

Advanced Petrochemicals Co

Petrochemicals – Industrial

APPC AB: Saudi Arabia

09 July 2017

الراجحي المالية
Al Rajhi Capital



US\$2.380bn

Market cap

9%

Free float

US\$4.460mn

Avg. daily volume

Target price

46.00

1.4% over current

Current price

45.36

as at 5/7/2017

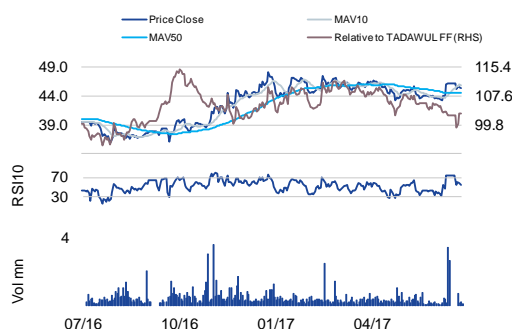
Existing rating

Underweight

Neutral

Overweight

Performance



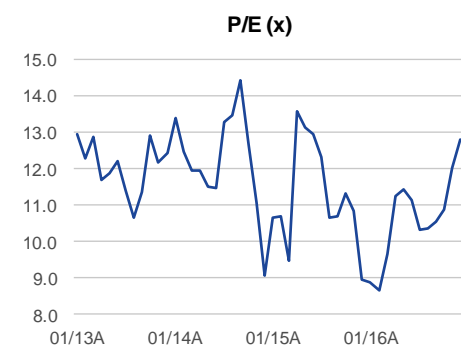
Source: Bloomberg

Earnings

Period End (SAR)	12/13A	12/14A	12/15A	12/16A
Revenue (mn)	2,786	3,036	2,377	2,139
Revenue Growth	12.7%	9.0%	-21.7%	-10.0%
EBITDA (mn)	772	943	952	913
EBITDA Growth	42.2%	22.1%	1.0%	-4.1%
EPS	2.74	3.70	3.51	3.59
EPS Growth	68.9%	35.2%	-5.1%	2.3%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

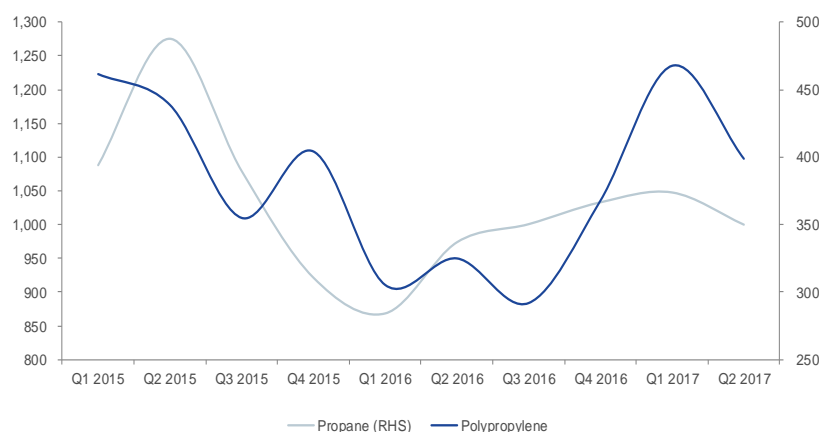
Advanced Petrochemicals Co Q2: In-line results; fairly priced

APPC reported Q2 net profit of SAR194mn, broadly in-line with our estimate of SAR200mn and above consensus estimate of SAR170mn. We believe a moderate increase in polypropylene price and a healthy increase in sales volumes helped the company offset the sharp increase in Propane (feedstock) price, resulting in flat operating income (on a y-o-y basis). In our view, lower than expected non-operating income was the reason for the slight miss in net profit as compared to our estimate. Q2 results are a reaffirmation of the company's operational strength and we continue to remain Neutral on the stock with a target price of SAR46/sh., implying an upside of 1.4%. The stock trades at a forward P/E of 12x as compared to 3-year average historical multiple of 12.1x (Bloomberg) and peers at 12.8x (Bloomberg). We expect 2017 dividend per share at SAR2.8/share implying attractive yield of 6.2%.

Revenue and profit: The company reported a 11% increase in top-line in Q2, mainly driven by an increase in sales volume while product price (General Purpose film Polypropylene spot CFR Far East, Bloomberg) saw a moderate increase of 3% y-o-y. This offset the sharp increase in propane price (set by Aramco, up ~23% y-o-y for Q2). The steep increase in q-o-q profit was mainly owing to shutdown of facilities in Q1 2017. Despite operating profit coming in line, net profit came slightly lower than our estimate. This was as a result of lower than expected non-operating income from the sale of some equity investment in SK Advanced (profit contribution of SAR10mn).

Valuation and risks: The good set of results in Q2 confirm the healthy operations of the company though the upside to valuation may be limited. Based on our valuation methodology (equal mix of DCF and relative – PE- valuation), we arrive at a TP of SAR46/share and have a Neutral rating. Though there are downside risks in the form of lower Polypropylene price, we believe this could be offset by similar decline in Propane price as we have seen historically (Figure 1).

Figure 1 Indicative prices of Polypropylene and Propane (USD/tonne)



Source: Al Rajhi Capital, Bloomberg

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Figure 2 Q2 results summary

(In SARmn)	2Q16	1Q17	2Q17	y/y	q/q	ARC	vs ARC
Revenue	546	526	604	11%	15%	591	2%
Gross Profit	201	143	220	9%	54%	223	-1%
Op. profit	192	117	192	0%	64%	194	-1%
Net profit	187	124	194	4%	56%	199.5	-3%

Source: Company data, Al Rajhi Capital

Figure 3 Three year historical averages

			EV/EBITDA			Price/Earnings		
			Low	High	Avg	Low	High	Avg
1	APPC	APPC AB Equity	6.4	12.8	9.8	7.8	15.6	12.1
2	Yansab	YANSAB AB Equity	4.9	11.0	8.5	7.4	15.4	12.5
3	SABIC	SABIC AB Equity	5.0	8.1	7.0	7.0	16.5	12.9
4	Tasnee	NIC AB Equity	5.7	11.9	9.0	7.5	20.7	12.9
5	Sipchem	SIPCHEM AB Equity	6.7	11.0	8.7	7.5	20.7	12.9
6	Kayan	KAYAN AB Equity	8.8	15.3	11.5	14.3	NA	NA
7	SIIG	SIIG AB Equity	7.4	11.2	9.0	4.7	12.0	8.9
8	SAFCO	SAFCO AB Equity	9.7	21.2	14.4	10.2	26.3	15.7
9	Sahara	SPC AB Equity	8.2	17.5	12.7	7.2	20.6	13.6
10	Petro Rabigh	PETROR AB Equity	5.9	20.9	15.0	5.8	NA	NA
11	Petrochem	PETROCH AB Equity	7.6	12.0	9.6	6.6	15.1	11.6
12	Nama	NAMA AB Equity	NA	NA	NA	NA	NA	NA
13	Chemanol	CHEMANOL AB Equity	5.5	11.9	8.7	9.0	NA	NA
14	Alujain	ALCO AB Equity	5.6	6.6	6.1	7.2	26.8	15.2
Average			6.7	13.2	10.0	7.9	19.0	12.8

Source: Bloomberg, Al Rajhi Capital



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"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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