

3Q2010 WEAKER EARNINGS PRICED IN, VALUATIONS REMAIN ATTRACTIVE

RESULTS PREVIEW

CHEMICALS | MENA

Valuations and Top Picks: Attractive Growth Stories in Mid-Caps

MENA chemicals stocks trade at an unjustified discount to global peers' average, despite better risk/returns factors and stronger growth momentum. We highlight **Yansab** and **Sahara**, both offering attractive earnings growth and valuations. We are buyers of **Advanced** and believe that the market is underestimating its 2011's earnings potential. We prefer **SABIC** over **IQ**. **SIDPEC's** earnings should fall after the end of the tax holiday in 2011 but it remains an attractive dividend play, in our view. We are Neutral on **SAFCO**.

3Q2010 Likely Weaker on Lower Commodity Prices

We believe that MENA crackers' margins in 3Q2010 have been likely weakened by lower prices across the ethylene value chain. The price of the basic petrochemicals and fuel additives commodities basket has fallen by 5-16% Q-o-Q in 3Q2010, which should have led to margins contractions for low-cost MENA-based producers (except **SAFCO**). Overall, we expect producers' recurring earnings to fall by 6-17% Q-o-Q in 3Q2010.

Petrochemical Prices Rebound as Demand Moderately Improves

Basic petrochemical prices rebounded in September 2010 on a moderate restocking (ex-China) and supply constraints in Asia. China's import demand has started to recover, but is unlikely to reach 1Q2010's peak levels. We see limited upside risks from current spot price levels, assuming oil price remains constant. We remain concerned over the increase in ethylene supply in the Middle East and China, which should be reflected in lower prices and product spreads.

Fertilisers Outlook Strengthen on Positive Grain Fundamentals

Urea prices benefited from the surge in grain prices following lower corn yield and inventory expectations on adverse weather globally. The absence of Chinese exports due to a high export tariff (110%) should keep urea prices high until mid-October. Afterwards, we believe: i) the return of Chinese export activities, and ii) apparently aggressive pre-buying in the US ahead of the next application season, should weight moderately on prices.

STOCKS ANALYSED IN THIS REPORT

Country	Company	Curr.	Price		FV	Upside	Rating	EV/EBITDA (x)			P/E (x)*		
			LC	LC				10e	11e	12e	10e	11e	12e
Saudi	SABIC**	SAR	90.3	125	38%	Buy		9.1	8.3	7.9	13.5	10.9	10.3
Qatar	IQ	QAR	109	122	12%	Neu		12.2	10.1	8.0	11.8	10.3	8.6
Saudi	Yansab	SAR	41	55	34%	Buy		12.9	10.1	8.8	13.5	9.3	7.4
Saudi	SAFCO	SAR	145	145	0%	Neu		12.7	11.0	10.9	13.0	11.4	11.1
Egypt	SIDPEC	EGP	12.7	16	24%	Buy		6.3	5.8	5.6	8.3	9.4	8.9
Saudi	Advanced	SAR	20.4	25	23%	Buy		8.3	7.5	7.4	11.7	9.5	9.2
Saudi	Sahara**	SAR	21.3	30	41%	Buy		13.0	7.8	7.7	14.4	9.2	9.0

Note: Prices as at 06 October 2010 for all companies except SIDPEC (05 October 2010)

*P/E based on Recurring EPS

**Proportionate EV/EBITDA

Source: EFG Hermes estimates



Ahmed Shams El Din

+20 2 3535 6143

ashamseldin@efg-hermes.com

Yousef Hussein

+20 2 3535 6013

yhusseini@efg-hermes.com

Rita Guindy

+20 2 3535 6387

rguindy@efg-hermes.com

CONTENTS

I. 3Q2010 EARNINGS PREVIEW	2
II. VALUATIONS AND STOCK CALLS	7
III. INDUSTRY OUTLOOK AND FORECASTS 13 COMPANIES	
SABIC	20
INDUSTRIES QATAR (IQ)	23
YANSAB	27
SAFCO	30
SIDPEC	33
ADVANCED PETROCHEMICAL	36
SAHARA PETROCHEMICAL	39

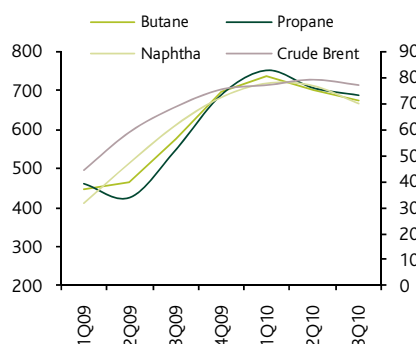
I. 3Q2010 EARNINGS PREVIEW

EXPECT WEAKER EARNINGS ON LOWER COMMODITY PRICES

MENA crackers' margins in 3Q2010 likely have been weakened by lower prices across the ethylene value chain, in our view. The oil price volatility, the strong export supplies from the Middle East, and the relatively high inventory in Asia continued to weigh on olefins and derivatives prices, to which MENA producers under our coverage are leveraged. The price of the basic petrochemical and fuel additive commodities basket, including ethylene, PE, PP, MEG, methanol and MTBE, has fallen by 5-16% Q-o-Q in 3Q2010, which should have led to margin contractions at SABIC and IQ given their exposure to most of these products, although at varying degrees. Lower polymers prices likely reflected negatively on the earnings of the less-diversified producers such as Advanced, Sahara (through SEPC) and SIDPEC.

FIGURE 1: OIL AND FEEDSTOCK PRICE

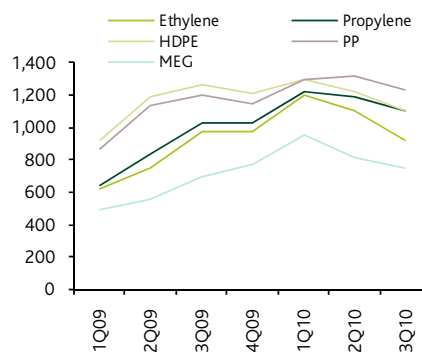
In USD/tonne (LHS), except Oil, USD/bbl (RHS)



Source: Chemical Market Associates, Inc. (CMAI)

FIGURE 2: BASIC PETROCHEMICALS PRICE TREND

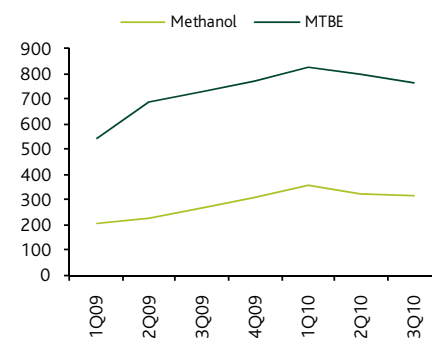
In USD/tonne, unless otherwise stated



Source: Chemical Market Associates, Inc. (CMAI), Methanex

FIGURE 3: FUEL ADDITIVES PRICE TREND

In USD/tonne, unless otherwise stated



Source: Chemicals Market Associates, Inc. (CMAI)

ETHYLENE MARGINS COULD HAVE BEEN THE WEAKEST SINCE 2Q2009

Average ethylene prices in 3Q2010 plunged 16% Q-o-Q as the Asian market (primary destination for MENA producers' exports) was oversupplied on higher domestic operating rates and strong availability of export supplies from the Middle East. We believe that 3Q2010 ethylene margins in the region have been the weakest since 2Q2009. In Qatar, we estimate IQ's average ethylene cost at USD105/tonne. IQ's ethylene margins should have fallen to USD805 in 3Q2010 from USD980 in 2Q2010. This assumption is based on an average gas price of USD1.75/mmBtu. IQ's gas price is between USD1.25-2.5/mmBtu.

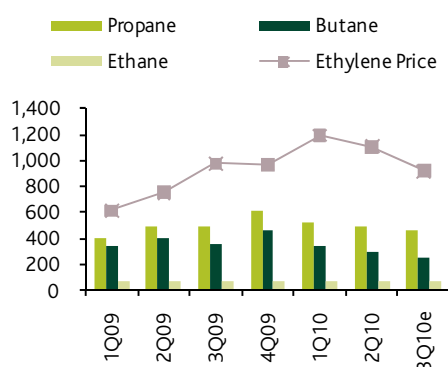
In Saudi Arabia, producers are exposed to heavier feedstock (propane and butane) types beside ethane. We believe that the weaker ethylene/naphtha spread would have inevitably pressured ethylene margins for producers; the average naphtha price in Asia fell only 6% Q-o-Q versus 18% for ethylene. This is particularly true with naphtha price being the pricing benchmark for propane and butane feedstocks in Saudi Arabia. For SABIC, we estimate that c55% of its global crackers are based on ethane, 26% on propane and butane, and 19% on naphtha, mainly its European operations. For Yansab, we estimate that c38% of its ethylene production is based on fixed ethane prices, while the remaining 62% is based on propane. Overall, we estimate that average ethylene margins have dropped to USD460/tonne in 3Q2010 for SABIC's from USD609/tonne in 2Q2010, and USD785/tonne for Yansab from USD948/tonne in 2Q2010.



In Egypt, we estimate that SIDPEC's margins have remained relatively stable Q-o-Q due to its variable feedstock cost structure (gas price linked to ethylene and PE), but we expect its 3Q2010 earnings were pressured by lower PE prices and volumes. The PE unit was shut down for 15 days for maintenance.

FIGURE 4: SAUDI ETHYLENE COSTS BY FEEDSTOCK VERSUS ETHYLENE PRICES

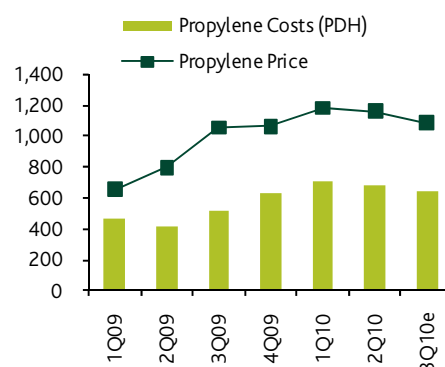
In USD per tonne, unless otherwise stated



Source: EFG Hermes estimates

FIGURE 5: PDH PROPYLENE COSTS IN SAUDI ARABIA VERSUS PROPYLENE PRICES

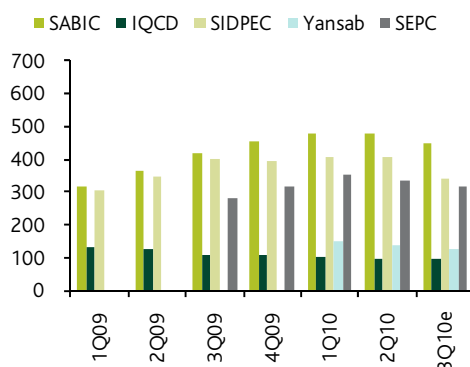
In USD per tonne, unless otherwise stated



Source: EFG Hermes estimates

FIGURE 6: ETHYLENE CASH COSTS BY PRODUCER

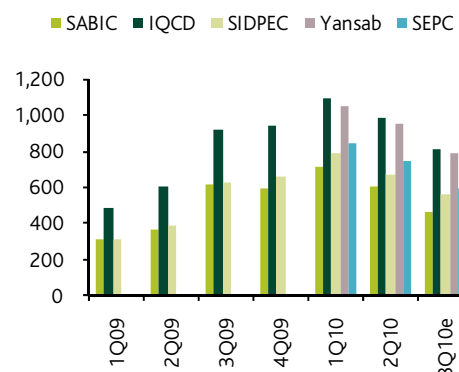
In USD per tonne, unless otherwise stated



Source: EFG Hermes estimates

FIGURE 7: ETHYLENE CASH MARGIN BY PRODUCER

In USD per tonne, unless otherwise stated



Source: EFG Hermes estimates

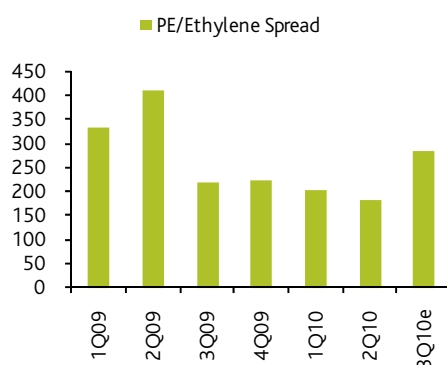
...BUT HEALTHY POLYMERS SPREADS SHOULD HAVE PROVIDED SOME RELIEF

Average polymers prices fell by 7% Q-o-Q. However, the price spreads to olefins was healthy, particularly polyethylene/ethylene spreads. This has partially offset the impact of lower olefins prices on MENA producers' margins, in our view. The average PE/ethylene spread was stronger Q-o-Q in 3Q2010, as the market's supply and demand for derivatives was tighter than for ethylene. Essentially, there were several shutdowns of polyethylene plants during June, July and August, and in that same period c2.8 million tonnes of ethylene came on stream, although operating rates were not 100%.

The CMAI estimates that all MENA ethylene crackers have been operating at high operating rates. The fully integrated new crackers in the Middle East have not yet reached full capacity utilisation at their polymers/derivatives units, but have been selling excess ethylene production in the spot market. This includes Petro Rabigh (HDPE plant maintenance shutdown for 15 days) and RLOC (HDPE plant still in start-up phase). The UAE-based Borouge II has started trial production at the 1.5 mtpa ethane-based cracker in July and successfully produced ethylene (HDPE/LLDPE units are still in the trial phase). Saudi Kayan, SABIC's 30% owned complex, started trial operations of 1.325 mtpa cracker in July and started producing ethylene in July (its 0.4 mtpa HDPE unit is still in the trial phase). The additional ethylene supply has led to a relatively larger decrease in ethylene prices in 3Q2010 compared to PE prices.

FIGURE 8: PE/ETHYLENE SPREADS

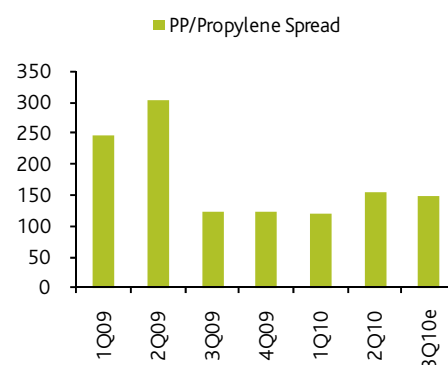
In USD per tonne, unless otherwise stated



Source: CMAI

FIGURE 9: PP/PROPYLENE SPREADS

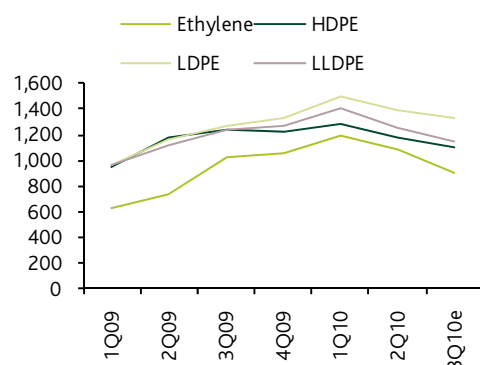
In USD per tonne, unless otherwise stated



Source: CMAI

FIGURE 10: HISTORICAL PE PRICES VERSUS ETHYLENE

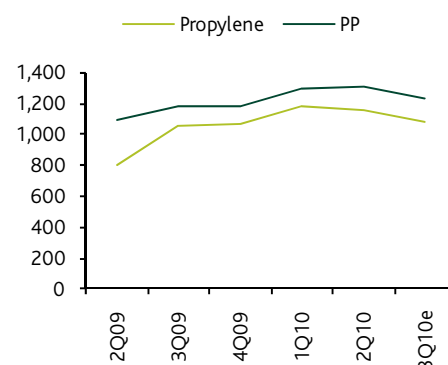
In USD per tonne, unless otherwise stated



Source: CMAI

FIGURE 11: HISTORICAL PP PRICES VERSUS PROPYLENE

In USD per tonne, unless otherwise stated



Source: CMAI



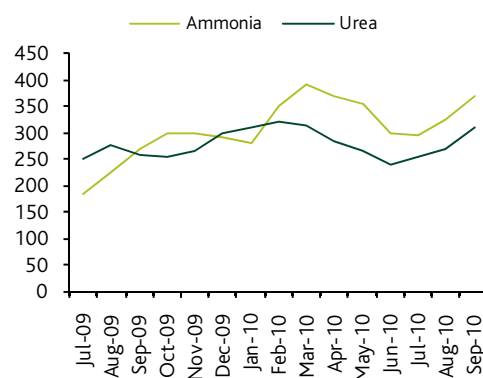
NITROGEN FERTILISERS: LIKELY THE ONLY GAINER IN 3Q2010

Nitrogen fertiliser prices have rallied in 3Q2010, particularly in September, driven i) a surge in grain prices, following expectations of lower yields and inventories due to adverse weather conditions, ii) a seasonal demand push in India amid the kharif application season, and iii) surprisingly positive demand in the US and Europe, in what seems to be an early restocking ahead of the next application season.

The Middle East's FOB urea and ammonia prices in 3Q2010 averaged 14% and 5% higher Q-o-Q, respectively. This should have inevitably benefited margins of SAFCO and QAFCO (IQ's 75% owned fertiliser subsidiary). We estimate 3Q2010's urea cash margin of USD229/tonne for SAFCO, up from USD200/tonne in 2Q2010, and USD190/tonne of QAFCO, up from USD159/tonne in 2Q2010.

FIGURE 12: UREA AND AMMONIA PRICES

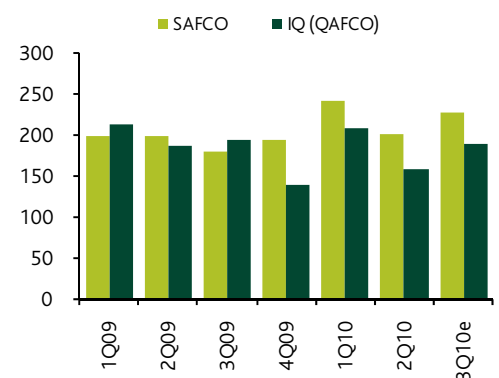
In USD/tonne, unless otherwise stated



Source: Fertecon

FIGURE 13: SAFCO'S AND QAFCO'S UREA CASH MARGINS

In USD/tonne, unless otherwise stated



Source: EFG Hermes estimates

**FIGURE 14: SUMMARY OF 3Q2010'S EARNINGS PREVIEW**

In SAR million, unless otherwise stated

	3Q09a	1Q10a	2Q10e	3Q10e	Q-o-Q	Y-o-Y	2010e
SABIC							
Revenue (SAR mn)	27,984	34,126	38,862	37,173	-4%	33%	148,474
Gross Profit (SAR mn)	8,558	12,217	11,845	11,007	-7%	29%	47,477
EBITDA (SAR mn)	8,692	11,906	11,795	10,951	-7%	26%	46,914
Net Profit* (SAR mn)	3,648	5,432	5,016	4,501	-10%	23%	20,414
IQ							
Revenue (QAR mn)	2,583	2,655	2,791	2,948	6%	14%	11,429
Gross Profit (QAR mn)	1,272	1,253	1,417	1,297	-8%	2%	5,341
EBITDA (QAR mn)	1,200	1,237	1,372	1,247	-9%	4%	5,170
Net Profit (QAR mn)	1,198	1,214	1,416	1,180	-17%	-1%	5,062
Yansab							
Revenue (SAR mn)	692	689	1,638	1,548	-6%	124%	5,515
Gross Profit (SAR mn)	331	325	632	570	-10%	72%	2,181
EBITDA (SAR mn)	395	390	844	784	-7%	98%	2,881
Net Profit* (SAR mn)	257	259	502	436	-13%	70%	1,706
SAFCO							
Revenue (SAR mn)	714	864	733	844	15%	18%	3,431
Gross Profit (SAR mn)	451	643	571	610	7%	35%	2,578
EBITDA (SAR mn)	479	11	615	669	9%	40%	2,795
Net Profit (SAR mn)	464	698	907	678	-25%	46%	3,100
Sidpec							
Revenue (EGP mn)	368	470	462	384	-17%	4%	1,849
Gross Profit (EGP mn)	151	214	200	168	-16%	12%	838
EBITDA (EGP mn)	180	242	226	198	-13%	10%	946
Net Profit (EGP mn)	160	214	199	170	-14%	6%	805
Advanced							
Revenue (SAR mn)	361	464	451	453	1%	25%	1,848
Gross Profit (SAR mn)	41	69	82	80	-2%	94%	320
EBITDA (SAR mn)	80	108	125	119	-4%	49%	479
Net Profit (SAR mn)	21	53	65	61	-6%	193%	247
Sahara							
Revenue (SAR mn)	0	0	0	0	N/A	N/A	281
Gross Profit (SAR mn)	0	0	0	0	N/A	N/A	67
EBITDA (SAR mn)	(5)	(4)	(1)	(4)	N/A	N/A	71
Net Profit (SAR mn)	44	116	101	89	-12%	101%	433

*SAFCO's 2010 net income includes a SAR0.3 bn capital gain on the sale of Dammam land
Source: EFG Hermes estimates



II. VALUATIONS AND STOCK CALLS

SECTOR TRADES AT AN UNJUSTIFIED DISCOUNT TO GLOBAL PEERS

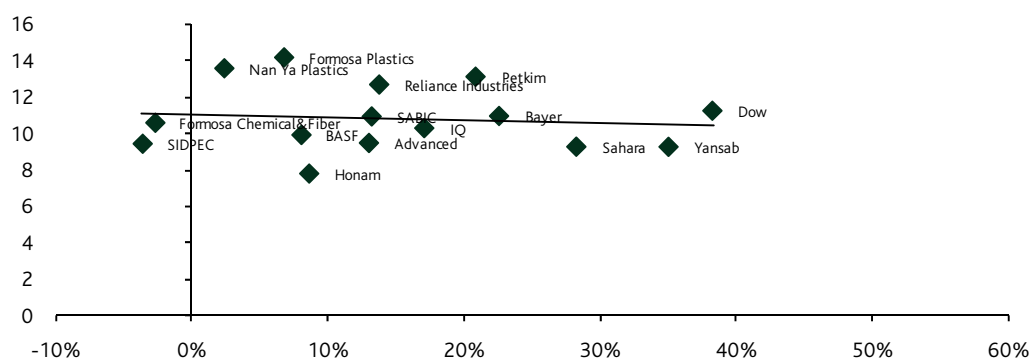
We believe 3Q2010's expected weaker earnings are priced in at current levels, and we view current market valuations as attractive entry points for investors seeking leveraged plays on global economic recovery. The MENA chemicals stocks are trading at a 7-20% discount to their global peers' average valuations as well as their mid-cycle P/Es. This is unjustified, in our view, due to MENA producers' significantly better risk/returns factors and stronger growth momentum stemming from: i) an attractive low-cost capacity growth, ii) a significant feedstock advantage compared to any other part of the world (a MENA producer can sell polymers at a significant discount to the minimum price afforded by a local producer in Europe or Asia), and iii) strong operating leverage, which should make them the best candidates to benefit from the next cyclical global commodity upturn.

Yansab and Sahara look deeply undervalued at current levels

We believe that the market seems to largely underestimate the earnings potential of both Yansab and Sahara. Both companies offer the highest expected earnings growth momentum across our petrochemicals coverage on both higher volumes and a stronger price environment. Both companies trade at a significant discount to their global and regional peers. We also think that the recent antidumping duties on Saudi PP exports to India has weighed on Advanced's current market valuation, despite the fact that India represents less than 5% of Advanced's total exports. We prefer SABIC over IQ as its higher exposure to petrochemicals would make it benefit more from a commodity price upturn. SIDPEC's earnings will likely retreat after 2010 as the company's start paying a 20% income tax (tax holiday ends by end of 2010), but, in our view, it remains a defensive play offering the highest estimated dividend yield in our coverage.

FIGURE 15: P/ES VERSUS 2010E-2012E EPS CAGR

2010e-2012e EPS CAGR (x-axis), P/E (y-axis)



Source: Bloomberg, EFG Hermes estimates



FIGURE 16: COMPARABLE MULTIPLES VALUATIONS

Company	EV/EBITDA (x)			P/E (x)			P/BV (x)		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
Petrochemicals									
Reliance Industries Ltd	9.5	8.3	7.8	15.6	13.0	12.4	2.2	1.9	1.7
Formosa Plastics Corp	15.2	16.6	15.1	14.2	14.1	13.1	2.0	2.0	1.9
Nan Ya Plastics	19.0	21.6	20.9	15.0	13.4	13.3	1.9	1.9	1.8
Petkim Petrokimya Holding	9.4	8.1	7.4	17.6	13.2	11.1	1.4	1.3	1.2
Solvay SA	4.4	4.5	4.1	22.9	21.3	18.9	0.9	1.0	0.9
Croda International PLC	10.4	9.7	9.1	17.2	15.6	14.4	8.5	6.2	4.7
Clariant AG	4.7	4.7	4.3	9.4	9.2	7.9	1.7	1.5	1.3
Wacker Chemie AG	6.1	5.5	5.2	14.6	12.4	11.3	3.0	2.5	2.1
Linde AG	8.3	7.7	7.3	15.9	14.4	12.7	1.8	1.6	1.5
BASF	5.6	5.3	5.0	10.8	10.1	9.0	2.2	2.0	1.8
Dow Chemical Co	8.0	6.9	5.9	17.1	11.7	8.6	1.7	1.5	1.4
Average	9.1	9.0	8.4	15.5	13.5	12.1	2.5	2.1	1.9
Fertilisers									
Yara International ASA	8.7	8.2	8.4	13.9	10.8	10.6	2.1	1.9	1.7
Agrium Inc	9.2	7.8	7.7	15.5	12.5	12.4	2.2	1.8	1.6
Israel Chem	12.3	10.2	9.5	16.9	13.7	12.6	6.9	6.0	6.6
K+S AG	9.8	7.3	6.5	20.4	13.2	11.3	3.4	2.9	2.5
Potash Corp	16.9	13.4	11.8	26.3	19.0	18.2	5.6	4.3	3.7
Uralkaliy OAO	12.2	9.7	7.4	18.2	8.7	3.1	5.0	4.1	3.4
Arab Potash	12.8	7.6	7.2	17.2	12.4	8.9	3.6	2.9	2.4
Jordan Phosphate	11.1	6.9	7.5	12.7	11.1	13.8	2.2	1.9	1.8
Average	11.6	8.9	8.3	17.6	12.7	11.4	3.9	3.2	3.0
SABIC*									
Industries Qatar	12.2	10.1	8.0	11.8	10.3	8.6	3.2	2.8	2.5
Yansab	12.9	10.1	8.8	13.5	9.3	7.4	3.1	2.3	1.9
SAFCO*	12.7	11.0	10.9	13.0	11.4	11.1	5.1	5.0	4.8
Sidpec	6.3	5.8	5.6	8.3	9.4	8.9	2.7	2.8	2.9
Advanced	8.3	7.5	7.4	11.7	9.5	9.2	1.7	1.6	1.5
Sahara	13.0	7.8	7.7	14.4	9.2	9.0	1.8	1.5	1.2

Note: EV/EBITDA proportionate for SABIC and Sahara

*SAFCO's 2010 net income includes a SAR0.3 bn capital gain on the sale of Dammam land

Source: Reuters, Bloomberg

NORMALISED EARNINGS OFFER ATTRACTIVE RETURNS

In our view, the market seems to be underestimating the earnings power of most MENA producers, partially due to growing risk aversion towards cyclical stocks led by strong volatility in oil prices and global economic growth uncertainty. Essentially, our forecasts are based on an oil price assumption of USD80/bbl in 2011e (below the current spot Brent) and a long-term normalised oil price assumption of USD85/bbl.



Our forecasts have accounted for higher feedstock prices, particularly in Saudi Arabia, which is expected to revise its current energy pricing regime by end-2011. We assume that ethane price would more than double to USD1.5/mmBtu from USD0.75/mmBtu currently. We also expect propane and butane in Saudi will be priced at a c25% discount to naphtha prices (CIF Japan), down from the current 28-30% discount range. This applies to SABIC, Yansab, Advanced and Sahara, since these producers are exposed to propane and butane feedstocks (at varying degrees).

FIGURE 17: ANALYSIS OF MID-CYCLE VALUATIONS

EPS in local prices, unless otherwise stated

Analysis	SABIC*	IQ	Yansab	SAFCO*	SIDPEC	Advanced	Sahara
Market Price	90.3	108.8	41.0	145.3	12.7	20.4	21.3
2010e EPS	6.80	9.2	3.0	12.2	1.6	1.7	1.5
2011e EPS	8.25	10.6	4.4	11.9	1.4	2.1	2.3
2010e P/E (x)	13.5	11.8	13.5	13.0	8.3	11.7	14.4
2011e P/E (x)	10.9	10.3	9.3	11.4	9.4	9.5	9.2
Normalised EPS (2013e)	9.2	12.8	5.6	13.2	1.7	2.5	3.7
Normalised EPS (2013e Discounted)	7.3	9.3	4.3	10.4	1.2	1.9	2.4
Market Implied Mid-cycle P/E (x)	12.3	11.6	9.6	13.8	10.2	10.6	8.9
7-year Average Historical P/E (x)	20.0	14.0	N/A	15.0	10.3	N/A	N/A
Upside/Downside to Mid-Cycle P/E (x)	62%	21%	N/A	8%	1%	N/A	N/A
FV Estimate	125.0	122.0	55.0	145.0	15.8	25.0	30.1
Upside / Downside Potential	38%	12%	34%	0%	24%	23%	41%
2010e Dividend Yield	3%	5%	N/A	8%	12%	7%	N/A

*Recurring EPS

Source: EFG Hermes estimates

SECTOR VALUATIONS IMPLY OIL PRICE OF USD65/BBL

Our analysis shows that oil prices need to dip below USD65/bbl over our forecast horizon to justify current valuations. We provide investors with different scenarios that highlight the sensitivity of our normalised earnings forecasts to different oil price assumptions.

**FIGURE 18: SENSITIVITY OF NORMALISED RETURNS TO DIFFERENT OIL PRICE ASSUMPTIONS**

Oil Price (USD/bbl)	50	65	85	100
SABIC				
Current Price	90.3	90.3	90.3	90.3
Normalised EPS (SAR/Share)	4.3	6.2	9.2	10.6
Normalised P/E (x)	21.1	14.6	9.8	8.5
DCF-based Valuation	55.1	81.4	125.0	143.8
Upside/Downside	-39%	-10%	39%	60%
IQ				
Current Price	108.8	108.8	108.8	108.8
Normalised EPS (QAR/Share)	5.6	8.3	12.8	15.2
Normalised P/E (x)	19.5	13.1	8.5	7.2
DCF-based Valuation	63.0	87.0	122.4	142.8
Upside/Downside	-42%	-20%	12%	31%
Yansab				
Current Price	41.0	41.0	41.0	41.0
Normalised EPS (SAR/Share)	3.6	4.5	5.6	6.5
Normalised P/E (x)	11.4	9.2	7.3	6.3
DCF-based Valuation	40.1	46.6	55.0	61.6
Upside/Downside	-2%	14%	34%	50%
SAFCO				
Current Price	145.3	145.3	145.3	145.3
Normalised EPS (SAR/Share)	6.9	9.5	13.2	15.2
Normalised P/E (x)	21.0	15.3	11.0	9.6
DCF-based Valuation	75.3	102.3	144.5	165.3
Upside/Downside	-48%	-30%	0%	14%
SIDPEC				
Current Price	12.7	12.7	12.7	12.7
Normalised EPS (SAR/Share)	1.0	1.3	1.7	2.0
Normalised P/E (x)	12.6	9.8	7.5	6.4
DCF-based Valuation	11.0	12.9	15.8	17.6
Upside/Downside	-14%	2%	24%	38%
Advanced Petrochemical				
Current Price	20.4	20.4	20.4	20.4
Normalised EPS (SAR/Share)	1.9	2.1	2.5	2.7
Normalised P/E (x)	10.7	9.7	8.1	7.5
DCF-based Valuation	19.2	22.8	25.0	26.8
Upside/Downside	-6%	12%	23%	31%
Sahara Petrochemical				
Current Price	21.3	21.3	21.3	21.3
Normalised EPS (SAR/Share)	2.3	2.8	3.7	4.2
Normalised P/E (x)	9.1	7.5	5.7	5.0
DCF-based Valuation	22.3	25.7	30.0	33.7
Upside/Downside	5%	21%	41%	58%

Source: EFG Hermes estimates



INVESTMENT RATIONALE AND TOP PICKS

We remain buyers of SABIC due to its strong growth momentum and relatively cheap valuation compared to its global peers. We view SABIC as one of the best long-term play on the next economic cyclical upturn due to its significance in the global petrochemicals market, its high operating leverage, and its global cost advantage.

We, however, urge investors to consider some of the mid-cap petrochemicals players in the region, who are not as diversified as SABIC but offer attractive growth opportunities and enjoy a relatively similar cost advantage. We highlight Yansab and Sahara as the most attractive growth plays in our coverage universe. Advanced looks undervalued, partially due to negative sentiment led by the repetitive technical issues at its PP plant as well as the recent antidumping case on Saudi PP exports to India. We view the current level as an attractive entry point for the stock. SIDPEC remains the most defensive play, in our view, offering the most attractive estimated dividend in our coverage universe. We are Neutral on both SAFCO and IQ due as we believe their strong fundamentals and risks/returns forces seem to be largely reflected at current levels.

SABIC trades at an estimated P/E of 13.5x in 2010 and 10.9x in 2011. Additionally, it trades at a normalised P/E of 12.3x (based on estimated 2013 discounted EPS). In our view, SABIC will continue to benefit from higher capacity over our forecast horizon, mainly from Tianjin and Kayan. We expect SABIC's 3Q2010's earnings will be impacted negatively by lower petrochemical and fuel additive prices as well as lower steel margins. SABIC is likely to have paid higher iron ore prices in 3Q2010. We believe 3Q2010's weaker expected earnings are already priced in. SABIC's model has historically been volume driven, and we believe its strong organic growth momentum will allow for attractive long-term value creation for shareholders. SABIC trades at a discount to Dow Chemicals in 2010, an unjustified discount, in our view, given SABIC's sustainable global cost advantage and stronger growth momentum. Our DCF-based valuation is SAR125 per share, offering 38% upside potential over the current level.

Yansab trades at an attractive estimated 2011 P/E of 9.3 (c28% discount to the global average) and offers an attractive estimated 35% EPS CAGR growth on both higher volumes (the cracker began commercial operations only in 2Q2010) and higher petrochemical prices. It trades at a normalised P/E of 9.6x (based on estimated 2013 discounted EPS). Our DCF-based valuation is SAR55 per share, offering 34% upside potential over the current level. We believe that both Yansab and SABIC will be the largest beneficiaries of an oil price rally.

Sahara trades at an attractive estimated 2011 P/E of 9.2x (29% discount to the global average) and offers an attractive estimated 34% EPS CAGR in 2010-2012. Sahara is a petrochemical conglomerate, investing in several petrochemical projects in Saudi Arabia. It produces, directly and indirectly, a wide range of products, of which polypropylene (through its 75% owned Al Waha Petrochemicals Co) and polyethylene (through its 24.4% stake in Saudi Ethylene and Polyethylene Co (SEPC)) are the main contributors to our earnings forecasts. Sahara also invests in downstream petrochemicals, and plans to produce acrylates and super absorbent polymers by 2012. Our estimated fair value (FV) for Sahara is SAR30.1/share, which offers 42% upside potential to the current price. Sahara's 75% owned PP plant, Al Waha, has a relatively similar business model to Advanced. The market's current valuation for Advanced implies an estimated 2010 P/E of 12x for SEPC and zero value for the other projects.

Advanced trades at an attractive estimated 2011 P/E of 9.5x (c26% discount to the global average). It trades at a normalised P/E of 10.6x (based on estimated 2013 discounted EPS).



Our DCF-based valuation is SAR25 per share, offering 23% upside potential over the current level. Advanced is a pure play on polypropylene, where its profitability depends largely on the spread between polypropylene and naphtha prices. Advanced's discount on propane started at 31% to naphtha in 2008, which we estimate will decline gradually to 28% by 2011 and 25% thereafter. Management is planning to pursue further investments, which we believe will be in downstream activities, such as acrylic acid and acrylates. Its PP plant faced technical some issues in late 2009 and early 2010. This, in addition to the recent Indian antidumping case on Saudi Arabia's PP exports, have weighted on the share price performance. We believe that the market has overestimated downside risks of both issues, and we expect the valuation gap will be closed should the plant's return to full capacity utilisation in 4Q2010.

IQ trades at an estimated P/E of 11.8x in 2010 and a normalised P/E of 11.6x. We believe that the company's main growth drivers are higher volumes from its 23% owned RLOC project (+1.3mtpa), its 50% owned Qatofin project (+450 mtpa of LLDPE), and its 75% owned QAFCO V and VI projects (+1.6mtpa of ammonia and +2.6mtpa of urea). IQ is the most diversified petrochemicals play in our coverage, but its strong fundamentals seem to be largely in the price. Our DCF-based valuation is QAR122 per share, offering 12% upside potential over the current level. We favour exposure to SABIC over IQ as its normalised-based valuation metrics look more compelling, keeping everything else constant.

SABIC and IQ have comparable business models, with both companies being producers of basic petrochemicals, fuel additives, nitrogen fertilisers and steel, although SABIC has a significantly heavier weight globally in petrochemicals and a much more complex business structure. A major difference between them is the diversification of earnings and cash flow streams. We estimate that 3% of IQ's estimated 2010 EBITDA will be generated by fertilisers (QAFCO - ammonia and urea), 48% by petrochemicals (QAPCO - ethylene, LLDPE and LDPE), 8% by fuel additives (QAFAC - methanol and MTBE), and 14% by steel (QASCO). While SABIC's model is widely stretched towards various products more than IQ, its margins and cash flows are highly leveraged to the fundamentals of the global petrochemicals industry, which generates the lion's share of its revenue (an estimated 87% in 2010) and EBITDA (an estimated 85% in 2010).

We remain Neutral on **SAFCO**, which has full exposure to the current depressed fundamentals of nitrogen fertilisers. SAFCO trades at an estimated P/E of 13.0x in 2010 (based on recurring EPS) and a normalised P/E of 13.8x (based on estimated 2013 discounted EPS). We do not see much of a performance trigger at current levels, especially with a lack of capacity growth and relatively lower upside risks on urea prices. In our view, SAFCO always positions itself as an attractive trading call during the first and fourth quarters of each fiscal year, during which time urea prices generally surge on normal demand seasonality. Our DCF-based valuation is SAR145.0 per share, on par with the current price.

SIDPEC offers an estimated dividend yield of 12% and an estimated free cash flow yield of 16% in 2010. Its relatively lower operating leverage, with its feedstock structure being linked to commodity prices, should protect operating margins if oil prices were to dip further. SIDPEC trades at an estimated 2010 P/E of 8.3x and a normalised P/E of 10.2x (based on estimated 2013 discounted EPS). We highlight that SIDPEC will likely start paying a 20% income tax in 2011. The company trades at a significant discount to its global/regional peers, partially due to its relatively lower market liquidity compared to its regional peers and to its lack of capacity growth. Our DCF-based valuation is EGP15.8 per share, offering 24% upside potential over the current level.



III. INDUSTRY OUTLOOK AND FORECASTS

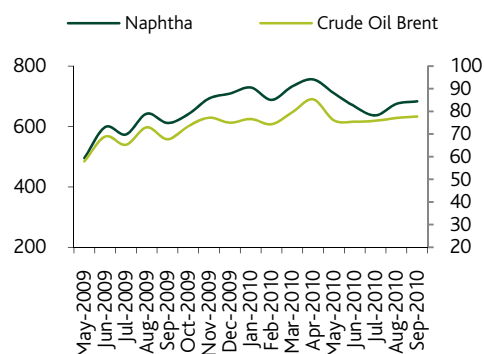
A. PETROCHEMICALS

PRICES REBOUND ON MODERATE RESTOCKING (EX-CHINA)

Basic petrochemical prices seem to have bottomed in 3Q2010 on a moderate restocking (ex-China) and supply constraints in Asia. Ethylene prices surged 21% from average levels in 3Q2010 supported by an attractive PE/ethylene spread and by cracker turnarounds in Asia, including shutdowns in Taiwan, Malaysia and Thailand. The PE and PP spot prices stand 6% and 7% higher than 3Q2010's average. We estimate that current spot prices, if sustainable, would lead to double-digit Q-o-Q earnings growth for most of the stocks under our coverage.

FIGURE 19: OIL PRICE VERSUS NAPHTHA

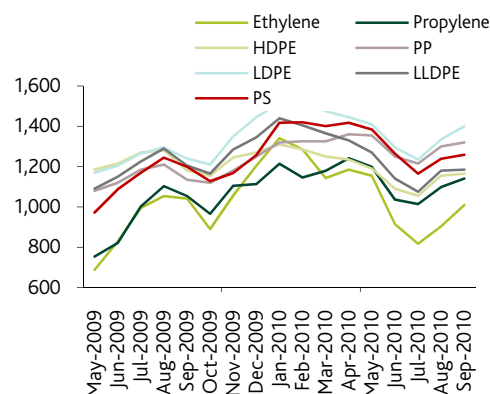
In USD/tonne (LHS), USD/bbl (RHS)



Source: Chemicals Market Associates, Inc. (CMAI)

FIGURE 20: PRICES OF BASIC PETROCHEMICALS

In USD/tonne, unless otherwise stated



Source: Chemicals Market Associates, Inc. (CMAI)

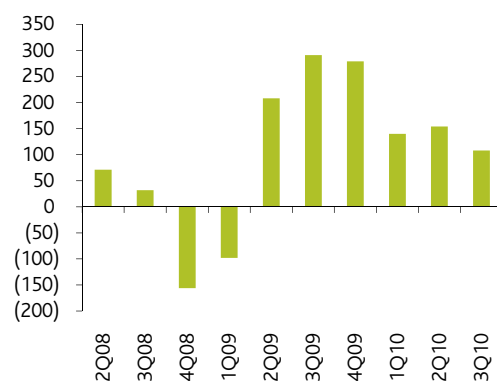
CHINA'S IMPORT DEMAND NORMALISES

China's import demand has started to recover from its low levels in June-July 2010, according to the CMAI. This should provide support for petrochemical prices. Our base case scenario suggests limited upside potential from current spot price levels, assuming oil price remains constant. Essentially, we believe demand in China looks now more normalised after the end of the inventory restocking cycle (bolstered by strong economic stimulus package) that fuelled the price rally in 1Q2010 and started to fade in 2Q2010 and 3Q2010. We believe that it is unlikely to see Chinese petrochemicals imports recovering to 1Q2010 peak levels in the medium term due to: i) the increase in Chinese domestic capacity, and ii) the fact that inventory levels are still historically high.

This, coupled with strong export supplies from the Middle East, should cap prices in the Middle East and be reflected in lower spreads between products, derivatives and feedstock prices. We believe that petrochemical prices and product spreads to oil will remain below historical levels in 2H2010 through to 2011. We have accounted for this assumption in our forecasts.

**FIGURE 21: PE INVENTORY CHANGES IN NE ASIA**

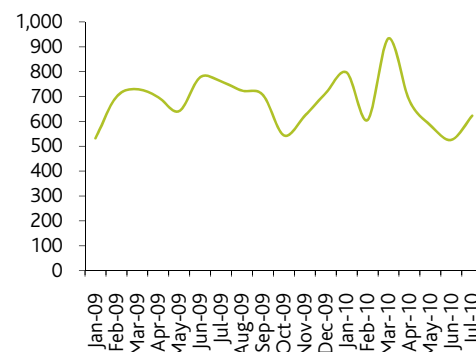
In thousands tonnes, unless otherwise stated



Source: Chemicals Market Associates, Inc. (CMAI)

FIGURE 22: CHINA TOTAL PE IMPORTS

In thousand tonnes, unless otherwise stated

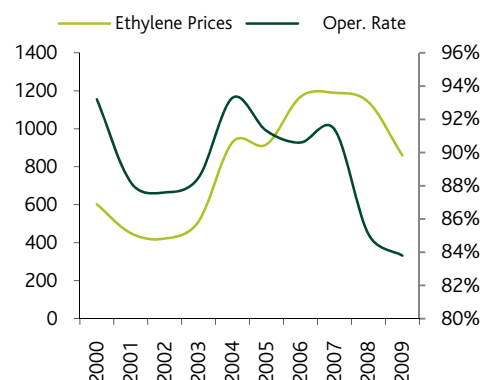


Source: Chemicals Market Associates, Inc. (CMAI)

The CMAI expects ethylene operating rates will dip to the early 80s through to 2011 and will rebound thereafter on global economic recovery. We believe upside risks to this scenario include the impact of considerable capacity rationalisation, particularly in Western Europe, and stronger supply discipline in the US, which was proved during the trough margins of 2H2008-1H2009. We expect such a trend to self-correct both global prices and operating rates, which could provide room a for stronger-than-estimated price outlook. Other upside risks include significant delays in new Asian capacity start-ups, and a stronger, faster demand recovery in the US and Western Europe. In all cases, our forecasts have accounted for a lower than historical spread of ethylene/derivatives to naphtha over the next few years.

FIGURE 23: HISTORICAL ETHYLENE PRICES VERSUS GLOBAL OPERATING RATES

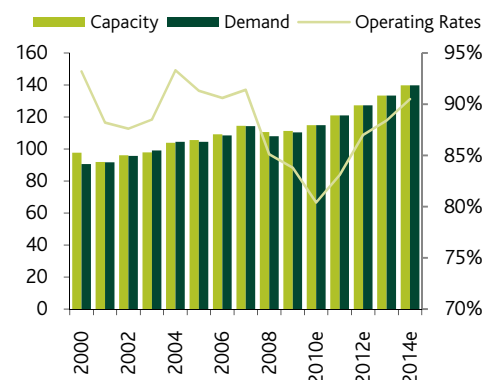
In USD/tonne (LHS), In % (RHS)



Source: Chemicals Market Associates, Inc. (CMAI)

FIGURE 24: FORECASTS OF ETHYLENE SUPPLY/DEMAND

in million tonnes (LHS), In % (RHS)



Source: Chemicals Market Associates, Inc. (CMAI)

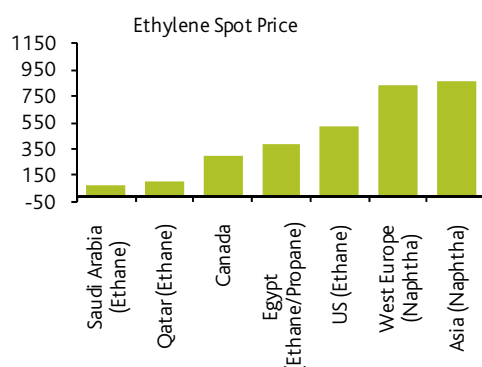


OIL PRICES REMAIN THE MAJOR UPSIDE/DOWNSIDE RISKS TO PRICES

Our petrochemicals model is largely biased to our oil price assumptions. We assume ethylene prices through to 2012 will largely reflect production costs in Asia, after adjusting for co-product credits based on the current spot price levels. We highlight that c48% of the world's current ethylene capacity is based on naphtha, mostly in West Europe and Asia. We further highlight that the naphtha's share of global feedstock has declined considerably to 48% in 2010 from 51% in 2008 after US producers switched to lighter feedstock types, such as ethane, to take advantage of lower natural gas prices relative to oil. At USD80/bbl, our model suggests a floor price of USD972/tonne for ethylene, which would imply a floor price of USD1,162/tonne for polyethylene.

FIGURE 25: ETHYLENE GLOBAL CASH COST BY REGION - SEPTEMBER 2010

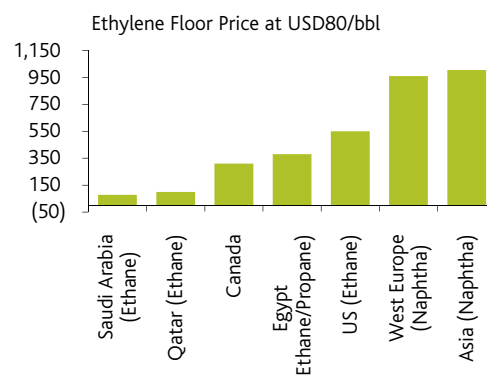
In USD/tonne, unless otherwise stated



Source: Chemicals Market Associates, Inc. (CMAI)

FIGURE 26: ETHYLENE FLOOR PRICE AT USD80/BBL

In USD/tonne, unless otherwise stated



Source: EFG Hermes estimates

We have performed an in-depth regression analysis to examine the relationship between oil and basic commodities on a monthly basis in 1990-2009. The results suggest that for every USD1 increase in the price of oil, naphtha prices increase by USD8.5/tonne, polymer prices by cUSD11/tonne, and urea prices by USD3.5/tonne.

The table below highlights the sensitivity of our price assumptions for basic commodities produced by companies under our coverage to changes in oil prices.

**FIGURE 27: SENSITIVITY OF COMMODITY PRICES ASSUMPTIONS TO CHANGES IN OIL PRICES**

In USD/tonne, unless otherwise stated

Oil Price (USD/bbl)	50	65	80	100
Feedstocks Assumptions				
Naphtha	457	586	714	884
Propane	442	552	663	810
Butane	448	562	676	828
Commodity Price Assumptions				
Ethylene	824	992	1,161	1,386
Propylene	767	958	1,148	1,402
HDPE	1,028	1,186	1,344	1,554
LDPE	1,085	1,248	1,412	1,630
LLDPE	1,007	1,170	1,333	1,550
PP	1,052	1,202	1,352	1,552
Methanol	250	316	382	470
MTBE	515	669	824	1,030
Ammonia	242	303	400	452
Urea	207	253	320	360
Steel	400	520	640	800

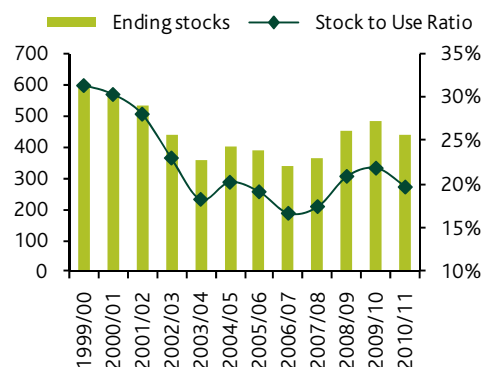
Source: Chemical Market Associates, Inc. (CMAI), EFG Hermes estimates

B. NITROGEN FERTILISERS**OUTLOOK STRENGTHENS ON STRONGER GRAIN FUNDAMENTALS**

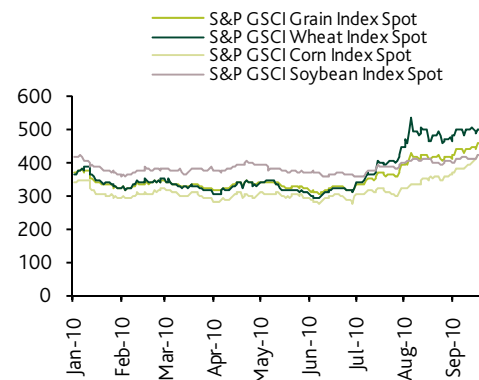
In its September 2010 report "World Agricultural Supply and Demand Estimates – WASDE", the United States Department of Agriculture (USDA) has downgraded its world grain inventory estimates in light of bad weather, the worst of which was seen in the Former Soviet Union (FSU). Russia faced the worst drought in decades, which is estimated to have destroyed c25% of the country's cultivated land. In response, the government banned grain exports until the end of the 2010-2011 agriculture season. This, in addition to lower agricultural yields in the US and Europe, has boosted global grain prices. Overall, the USDA has downgraded the world's total grain stock-to-use ratio to 19.6%, down from 19.8% in August 2010 and c22% at the beginning of 2010.

**FIGURE 28: WORLD GRAIN STOCK-TO-USE RATIO**

In mtpa (LHS), Ratio in % (RHS)



Source: USDA

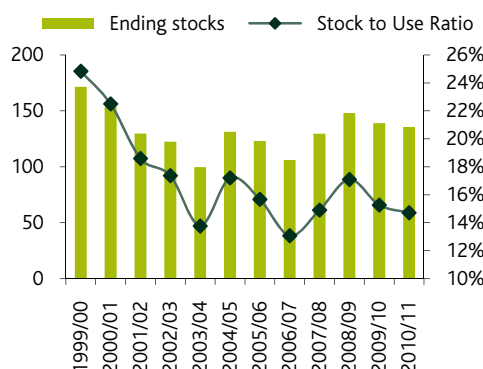
FIGURE 29: S&P GSCI GRAIN PRICE INDICES

Source: Bloomberg

Essentially, the fundamentals of corn are crucial to urea prices, as corn is the most nitrogen fertiliser-intensive crop. The USDA has revised down its estimates for global corn inventories, mainly on expectations of lower yields in the US and Europe. The US's average corn yield estimate was reduced to 162.5 bushels per acre, down 2.5 bushels from August estimates, following tough weather conditions in the eastern Corn Belt over the last few weeks. According to the USDA's revised estimates, the US corn ending inventory would be the lowest since 2003-2004, while its stock-to-use ratio (c8.3%) would be the lowest since 1995-1996. Overall, the USDA estimates the global corn stock-to-use ratio in 2010-2011 at 14.7% (well below the five-year average of 17.3%). Lower estimates for inventory and yields pushed up corn prices to above USD5/bushel, 16% up YTD.

FIGURE 30: WORLD CORN STOCK-TO-USE RATIO

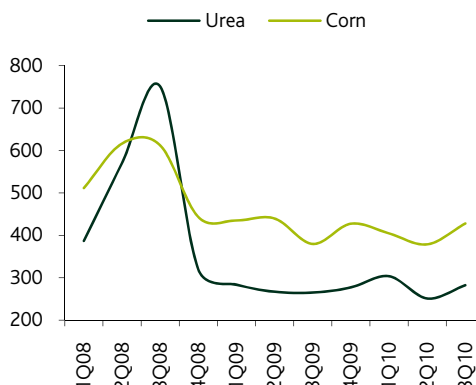
In mtpa (LHS), Ratio in % (RHS)



Source: USDA

FIGURE 31: UREA VERSUS CORN

In USD/tonne (Urea) and cents/bushel (Corn)



Source: Bloomberg

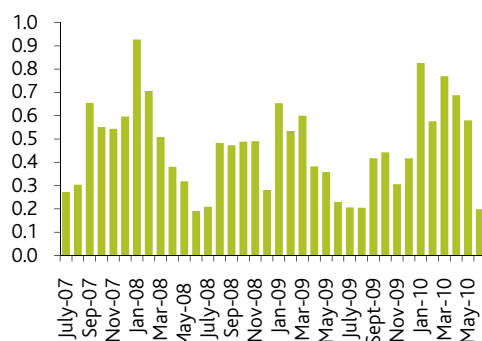


UREA PRICE OUTLOOK STRONG

Indian imports are expected to cool down after the end of the kharif season, in our view. The healthy demand outlook in the US and Europe (inventory levels are historically low), and Latin America, particularly in Brazil, should continue to support global demand. This, in addition to lack of Chinese volumes until mid-October (where the government applies a peak season tariff of 110% on urea) and unplanned plant shutdowns (such as Iran's Pardis I), should keep the market balanced.

FIGURE 32: US HISTORICAL UREA IMPORTS

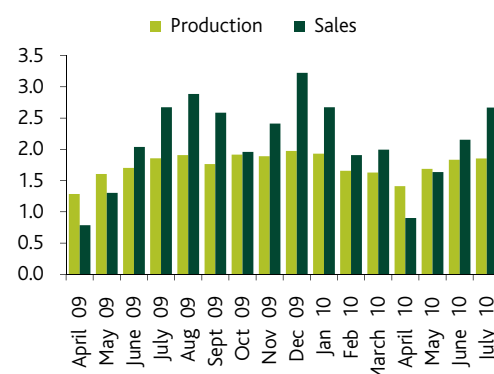
In mtpa, unless otherwise stated



Source: Fertecon

FIGURE 33: HISTORICAL UREA PRODUCTION AND LOCAL SALES IN INDIA

In mtpa, unless otherwise stated



Source: Fertecon

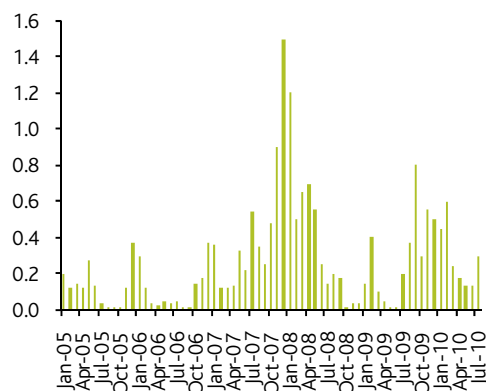
...EXPECT MODERATE CORRECTION BY MID-OCTOBER

We believe that: i) the return of Chinese export activities in the second half of October (export tariffs reduced to 7% during off peak season, which runs from mid-October to end-January and from July until mid-September), and ii) apparently aggressive pre-buying in the US over the last few months, which would lower seasonal imports in 4Q2010-1Q2011, would weight moderately on global prices. This is particularly true with the current spot urea price being well above our production cash cost estimates of coal-based plants in China (USD265/tonne). This provides strong incentives for Chinese producers to offload urea in export markets, which would weight on global prices.

In all cases, we expect prices will remain well above the bottom witnessed this year due to: i) higher grain prices, which have significantly improved farmers' economics and provided incentives to increase applications rates during the 2010-2011 season, and ii) higher gas prices for marginal producers in the Ukraine. The Ukrainian government has recently removed gas price privileges for sugar, fertilisers and metallurgy producers as a part of its agreement with the IMF. The price of gas delivered to chemicals plants, including nitrogen fertiliser plants, is now estimated at USD8.65/mmBtu, up from an average of USD6.2/mmBtu in 2Q2010. This implies ammonia and urea cash costs of USD341/tonne, up from USD253/tonne in 2Q2010, and USD245/tonne, up from 195/tonne in 2Q2010, respectively.

**FIGURE 34: CHINA MONTHLY UREA EXPORTS**

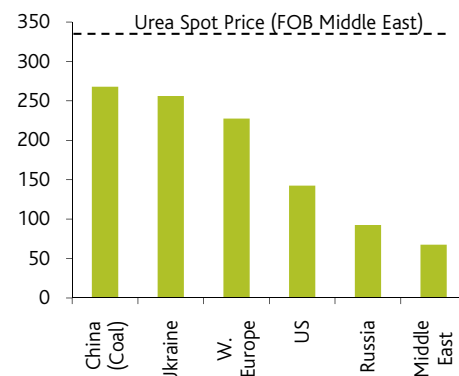
In mtpa, unless otherwise stated



Source: Fertecon

FIGURE 35: 3Q2010 UREA CASH COST BY REGION

In USD/tonne, unless otherwise stated



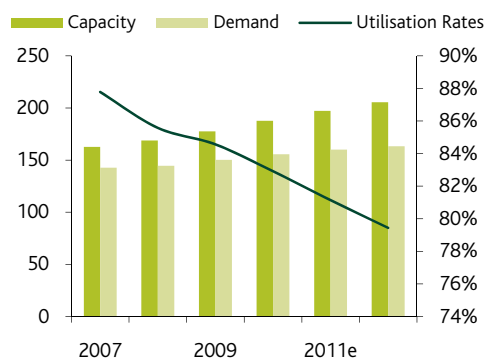
Source: EFG Hermes

NEW UREA CAPACITY UNLIKELY TO BE A THREAT

Global Consultants, Fertecon, estimates that global urea supply will increase by at least 9.6 million tonnes in 2011 (6% of current capacity), of which almost 50% will come on stream in China. With the Chinese urea export tariff scheme expected to remain in place, as a government initiative to save coal consumption and drive consolidation in the fragmented local industry, we believe that the significant increase in Chinese capacity, if fully materialised, would have a limited impact on the global market. We, therefore, argue that it is more practical to estimate global urea utilisation rates excluding China. In 2011, the total projected urea capacity increase is estimated at 4.9 million tonnes, mostly scheduled in the MENA region. Our analysis shows that this capacity could be fully absorbed if demand for urea grew by at least 3% next year, a highly likely scenario, especially with the current favourable grain fundamentals (grain represent c55% of urea demand).

FIGURE 36: GLOBAL UREA SUPPLY AND DEMAND

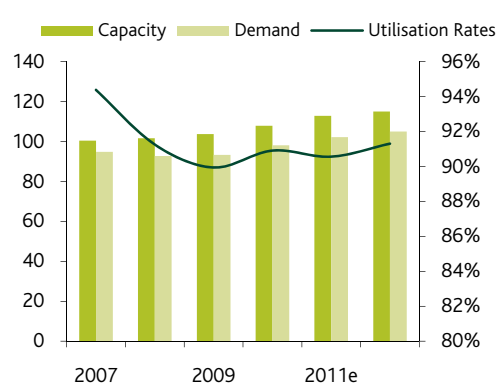
In mtpa (LHS), Utilisation rates in % (RHS)



Source: Fertecon, EFG Hermes estimates

FIGURE 37: GLOBAL UREA SUPPLY AND DEMAND (EX-CHINA)

In mtpa (LHS), Utilisation rates in % (RHS)



Source: Fertecon, EFG Hermes estimates

Weaker 3Q2010 Priced In; Maintain Buy

BASIC MATERIALS | SAUDI ARABIA

07 October 2010

≡ We expect 3Q2010's Net Income 10% Lower Q-o-Q

The price of SABIC's main petrochemical commodities (excluding nitrogen fertilisers) basket fell by 5-16% Q-o-Q in 3Q2010. This should have weakened its petrochemicals margins; 3Q2010's steel profitability should have been pressured by higher raw materials costs, reflecting average spot iron ore price in 2Q2010. Higher nitrogen fertiliser prices are unlikely to have been compensated for by weaker petrochemical (c87% of SABIC's EBITDA) and steel (c5%) margins. We expect SABIC's 3Q2010 revenue will fall by 4% Q-o-Q, its EBITDA by 7% Q-o-Q, and net income by 10% Q-o-Q to SAR4.5 billion.

≡ Outlook Improves on Stronger Pricing Environment

Basic petrochemical prices rebounded in September 2010 on a moderate restocking (ex-China) and supply constraints in Asia. Oil prices are currently above USD83/bbl, which, if sustainable, would continue to support prices along the olefins value chain, to which SABIC's earnings are highly leveraged. We believe this should be reflected positively in SABIC's 4Q2010 performance. We maintain our forecasts as we had already accounted for weaker 3Q2010 earnings in our model.

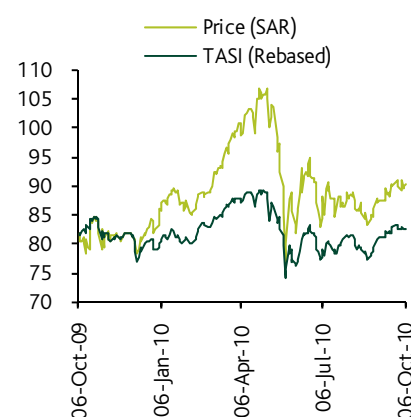
≡ Valuation Still Attractive; Maintain Buy

Our DCF-based valuation for SABIC is SAR125 per share, offering 38% upside potential over the current level. SABIC trades at an estimated P/E of 13.5x in 2010 and 10.9x in 2011. Additionally, it trades at a mid-cycle P/E of 11.9x (based on estimated 2012 discounted EPS). In our view, SABIC will continue to benefit from higher capacity over our forecast horizon, mainly from Tianjin and Kayan.

BUY

Price	SAR90.3*
Fair Value	SAR125
Last Ex / Div. Date	SAR1.5 on 27 July 10
Mkt. Cap / Shares (mn)	SAR270,750 / 3,000
Av. Mthly Liqdy (mn)	SAR7,376
52-Week High / Low	SAR106.8 / 76.8
Bloomberg / Reuters	SABIC AB / 2010.SE
Est. Free Float	30%

SHARE PRICE PERFORMANCE RELATIVE TO TASI REBASED



KEY FINANCIAL HIGHLIGHTS

December Year End (SAR bn)	2009a	2010e	2011e	2012e
Revenue	103.1	148.5	174.2	184.3
EBITDA	30.8	46.9	51.5	54.1
Operating Profit	20.0	36.7	40.7	42.1
Net Income	9.1	20.4	24.8	26.2
EPS (SAR)	3.0	6.8	8.3	8.7
DPS (SAR)	1.5	3.0	5.0	5.0
Net Debt (Cash)	50.6	41.7	34.3	21.3
P/E* (x)	29.8	13.3	10.9	10.3
P/E* (Recurring) (x)	26.4	13.5	10.9	10.3
EV/EBITDA (x)	10.5	6.9	6.3	6.0
EV/EBITDA (Proportionate) (x)	13.9	9.1	8.3	7.9
P/BV* (x)	2.5	2.3	2.1	1.9
P/CF* (Proportionate) (x)	13.0	8.6	7.7	7.4
Div. Yield	1.7%	3.3%	5.5%	5.5%
RoAE	9.7%	17.6%	19.9%	19.4%

*Prices as at 06 October 2010
Source: SABIC, EFG Hermes estimates

Ahmed Shams El Din
+20 2 3535 6143
ashamseldin@efg-hermes.com

Yousef Hussein
+20 2 3535 6013
yhusseini@efg-hermes.com



FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Revenue	103,062	148,474	174,190	184,253	186,909
Cash Costs	(63,669)	(90,832)	(109,735)	(117,271)	(118,274)
Depreciation and Amortisation	(10,773)	(10,165)	(10,760)	(12,040)	(11,905)
Gross Profit	28,620	47,477	53,695	54,942	56,730
SG&A	(8,634)	(10,727)	(12,983)	(12,867)	(13,027)
EBITDA	30,758	46,914	51,472	54,115	55,608
EBITDA Margin	30%	32%	30%	29%	30%
Net Operating Profit	19,986	36,750	40,712	42,075	43,703
Net Operating Margin	19%	25%	23%	23%	23%
Net Interest Income (Expense)	(2,388)	(3,311)	(3,252)	(2,774)	(2,226)
Other Income (Expense)	(323)	528	1,460	1,604	1,632
EBT	17,275	33,966	38,920	40,905	43,109
Zakat	(900)	(1,920)	(1,557)	(1,636)	(1,724)
Net Income before Minorities	16,375	32,046	37,363	39,269	41,385
Minority Interest	(7,302)	(11,632)	(12,609)	(13,090)	(13,693)
Net Income	9,074	20,414	24,754	26,179	27,692

Source: SABIC, EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash and Time Deposits	56,377	64,346	66,215	67,971	73,281
Receivables	20,534	23,200	27,219	28,791	29,206
Inventory	23,770	23,666	28,591	30,554	30,816
Other Debit Balances	5,782	8,330	9,773	10,338	10,487
Total Current Assets	106,464	119,543	131,797	137,654	143,790
Net Fixed Assets	77,232	142,297	151,556	169,574	167,669
Other LT Assets	113,166	53,515	49,838	36,257	37,761
Total Assets	296,861	315,355	333,191	343,486	349,220
ST Debt	6,477	5,537	11,264	12,671	14,468
Payables	13,382	16,176	19,542	20,884	21,063
Other Current Liabilities	13,989	12,058	14,567	15,568	15,701
Total Current Liabilities	33,849	33,771	45,373	49,123	51,231
LT Debt	100,538	100,538	89,274	76,603	62,135
Other Liabilities	54,220	61,378	69,122	77,159	85,560
Net Worth	108,255	119,668	129,422	140,601	150,293

Source: SABIC, EFG Hermes estimates

**CASH FLOW STATEMENT (DECEMBER YEAR END)**

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Operating Profit after Tax	29,858	44,994	49,915	52,478	53,884
Change in Working Capital	(578)	(4,248)	(4,511)	(1,758)	(514)
Cash Flow after Change in WC	29,280	40,746	45,405	50,721	53,370
CAPEX	(25,794)	(14,897)	(15,000)	(15,000)	(10,000)
Free Cash Flow	3,486	25,849	30,405	35,721	43,370
Non-operating Cash Flow	606	(156)	118	127	129
Cash Flow before Financing	4,092	25,693	30,523	35,848	43,499
Net Financing	1,258	(17,725)	(28,655)	(34,091)	(38,189)
Change in Cash	5,350	7,969	1,869	1,756	5,310

Source: SABIC, EFG Hermes estimates

Strong Fundamentals Priced In; Downgrade to Neutral

BASIC MATERIALS | QATAR

07 October 2010

≡ Raising FV to QAR122/Share on Stronger Pricing Environment

We upgrade our FV for Industries Qatar (IQ) to QAR122/share from QAR115/share, mainly on a stronger nitrogen fertiliser price outlook. Our adjusted FV offers only 12% upside to the current price, and we therefore downgrade our rating to Neutral from Buy. IQ trades at an estimated P/E of 11.8x in 2010 and 10.3x in 2011. Earnings growth is stemming mainly from higher prices and volumes from new capacities.

≡ Outlook Stronger On higher Oil Prices and Positive Grain Fundamentals

Basic petrochemical prices rebounded in September 2010 on a moderate restocking (ex-China) and supply constraints in Asia. Oil prices are currently above USD82/bbl, which, if sustainable, would continue to support ethylene and PE prices. Urea prices benefited from the surge in grain prices following lower corn yield and inventory expectations on adverse weather globally. The absence of Chinese exports due to a high export tariff (110%) should keep urea prices high until mid-October. Afterwards, we believe: i) the return of Chinese export activities, and ii) apparently aggressive pre-buying in the US ahead of the next application season, should weight moderately on prices.

≡ Steel Margin Contraction Likely to Have Offset Higher Fertiliser Prices

We expect to see overall bottom line weakness Q-o-Q as tighter steel margins offset the positive impact of higher petrochemical volumes and fertiliser prices. Urea prices grew 11% Q-o-Q to USD288/tonne in 3Q2010. QAPCO (80% owned) should contribute higher volumes from the Qatofin project (0.23 mtpa of LLDPE). Volumes from QAFAC (50% owned) should jump 131% Q-o-Q after the shutdown in 2Q2010. On steel, we expect high cost iron ore to hit the income statement, reflecting negatively on consolidated margins. We see revenues at QAR2.95 billion (+6% Q-o-Q), EBITDA at QAR1.25 billion (-9% Q-o-Q), and net income at QAR1.18 billion (-17% Q-o-Q).

KEY FINANCIAL HIGHLIGHTS

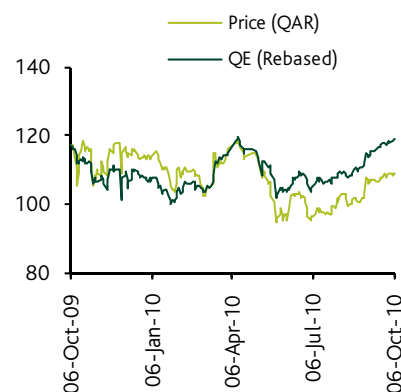
December Year End (QAR mn)	2009a	2010e	2011e	2012e
Revenue	9,657	11,429	13,880	16,479
EBITDA	3,869	5,170	6,230	7,863
Operating Profit	3,323	4,587	5,369	6,717
Net Income	4,876	5,062	5,811	6,943
EPS (SAR)	8.9	9.2	10.6	12.6
DPS (SAR)	5.0	5.0	5.0	7.5
Net Debt (Cash)	165	4,291	7,547	5,951
P/E* (x)	12.3	11.8	10.3	8.6
P/E* (Recurring) (x)	16.1	11.8	10.3	8.6
EV/EBITDA (x)	16.3	12.2	10.1	8.0
P/BV* (x)	3.7	3.2	2.8	2.5
P/CF* (x)	9.0	11.7	10.5	8.0
Div. Yield	5%	5%	5%	7%
RoAE	19%	26%	27%	29%

*Prices as at 06 October 2010
Source: IQ, EFG Hermes estimates

NEUTRAL

Price	QAR109*
Fair Value	QAR122
Last Ex / Div. Date	QAR5 on 7 April 2010
Mkt. Cap / Shares (mn)	QAR59,840 / 550
Av. Mthly Liqdy (mn)	QAR635.6
52-Week High / Low	QAR119.5 / 94.8
Bloomberg / Reuters	IQCD QD / IQCD.QA
Est. Free Float	30%

SHARE PRICE PERFORMANCE RELATIVE TO QE REBASED



Ahmed Shams El Din
+20 2 3535 6143
ashamseldin@efg-hermes.com

Rita Guindy
+20 2 3535 6387
rguindy@efg-hermes.com



REVISED ESTIMATES

FIGURE 38: FINANCIAL BREAKDOWN BY SUBSIDIARY

In QAR million, unless otherwise stated

	2010e	2011e	2012e	2013e
QAFCO	2,663	4,126	5,597	5,597
QAPCO	3,037	3,418	4,133	4,251
QAFAC	961	1,310	1,387	1,387
QASCO	4,773	5,026	5,362	5,362
Consolidated Revenue	11,429	13,880	16,479	16,597
QAFCO	1,583	2,261	3,089	2,990
QAPCO	2,259	2,625	3,126	3,235
QAFAC	350	471	513	494
QASCO	1,126	933	1,058	1,047
Consolidated Gross Profits	5,341	6,290	7,785	7,765
QAFCO	1,527	2,458	3,416	3,332
QAPCO	2,280	2,474	2,987	3,093
QAFAC	331	393	429	411
QASCO	1,041	904	1,031	1,031
Consolidated EBITDA	5,170	6,230	7,863	7,868
QAFCO	57%	60%	61%	60%
QAPCO	75%	72%	72%	73%
QAFAC	34%	30%	31%	30%
QASCO	22%	18%	19%	19%
Consolidated EBITDA Margin	45%	45%	48%	47%
Interest Expense	(110)	(83)	(324)	(298)
Interest Income	160	119	77	118
Investment Income	199	129	142	193
Other Income/Expense	227	278	330	332
Consolidated Net Profit	5,062	5,811	6,943	7,033

Source: IQ, EFG Hermes estimates

FIGURE 39: DCF VALUATION SUMMARY

In QAR million, unless otherwise stated

	2010e	2011e	2012e	2013e	2014e
Operating Income (EBIT)	4,587	5,369	6,717	6,688	6,653
Adjusted COPAT	5,170	6,230	7,863	7,868	7,865
CAPEX and WC Changes	(3,988)	(7,056)	(2,233)	(1,137)	(984)
Free Cash Flow to Firm	591	(826)	5,630	6,730	6,882
Enterprise Value	68,361				
Net Debt	3,176				
Investments	2,131				
Equity Value	67,315				
No. of Shares	550				
DCF Value / Share	122				

Source: IQ, EFG Hermes estimates



FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In QAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Revenue	9,657	11,429	13,880	16,479	16,597
Cash Costs	(5,232)	(5,505)	(6,729)	(7,548)	(7,652)
Depreciation	(503)	(583)	(861)	(1,146)	(1,179)
Gross Profit	3,921	5,341	6,290	7,785	7,765
SG&A	(577)	(754)	(921)	(1,067)	(1,077)
EBITDA	3,869	5,170	6,230	7,863	7,868
EBITDA Margin	40.1%	45.2%	44.9%	47.7%	47.4%
Net Operating Profit	3,323	4,587	5,369	6,717	6,688
Net Operating Margin	34.4%	40.1%	38.7%	40.8%	40.3%
Net Interest Income (Expense)	358	160	119	77	118
Other Income (Expense)	1,423	426	407	471	525
EBT	4,878	5,063	5,811	6,943	7,033
Tax	-	-	-	-	-
Net Income	4,876	5,062	5,811	6,943	7,033

Source: IQ, EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In QAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash and Time Deposits	5,834	3,941	818	2,278	2,431
Receivables	1,527	2,031	2,676	3,181	3,359
Inventory	1,377	1,421	1,717	1,929	1,956
Other Debit Balances	623	131	131	131	131
Total Current Assets	9,360	7,523	5,341	7,519	7,877
Net Fixed Assets	15,633	18,981	24,633	25,368	25,173
Other LT Assets	2,128	2,336	2,458	2,593	2,778
Total Assets	27,121	28,839	32,433	35,480	35,828
ST Debt	307	343	374	686	794
Payables	1,595	1,595	1,993	2,359	2,410
Other Current Liabilities	2,778	28	28	28	28
Total Current Liabilities	4,680	1,966	2,395	3,073	3,233
LT Debt	5,692	7,888	7,991	7,543	6,748
Other Liabilities	452	568	568	568	568
Net Worth	16,297	18,417	21,478	24,296	25,279

Source: IQ, EFG Hermes estimates

**CASH FLOW STATEMENT (DECEMBER YEAR END)**

In QAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2012e
Operating Profit after Tax	3,847	5,170	6,230	7,863	7,868
Change in Working Capital	2,794	(56)	(542)	(352)	(153)
Cash Flow after Change in WC	6,641	5,114	5,687	7,511	7,715
CAPEX	(4,812)	(3,931)	(6,513)	(1,881)	(984)
Free Cash Flow	1,829	1,183	(826)	5,630	6,730
Non-Operating Cash Flow	1,313	219	284	337	340
Cash Flow before Financing	3,142	1,401	(542)	5,967	7,070
Net Financing	(6,753)	(3,294)	(2,581)	(4,507)	(6,916)
Change in Cash	(3,611)	(1,893)	(3,123)	1,460	154

Source: IQ, EFG Hermes estimates

Maintain FV and Buy Rating

PETROCHEMICALS | SAUDI ARABIA

07 October 2010

Our Top Pick In MENA Petrochemicals; Maintain FV at SAR55/Share

We believe the market seems to largely underestimate Yansab, which offer the highest estimated earnings growth momentum (2010-2012 EPS CAGR of 35%) across our petrochemicals coverage on both higher volumes (as the crackers reach full capacity utilisation) and stronger price environment. Yansab trades at a significant 28% discount to the global peer average P/E In 2011. Our DCF-based valuation offers an attractive 34% upside potential over current levels.

Ethylene Margins Weaker, Partially Offset by Healthy PE Spreads

The average ethylene price in 3Q2010 plunged 16% Q-o-Q as the Asian market was oversupplied on higher domestic operating rates and strong availability of export supplies from the Middle East. We estimate that Yansab's ethylene margins have dropped to USD785/tonne in 3Q2010 from USD948/tonne in 2Q2010. Average PE prices fell by 6% Q-o-Q. We believe healthy polyethylene/ethylene spreads should have partially compensated for weaker ethylene margins.

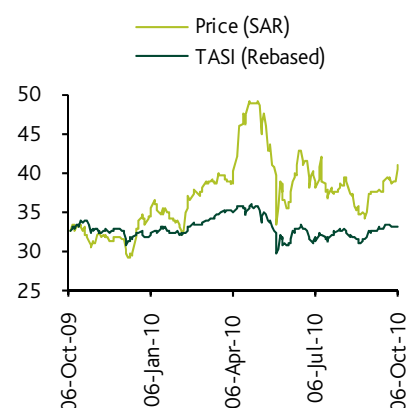
3Q2010 Preview

Yansab is due to report results during the week of 9 October 2010. We expect little impact from the PE plant 15-day shutdown in September as management stated it had enough inventory to meet orders. Yansab's 3Q2010 revenue should reach SAR1,548 million, assuming a similar sales volume to 2Q2010. We forecast EBITDA of SAR784 million and net income of SAR436 million, a 7% and 13% Q-o-Q decline, respectively.

BUY

Price	SAR41*
Fair Value	SAR55
Last Ex / Div. Date	N/A
Mkt. Cap / Shares (mn)	SAR23,063 / 563
Av. Mthly Liqdy (mn)	SAR2,406
52-Week High / Low	SAR49.2 / 29.3
Bloomberg / Reuters	YANSAB AB / 2290.SE
Est. Free Float	35%

SHARE PRICE PERFORMANCE RELATIVE TO TASI REBASED



KEY FINANCIAL HIGHLIGHTS

December Year End (SAR mn)	2009a	2010e	2011e	2012e
Revenue	-	5,515	6,985	8,068
EBITDA	(29)	2,881	3,668	4,202
Operating Profit	(29)	2,053	2,924	3,443
Net Income	(29)	1,706	2,488	3,115
EPS (SAR)	(0.1)	3.0	4.4	5.5
DPS (SAR)	-	-	-	2.0
Net Debt (Cash)	14,006	12,972	9,750	7,521
P/E* (x)	N/A	13.5	9.3	7.4
EV/EBITDA (x)	N/A	12.9	10.1	8.8
P/BV* (x)	N/A	3.1	2.3	1.9
P/CF* (x)	N/A	13.8	6.1	6.0
Div. Yield	0.0%	0.0%	0.0%	4.9%
RoAE	-0.5%	26.0%	28.4%	27.9%

*Price as at 06 October 2010
Source: Yansab, EFG Hermes estimates

Ahmed Shams El Din
+20 2 3535 6143
ashamseldin@efg-hermes.com

Yousef Hussein
+20 2 3535 6013
youssef@efg-hermes.com



FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Revenue	-	5,515	6,985	8,068	8,250
Cash Costs	-	(2,512)	(3,163)	(3,688)	(3,840)
Depreciation and Amortisation	-	(822)	(707)	(722)	(737)
Gross Profit	-	2,181	3,115	3,658	3,673
SG&A	(29)	(121)	(154)	(178)	(182)
EBITDA	(29)	2,881	3,668	4,202	4,228
EBITDA Margin	N/A	52%	53%	52%	51%
Net Operating Profit	(29)	2,053	2,924	3,443	3,454
Net Operating Margin	N/A	37%	42%	43%	42%
Net Interest Income (Expense)	-	(287)	(358)	(233)	(189)
Other Income (Expense)	-	-	-	-	-
EBT	(29)	1,765	2,565	3,211	3,265
Zakat	-	(59)	(77)	(96)	(98)
Net Income	(29)	1,706	2,488	3,115	3,167

Source: Yansab, EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash and Time Deposits	606	723	2,999	1,891	3,136
Receivables	-	1,964	1,914	2,210	2,260
Inventory	738	1,032	1,127	1,314	1,368
Other Debit Balances	865	151	191	221	226
Total Current Assets	2,208	3,871	6,231	5,637	6,990
Net Fixed Assets	18,576	18,208	17,850	17,532	17,208
Other LT Assets	340	311	274	237	199
Total Assets	21,124	22,390	24,355	23,405	24,396
ST Debt	916	947	3,336	1,279	1,298
Payables	276	314	395	461	480
Other Current Liabilities	488	840	1,057	1,233	1,284
Total Current Liabilities	1,679	2,101	4,789	2,973	3,062
LT Debt	13,696	12,749	9,412	8,134	6,835
Other Liabilities	81	81	81	81	81
Net Worth	5,668	7,459	10,072	12,217	14,418

Source: Yansab, EFG Hermes estimates

**CASH FLOW STATEMENT (DECEMBER YEAR END)**

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Operating Profit after Tax	(29)	2,822	3,591	4,106	4,130
Change in Working Capital	(1,758)	(1,155)	215	(272)	(39)
Cash Flow after Change in WC	(1,787)	1,667	3,806	3,834	4,091
CAPEX	(1,471)	(454)	(349)	(403)	(413)
Free Cash Flow	(3,257)	1,235	3,457	3,430	3,679
Non-Operating Cash Flow	4	-	-	-	-
Cash Flow before Financing	(3,254)	1,235	3,457	3,430	3,679
Net Financing	2,815	(1,118)	(1,181)	(4,538)	(2,434)
Change in Cash	(439)	118	2,276	(1,108)	1,244

Source: Yansab, EFG Hermes estimates

3Q2010 Likely Strong On Higher Urea Prices; Maintain Neutral

FERTILISERS | SAUDI ARABIA

07 October 2010

≡ Maintain FV and Neutral Rating

Our DCF-based valuation for SAFCO is SAR145/share, which is on par with the current market price. The stock trades at an estimated P/E of 13.0x in 2010 (based on recurring EPS) and a mid-cycle P/E of 13.8x (based on estimated 2013 discounted EPS). Our Neutral rating is biased to the fact that the company's future performance is highly dependent on urea prices, with the recent price rally priced in at current levels. In our view, SAFCO always itself as an attractive trading call during the first and fourth quarters of each fiscal year, during which time urea prices generally surge on normal demand seasonality.

≡ Urea Price could soften after mid-October

Urea prices rallied in September 2010 on surging grain prices and a seasonal demand push in India amid the kharif application season. However, the return of Chinese export activities by mid-October, and apparently aggressive pre-buying in the US should weigh moderately on global prices. This is particularly true with the current spot urea price being well above Chinese coal-based production cash costs.

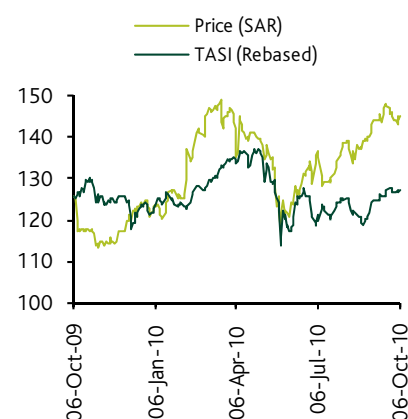
≡ 3Q2010 Preview: We expect Recurring Net Income 12% Higher Q-o-Q

SAFCO is due to report results next week. Based on average urea and ammonia prices of USD288/tonne and USD333/tonne, we forecast revenues of SAR844 million (+15% Q-o-Q), EBITDA of SAR669 million, with EBITDA margins of 79% and recurring net income of SAR678 million (+12% Q-o-Q).

NEUTRAL

Price	SAR145.3*
Fair Value	SAR145.0
Last Div. / Ex Date	SAR6 on 10 July 2010
Mkt. Cap / Shares (mn)	SAR36,312 / 250
Av. Mthly Liqdt (mn)	SAR601
52-Week High / Low	SAR149.3 / SAR113.3
Bloomberg / Reuters	SAFCO AB / 2020.SE
Est. Free Float	40.4%

SHARE PRICE PERFORMANCE RELATIVE TO TASI REBASED



KEY FINANCIAL HIGHLIGHTS

December Year End (SAR mn)	2009a	2010e	2011e	2012e	2013e
Revenue	2,741	3,431	3,961	4,220	4,220
EBITDA	1,930	2,795	3,230	3,266	3,266
Operating Profit	1,658	2,494	2,873	2,930	2,919
Net Income	1,804	3,100	3,180	3,275	3,309
EPS (SAR)	7.2	12.4	12.7	13.1	13.2
Recurring EPS (SAR)	7.2	11.2	12.7	13.1	13.2
DPS (SAR)	12.0	12.0	12.0	12.0	12.0
Net Debt (Cash)	(2,375)	(2,187)	(2,065)	(2,446)	(2,876)
P/E* (x)	20.1	11.7	11.4	11.1	11.0
Recurring P/E* (x)	20.1	13.0	11.4	11.1	11.0
EV/EBITDA (x)	18.4	12.7	11.0	10.9	10.9
P/BV* (x)	5.2	5.1	5.0	4.8	4.6
P/CF* (x)	17.9	13.5	11.9	11.5	11.4
Div. Yield	8%	8%	8%	8%	8%
RoAE	26%	36%	41%	41%	39%

*Prices as at 06 October 2010

Source: SAFCO, EFG Hermes estimates

Ahmed Shams El Din
+20 2 3535 6143
ashamseldin@efg-hermes.com

Rita Guindy
+20 2 3535 6387
rguindy@efg-hermes.com



FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e
Revenue	2,741	3,431	3,961	4,220
Cash Costs	(758)	(552)	(632)	(848)
Depreciation and Amortisation	(273)	(301)	(357)	(336)
Gross Profit	1,710	2,578	2,972	3,036
SG&A	(52)	(84)	(99)	(105)
EBITDA	1,930	2,795	3,230	3,266
EBITDA Margin	70%	81%	82%	77%
Net Operating Profit	1,658	2,494	2,873	2,930
Net Operating Margin	60%	73%	73%	69%
Net Interest Income (Expense)	38	16	31	34
Other Income (Expense)	129	330	359	394
EBT	1,900	3,174	3,262	3,359
Zakat	(96)	(74)	(81)	(84)
Net Income	1,804	3,100	3,180	3,275

Source: SAFCO, EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e
Cash and Time Deposits	2,964	2,604	2,316	2,526
Receivables	780	282	434	462
Inventory	624	907	519	697
Other Debit Balances	19	211	244	260
Total Current Assets	4,075	3,551	3,254	3,597
Net Fixed Assets	3,452	3,281	3,133	3,014
Other LT Assets	1,280	1,703	2,063	2,065
Total Assets	8,808	8,535	8,450	8,676
ST Debt	237	167	171	80
Payables	654	454	355	476
Total Current Liabilities	1,030	759	664	695
LT Debt	353	251	81	1
Other Liabilities	411	411	411	411
Total Liabilities	1,793	1,420	1,155	1,106
Net Worth	7,015	7,115	7,295	7,570

Source: SAFCO, EFG Hermes estimates

**CASH FLOW STATEMENT (DECEMBER YEAR END)**

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e
Operating Profit after Tax	1,834	2,721	3,149	3,182
Change in Working Capital	192	(37)	(89)	(12)
Cash Flow after Change in Working Capital	2,026	2,684	3,059	3,171
CAPEX	(267)	(304)	(210)	(217)
Free Cash Flow	1,759	2,380	2,850	2,954
Cash Flow before Financing	1,921	2,796	2,848	3,347
Net Financing	(1,125)	(3,156)	(3,136)	(3,136)
Change in Cash	797	(360)	(288)	210

Source: SAFCO, EFG Hermes estimates

Weak Sales, But Healthy Margins, Maintain Buy

PETROCHEMICALS | EGYPT

07 October 2010

Net Income to Drop 18% Q-o-Q on Lower Volumes and Prices

We expect Sidpec to report 3Q2010 net income of EGP170 million (-18% Q-o-Q, +6% Y-o-Y), and sales of EGP384 million (-17% Q-o-Q, +4% Y-o-Y). We estimate that 3Q2010 ethylene volumes will have dropped by over 40% Q-o-Q to 6,000 tonnes, due mainly to the two-week-maintenance shutdown of Egyptian Petroleum Company's polyvinyl chloride plant in July, which represents 99% of Sidpec's ethylene sales. In addition, we expect polyethylene (PE) volumes will have declined by 5% Q-o-Q to 52,000 tonnes, due to i) the two-week-maintenance shutdown of Sidpec's PE plant in July, and ii) the seasonal slowdown in demand during Ramadan. We estimate Sidpec's average selling prices will have declined by 6% Q-o-Q, with global petrochemical prices bottoming out in 3Q2010.

Higher Margins on Cost Adjustment to Lower Prices

Sidpec's variable feedstock cost structure (gas price is linked to global ethylene and polyethylene prices) limits the downside risk in case of a decline in PE prices. We highlighted that low EBITDA margins in 2Q2010 were not sustainable, as they were driven by the lag of cost adjustments to the decline in global petrochemical prices. We expect EBITDA to reach EGP198 million in 3Q2010 (-11% Q-o-Q, up 10% Y-o-Y), implying an EBITDA margin of 51% versus 48% in 2Q2010 and 49% in 3Q2009.

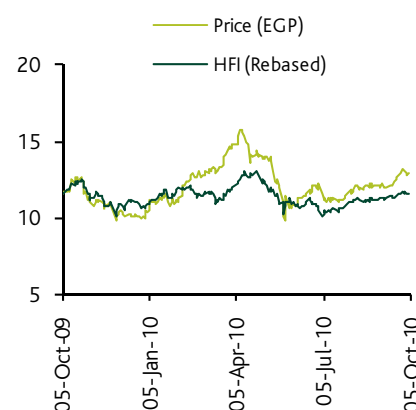
Maintain 2010 Forecasts on a Strong Expected 4Q2010; Remain Buyers

We have accounted for the expected weak 3Q2010 results, which we estimate to be compensated for in 4Q2010 during the peak demand season. We maintain our 2010 forecasts of EGP1,849 million in sales (+10% Y-o-Y) and EGP805 million in net income. (+12% Y-o-Y), and we remain buyers with a fair value of EGP15.8/share, 24% upside potential. We think Sidpec's trading multiples remain cheap (estimated 2010 P/E of 8.3 and EV/EBITDA of 6.3), with an attractive estimated 2010 dividend yield of 11.8%.

BUY

Price	EGP12.7*
Fair Value	EGP15.8
Last Div. / Ex Date	EGP1.25 on 19 Apr 2010
Mkt. Cap / Shares (mn)	EGP6,668 / 525
Av. Mthly Liqdt (mn)	EGP174
52-Week High / Low	EGP15.8 / EGP9.6
Bloomberg / Reuters	SKPC EY / SKPC.CA
Est. Free Float	23%

SHARE PRICE PERFORMANCE RELATIVE TO HFI REBASED



KEY FINANCIAL HIGHLIGHTS

December Year End (EGP mn)	2009a	2010e	2011e	2012e
Revenue	1,683	1,849	1,948	2,029
EBITDA	814	946	1,012	1,066
EBITDA Margin	48%	51%	52%	53%
Net Attributable Income	722	805	706	748
EPS (EGP)	1.37	1.53	1.35	1.42
DPS (EGP)	1.25	1.50	1.50	1.60
Net Debt (Cash)	(978)	(1,240)	(1,254)	(1,316)
P/E* (Attrib.) (x)	9.2	8.3	9.4	8.9
EV/EBITDA (x)	7.3	6.3	5.8	5.6
P/BV* (x)	2.9	2.7	2.8	2.9
P/CF* (x)	9.5	7.0	8.3	7.9
Div. Yield	9.8%	11.8%	11.8%	12.6%
RoAE	25.3%	31.0%	26.6%	28.7%

*Prices as at 05 October 2010

Source: SIDPEC, EFG Hermes estimates

Malak Youssef

+20 2 3535 6044

mayoussef@efg-hermes.com

Ahmed Shams El Din

+20 2 3535 6143

ashamseldin@efg-hermes.com



FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In EGP million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Revenue	1,683	1,849	1,948	2,029	2,118
Cash Costs	(817)	(845)	(880)	(904)	(904)
Depreciation and Amortisation	(166)	(166)	(145)	(146)	(113)
Gross Profit	700	838	924	978	1,101
SG&A	(52)	(58)	(57)	(59)	(61)
EBITDA	814	946	1,012	1,066	1,152
EBITDA Margin	48%	51%	52%	53%	54%
Net Operating Profit	648	780	867	920	1,040
Net Operating Margin	39%	42%	45%	45%	49%
Net Interest Income (Expense)	64	28	62	64	67
Other Income (Expense)	40	33	-	-	-
EBT	752	841	929	984	1,106
Taxes	7	7	(186)	(197)	(221)
Net Attributable Income	722	805	706	748	841

Source: SIDPEC, EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In EGP million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash and Time Deposits	985	1,242	1,254	1,316	1,345
Receivables	365	431	454	472	493
Inventory	222	243	253	260	260
Other Debit Balances	-	-	-	-	-
Total Current Assets	1,572	1,915	1,961	2,049	2,099
Net Fixed Assets	994	851	729	607	558
Other LT Assets	67	67	67	67	67
Total Assets	2,633	2,832	2,757	2,722	2,723
ST Debt	5	2	-	-	-
Payables	91	185	193	198	198
Other Current Liabilities	857	950	950	1,003	1,029
Total Current Liabilities	953	1,138	1,143	1,201	1,227
LT Debt	2	-	-	-	-
Other Liabilities	34	34	34	34	34
Net Worth	1,643	1,661	1,580	1,487	1,462

Source: SIDPEC, EFG Hermes estimates

**CASH FLOW STATEMENT (DECEMBER YEAR END)**

In EGP million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Operating Profit after Tax	822	952	826	869	931
Change in Working Capital	(121)	7	(26)	(20)	(21)
Cash Flow after Change in Working Capital	701	959	801	849	910
CAPEX	(16)	(22)	(23)	(24)	(64)
Free Cash Flow	685	937	777	824	847
Non-operating Cash Flow	38	33	-	-	-
Cash Flow before Financing	723	970	777	824	847
Net Financing	(904)	(713)	(765)	(763)	(818)
Change in Cash	(181)	257	13	62	29

Source: SIDPEC, EFG Hermes estimates

Higher Volumes Likely Supported Weaker Margins; Maintain Buy

PETROCHEMICALS | SAUDI ARABIA

07 October 2010

3Q2010 Preview

Asian polypropylene (PP) prices fell by 6% Q-o-Q in 3Q2010. The PP-to-naphtha spread, the pricing benchmark for propane in Saudi, also weakened slightly in 3Q2010. This should have led to lower margins for Advanced. We expect higher sales volume will have compensated for weaker profitability (Advanced was restocking inventory in 2Q2010 after the PP plant shutdown due to technical problems). We expect that both revenue and net income will be relatively stable Q-o-Q. We forecast net income of SAR61 million in 3Q2010.

Polypropylene Prices Rebound on Moderate Restocking in Asia (ex-China)

The spot polypropylene price is currently 7% higher than in 3Q2010 driven by a moderate restocking in Asia (ex-China), and supply constraints (mainly in India). Oil prices recovered to USD83/bbl currently, which if sustainable, should provide higher floor prices for polymers, including PP, in our view.

Unjustified Discount to Peers; Maintain Buy

We recently initiated coverage on Advanced with an estimated fair value (FV) of SAR25.0 per share, offering 23% upside potential to the current market price. We believe that the market overestimates the impact of technical issues that occurred in late 2009 and early 2010 and the Indian antidumping case on Saudi Arabia's PP exports. We understand that the PP plant is now fully up and running. The stock trades at an attractive estimated 2011 P/E of 9.5x (c26% discount to the global average) and a mid-cycle P/E of 9.3x (based on estimated 2013 discounted EPS). We view the current level as an attractive entry point for investors.

KEY FINANCIAL HIGHLIGHTS

December Year End (SAR mn)	2009a	2010e	2011e	2012e
Revenue	1,467	1,848	2,039	2,158
EBITDA	357	479	531	537
Operating Profit	173	280	329	332
Net Income	127	247	303	314
EPS (SAR)	0.9	1.7	2.1	2.2
DPS (SAR)	1.0	1.5	2.0	1.5
Net Debt (Cash)	1,165	995	780	540
P/E* (x)	23.8	11.7	9.5	9.2
EV/EBITDA (x)	11.1	8.3	7.5	7.4
P/BV* (x)	1.7	1.7	1.6	1.5
P/CF* (x)	5.9	6.4	5.9	5.6
Div. Yield	4.9%	7.4%	9.8%	7.4%
RoAE	7.7%	14.6%	17.0%	16.5%

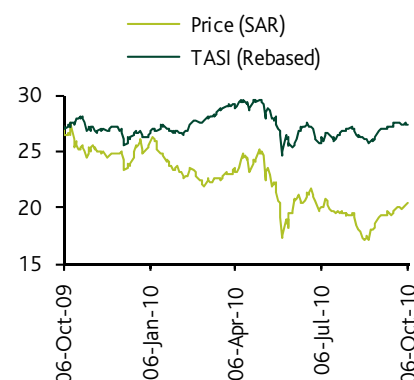
*Price as at 06 October 2010

Source: Advanced Petrochemical Co., EFG Hermes estimates

BUY

Price	SAR20.4*
Fair Value	SAR25.0
Last Ex / Div. Date	SAR0.75 on 3 July 10
Mkt. Cap / Shares (mn)	SAR2,884 / 141
Av. Mthly Liqdy (mn)	SAR583
52-Week High / Low	SAR27.6 / SAR17.1
Bloomberg / Reuters	APPC AB / 2330.SE
Est. Free Float	86%

SHARE PRICE PERFORMANCE RELATIVE TO TASI REBASED



Ahmed Shams El Din

+20 2 3535 6143

ashamseldin@efg-hermes.com

Yousef Hussein

+20 2 3535 6013

youssef@efg-hermes.com

**INCOME STATEMENT (DECEMBER YEAR END)**

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Revenue	1,467	1,848	2,039	2,158	2,180
Cash Costs	(1,065)	(1,329)	(1,457)	(1,568)	(1,568)
Depreciation and Amortisation	(184)	(199)	(202)	(204)	(188)
Gross Profit	320	380	386	424	414
SG&A	(45)	(40)	(51)	(54)	(55)
EBITDA	357	479	531	537	558
EBITDA Margin	24%	26%	26%	25%	26%
Net Operating Profit	173	280	329	332	370
Net Operating Margin	12%	15%	16%	15%	17%
Net Interest Income (Expense)	(48)	(32)	(24)	(17)	(10)
EBT	127	251	311	322	366
Taxes	-	(3)	(8)	(8)	(9)
Net Income	127	247	303	314	357

Source: Advanced Petrochemical Co., EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash and Time Deposits	309	245	279	336	352
Receivables	272	304	335	355	358
Inventory	221	164	180	193	193
Other Debit Balances	32	76	84	89	90
Total Current Assets	833	788	877	972	993
Net Fixed Assets	2,498	2,390	2,287	2,182	2,150
Other LT Assets	83	54	26	-	-
Total Assets	3,414	3,233	3,190	3,154	3,144
ST Debt	234	181	183	185	187
Payables	261	255	279	301	301
Other Current Liabilities	1	7	6	7	7
Total Current Liabilities	496	444	469	492	495
LT Debt	1,240	1,059	875	691	504
Other Liabilities	7	7	7	7	7
Net Worth	1,670	1,723	1,838	1,964	2,137

Source: Advanced Petrochemical Co., EFG Hermes estimates

**CASH FLOW STATEMENT (DECEMBER YEAR END)**

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Operating Profit after Tax	357	476	523	529	549
Change in Working Capital	132	(26)	(31)	(17)	(4)
Cash Flow after Change in WC	489	449	493	512	544
CAPEX	(34)	(62)	(71)	(74)	(156)
Free Cash Flow	455	387	422	438	388
Non-operating Cash Flow	2	3	6	6	7
Cash Flow before Financing	457	389	428	444	395
Net Financing	(359)	(453)	(395)	(387)	(378)
Change in Cash	98	(64)	34	57	17

Source: Advanced Petrochemical Co., EFG-Hermes estimates

Likely Weaker; Valuation Remains Attractive

PETROCHEMICALS | SAUDI ARABIA

07 October 2010

Lower PE Prices Should Have Weighted on SEPC Performance

The average ethylene price in 3Q2010 fell significantly by 16% Q-o-Q. This should have led to a significant retreat in SEPC's ethylene cash margins. Polyethylene (PE) prices dropped c6% during the quarter. We estimate that SEPC produces c50% of its ethylene from ethane, which is provided at a fixed cost in Saudi Arabia. Lower ethylene and PE prices and margins likely have severely impaired Saudi Ethylene and Polyethylene Company's (SEPC) performance. We estimate that investment income from SEPC will drop to SAR93 million in 3Q2010, a 9% drop Q-o-Q as the decrease in PE prices hits directly SEPC's profits. At the moment, Sahara's income is completely dependent on SEPC's performance since no other subsidiaries have become operational yet.

Al Waha remains In Trial Production, 4Q2010 new Target

The Al Waha Petrochemical Company is still suffering from technical issues with no details yet available as to the exact problem. Management previously indicated that the plant was expected to begin commercial operations in September based on high operating rates in the previous months, but a shut-down in the month (for 10 days) pushed back the commercial start-up date again. The new target is now 4Q2010, although management has not specified an exact date. We assumed a utilisation rate of 50% in 4Q2010, and volumes should be further boosted due to the inventory the company has stocked during trial productions.

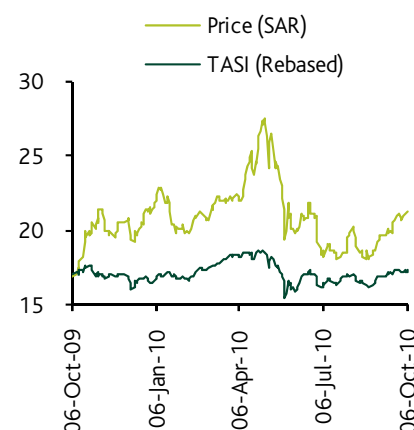
Buy Sahara

We value Sahara at SAR30.1 per share, which offers a 41% upside potential to the current market price. Sahara trades at an estimated 9.2x 2011 P/E, a significant 29% discount to the peer average. It offers an attractive estimated earnings growth (2010-2012 CAGR of 27%). We expect Sahara's earnings from 4Q2010 onwards will be supported by both the start of Al Waha's commercial operations and higher polymer prices.

BUY

Price	SAR21.25*
Fair Value	SAR30.1
Last Ex / Div. Date	N/A
Mkt. Cap / Shares (mn)	SAR6,231 / 293
Av. Mthly Liqdy (mn)	SAR892
52-Week High / Low	SAR27.5 / 17.0
Bloomberg / Reuters	SPC AB / 2260.SE
Est. Free Float	89%

SHARE PRICE PERFORMANCE RELATIVE TO TASI REBASED



KEY FINANCIAL HIGHLIGHTS

December Year End (SAR mn)	2009a	2010e	2011e	2012e
Revenue	-	281	2,068	2,305
EBITDA	(39)	71	601	617
Operating Profit	(39)	51	347	358
Net Income	76	433	675	695
EPS (SAR)	0.4	1.5	2.3	2.4
DPS (SAR)	-	-	-	-
Net Debt (Cash)	1,720	1,626	1,042	1,202
P/E* (x)	N/A	14.4	9.2	9.0
Prop. EV/EBITDA (x)	N/A	13.0	7.8	7.7
P/BV* (x)	N/A	2.1	1.5	1.2
P/CF* (x)	N/A	N/A	8.3	10.1
RoAE	3.2%	13.4%	17.3%	14.9%

*Prices as at 06 October 2010

Source: Sahara, EFG Hermes estimates

Ahmed Shams El Din

+20 2 3535 6143

ashamseldin@efg-hermes.com

Yousef Hussein

+20 2 3535 6013

youssef@efg-hermes.com

**INCOME STATEMENT (DECEMBER YEAR END)**

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Revenue	-	281	2,068	2,305	3,050
Cash Costs	-	(194)	(1,404)	(1,620)	(2,024)
Depreciation and Amortisation	-	(21)	(255)	(259)	(394)
Gross Profit	-	67	409	427	632
SG&A	(39)	(16)	(62)	(69)	(106)
EBITDA	(39)	71	601	617	920
EBITDA Margin	N/A	25%	29%	27%	30%
Net Operating Profit	(39)	51	347	358	525
Net Operating Margin	N/A	18%	17%	16%	17%
Net Interest Income (Expense)	1	(22)	(81)	(72)	(105)
Other Inc. (Expense) Including Investments	116	413	486	491	727
EBT	78	441	752	777	1,148
Taxes	(1)	(1)	(7)	(8)	(29)
Minority Interest	(0)	(8)	(69)	(75)	(103)
Net Income	76	433	675	695	1,016

Source: Sahara, EFG Hermes estimates

BALANCE SHEET (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Cash and Time Deposits	556	825	1,921	2,130	1,736
Receivables	154	371	340	379	471
Inventory	104	130	173	200	365
Total Current Assets	815	1,327	2,434	2,709	2,571
Net Fixed Assets	16	4,162	3,969	3,780	6,050
Other LT Assets	5,125	1,299	1,883	3,083	1,483
Total Assets	5,956	6,788	8,286	9,572	10,104
ST Debt	16	76	176	206	435
Payables	248	292	462	532	601
Other Current Liabilities	1	-	-	-	-
Total Current Liabilities	265	368	637	739	1,036
LT Debt	2,260	2,375	2,787	3,126	2,694
Other Liabilities	99	104	109	115	121
Minority Interest	393	400	470	544	595
Net Worth	2,938	3,540	4,283	5,048	5,658

Source: Sahara, EFG Hermes estimates

**CASH FLOW STATEMENT (DECEMBER YEAR END)**

In SAR million, unless otherwise stated

	2009a	2010e	2011e	2012e	2013e
Operating Profit after Tax	(41)	71	594	609	891
Change in Working Capital	(231)	(200)	158	5	(188)
Cash Flow after Change in WC	(272)	(129)	752	614	703
CAPEX	(590)	(84)	(542)	(1,269)	(984)
Free Cash Flow	(862)	(213)	210	(655)	(282)
Non-Operating Cash Flow	(170)	156	382	491	647
Cash Flow before Financing	(1,032)	(57)	592	(164)	366
Net Financing	1,135	327	503	373	(760)
Change in Cash	103	270	1,096	209	(394)

Source: Sahara, EFG Hermes estimates

EGYPT SALES TEAM

Local call center 16900
cc-hsb@efg-hermes.com

Head of Western Institutional Sales

Mohamed Ebeid
+20 2 35 35 6054
mebeid@efg-hermes.com

Local Institutional Sales

Amr El Khamissy
+20 2 35 35 6045
amrk@efg-hermes.com

UAE SALES TEAM

call center
+971 4 306 9333
uaerequests@efg-hermes.com

Western Institutional Sales

Julian Bruce
+971 4 363 4092
jbruce@efg-hermes.com

Head of GCC Institutional Sales

Amro Diab
+971 4 363 4086
adiab@efg-hermes.com

Gulf HNW Sales

Chahir Hosni
+971 4 363 4090
chosni@efg-hermes.com

UAE Retail Sales

Reham Tawfik
+971 4 306 9418
rtawfik@efg-hermes.com

KSA SALES TEAM

call center
+800 123 4566
RiyadhCallCenter@efg-hermes.com
RiyadhTraders@efg-hermes.com

Director of Client Relationship

Mazen Matraji
+9661 279 8640
mmatraji@efg-hermes.com

Client Relationship

Khalid S. Al-Bihlhal
+9661 279 8670
kalbihlhal@efg-hermes.com

RESEARCH MANAGEMENT

Cairo General + 20 2 35 35 6140
UAE General + 971 4 363 4000
efgresearch@efg-hermes.com

Head of Research

Wael Ziada
+20 2 35 35 6154
wziada@efg-hermes.com

Head of Publ. and Distribution

Rasha Samir
+20 2 35 35 6142
rsamir@efg-hermes.com

DISCLOSURES

We, Ahmed Shams el Din, Yousef Hussein, Rita Guindy and Malak Youssef, hereby certify that the views expressed in this document accurately reflect our personal views about the securities and companies that are the subject of this report. We also certify that neither we nor our spouses or dependants (if relevant) hold a beneficial interest in the securities that are traded in MENA Stock Exchanges. EFG Hermes Holding owns 5,000 shares in Industries Qatar, and 5,000 shares in SABIC as at 30 September 2010, some of the securities that are subject of this report.

Funds managed by EFG Hermes Holding SAE and its subsidiaries (together and separately, "EFG Hermes") for third parties may own the securities that are the subject of this report. EFG Hermes may own shares in one or more of the aforementioned funds or in funds managed by third parties. The authors of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which they have no discretion. The Investment Banking division of EFG Hermes may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this report or are mentioned in this report.

DISCLAIMER

This Research has been sent to you as a client of one of the entities in the EFG Hermes group. This Research must not be considered as advice nor be acted upon by you unless you have considered it in conjunction with additional advice from an EFG Hermes entity with which you have a client agreement.

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimate on a fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that EFG Hermes believes to be reliable, we have not independently verified such information and it may not be accurate or complete. EFG Hermes does not represent or warrant, either expressly or implied, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by EFG Hermes or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith. Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation to the clients of EFG Hermes and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any security. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

GUIDE TO ANALYSIS

EFG Hermes investment research is based on fundamental analysis of companies and stocks, the sectors that they are exposed to, as well as the country and regional economic environment.

Effective 16 December 2009, EFG Hermes changed its investment rating approach to a three-tier, long-term rating approach, taking total return potential together with any applicable dividend yield into consideration.

In special situations, EFG Hermes may assign a rating for a stock that is different from the one indicated by the 12-month expected return relative to the corresponding fair value.

For the 12-month long-term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms:

Rating	Potential Upside (Downside) %
Buy	Above 15%
Neutral	(10%) and 15%
Sell	Below (10%)

EFG Hermes policy is to update research reports when appropriate based on material changes in a company's financial performance, the sector outlook, the general economic outlook, or any other changes which could impact the analyst's outlook or rating for the company. Share price volatility may cause a stock to move outside of the longer-term rating range to which the original rating was applied. In such cases, the analyst will not necessarily need to adjust the rating for the stock immediately. However, if a stock has been outside of its longer-term investment rating range consistently for 30 days or more, the analyst will be encouraged to review the rating.

COPYRIGHT AND CONFIDENTIALITY

No part of this document may be reproduced without the written permission of EFG Hermes. The information within this research report must not be disclosed to any other person if and until EFG Hermes has made the information publicly available.

CONTACTS AND STATEMENTS

Background research prepared by EFG Hermes Holding SAE. Report prepared by EFG Hermes Holding SAE (main office), Building No. B129, Phase 3, Smart Village, KM 28, Cairo-Alexandria Desert Road, P.O. Box 220, 12577 Egypt, Tel +20 2 35 35 6140 | Fax +20 2 35 37 0939 which has an issued capital of EGP 1,939,320,000.

Reviewed and approved by EFG Hermes KSA (closed Joint Stock Company) which is commercially registered in Riyadh with Commercial Registration number 1010226534, and EFG Hermes UAE Limited, which is regulated by the DFSA and has its address at Level 6, The Gate, DIFC, Dubai, UAE. The information in this document is directed only at institutional investors. If you are not an institutional investor you must not act on it.