

## Q2 2017

## Advanced Petrochemical Co.

## Recommendation

Neutral

## Fair Value (SAR)

46.00

Price as of July 11, 2017

44.49

Expected Return

3.4%

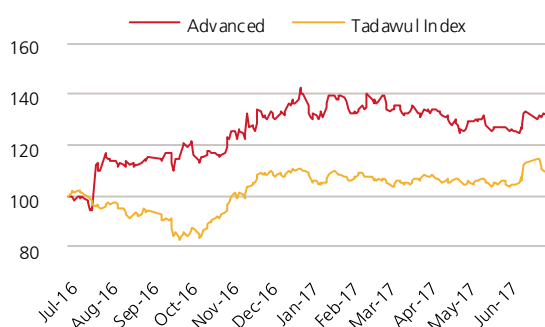
## Company Data

Tadawul Symbol	2330.SE
52 Week High (SAR)	48.60
52 Week Low (SAR)	35.70
YTD Change	-4.8%
3-Month Average Volume (Thousand Shares)	389
Market Cap. (SAR Million)	7,296
Market Cap. (USD Million)	1,946
Outstanding Shares (Million Shares)	164.0

## Major Shareholders (&gt; 5%)

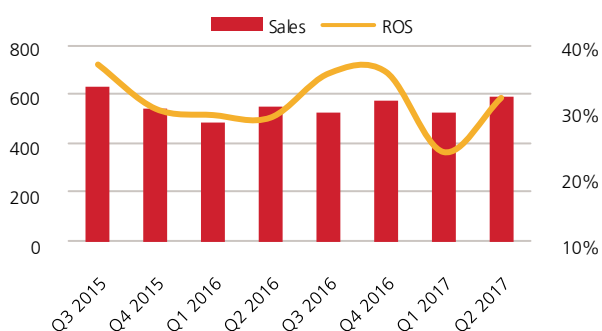
National Polypropylene Limited	7.95%
General Organization for Social Insurance	6.37%

## 52-week Stock Price Movement



Source: Tadawul

## Quarterly Net Income (SAR mn)



Source: Company Filings, Albilad Capital Research Estimates

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Advanced Petrochemical Company (Advanced) disclosed its Q2 2017 interim results revealing a bottom line of SAR 194 million, slipping 1% from SAR 192 million in Q2 2016. However, net earnings surged 56% QoQ from SAR 124 million in the first quarter. Over the first half, bottom line plunged 4.8% to SAR 319 million compared to SAR 335 million in H1 2016.

The company attributed the slight growth in Q2 2017 compared with Q2 2016 to the increase the investment income from Korea's SK Advanced. The decline in the first half of 2017 compared to the same period of the previous year is due to lower volume sales and planned maintenance in Q1 2017. For the previous quarter, sales volume increased significantly, which contributed to the higher net profit, as well as lower prices of feedstock.

The following table depicts the change in average prices for feedstock and polypropylene in the second quarter of the year :

Average Commodity Prices (US\$/Ton)	Current price	Q2 2017	Q2 2016	change	Q1 2017	change
Propane (Aramco)	345	399	325	23%	468	(15%)
Propylene (Asia)	860	821	696	18%	897	(8%)
Polypropylene (SE Asia)	990	1,077	1,033	4%	1,112	(3%)

Sales for Q2 2017 amounted to 604 million jumping 11% YoY and 15% QoQ. The semiannual sales hit SAR 1,130 million compared SAR 1,034 million H2 2016 displaying a decrease of 9.3%.

Gross profit (GP) came in at SAR 201 million in Q1 2016 slumping 2.2% YoY. Nonetheless, GP soared 54% QoQ driven by rising sales volume compared to the previous quarter.

Operating income (EBIT) hit SAR 192 million in Q2 2016 shifting down 24.3% YoY while surging 33% QoQ fueled by spiked feedstock prices compared to Q2 2016.

The second quarter's net earnings exceeded our estimate of SAR 187 million and the analysts' consensus of SAR 164 million resulting from the increase in sales volume by 10.5% and improved efficiency and operating margins. Moreover, the results of Q2 2017 included profits from the investment share in (SK Advanced Co., Ltd. in South Korea) yielded SAR 10 million, up 20% compared to Q2 2016.

We expect continuous growth in earnings due to improving polypropylene prices coupled with the expected decrease in feedstock prices. We believe Advanced will sustain SAR 3 cash dividend per year, thus we maintain our fair value at SAR 46 with "neutral" recommendation.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	9.11	9.16	9.12	8.33
EV/Sales	2.83	3.67	3.89	3.45
P/E	11.35	11.95	11.66	10.66
Dividend Yield	5.3%	5.8%	6.0%	6.9%
P/BV	3.58	3.40	2.81	2.63
P/Revenue	2.81	3.58	3.98	3.62
Revenue Growth	9.0%	-21.7%	-10.0%	10.1%
EPS	2.75	3.00	2.60	3.00

Source: Company Filings, Albilad Capital Research Estimates

APPC AB - 2330.SE

July 11 , 2017

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E
Sales	2,785.6	3,036.4	2,377.0	2,139.4	2,355.2
COGS	1,966.5	2,047.1	1,382.5	1,183.0	1,330.8
COGS/Sales	70.60%	67.42%	58.16%	55.30%	56.51%
SG&A	45.9	45.6	41.6	43.8	49.7
SG&A/Sales	1.6%	1.5%	1.8%	2.0%	2.1%
<b>EBITDA</b>	<b>773.1</b>	<b>943.7</b>	<b>952.8</b>	<b>912.5</b>	<b>974.7</b>
EBITDA Margin	27.8%	31.1%	40.1%	42.7%	41.4%
Depreciation and amortization	207.6	208.6	210.3	198.3	207.4
<b>EBIT</b>	<b>565.5</b>	<b>735.1</b>	<b>742.5</b>	<b>714.2</b>	<b>767.3</b>
Investment Income	0.00	27.09	0.00	47.22	60.80
Interest expense	(14.72)	(13.22)	(17.92)	(33.67)	(32.42)
Others (Net)	6.07	1.97	(11.57)	2.89	3.81
<b>NAI</b>	<b>556.9</b>	<b>751.0</b>	<b>713.0</b>	<b>730.7</b>	<b>799.5</b>
ROS	20.0%	24.7%	30.0%	34.2%	33.9%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash	543.9	884.0	85.0	453.0	620.0
Inventory	145.2	123.3	124.3	116.7	128.5
Others	284.8	227.0	243.7	491.4	548.4
<b>Total ST Assets</b>	<b>973.8</b>	<b>1,234.3</b>	<b>452.990</b>	<b>1,061.1</b>	<b>1,296.8</b>
Net Fixed Assets	2,162.6	2,170.0	2,179.171	1,925.9	1,854.8
Intangible assets	54.0	18.1	5.1	3.5	2.7
Long Term Investments	1.9	377.6	1,222.8	1,239.4	1,263.7
others	32.7	28.2	26.0	162.4	164.0
<b>Total LT Assets</b>	<b>2,251.2</b>	<b>2,593.9</b>	<b>3,433.1</b>	<b>3,331.1</b>	<b>3,285.3</b>
<b>Total Assets</b>	<b>3,225.0</b>	<b>3,828.2</b>	<b>3,886.1</b>	<b>4,392.2</b>	<b>4,582.1</b>

Short term debt and CPLTD	125.0	30.0	40.0	40.0	10.0
Accounts Payable	158.2	118.4	96.8	86.2	95.4
Accrued Expenses	200.7	149.8	120.9	141.5	137.8
Dividends Payable	3.6	4.7	5.8	4.8	4.8
Others	0.0	24.3	19.6	21.8	21.8
<b>Total ST Liabilities</b>	<b>487.5</b>	<b>327.2</b>	<b>283.1</b>	<b>294.4</b>	<b>269.8</b>

Total Long Term Debt	455.0	1,087.7	1,048.3	1,008.7	999.2
Other Non-Current Liabilities	28.49	36.24	45.73	60.47	75.30
<b>Equity</b>	<b>2,254.1</b>	<b>2,377.0</b>	<b>2,509</b>	<b>3,028.7</b>	<b>3,237.8</b>
<b>Total Liabilities and Equity</b>	<b>3,225.0</b>	<b>3,828.2</b>	<b>3,886.1</b>	<b>4,392.2</b>	<b>4,582.1</b>

Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash flow from Operations	761.7	932.1	844.4	780.5	897.7
Cash flow from Financing	(568.9)	(32.8)	(522.7)	(539.7)	(629.9)
Cash flow from Investing	(111.2)	(559.2)	(1,120.8)	127.2	(100.7)
Change in Cash	81.6	340.1	(799.0)	368.0	167.0
Ending Cash	543.9	884.0	85.0	453.0	620.0

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by  $< 10\%$ .

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials , waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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