Saudi Basic Industries Corporation (SABIC)

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	A	Stable	Downgrade 7 October 2019
Short-Term IDR	F1+		Upgrade 7 October 2019

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Financial Summary

(SARm)	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F
Gross Revenue	149,766	169,128	146,786	151,093
Operating EBITDAR Margin (%)	30.1	31.3	25.1	26.7
FFO Margin (%)	25.6	22.2	16.3	17.6
FFO Fixed Charge Coverage (x)	13.7	11.3	8.2	8.3
FFO Adjusted Leverage (x)	1.7	1.5	2.3	2.4

Source: Fitch Ratings, Fitch Solutions

The downgrade of SABIC's Issuer Default Rating (IDR) to 'A' from 'A+' followed the downgrade of Saudi Arabia (A/Stable) on 30 September 2019. Fitch Ratings' assessment of SABIC's Standalone Credit Profile (SCP) is unchanged at 'a+'. Fitch has upgraded SABIC's Short-Term IDR to 'F1+' from 'F1' in line with its *Short-Term Ratings Criteria* dated 2 May 2019.

The rating actions on the sovereign and SABIC follow the drone and missile attack on Saudi Aramco's (A/Stable) domestic infrastructure on 14 September 2019, which led to a temporary suspension of almost half of SABIC's feedstock supply sourced by Saudi Aramco in Saudi Arabia. The sovereign downgrade reflects rising geopolitical tensions in the region, but also the country's continued fiscal deficit. The feedstock supply has now been restored in full. We estimate the attack will have a very limited impact on SABIC's operational and financial performance in 2019.

We continue to assess SABIC's SCP at 'a+' reflecting its vertically integrated operations, state-of-the-art world-scale production facilities, access to competitively priced natural gas feedstock (methane and ethane) in Saudi Arabia and a conservative financial profile. We expect that SABIC's supportive regulatory environment behind the cheap feedstock in Saudi Arabia will help it navigate the ongoing supply-driven price and margin pressure in petrochemicals, SABIC's major revenue contributor, despite rising capex and dividend outflows. This is due to the multi-year positive free cash flow (FCF) generation resulting in funds from operations (FFO) net adjusted leverage of 0.1x at end-2018.

Key Rating Drivers

Abqaiq-Khurais Attack: The recent attack on Saudi Aramco's facilities has led to a shortage in SABIC's feedstock, predominantly oil products sourced by SABIC's domestic plants, which reached 49% on average (across the range of feedstock products) on the day after the attack, but which reportedly disappeared on 26 September 2019. We expect the attack to have a low-single-digit impact on SABIC's full-year production, with an even smaller effect on sales due to inventory sales partly backing up the interrupted production.

SCP Unchanged After Attack: We believe the accident has shown the ability of SABIC and its key supplier, Saudi Aramco, to deal efficiently with contingencies. We have maintained our assessment of SABIC's SCP at 'a+', despite the recent events, given all the other strengths of its profile, such as its scale, market leadership and a broad range of products from commodity chemicals to fertilisers and metals. However, further escalation of tensions in the region, such as further attacks, could result in a reassessment of the company's SCP as most production facilities and value creation remain concentrated in Saudi Arabia, despite SABIC's increasing presence elsewhere achieved over the past several years.

New Parent, Same Rating: Saudi Aramco's acquisition of a 70% stake in SABIC from the state will have no impact on SABIC's rating. SABIC's SCP is currently one notch above the sovereign rating of Saudi Arabia, which will remain its ultimate parent after the transaction. We do not expect any weakening in support from the government, which we assess as moderate to strong, even though the 70% stake in SABIC will no longer be directly owned by the state. As such and in line with Fitch's approach for state-owned companies, SABIC's rating will remain capped at the sovereign's rating.

We believe that SABIC's SCP will not be materially affected by the transaction. Although there might be some benefits from enhanced business integration with its new parent, SABIC's rating is already the highest rating Fitch views as attainable for a company in the chemicals sector, given the inherent cyclicality of the industry. We also expect the company to retain some operational autonomy given that 30% of its shares will remain in public hands, and we assume that its strategy and financial policies will not change materially post-acquisition.

Petrochemical Oversupply Squeezing Margins: US-led new supply market pressure across petrochemicals, including major polymers and ethylene glycols, has led to price and margin squeeze across the sector since 2H18. As a result, SABIC's EBITDA margin hit 26% compared with the 28%-31% range in 2015-2018. We expect the supply pressure to protract into 2H19 and 1H20 before the recovery after mid-2020, as growing demand is gradually absorbing new supply and further capacity additions moderate. As a result, we expect SABIC's EBITDA margin to stay above the global average but bottom out at 24% in 2019 before rebounding to 26% in 2020 and normalising at 30% by 2022 as the markets rebalance.

Rising Capex Ahead: We conservatively assume SABIC's capex to rebase at about 15% of sales from below 10% in 2017-2018, or about SAR22 billion-23 billion over the next three years, reflecting the active construction phase of the joint venture (JV) with Exxon Mobil, which includes a new world-scale 1.8 million tonnes ethane cracker as well as polyethylene and mono ethylene glycol capacities. Simultaneously, we do not expect SABIC's Oil-to-Chemicals (OTC) complex with Saudi Aramco to start weighing heavily on its FCF before 2022. We conservatively do not forecast any operational cash flow from these two projects over the 2019-2022 rating horizon.

Negative FCF, Conservative Leverage: SABIC is entering a negative FCF period after the multi-year positive FCF generation that allowed it to reach a negative net debt position at end-2018. We expect SABIC's FCF to turn negative, at about 5%-7% of sales, from 2019 on high capex and non-decreasing dividends. However, this should not compromise its conservative leverage position as FFO net adjusted leverage is only expected to rise to 1x from 0.1x over 2019-2022. Post-2022, the leverage profile could be supported by the expected launch of SABIC's JV with Exxon Mobil, but the latter could be mitigated by increasing investments in the OTC project.

Competitive Feedstock Prices Unchanged: We have not seen further methane or ethane price increases following the one-step increase back in 2016 when the government announced the plan to phase out subsidies to consumers and companies. Our rating case does not currently assume any further price increases given the irregular and rare nature of the previous feedstock increases. Should an announcement be made, we will assess its impact on SABIC's ratings in conjunction with the resulting forecast credit metrics.

Group Structure Shortcomings Mitigated: A large portion of consolidated earnings is generated by partly-owned operating companies. In Fitch's view, the associated risks (structural subordination, restricted access to cash flow or reliance on dividend payments) are mitigated by SABIC management's control of the entities, the stable stream of dividends and fees historically received by the holding company, a high level of operational integration across the group and the significant majority of cash balances maintained at the holding company. Fitch's FFO-based leverage and coverage ratios include dividends paid to minorities to account for cash leakage to minority shareholders.

Rated on a Standalone Basis: SABIC's IDR does not incorporate any notching for government support under Fitch's *Government-Related Entities (GRE) Rating Criteria*. The group's SCP is one notch above that of its 70% current shareholder, the Saudi government. Under the criteria, Fitch assesses support from the government as strong to moderate (overall support score of 20-25).

Status, ownership & control are considered strong due to government ownership and nomination of the board. Support record and expectations are deemed strong due to regulatory or policy influence being generally supportive of financial stability, including the state regulated prices for methane and ethane. The socio-political impact of default is considered moderate due to moderate social, political or economic repercussions of the interruption of operations; instead damage would mainly be limited to reputation. Financial implications of default are considered moderate, due to a default having a moderate impact on the availability and cost of finance by the government and other GREs.

Rating Derivation Relative to Peers

SABIC ranks among the world's largest petrochemicals producers, with vertically integrated operations, state-of-the-art world-scale facilities and a top market position for its products. It stands out among its peers as it is a commoditised chemical company, but in a cost leading position with access to low-cost natural gas feedstock in Saudi Arabia underpinning best-in-class profitability levels and robust cash flow generation through the cycle. Its scale, low volatility of cash flow, historically low leverage and access to competitively priced feedstock underpin its 'A' rating.

The only other company with the same SCP within Fitch's chemical coverage is BASF SE (A+/Negative), one of the world's largest chemical companies, which also benefits from significant scale, strong vertical integration, considerable diversification across products and end-markets and market leading positions. BASF is more specialised and has high barriers in place for many of its product lines, but does not have the feedstock advantage that SABIC benefits from, which makes its net leverage much higher. Fitch revised BASF's Outlook to Negative in August 2019 to reflect the ongoing market pressure in commoditised chemicals leading to FFO adjusted net leverage exceeding the 2x negative sensitivity over 2019-2022.

In line with Fitch's updated *Short-Term Ratings Criteria*, where an issuer's long-term ratings are equalised with a parent or sponsor based on our *GRE Rating Criteria*, the short-term ratings will also be equalised. As a result, Fitch is upgrading SABIC's Short-Term IDR to 'F1+', in line with that of its parent, Saudi Arabia.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Product Nature	Product Leadership	Diversification, Scale	Cost Position	Profitability	Financial Structure	Financial Flexibility
Saudi Basic Industries Corporation (SABIC)	A/Sta	a-	a	bbb	a	a	a+	a	a	a
BASF SE	A+/Sta	aa	aa	a	a	a+	a-	a+	bbb	a
E.I. du Pont de Nemours and Company	A/Sta	aa	a	a	a	a	bbb+	a	a-	a-
Royal DSM N.V.	A-/Sta	aa-	a+	a	a	a-	bbb+	a	bbb+	a
Dow Chemical Company	BBB+/Sta	aa	a+	bbb	a	a-	bbb+	bbb+	bbb	bbb+
Akzo Nobel N.V.	BBB+/Neg	aa	a	bbb	a	bbb	bbb	bbb-	bbb+	bbb+
Solvay SA	BBB/Pos	aa-	a+	a-	a	a-	bbb+	a-	bb+	bbb+
Eastman Chemical Co	BBB/Sta	aa-	aa-	bbb	bbb	bbb+	bbb	a	bbb-	bbb+
Syngenta AG	BBB/Sta	a	bbb+	a	a	a-	bbb	a-	bb-	bbb
Westlake Chemical Corporation	BBB/Sta	a	a-	bbb	bbb	bbb-	bbb	a	bbb	bbb

Source: Fitch Ratings. Importance Higher Moderate Lower

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

– An upgrade of Saudi Arabia’s LT IDR to above ‘A’ coupled with FFO adjusted net leverage sustained below 1.5x

Developments That May, Individually or Collectively, Lead to Negative Rating Action

– FFO-adjusted net leverage sustained at above 2.0x through-the-cycle due to aggressive debt-funded expansion
– Material adverse revisions in the group’s feedstock supply arrangements, significant changes in SABIC’s shareholding structure or any material impairment in the control of its affiliates/JV and resulting ability to access/upstream cash
– EBITDA profitability below 25% on a sustained basis (2018: 30%)
– A downgrade of Saudi Arabia’s LT IDR to below ‘A’

Liquidity and Debt Structure

Strong Liquidity: At 30 June 2019, SABIC reported SAR39.8 billion of cash and cash equivalents, which comfortably covered SAR4.9 billion of reported current financial debt. The debt maturity schedule spreads well with sufficient liquidity to cover debt maturities and negative FCF for at least two years.

SABIC also benefits from diversified sources of funding from banks and capital markets and through various instruments types such as bullet loans, project finance and bonds.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

Liquidity and Debt Maturity Scenario with No Refinancing

As of 30 June 2019:

Available Liquidity (SARbn)	2019F	2020F
Beginning Cash Balance	45	33
Rating Case FCF after Acquisitions and Divestitures	-8	-9
Total Available Liquidity (A)	**38**	**24**
Liquidity Uses		
Debt Maturities	-5	-7
Total Liquidity Uses (B)	**-5**	**-7**
Liquidity Calculation		
Ending Cash Balance (A+B)	33	17
Revolver Availability	0	0
Ending Liquidity	**33**	**17**
Liquidity Score	**7.7**	**3.6**

Source: Fitch Ratings, Fitch Solutions, SABIC

Scheduled Debt Maturities	Original
Statement Date	**30 June 2019**
2019	5
2020	7
2021	7
2022	11
2023	11
Thereafter	9
Total	49

Source: Fitch Ratings, Fitch Solutions, SABIC

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

– A 2019 revenue decline of about 15% on supply-driven petrochemicals price plunge, with low-single-digit recovery in 2020

– EBITDA margin bottoming out at 24% in 2019 with gradual recovery towards 30% in 2022 on broadly flat average realised prices, declining oil-linked input pricing, reflecting Fitch's oil and gas price deck, and cost optimisation efforts

– Capex to increase to SAR22 billion-23 billion, or about 15% of sales (2018: 8.4%), driven by US projects

– Largest projects are conservatively assumed not to materially contribute to cash flow before 2023

– Dividends outflow to grow by 10% in 2019 and 5% thereafter

– FCF margin turning negative at -5% to -7% from 2019 driving FFO net adjusted leverage up to 1x by 2022 (2018: 0.1x)

Financial Data

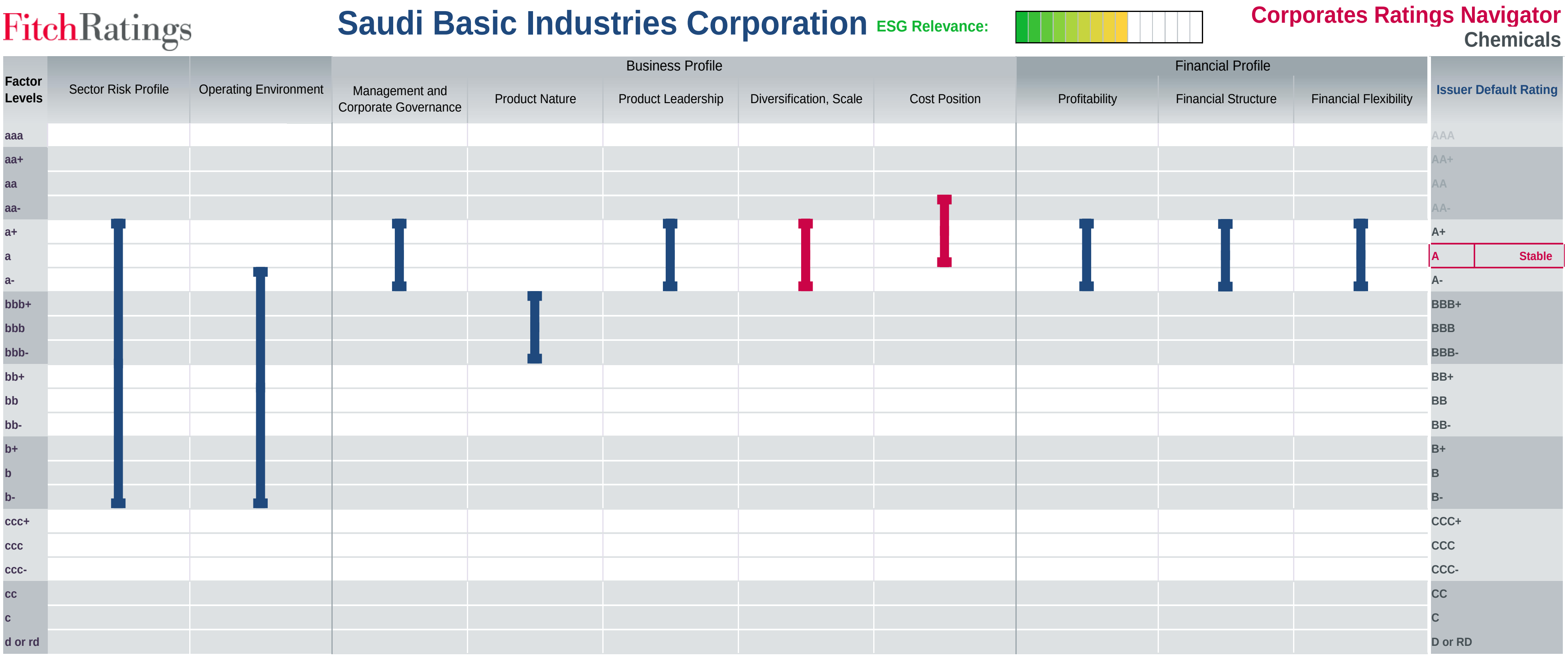
(SARm)	Historical			Forecast		
	Dec 2016	**Dec 2017**	**Dec 2018**	**Dec 2019F**	**Dec 2020F**	**Dec 2021F**
Summary Income Statement						
Gross Revenue	142,999	149,766	169,128	146,786	151,093	152,301
Revenue Growth (%)	-3.4	4.7	12.9	-13.2	2.9	0.8
Operating EBITDA (Before Income from Associates)	40,571	43,846	51,399	35,474	39,014	42,331
Operating EBITDA Margin (%)	28.4	29.3	30.4	24.2	25.8	27.8
Operating EBITDAR	41,620	45,036	52,919	36,794	40,372	43,700
Operating EBITDAR Margin (%)	29.1	30.1	31.3	25.1	26.7	28.7
Operating EBIT	25,870	28,999	36,263	19,944	22,903	25,687
Operating EBIT Margin (%)	18.1	19.4	21.4	13.6	15.2	16.9
Gross Interest Expense	-1,359	-1,749	-2,089	-1,975	-2,260	-2,579
Pretax Income (Including Associate Income/Loss)	27,251	29,625	35,683	17,969	20,644	23,108
Summary Balance Sheet						
Readily Available Cash and Equivalents	60,353	65,411	53,979	50,884	51,534	51,197
Total Debt with Equity Credit	63,110	58,063	47,263	51,690	61,293	67,642
Total Adjusted Debt with Equity Credit	71,502	67,580	59,426	62,246	72,158	78,595
Net Debt	2,757	-7,348	-6,716	807	9,759	16,446
Summary Cash Flow Statement						
Operating EBITDA	40,571	43,846	51,399	35,474	39,014	42,331
Cash Interest Paid	-1,407	-1,738	-2,002	-1,975	-2,260	-2,579
Cash Tax	-3,378	-3,223	-4,008	-4,000	-4,000	-4,000
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	-6,554	-5,026	-8,274	-5,630	-6,231	-6,795
Other Items Before FFO	4,948	4,464	417	0	0	0
Funds Flow from Operations	34,180	38,322	37,532	23,870	26,523	28,957
FFO Margin (%)	23.9	25.6	22.2	16.3	17.6	19.0
Change in Working Capital	-706	-4,671	-1,076	3,811	-735	-206
Cash Flow from Operations (Fitch Defined)	33,474	33,651	36,456	27,680	25,789	28,751
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-15,526	-11,471	-14,236			
Capital Intensity (Capex/Revenue) %	10.9	7.7	8.4			
Common Dividends	-14,914	-11,592	-12,060			
Free Cash Flow	3,034	10,588	10,160			
Net Acquisitions and Divestitures	321	-353	-10,906			
Other Investing and Financing Cash Flow Items	9,509	13,157	-4,875	0	0	0
Net Debt Proceeds	-10,622	-5,666	-10,881	4,427	9,602	6,350
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	2,242	17,726	-16,502	-3,096	650	-337
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-30,118	-23,417	-37,202	-35,203	-34,741	-35,438
Free Cash Flow After Acquisitions and Divestitures	3,355	10,235	-746	-7,523	-8,953	-6,687
Free Cash Flow Margin (After Net Acquisitions) (%)	2.3	6.8	-0.4	-5.1	-5.9	-4.4
Coverage Ratios						
FFO Interest Coverage (x)	25.3	22.3	19.0	13.1	12.7	12.2
FFO Fixed Charge Coverage (x)	14.9	13.7	11.3	8.2	8.3	8.3
Operating EBITDAR/Interest Paid + Rents (x)	14.3	13.7	12.7	9.5	9.4	9.3
Operating EBITDA/Interest Paid (x)	24.2	22.3	21.5	15.1	14.5	13.8
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	2.0	1.7	1.3	2.0	2.1	2.1
Total Adjusted Net Debt/Operating EBITDAR (x)	0.3	0.1	0.1	0.4	0.6	0.7
Total Debt with Equity Credit/Operating EBITDA (x)	1.9	1.5	1.1	1.7	1.9	1.9
FFO Adjusted Leverage (x)	2.0	1.7	1.5	2.3	2.4	2.4
FFO Adjusted Net Leverage (x)	0.3	0.1	0.1	0.4	0.7	0.8

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

Saudi Basic Industries Corporation (SABIC)

Corporates Ratings Navigator
Chemicals

Operating Environment

a	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a-	Financial Access	a	Strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bbb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bbb'.
b-			
ccc+			

Management and Corporate Governance

aa-	Management Strategy	aa	Coherent strategy and very strong track record in implementation.
a+	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
a-	Financial Transparency	a	High quality and timely financial reporting.
bbb+			

Product Nature

a-	Portfolio Characteristics (Specialty Chemicals)		n.a.
bbb+	Portfolio Characteristics (Commodity Chemicals)	bbb	Commodity chemicals with above average growth prospects mitigating overcapacity risks, volatile raw material prices and price competition.
bbb			
bbb-			
bb+			

Product Leadership

aa-	Market Position	a	Top-three market position in core activities.
a+			
a			
a-			
bbb+			

Diversification, Scale

aa-	Portfolio Diversification	a	Large diversified producer with portfolio of products offering exposure to diverging cyclical trends.
a+	End-Market Diversification	a	Above-average end-market diversification with very low cyclicality across product portfolio.
a	Number of Sites	a	Multiple site operations (10+).
a-	Regional Footprint	a	Global player with significant presence in three or more regions.
bbb+	EBITDAR ($)	a	$1.4 billion

Cost Position

aa	Raw Material & Energy Costs	a	Strong ability to pass through raw material costs or sustainable access to highly competitively priced raw materials and/or energy.
aa-	Degree of Integration	a	Strong degree of vertical or horizontal integration with high logistical/cost efficiencies or co-located sites with high switching costs for customers.
a+	Production Flexibility	a	High raw material diversification, high feedstock flexibility or high production process flexibility to match demand
a	Environmental Exposure	bbb	Limited or manageable exposure to environmental regulations. Remediation costs and/or likely penalties are comfortably covered within current cashflows.
a-			

Profitability

aa-	FFO Margin	a	12%
a+	FCF Margin	a	3.0%
a	EBITDAR Margin	a	15%
a-			
bbb+			

Financial Structure

aa-	Lease Adjusted FFO Gross Leverage	a	1.5x
a+	Lease Adjusted FFO Net Leverage	a	1.0x
a	Total Adjusted Debt/Operating EBITDAR	a	1.0x
a-			
bbb+			

Financial Flexibility

aa-	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a+	Liquidity	a	Very comfortable liquidity. Well-spread debt maturity schedule. Diversified sources of funding.
a	FFO Fixed Charge Cover	a	7.0x
a-	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well matched.
bbb+			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Saudi Basic Industries Corporation (SABIC) has 11 ESG potential rating drivers

- Emissions from production process
- Energy use in operations, and used as feedstock
- Water usage in processing
- Waste handling; permitting
- Impact of labor negotiations and employee (dis)satisfaction
- Workplace safety and accident prevention

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	11	issues	3
not a rating driver	1	issues	2
	2	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings

Saudi Basic Industries Corporation (SABIC)

Corporates Ratings Navigator
Chemicals

Credit-Relevant ESG Derivation

Saudi Basic Industries Corporation (SABIC) has 11 ESG potential rating drivers

- Saudi Basic Industries Corporation (SABIC) has exposure to emissions regulatory risk but this has very low impact on the rating.
- Saudi Basic Industries Corporation (SABIC) has exposure to energy productivity risk but this has very low impact on the rating.
- Saudi Basic Industries Corporation (SABIC) has exposure to water management risk but this has very low impact on the rating.
- Saudi Basic Industries Corporation (SABIC) has exposure to waste & impact management risk but this has very low impact on the rating.
- Saudi Basic Industries Corporation (SABIC) has exposure to labor relations & practices risk but this has very low impact on the rating.
- Saudi Basic Industries Corporation (SABIC) has exposure to employee health & safety risk but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	11	issues	3
not a rating driver	1	issues	2
	2	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	3	Emissions from production process	Cost Position; Profitability	5
Energy Management	3	Energy use in operations, and used as feedstock	Cost Position; Profitability	4
Water & Wastewater Management	3	Water usage in processing	Cost Position; Profitability	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste handling; permitting	Cost Position; Profitability	2
Exposure to Environmental Impacts	1	n.a.	n.a.	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Relationship with local communities	Management and Corporate Governance; Cost Position; Profitability	5
Customer Welfare - Fair Messaging, Privacy & Data Security	1	n.a.	n.a.	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Management and Corporate Governance	3
Employee Wellbeing	3	Workplace safety and accident prevention	Management and Corporate Governance	2
Exposure to Social Impacts	3	Social resistance to major projects (for example: GMOs); shift in consumer preferences towards chemical-free products	Management and Corporate Governance	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

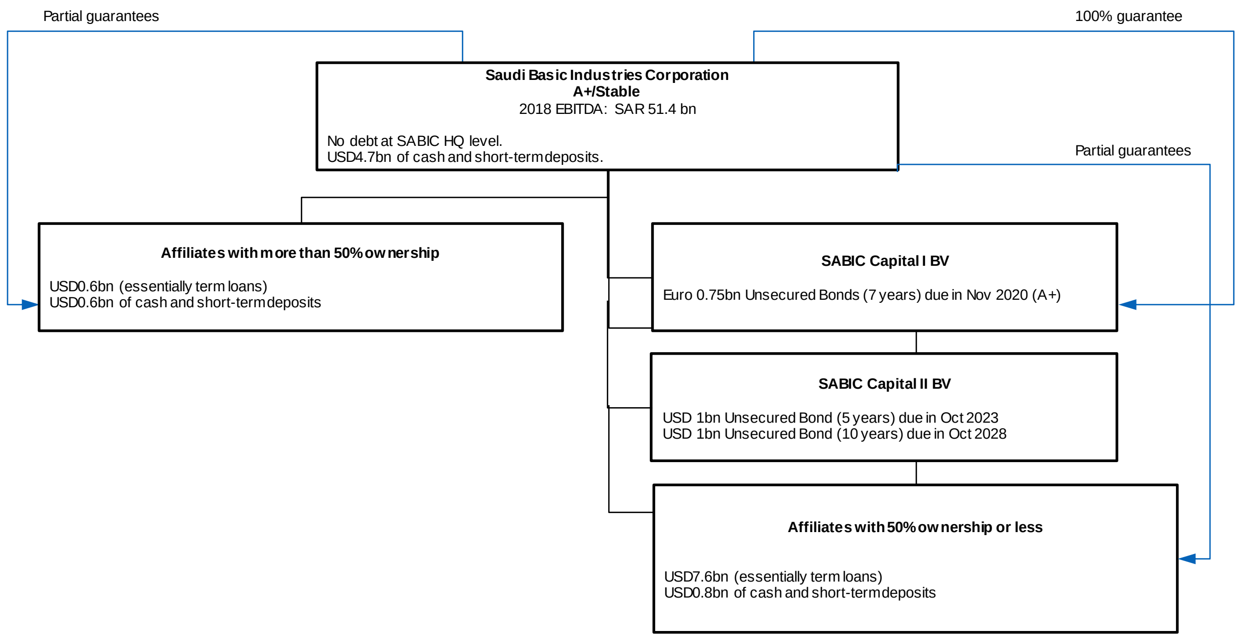
CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Debt structure diagram as of 30 June 2019:



Source: Fitch Ratings, Fitch Solutions, SABIC

Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue (USDm)	Operating EBITDAR Margin (%)	FFO Margin (%)	FFO Fixed Charge Coverage (x)	FFO Adjusted Leverage (x)
Saudi Basic Industries Corporation (SABIC)	A						
	A+	2018	45,101	31.3	22.2	11.3	1.5
	A+	2017	39,938	30.1	25.6	13.7	1.7
	A+	2016	38,133	29.1	23.9	14.9	2.0
Royal DSM N.V.	A-						
	A-	2018	10,933	19.8	17.1	14.5	1.9
	A-	2017	9,757	17.5	13.1	6.3	2.5
	A-	2016	8,759	16.3	12.7	6.1	3.3
BASF SE	A+						
	A+	2018	73,943	17.3	13.2	8.7	2.7
	A+	2017	72,877	19.7	15.3	10.5	2.0
	A+	2016	63,646	19.1	13.1	7.9	2.4
DuPont de Nemours, Inc.	BBB+						
	BBB+(EXP)	2018	85,977	20.4	8.6	3.3	4.8
		2017	62,484	20.0	17.2	6.0	3.2
		2016	48,158	19.1	12.9	3.8	3.4
Dow Chemical Company	BBB+						
	BBB+	2018	60,278	19.7	9.8	3.9	3.4
	BBB	2017	55,508	18.5	15.5	5.4	2.6
	BBB	2016	48,158	21.0	11.1	3.3	3.7
Akzo Nobel N.V.	BBB+						
	BBB+	2018	10,920	10.5	4.2	2.6	6.1
	BBB+	2017	10,865	14.1	4.2	2.3	7.3
	BBB+	2016	10,433	18.7	14.1	5.2	2.8
Solvay SA	BBB						
	BBB	2018	13,330	17.6	14.5	6.0	3.0
	BBB	2017	12,310	18.8	13.0	4.0	3.3
	BBB	2016	11,109	19.6	15.3	4.7	3.8
Eastman Chemical Co	BBB						
	BBB	2018	10,151	22.9	16.3	5.8	3.5
	BBB	2017	9,549	24.2	17.3	5.6	3.6
	BBB	2016	9,008	24.4	16.0	4.8	4.2

Westlake Chemical Corporation	BBB						
	BBB	2018	8,635	26.2	19.1	6.5	2.1
	BBB	2017	8,041	25.3	17.2	5.6	3.0
	BBB	2016	5,076	22.9	15.1	6.7	5.1

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(SAR Millions, As reported)	31 Dec 2018
Income Statement Summary	
Operating EBITDA	51,399
+ Recurring Dividends Paid to Non-controlling Interest	-8,736
+ Recurring Dividends Received from Associates	462
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**43,125**
+ Operating Lease Expense Treated as Capitalised (h)	**1,520**
= Operating EBITDAR after Associates and Minorities (j)	**44,646**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**47,263**
+ Lease-Equivalent Debt	12,162
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**59,426**
Readily Available Cash [Fitch-Defined]	44,337
+ Readily Available Marketable Securities [Fitch-Defined]	9,643
= Readily Available Cash & Equivalents (o)	**53,979**
Total Adjusted Net Debt (b)	**5,446**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	1,423
+ Interest (Paid) (d)	**-2,002**
= Net Finance Charge (e)	**-580**
Funds From Operations [FFO] (c)	**37,532**
+ Change in Working Capital [Fitch-Defined]	-1,076
= Cash Flow from Operations [CFO] (n)	**36,456**
Capital Expenditures (m)	**-14,236**
Multiple applied to Capitalised Leases	**8.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**1.3**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**1.5**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**1.1**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**0.1**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**0.1**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**-0.3**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**12.7**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**21.5**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**11.3**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**19.0**
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, SABIC

Fitch Adjustment Reconciliation

(SAR Millions, As reported)	Reported Values 31 Dec 18	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	cash	Other Adjustment	Adjusted Values
Income Statement Summary						
Revenue	169,128	0				169,128
Operating EBITDAR	52,919	0				52,919
Operating EBITDAR after Associates and Minorities	52,919	-8,274	-8,274			44,646
Operating Lease Expense	1,520	0				1,520
Operating EBITDA	51,399	0				51,399
Operating EBITDA after Associates and Minorities	51,399	-8,274	-8,274			43,125
Operating EBIT	36,263	0				36,263
Debt & Cash Summary						
Total Debt With Equity Credit	47,263	0				47,263
Total Adjusted Debt With Equity Credit	47,263	0			12,162	59,426
Lease-Equivalent Debt	0	0			12,162	12,162
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	52,406	1,573		1,573		53,979
Not Readily Available Cash & Equivalents	0	0				0
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0				0
Interest Received	1,423	0				1,423
Interest (Paid)	-2,002	0				-2,002
Funds From Operations [FFO]	45,806	-8,274	-8,274			37,532
Change in Working Capital [Fitch-Defined]	-1,076	0				-1,076
Cash Flow from Operations [CFO]	44,730	-8,274	-8,274			36,456
Non-Operating/Non-Recurring Cash Flow	0	0				0
Capital (Expenditures)	-14,236	0				-14,236
Common Dividends (Paid)	-12,060	0				-12,060
Free Cash Flow [FCF]	18,434	-8,274	-8,274		0	10,160
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	0.9					1.3
FFO Adjusted Leverage [x]	1.0					1.5
Total Debt With Equity Credit / Op. EBITDA* [x]	0.9					1.1
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	-0.1					0.1
FFO Adjusted Net Leverage [x]	-0.1					0.1
Total Net Debt / (CFO - Capex) [x]	-0.2					-0.3
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	15.0					12.7
Op. EBITDA / Interest Paid* [x]	25.7					21.5
FFO Fixed Charge Coverage [x]	13.6					11.3
FFO Interest Coverage [x]	23.2					19.0

*EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, SABIC

Related Research & Applicable Criteria

Corporate Rating Criteria (February 2019)
Corporate Government Related Entities (Excel) (September 2018)
Parent and Subsidiary Rating Linkage (September 2019)
Short-Term Ratings Criteria (May 2019)

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