(0.9)	-	-	0.5
<b>Net income before taxes</b>	<b>357.7</b>	<b>161.1</b>	<b>(3.0)</b>	<b>(43.9)</b>	<b>(76.0)</b>
Net income after taxes	318.6	156.6	(4.7)	(45.4)	(77.2)
Minority Interest	-	2.5	(2.7)	0.9	(0.0)
Equity In Affiliates	-	5.7	2.4	3.3	153.7
<b>Net Income</b>	<b>318.6</b>	<b>164.8</b>	<b>(5.1)</b>	<b>(41.2)</b>	<b>76.5</b>
Net margin (%)	84.6%	85.8%	NM	NM	6020.5%
EPS	1.38	0.71	-0.02	-0.18	0.35

Balance Sheet (SAR mln)	2005	2006	2007	2008	2009
Cash and Short Term Investments	2,003.3	812.0	81.2	453.0	555.9
Total Receivables, Net	5.1	1.2	2.0	3.3	154.4
Construction in Progress - Gross	109.0	826.5	2,104.0	3,413.2	4,118.6
Property/Plant/Equipment, Total - Gross	109.0	826.5	2,104.0	3,420.2	4,139.4
Accumulated Depreciation, Total	-	-	-	(1.5)	(5.2)
<b>Total Assets</b>	<b>2,305.3</b>	<b>2,479.2</b>	<b>3,047.9</b>	<b>4,720.9</b>	<b>5,955.6</b>
Accounts Payable	5.3	84.8	307.2	682.7	183.9
Total Current Liabilities	44.3	89.1	308.8	829.2	264.7
Total Long Term Debt	-	-	312.5	1,617.3	2,260.4
Minority Interest	-	384.4	387.0	349.1	392.9
Other Liabilities, Total	0.8	22.3	89.3	156.2	99.2
<b>Total Liabilities</b>	<b>45.1</b>	<b>495.8</b>	<b>1,097.7</b>	<b>2,951.7</b>	<b>3,017.2</b>
Common Stock, Total	1,500.0	1,500.0	1,875.0	1,875.0	2,925.3
Retained Earnings (Accumulated Deficit)	318.6	483.4	75.2	(105.8)	13.1
<b>Total Equity</b>	<b>2,260.2</b>	<b>1,983.4</b>	<b>1,950.2</b>	<b>1,769.2</b>	<b>2,938.4</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>2,305.3</b>	<b>2,479.2</b>	<b>3,047.9</b>	<b>4,720.9</b>	<b>5,955.6</b>

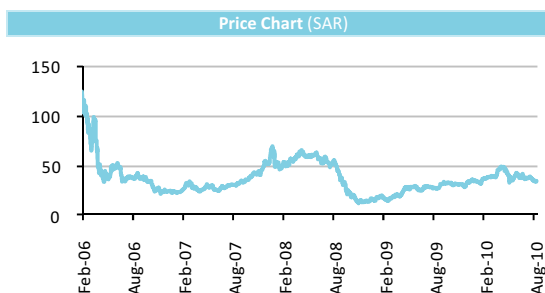
Cash Flow Statement (SAR mln)	2005	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>(227.3)</b>	<b>227.2</b>	<b>(12.8)</b>	<b>20.1</b>	<b>9.4</b>
<b>Cash flow from inv. (b)</b>	<b>(1,217.2)</b>	<b>(443.6)</b>	<b>(1,259.6)</b>	<b>(1,328.7)</b>	<b>(731.6)</b>
<b>Cash flow from fin. (c)</b>	<b>1,500.0</b>	<b>386.9</b>	<b>541.5</b>	<b>1,680.5</b>	<b>825.1</b>
Net chg. in cash (a+b+c)	55.5	170.6	(730.9)	371.9	102.8
Cash at start of the year	-	641.5	812.0	81.2	453.0
Cash at end of the year	55.5	812.0	81.2	453.0	555.9

## #8: Yanbu National Petrochemicals (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	35.0
Market Capitalization	19.7 bln
Shares Outstanding	562.5 mln
Price 52 week High/Low	50.0/26.5
Bloomberg/Reuters Tickers	YANSAB AB/2290.SE

Major Shareholders	
Corporate	54.9%
Other Investors	2.9%
Government of Saudi Arabia	10.8%
Public	31.4%

Source: Reuters Knowledge



Established in 2006, Yanbu National Petrochemical Company (Yansab) is a Saudi Joint Stock Company. The Company completed its green-field petrochemical complex in March 2010 and has commenced commercial operations. The complex is located in the Yanbu Industrial City in Saudi Arabia. Yansab's strong association with SABIC (a 51% stakeholder in the Company) as well as strategic location of its petrochemical complex near the Red Sea is a positive for its future growth.

### Business Description

Yansab is engaged in the manufacturing of petrochemical products, including ethylene, ethylene glycol, HDPE, LDPE, polypropylene, butene 1, butene 2, MTBE and BTX.

### Financial Performance

As Yansab's petrochemical complex was under construction, the Company was not able to generate any revenues for the past four years. The Company incurred a net loss of SAR29.2 million in 2009 on account of pre-operational expenses. However, following the commencement of commercial operations in March 2010, Yansab registered a net profit of SAR502.4 million in Q2 2010 against a net loss of SAR6.7 million in Q2 2009.

### Capacity & Expansion Plans

Yansab produces a range of petrochemical products at its plant. Its newly built petrochemical complex – Yanbu Olefins Complex – has a total annual production capacity of about 4.0 mtpa, including 900,000 tons of polyethylene, 400,000 tons of polypropylene and 700,000 tons of monoethylene glycol. Yansab is not undergoing any capacity expansion till date.

# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

## Yanbu National Petrochemicals — Data & Financials

Income Statement (SAR mln)	2006	2007	2008	2009
<b>Revenues</b>	-	-	-	-
% change	NM	NM	NM	NM
Cost of Revenue	-	-	-	-
<b>Gross Profit</b>	-	-	-	-
Margin (%)	NM	NM	NM	NM
Selling/General/Admin. Expenses, Total	(49.0)	(83.2)	(25.6)	(29.2)
Interest Exp.(Inc.),Net-Operating, Total	-	-	-	-
Operating Income	(49.0)	(83.2)	(25.6)	(29.2)
Margin (%)	NM	NM	NM	NM
Interest Inc.(Exp.),Net-Non-Op., Total	-	-	-	-
Other Non-Operating Income (Expense)	193.0	196.8	-	-
Provision for income taxes	3.8	3.8	-	-
Net income after taxes	140.3	109.9	(25.6)	(29.2)
Minority Interest	-	-	-	-
<b>Net Income</b>	<b>140.3</b>	<b>109.9</b>	<b>(25.6)</b>	<b>(29.2)</b>
Net margin (%)	NM	NM	NM	NM
EPS	0.25	0.20	-0.05	-0.05

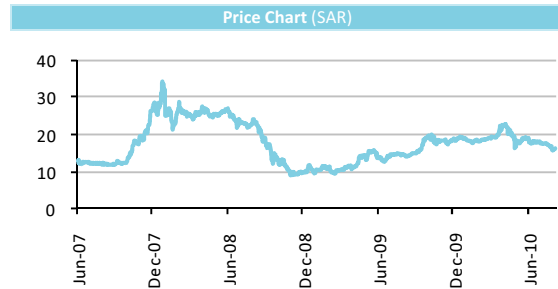
Balance Sheet (SAR mln)	2006	2007	2008	2009
Cash and Short Term Investments	821.5	1,694.3	1,033.0	605.6
Total Receivables, Net	-	-	76.8	864.9
Total Current Assets	858.5	1,974.9	1,216.7	2,208.4
Land/Improvements - Gross	-	-	-	-
Machinery/Equipment - Gross	-	-	-	-
Accumulated Depreciation, Total	-	-	-	-
Property/Plant/Equipment, Total - Net	6,137.1	12,987.3	17,105.3	18,575.8
Intangibles, Net	80.0	200.0	200.0	200.0
<b>Total Assets</b>	<b>7,081.8</b>	<b>15,309.3</b>	<b>18,677.1</b>	<b>21,124.0</b>
Accounts Payable	210.6	105.0	63.1	275.8
Accrued Expenses	1,081.3	1,267.3	1,039.2	487.9
Total Current Liabilities	1,291.9	1,372.2	1,771.0	1,679.5
Total Long Term Debt	-	8,165.9	11,128.3	13,695.7
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>1,328.8</b>	<b>9,586.8</b>	<b>12,980.2</b>	<b>15,456.3</b>
Retained Earnings (Accumulated Deficit)	128.0	97.5	71.9	42.7
<b>Total Equity</b>	<b>5,753.0</b>	<b>5,722.5</b>	<b>5,696.9</b>	<b>5,667.7</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>7,081.8</b>	<b>15,309.3</b>	<b>18,677.1</b>	<b>21,124.0</b>

Cash Flow Statement (SAR mln)	2006	2007	2008	2009
<b>Cash flow from op. (a)</b>	<b>1,401.9</b>	<b>1,220.0</b>	<b>(177.5)</b>	<b>(1,786.6)</b>
<b>Cash flow from inv. (b)</b>	<b>(6,223.2)</b>	<b>(13,334.4)</b>	<b>(4,126.0)</b>	<b>(1,455.2)</b>
<b>Cash flow from fin. (c)</b>	<b>5,642.8</b>	<b>13,808.7</b>	<b>3,642.3</b>	<b>2,814.4</b>
Net chg. in cash (a+b+c)	821.5	1,694.3	(661.3)	(427.4)
Cash at start of the year	-	-	1,694.3	1,033.0
Cash at end of the year	821.5	1,694.3	1,033.0	605.6

## #9: Saudi Kayan Petrochemical (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	16.2
Market Capitalization	24.3 bln
Shares Outstanding	1,500.0 mln
Price 52 week High/Low	22.9/13.5
Bloomberg/Reuters Tickers	KAYAN AB/2350.SE

Major Shareholders	
Corporate	55.0%
Public	45.0%



Source: Reuters Knowledge

Saudi Kayan Petrochemical Company (Saudi Kayan) was formed in 2006 as a result of a partnership agreement between SABIC and AlKayan Petrochemical Company (Kayan). SABIC holds 35% and Kayan owns 20% of the Company's capital. The remaining is held by public. Saudi Kayan is still in the process of building its petrochemical complex.

### Business Description

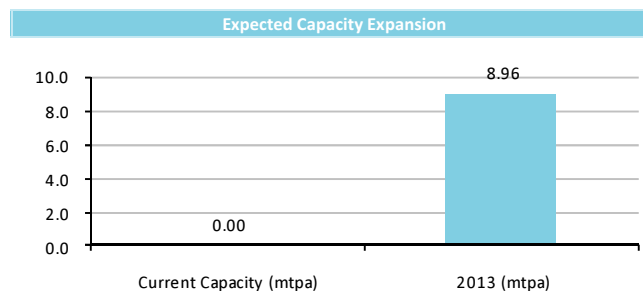
Besides basic petrochemical products such as ethylene, propylene, polypropylene, ethylene glycol and butene-1, Saudi Kayan Industrial Complex would produce some specialty chemicals for the first time in Saudi Arabia. These products include aminoethanols, aminomethyls, dimethylformamide, choline chloride, dimethylethanol, dimethylethanolamine, ethoxylates, phenol, cumene and polycarbonate. Production of these specialty chemicals is expected to provide immense opportunities for downstream industries.

### Financial Performance

Saudi Kayan is yet to start commercial operations at its plants. Hence, it has not registered any revenue until now. During 2009, the Company incurred a net loss of SAR16.9 million due to pre-operational expenses. Even in Q2 2010, Saudi Kayan posted a net loss of SAR1.8 million compared to net loss of SAR6.5 million in Q2 2009.

### Capacity & Expansion Plans

Saudi Kayan Industrial Complex will be located at Jubail Industrial City; it would entail an annual production capacity exceeding 4.0 mtpa of petrochemical and chemical products. The Company started trial operations at its olefins plant on July 25, 2010 and ethylene glycol and polypropylene plants on August 04, 2010. However, the commencement of commercial operations is expected to take some more time as its plants have to still undergo extensive testing and quality control checks. Moreover, the total cost of the project has increased by 24% or approximately SAR9.0 billion. This is because construction contracts for the industrial complex had been signed at a time of sharp rises in global construction costs, which resulted in higher overall project costs. Saudi Kayan is currently arranging funding from several banks to cover the increase in its project costs.



Source: Zawya, Zawya Project Monitor, Company Reports, News Articles

# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

## Saudi Kayan Petrochemical — Data & Financials

Capacity Expansion						
Company	Project Name	Product	Capacity	Start Date	Expected Completion	Est. Cost (US\$ mn)
Kayan	Saudi Kayan - Jubail Petrochemicals Complex	Petrochemical products	5,600,000 t/y	27-Feb-07	2013	12,500
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - Amines Plant	Amines	210,000 t/y	25-Apr-07	2012	400
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - EO/EG Plant	Ethylene glycol Ethylene oxide	490,000 t/y 530,000 t/y	6-Feb-07	H2 2010	500
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - HDPE Plant	HDPE	400,000 t/y	25-Apr-07	H2 2010	NA
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - LDPE Plant	LDPE	300,000 t/y	2-Feb-07	Q1 2013	426
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - Phenolics Complex	Isopropylbenzene	290,000 t/y	6-Feb-07	H2 2010	1,200
		Phenol	220,000 t/y			
		Bisphenol A	240,000 t/y			
		Acetone	71,000 t/y			
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - Polycarbonate Plant	Polycarbonate	260,000 t/y	12-Feb-07	Q4 2010	1,300
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - Polypropylene Plant	Polypropylene	350,000 t/y	1-Feb-07	Sep 2010	341
Kayan	Saudi Kayan - Jubail Petrochemicals Complex - Storage Tanks	Storage tanks	NA	24-Sep-07	Oct 2010	79

Source: Zawya Project Monitor

Income Statement (SAR mln)	2007	2008	2009
<b>Revenues</b>	-	-	-
% change			
Cost of Revenue	-	-	-
<b>Gross Profit</b>	-	-	-
Margin (%)	NM	NM	NM
Selling/General/Admin. Expenses, Total	(69.8)	(65.6)	(4.6)
Operating Income	(126.1)	(172.0)	(16.9)
Margin (%)	NM	NM	NM
Interest Inc.(Exp.),Net-Non-Op., Total	494.5	676.9	-
<b>Net Income Before Taxes</b>	<b>330.5</b>	<b>507.2</b>	<b>(16.9)</b>
Provision for income taxes	8.0	13.2	0.1
Net income after taxes	322.5	494.1	(16.9)
Minority Interest	-	-	-
<b>Net Income</b>	<b>322.5</b>	<b>494.1</b>	<b>(16.9)</b>
Net margin (%)	NM	NM	NM
EPS	0.22	0.33	-0.01

Balance Sheet (SAR mln)	2007	2008	2009
Cash and Short Term Investments	10,765.3	3,522.3	2,471.8
Prepaid Expenses	104.7	87.8	167.6
Total Current Assets	10,870.0	3,610.1	2,639.4
Construction in Progress - Gross	4,837.3	18,764.5	33,147.2
Property/Plant/Equipment, Total - Gross	4,837.3	18,764.5	33,147.2
Accumulated Depreciation, Total	-	-	-
Property/Plant/Equipment, Total - Net	4,837.3	18,764.5	33,147.2
Other Long Term Assets, Total	6.1	27.2	<b>21.0</b>
<b>Total Assets</b>	<b>15,713.4</b>	<b>22,401.7</b>	<b>35,807.7</b>
Accounts Payable	364.6	540.4	271.8
Other Current liabilities, Total	-	500.3	883.5
Total Current Liabilities	364.6	1,040.6	1,155.3
Total Long Term Debt	-	5,814.8	19,113.5
Other Liabilities, Total	26.4	52.2	61.8
<b>Total Liabilities</b>	<b>390.9</b>	<b>6,907.6</b>	<b>20,330.5</b>
Common Stock, Total	15,000.0	15,000.0	15,000.0
<b>Total Equity</b>	<b>15,322.5</b>	<b>15,494.1</b>	<b>15,477.2</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>15,713.4</b>	<b>22,401.7</b>	<b>35,807.7</b>

Source: Reuters Knowledge



# MENA Petrochemicals: A Global Advantage...

## Which companies do you buy?

### Saudi Kayan Petrochemical — Data & Financials

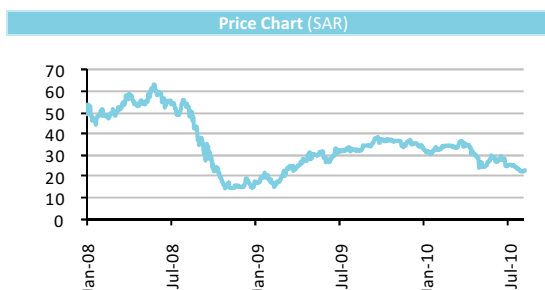
Cash Flow Statement (SAR mln)	2007	2008	2009
Cash flow from op. (a)	389.8	577.1	(945.5)
Cash flow from inv. (b)	(4,624.5)	(17,869.6)	(13,403.7)
Cash flow from fin. (c)	15,000.0	20,814.8	13,298.7
Net chg. in cash (a+b+c)	10,765.3	3,522.3	(1,050.5)
Cash at start of the year	-	-	3,522.3
Cash at end of the year	10,765.3	3,522.3	2,471.8

## #10: Rabigh Refining and Petrochemical (Saudi)

Key Statistics (SAR)	
Price (1-Sep-10)	23.4
Market Capitalization	20.5 bln
Shares Outstanding	876.0 mln
Price 52 week High/Low	39.5/22.5
Bloomberg/Reuters Tickers	PETRO AB/2380.SE

Major Shareholders	
Corporate	37.5%
Government of Saudi Arabia	37.5%
Public	25.0%

Source: Reuters Knowledge



Established in 2005, Rabigh Refining & Petrochemical Co. (Petro Rabigh) is a 50:50 joint venture between Saudi Aramco and Japan's Sumitomo Chemical. The company started operations in December 2008 and operates through its plant at Rabigh. The facility, which is valued at US\$10 billion, comprises 23 units producing 18.4 mtpa of refined petroleum-based products and 2.4 mtpa of ethylene and propylene-based derivatives (petrochemical products).

### Business Description

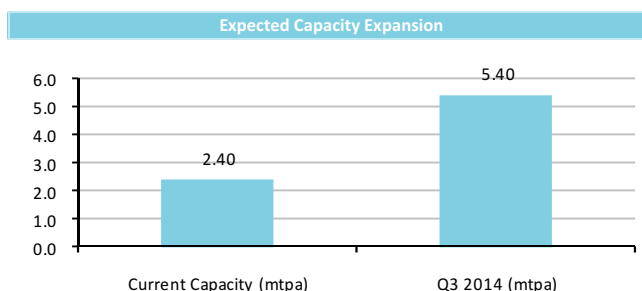
Petro Rabigh's principal activities include crude oil refining and production of petrochemicals, including naphtha, benzene, jet fuel, diesel, polyethylene, polypropylene, ethylene glycol and propylene oxide. The company, under its Crude Oil Feedstock Supply Agreement (COSA) with Saudi Aramco, will receive the maximum crude oil supply of 400,000 barrels per day (bpd) at a fixed cost for around 30 years, starting October 1, 2008. The company also receives 95 million cubic feet per day of ethane and about 15,000 bpd of butane from Saudi Aramco. While Petro Rabigh enjoys a feedstock advantage from Saudi Aramco, Sumitomo provides technical and marketing support. The company's end markets include Saudi Arabia, Europe and Asia; it exports products to these regions through the deep water port at its plant in Rabigh. China is Petro Rabigh's largest client.

### Financial Performance

Petro Rabigh, after starting operations in 2008, reported revenues of SAR29.4 billion in 2009 compared to SAR6.5 billion in 2008. The company's net loss increased to SAR1.4 billion from SAR1.3 billion during the same period. Petro Rabigh became profitable in Q1 2010. The company's net profit totaled SAR121.8 million in Q2 2010 compared to a loss of SAR236 million in Q2 2009.

### Capacity & Expansion Plans

In April 2010, the company announced the expansion of its petrochemical complex in Saudi Arabia and welcomed bids for the construction of Phase II of this project. Petro Rabigh awarded the feasibility study contract for Phase II to the Japanese company JGC Corp last year (expected by October 2010). The research entails the feasibility study of 30% expansion of the existing ethane cracker and a new aromatics complex using naphtha. Furthermore, Petro Rabigh has already secured feedstock of around 3.0 mtpa of naphtha for the new aromatics complex, which is expected to be completed by Q3 2014. The project would also produce 30.0 mln cu.ft./day of ethane gas. Additionally, the expansion is expected to result in 17 new products and estimated to cost SAR25 bln.



Source: Zawya, Zawya Project Monitor, Company Reports, News Articles

### Rabigh Refining and Petrochemical — Data & Financials

Capacity Expansion						
Company	Project Name	Product	Capacity	Start Date	Expected Completion	Est. Cost (US\$ mn)
Petro Rabigh, Aramco and Sumitomo	Aramco/Sumitomo - Rabigh Refining & Petrochemical Complex Expansion	Ethane	30,000,000 cu ft/day	16-May-07	Q3 2014	5,000
		Naptha	3,000,000 t/y			

Source: Zawya Project Monitor

Income Statement (SAR mln)	2006	2007	2008	2009
<b>Revenues</b>	-	-	<b>6,543.3</b>	<b>29,422.7</b>
% change				
Cost of Revenue	-	-	7,165.2	29,878.1
<b>Gross Profit</b>	-	-	<b>(621.9)</b>	<b>(455.4)</b>
Margin (%)	NM	NM	NM	NM
Selling/General/Admin. Expenses, Total	(260.1)	(422.9)	(679.7)	(753.6)
Operating Income	(260.1)	(422.9)	(1,301.6)	(1,209.0)
Margin (%)	NM	NM	NM	NM
Interest Inc.(Exp.),Net-Non-Op., Total	85.2	(19.7)	45.3	(224.1)
<b>Net Income Before Taxes</b>	<b>(174.9)</b>	<b>(442.6)</b>	<b>(1,256.2)</b>	<b>(1,433.1)</b>
Provision for income taxes	-	-	-	-
Net income after taxes	(174.9)	(442.6)	(1,256.2)	(1,433.1)
Minority Interest	-	-	-	-
<b>Net Income</b>	<b>(174.9)</b>	<b>(442.6)</b>	<b>(1,256.2)</b>	<b>(1,433.1)</b>
Net margin (%)	NM	NM	NM	NM
EPS	-0.20	-0.51	-1.46	-1.64

Balance Sheet (SAR mln)	2006	2007	2008	2009
Cash and Short Term Investments	2,080.3	186.0	1,534.1	1,306.2
Total Receivables, Net	-	-	2,348.5	4,682.1
Inventories - Finished Goods	-	-	749.6	1,198.0
Inventories - Work In Progress	-	-	139.6	610.6
Inventories - Raw Materials	-	-	-	188.2
Inventories - Other	-	-	84.9	673.7
Total Inventory	-	-	974.1	2,670.5
Prepaid Expenses	918.7	511.1	199.3	288.9
Total Current Assets	2,999.0	697.1	5,055.9	8,947.7
Buildings - Gross	-	-	453.2	4,386.2
Machinery/Equipment - Gross	-	-	1,171.3	29,774.0
Construction in Progress - Gross	7,840.8	23,812.7	31,428.5	17.8
Property/Plant/Equipment, Total - Gross	7,840.8	23,812.7	33,053.0	34,178.0
Accumulated Depreciation, Total	-	-	(83.2)	(789.7)
Property/Plant/Equipment, Total - Net	7,840.8	23,812.7	32,969.8	33,388.3
Intangibles, Net	-	-	-	297.6
Long Term Investments	331.2	2,450.8	3,337.6	3,212.1
Other Long Term Assets, Total	-	-	6,547.6	6,300.7
<b>Total Assets</b>	<b>11,170.93</b>	<b>26,960.6</b>	<b>47,910.9</b>	<b>52,146.4</b>
Accounts Payable	564.4	914.5	6,647.4	9,454.9
Accrued Expenses	122.0	445.5	421.1	847.9
Notes Payable/Short Term Debt	-	-	-	894.9
Other Current liabilities, Total	1,265.6	204.3	130.5	139.9
Total Current Liabilities	1,952.0	1,564.3	7,199.1	11,337.7
Total Long Term Debt	6,768.8	19,443.8	31,438.6	32,960.6
Other Liabilities, Total	-	-	9.4	17.4
<b>Total Liabilities</b>	<b>8,720.8</b>	<b>21,008.0</b>	<b>38,647.1</b>	<b>44,315.6</b>
Common Stock, Total	2,625.0	6,570.0	8,760.0	8,760.0
Retained Earnings (Accumulated Deficit)	(174.9)	(617.4)	535.3	(897.7)
Other Equity, Total	-	-	(31.5)	(31.5)
<b>Total Equity</b>	<b>2,450.2</b>	<b>5,952.6</b>	<b>9,263.8</b>	<b>7,830.8</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>11,170.9</b>	<b>26,960.6</b>	<b>47,910.9</b>	<b>52,146.4</b>

Source: Reuters Knowledge

# MENA Petrochemicals: A Global Advantage...

## Which companies do you buy?

### Rabigh Refining and Petrochemical — Data & Financials

Cash Flow Statement (SAR mln)	2006	2007	2008	2009
Cash flow from op. (a)	(407.1)	(422.8)	1,519.6	(1,464.5)
Cash flow from inv. (b)	(8,172.0)	(18,091.6)	(10,127.1)	(1,100.6)
Cash flow from fin. (c)	10,659.3	16,620.0	9,955.6	2,337.3
Net chg. in cash (a+b+c)	2,080.3	(1,894.3)	1,348.1	(227.9)
Cash at start of the year	-	2,080.3	186.0	1,534.1
Cash at end of the year	2,080.3	186.0	1,534.1	1,306.2

Source: Reuters Knowledge



# MENA Petrochemicals: A Global Advantage... Which companies do you buy?

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