

May 04, 2017

Rating
12- Month Target Price

Neutral
SAR 46.00

ADVANCED PETROCHEMICAL COMPANY (ADVANCED)

1Q2017 First Look

Expected Total Return

Price as on May-03, 2017	SAR 43.3
Upside to Target Price	6.2%
Expected Dividend Yield	5.8%
Expected Total Return	12.0%

Market Data

52 Week H/L	SAR 48.6/35.7
Market Capitalization	SAR 8,521 mln
Enterprise Value	SAR 8,143 mln
Shares Outstanding	196.8 mln
Free Float	92.9%
12-Month ADTV (000's)	466.9
Bloomberg Code	APPC AB

1-Year Price Performance

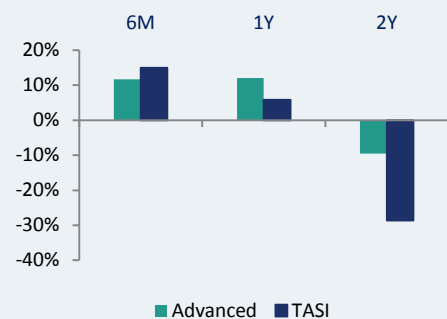


Fig in SAR mln	RC. Est	Actuals
Revenue	529	526
Gross Profit	167	143
EBIT	154	117
Net Income	164	124
EPS (SAR)	0.83	0.63

Earnings Miss on Margin Drop

Advanced Petrochemical Company (Advanced) reported its 1Q2017 results with an earnings miss, while revenues stood in-line with estimates. EPS of SAR 0.63 missed RC and street estimate of SAR 0.83. Key highlights during the quarter are i) 8-day plant shutdown which led to slight revenue loss amid cost burden ii) gross margins down by 950 bps from 1Q2016 to 27% in this quarter due to surge in feedstock prices and expected lower utilization rates iii) disappointing associate income, fell by -39% Q/Q and lastly iv) feeble growth in PP prices over last three quarters. We revise our 2017-19 estimates and adjust our target price to SAR 46.00 (earlier SAR 48.00) as impending weakness in 2017 is a slight concern. Valuations with 2017E P/E of 12.5x is cheaper to TASI's 14.5x amid dividend yield of 5.8%; but single product business and less diversification warrants lower valuation multiples than peers. Maintain Neutral.

Revenue in-line with estimate

Revenue of SAR 526 million was close to our SAR 529 million estimate, deviating by less than 1%. We believe expectations of lower operating rates and product prices came closer, which led to an in-line revenue trend. Globally, PP prices grew by +21% Y/Y but grew feebly by +2% Q/Q in 1Q2017. After a sharp rally of +13% in 1Q2016, PP prices witnessed an average growth of +2.5% over the last 3 quarters. We noted that since 2Q2016 oil price correlation to PP prices is seemingly declining, shows limited upside.

Cost pressure significant

A large spike of +25% Q/Q and +47% Y/Y growth in propane prices have led to contracting spreads for PP producers in the short run coupled with volatility in prices on a M/M basis. COGS increased by +10% Q/Q and +24% Y/Y to SAR 383 million versus a relative decline of -10% Y/Y and -9% Q/Q in sales. This uneven trend coupled with sharply contracting spreads has led to a 950 bps drop in gross margins from 37% in 1Q2016 to 27% this quarter. As a result, gross profit declined by -38% Q/Q and -20% Y/Y to SAR 143 million.

Associate income tumbles

Advanced mimicked its subdued profitability trends with operating profit of SAR 117 million versus our estimate of SAR 154 million. It declined by -21% Y/Y and -38% Q/Q taking operating margins to 22% in 1Q2017, declining by 800 bps from 30% in 1Q2016. We expected higher associate income (SK Advanced Company), while the same declined by -39% Q/Q and reported SAR 15.3 million from SAR 25.0 million in 4Q2016. Earnings of SAR 124 million also missed street's and our estimate of SAR 164 million. With higher cost pressure and subdued associate income, net margins fell to 2-year lows of 24% in 1Q2017.

Revise TP to SAR 46.00, but maintain Neutral

We believe barring one-off negative surprise in 1Q2017, core business continues to run efficiently while strategic investments to pay-off eventually. However, valuations have slightly overridden, hence revise target price to SAR 46.00 and maintain Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	2,140	2,175	2,201
EBITDA	904	878	889
Net Profit	730	685	694
EPS (SAR)	3.71	3.48	3.52
DPS (SAR)	2.85	2.50	2.75
BVPS (SAR)	15.37	16.35	17.12

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	19%	16%	16%
ROAE	24%	21%	21%
P/E	11.7x	12.5x	12.3x
P/B	2.8x	2.6x	2.5x
EV/EBITDA	9.4x	9.6x	9.5x
EV/Sales	4.0x	3.9x	3.8x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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