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## SABIC

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# Petrochemicals giant stays focused amid challenges



*Sabir: surge in profits despite challenges*

Despite a 33 per cent profit jump, the chemical major expects a drop in demand and rising supply chain costs to weigh on earnings for the rest of the year

**W**ith its healthy performance year to date, Saudi Basic Industries Corporation (Sabic), one of the world's largest petrochemicals producers, with vertically integrated operations, state-of-the-art global facilities and a top market position for its products, has clearly established its position as the titan of the chemicals industry.

Not only was the chemical major's performance in 2021 exceptional but its financial results for the first quarter for the year 2022 were unprecedented too. Yet, the Riyadh-based chemicals major says it is facing "numerous challenges" related to supply chain woes as well as higher production costs while high inflation could end up denting end demand, as per an ICRA report.

According to Sabic CEO Yousef Al-Benyan, the war in Ukraine has not "strongly and directly" impacted Sabic's operations, adding the company had managed to avoid the worst of the supply chain disruption caused in Europe by Russia's invasion.

Speaking at Sabic's post-earnings announcement conference, he added how-



*Yousef Al-Benyan*

ever that during the January-March production costs – on the back of higher energy prices – and supply chain costs had risen sharply.

"We are paying close attention to supply chain costs, as well as production costs. Supply chain-related costs increased by 30 per cent on average during the first quarter, compared with the fourth quar-

ter of 2021. Year on year, costs increased by 50-60 per cent," said Al-Benyan.

"Sabic did not have any direct exposure to the Russian or Ukrainian markets. Nobody welcomes the war, and the impact it will have will be negative for energy markets but also for the key agricultural nutrients [fertilizers] of which Russia and Ukraine are strong producing countries."

## STRONG RESULTS

The company reported a 33 per cent surge in profits for the first quarter, buoyed by 40-per cent growth in sales to SR53 billion (\$14 billion).

Al-Benyan highlighted that this year's results are "unprecedented," and reiterated that solid figures were supported by enhanced diversification of products, higher oil prices and stronger global reach, with Sabic's latest ExxonMobil venture in the US Gulf Coast contributing largely to the results.

"In 2022, Sabic will remain focused on delivering its growth strategy, achieving operational resilience and meeting our ESG commitments, while at all times maintaining a strong balance sheet," the CEO added.

Still, a drop in demand on the back of higher inflation and interest rates as well as rising feedstock costs and supply chain woes remain a challenge.

"The average of the cost increased by 3

per cent compared to the fourth quarter in 2021, and by 90 per cent from the first quarter of 2021," Al-Benyan noted.

According to the executive, the global economic slowdown is anticipated to weigh on demand for chemicals in the second half.

## BLURRIER OUTLOOK

Despite healthy performance year to date, Al-Benyan conceded that high inflation caused by higher commodity prices could end up denting end demand as consumers become more selective on their spending as their budgets get squeezed.

Higher interest rates to rein in inflation could also make borrowing more expensive, also deterring spending on big-ticket items key for the petrochemicals industry, like automotive or construction.

This, in turn, would have an effect in petrochemicals selling prices, he added. According to Sabic's price index its selling prices have increased over the past quarters at a faster pace than those for crude oil.

"Our outlook contemplates a slowdown of the world economy. And I think inflation will play an important role and could impact demand for products, and thereby [selling] prices will be affected accordingly," said Al-Benyan.

"Until the second half of 2022, we will be facing pressure because of the economic slowdown, inflation, [and] the disparity of interest rates [across the world]."

The CEO added that Sabic's stake in Switzerland-headquartered chemicals producer Clariant remains "strategic" for the future position of the company within the specialty chemicals sector.

According to Clariant's 2020 annual report, Sabic's stake in its capital structure stands at 32.22 per cent; Clariant is yet to release its 2021 annual report after the



*The year 2022 saw the successful start-up of Sabic's US Gulf Coast chemical complex*

company postponed its publication while investigating accounting issues, now concluded.

"Clariant is a part of Sabic's strategy in our specialised business – we have been paying attention to Clariant and it remains a key part for our future strategy," said Al-Benyan.

## SIGNIFICANT SCALE

Sabic is one of the world's largest petrochemicals producers, with vertically integrated operations, state-of-the-art global facilities and a top market position for its products.

According to Fitch, Sabic stands out among its 'A' rating category peers as it is a commoditised chemical company, albeit one with a leading cost position and access to low-cost feedstock in Saudi Arabia, which underpins strong profitability and robust cash flow generation through the cycle. Its scale, historically low leverage, and access to competitively priced feedstock underpin its 'A' rating.

The only other Fitch-rated chemical company is German multinational BASF SE., one of the world's largest chemical

companies, which benefits from significant scale, vertically integrated operations across the value chain, considerable diversification across products and end-markets, and market-leading positions. It is more specialised and has high barriers of entry for many of its product lines but does not have Sabic's feedstock advantage.

According to Fitch, Sabic's subsidised methane and ethane prices in Saudi Arabia underpin the company's cost advantage over non-integrated naphtha-based petrochemical producers. This advantage shrinks when oil, and therefore naphtha, prices are low. This was the case in 2020 when Brent oil price averaged 36 per cent below the 2019 level of \$65/bbl amid weak GDP and demand. This advantage will, however, resume in 2022-2023 as oil prices increase due to the ongoing war in Ukraine. We therefore expect Sabic's cost advantage and profitability to remain solid until oil prices drop materially from 2022 levels.

Clearly, Sabic's diversified business model with a broad portfolio of products is the biggest strength and the core competency of company that lends Sabic a competitive advantage over its competitors.

Sabic is the titan of the chemical industry due to its impeccable strengths like the market leader in the manufacturing of many products, comprehensive product portfolio, robust support from the Saudi government, strong global footprint, strong R&D, focus on innovation, rigorous investments in technology and more. However factors like focus on higher volatility commodity chemicals, weak supply chain, etc are weaknesses of Sabic that could hinder growth, smooth functioning and profitability of the company. ■



*Sabic's key priorities in 2022*



# Sabic, Heinz, Tesco in closed-loop project

The collaboration aligns with Sabic's Trucircle program and the company's commitment to drive the transformation of the plastic packaging economy towards circularity



*Sabic has teamed up with Kraft Heinz, Tesco and Berry in an innovative recycling trial*

**S**abic, a global leader in the chemical industry, has joined forces with Heinz, Tesco and Berry in an innovative recycling trial in the UK, designed to close the loop on soft plastic food packaging.

Flexible plastic packaging collected from Tesco stores has been used to produce certified circular polypropylene (PP) from Sabic's Trucircle portfolio for microwaveable Heinz Beanz Snap Pots, made from 39 per cent recycled soft plastic.

Consumers are encouraged to return soft plastic packaging to collection points set up at Tesco stores. A portion of this collected plastic packaging is converted into recycled oils, called TACOIL, through a thermal anaerobic conversion process. Sabic uses the oil to produce certified circular polypropylene of the same quality as virgin resin.

With these polymer pellets, Berry Global, a leading supplier of innovative packaging solutions, then manufactures the new BeanZ Snap Pots and sends them to Heinz for filling with BeanZ and delivery to Tesco. Once emptied, the pots and

sleeves can be returned to kerbside collection points.

The collaboration aligns with Sabic's Trucircle program and the company's commitment to drive the transformation of the plastic packaging economy towards circularity. "We are happy to reaffirm our role as a provider of unique circular solutions," stated Lada Kurelec, General Manager PP, PET, PS, PVC, PU & Elastomers Businesses for Petrochemicals at Sabic.

"Next to the material know-how, we have brought value chain partners together and provided crucial elements such as support with certification processes or life-cycle assessment calculations, all while helping to prevent valuable used plastics from being lost to landfill or incineration."

The Snap Pots recycling trial is part of Heinz's global pledge aimed at making 100 per cent of its

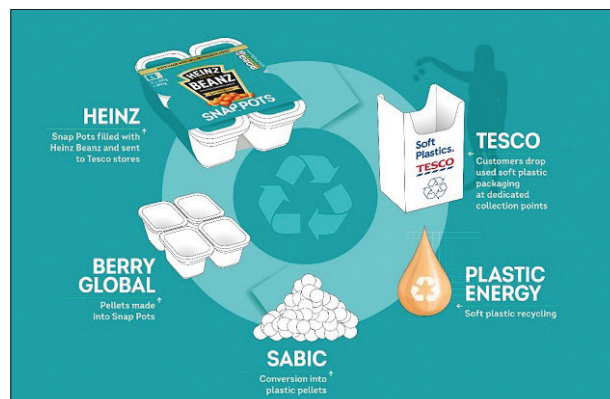
packaging recyclable, reusable or compostable by 2025.

Jojo de Noronha, President Northern Europe at Heinz, said: "We're proud to have teamed up with experts in the field of advanced recycling and sustainable packaging to bring this important innovation to our customers. Our hope is that this prompts an industry-wide look at what more can be done to address the lack of soft plastics being recycled in the UK, and we can, as a collective, get better when it comes to developing new packaging solutions that are both good for both our consumers and for our planet."

Jean-Marc Galvez, President of Berry Global's Consumer Packaging International Division, said: "This is a prime example of an innovative advancement in circular packaging design made possible by collaboration across the entire value chain. This type of circular approach helps capture and reuse plastics that currently go unrecycled to keep materials in use and out of our oceans and landfills."

To date flexible packaging has been difficult to recycle, and until 2020 just 6 per cent of soft plastic packaging was being recycled in the UK. Tesco started collecting soft plastic in all its large stores in 2021 to help plug this recycling gap in the UK. The Heinz and Tesco project with certified circular polymer from Sabic is considered a breakthrough with the potential of a real game changer.

James Bull, Tesco's Head of Packaging, said: "This innovative collaboration is one of the ways that soft plastic returned to stores by our customers will be recycled into new food-grade packaging. After doing everything we can to remove and reduce plastic, we want to develop circular recycling solutions so that used packaging can be recycled back into packaging again." ■



*As part of a closed-loop recycling trial, consumers return used soft plastic packaging to collection points set up at Tesco stores*

# Sabic launches blockchain technology pilot project

According to the chemicals producer, the project intends to create additional transparency and digital traceability for certified circular feedstock used in its Trucircle solutions

boot, commented: “We are excited to embark on this pilot as it will significantly contribute to the development and progression of a circular economy, while

**S**abic, a global leader in the chemicals industry, has launched a pilot project to investigate the possibilities of blockchain technology in supporting end-to-end digital traceability of circular feedstock in customer products.

The project is launched with technology company Finboot, advanced recycling pioneer Plastic Energy, and packaging specialist Intraplás.

Tracing the journey of feedstock through the complex petrochemical value chain is currently a difficult undertaking. To improve this process and support the delivery of its circular feedstock to customers – part of Sabic’s Trucircle portfolio and services –, Sabic has launched this pilot project to demonstrate the feasibility of using a blockchain-based, value-chain IT application.

Sabic’s is the first project of its kind in the industry to trace the product from feedstock production to converter, going further than previous industry applications of blockchain in end-to-end tracing. The platform offers reduced costs, time and improved data integration for all value chain partners.

Another of the key benefits of blockchain technology in the delivery of more sustainable solutions lies in its ability to validate sustainability proof points and organizations’ ESG credentials. This is of significant benefit to all members of the value chain, including external parties, as it reduces the administrative efforts associated with the certification process of materials. It is also a more reliable process, due to the reduced risk of human error.

Waleed Al-Shalfan, Vice President Polymers Technology & Innovation at Sabic, said: “At Sabic, we have a deep commitment to innovation and technology that can help us to deliver more sustainable solutions to our customers. Our vision to



create a circular economy for plastics requires a total transformation of the value chain, and pioneering partnerships with partners both upstream and downstream. Blockchain technology holds exciting potential for the provision of our Trucircle products to customers, and therefore for our commitment to supporting customers in their sustainability ambitions.

Finboot’s Marco software solution acts as middleware layer and will track the Tacoil produced by Plastic Energy from their recycling process, the delivery of this oil to Sabic for conversion into its Trucircle circular polymers, and finally the delivery of the polymers to Intraplás for conversion into their packaging solutions. The technology also ensures that all data gathered remains immutable while shared across suppliers, customers and regulators – providing transparency, auditability and accountability in a complex industrial ecosystem.

Juan Miguel Pérez Rosas, CEO of Fin-

boot, commented: “We are excited to embark on this pilot as it will significantly contribute to the development and progression of a circular economy, while setting the example for best practice for the global manufacturing sector. Sabic is at the forefront of its industry, always looking to the future and investing in technology and innovation to accelerate its digital transformation that supports the circular economy.

Marisa Alves, Chief Procurement Officer at Intraplás, added: As a global provider of packaging solutions, Intraplás has the clear ambition to make sustainable packaging broadly available to the market, without compromising the environment and food safety, something that boosted

the participation on this important project with our supplier and long-term partner Sabic. The blockchain technology project will reinforce our objectives even more, as it will help us to improve performance, create additional transparency to the supply chain and promote digital traceability for our certified circular packaging. This is an Intraplás contribution, through more concretely sustainable solutions, to a real circular economy.

Carlos Monreal, Founder and CEO of Plastic Energy commented, “As a company who has developed our own innovative technology, we at Plastic Energy are excited to explore the opportunities that new technologies like blockchain can offer. This pilot has the potential to make a big impact in the value-chain, providing a new level of traceability and transparency for recycled plastics, and demonstrating how advanced recycling can play a valuable role in the circular economy of plastics. ■