

ADVANCED PETROCHEMICAL

الأهلي كابيتال
NCB Capital

EVENT FLASH

Higher gross margin supports earnings

Advanced reported a better than expected 2Q17 result with a net income of SR194mn, significantly above the NCBC estimate of SR133mn. We believe higher than expected gross margin led to the variance. Gross margin stood at 36.4% in 2Q17, higher than our estimate of 28.1%, which we believe is due to higher operational efficiency following shutdown in 1Q17.

- Advanced reported a better than expected set of 2Q17 results with a net income of SR194mn, significantly higher than the NCBC estimate of SR133mn. We believe higher than expected operating rates and gross margin led to the variance in earnings.
- Revenue stood at SR604mn in 2Q17, 9.3% higher than our estimate. This is an increase of 10.5% YoY and 14.8% QoQ. Based on our calculations, Advanced facilities operated at 121% in 2Q17, higher than 1Q17 and our estimate of 111%. We believe the company sold 160,191 tons of PP products in 2Q17, higher than 133,779 tons in 1Q17 and our estimate of 146,831 tons.
- Gross margin came in at 36.4%, higher than our estimate of 28.1% and 27.2% in 1Q17, but lower than 41.2% in 2Q16. We believe the company operational efficiency improved following an 8-days shutdown in 1Q17. This mitigated the negative impact of declining PP-propane spread (down 6.2% QoQ) on gross margin in 2Q17.
- EBIT stood at SR192mn, 49.4% higher than our estimate of SR128mn, due to higher than expected sales and gross margin. Opex stood at SR28mn, in-line with our estimate of SR26.9mn but slightly above SR26.2mn in 1Q17.
- Advanced share in the net income of SK facility stood at SR10mn, higher than SR8.0mn in 2Q16 but lower than SR15.3mn in 1Q17 and our estimate of SR13.9mn. We believe higher than expected operational cost and weak propylene prices (down 7.6% QoQ) impacted earnings at SK facility in 2Q17.
- Net income remained flat YoY but increased 56.0% QoQ. The QoQ improvement in earnings is attributed to higher sales and gross margin benefiting from improved efficiency following shutdown in 1Q17.
- We remain Neutral on Advanced with a PT of SR42.8. Higher operating rates and efficiency, strong balance sheet and an attractive dividend yield of 6.2% are the stock's key strengths. However, normalizing PP-propane spread remains a key risk. The stock is trading at a 2018E P/E of 16.5x, higher than the sector average of 14.3x, thus offering a limited upside potential.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Revenues	604	546	10.5	553	9.3	14.8
Gross income	220	225	(2.2)	155	41.6	53.6
Gross margin (%)	36.4%	41.2%	(4.75)	28.1%	8.32	9.20
Operating income	192	195	(1.6)	128	49.4	64.1
Net income	194	192	1.0	133	46.2	56.0
EPS (SR)	0.99	0.98	1.0	0.67	46.2	56.0

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price (SR)	42.8
Current price (SR)	45.4
Upside/Downside (%)	(5.7)%

STOCK DETAILS

M52-week range H/L (SR)	49/36
Market cap (\$mn)	2,380
Shares outstanding (mn)	197
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.2	(1.1)	14.7
Rel. to market	(1.1)	(4.2)	2.9

Avg daily turnover (mn)	SR	US\$
3M	18.1	4.8
12M	20.1	5.4

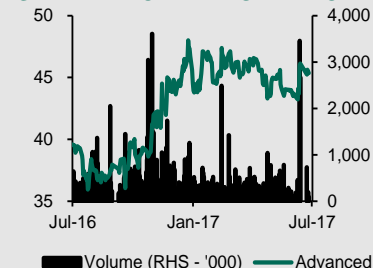
Reuters code	2330.SE
Bloomberg code	APPC AB
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	12.2	14.2	16.5
P/B (x)	2.9	2.9	2.9
EV/EBITDA (x)	9.3	10.8	12.4
Div. Yield (%)	6.3	6.2	5.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam

+966 12 690 7811
i.ghulam@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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