

## ADVANCED PETROCHEMICAL

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NCB Capital

## EVENT FLASH

## Weak result on high opex and lower associate income

Advanced reported weak 1Q17 results with a net income of SR124mn, declining 40.2% QoQ and 12.9% YoY. This was 16.6% below the NCBC estimate. We believe the variance in earnings is mainly due to higher than expected opex and lower earnings from associate. Opex stood at SR26.3mn in 1Q17, higher than estimated SR11.7mn, due to expenses reclassification to SG&A.

- Advanced reported weaker than expected 1Q17 results with a net income of SR124mn, 16.6% lower than the NCBC estimate of SR149mn and 21% below the consensus estimate of SR156mn. This is the lowest net income since 1Q15. We believe higher than expected operating expenses and lower income from associate SK Advanced led to the variance in earnings, as gross profit came in-line with our estimates.
- Revenue stood at SR526mn in 1Q17, in-line with our estimate. This is an increase of 7.8% YoY but a decline of 8.7% QoQ. Based on our calculations, Advanced' facilities operated at 101% in 1Q17, in-line with our estimate of 100% but lower than 113% in 4Q16. The QoQ decline in operating rates is due to an 8-day shutdown at the plant in 1Q17. We believe the company sold 133,779 tons of PP products in 1Q17, lower than 149,688 tons in 4Q16 and 149,855 tons in 1Q16.
- Gross margin came in at 27.2%, slightly higher than our estimate of 26.6%, which we believe is due to higher operational efficiency. However, this is lower than 36.7% in 1Q16 and 39.7% in 4Q16. The QoQ decline in gross margin is attributed to lower PP-propane spreads (down 11.3% QoQ).
- Operating profit was 7.9% below our estimate of SR127mn. We believe this is due to higher than expected opex, as certain expenses have been reclassified from COGS to SG&A. Opex stood at SR26.3mn, higher than our estimate of SR11.7mn but lower than SR31.1mn in 1Q16.
- The deviation increased at the net income level, due to lower than expected income from the 30% owned JV 'SK Advanced'. In 1Q17, associate income stood at SR15.3mn, lower than our estimate of SR27.9mn and SR25.0mn in 4Q16. We believe the weak performance at this facility is attributed to lower operating rates which offset higher propylene prices (+10.8% QoQ).
- Higher operating rates and efficiency, strong balance sheet and an attractive dividend yield of 5.6% are the stock's key strengths. However, normalizing PP-propane spread remains a key risk. The stock is trading at a 2017E P/E of 12.4x, lower than the sector average of 16.6x.

## 1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var^	% QoQ
Revenues	526	488	7.8	522	0.8	(8.7)
Gross income	143	179	(19.9)	139	3.2	(37.4)
Gross margin (%)	27.2%	36.7%	(9.43)	26.6%	0.63	(12.50)
Operating income	117	148	(20.8)	127	(7.9)	(38.0)
Net income	124	143	(12.9)	149	(16.6)	(40.2)
EPS (SR)	0.63	0.73	(12.9)	0.76	(16.6)	(40.2)

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

## OVERWEIGHT

Target price (SR) 45.1\*

Current price (SR) 44.3

\*TP last updated in October 2016

## STOCK DETAILS

M52-week range H/L (SR)	49/36
Market cap (\$mn)	2,326
Shares outstanding (mn)	197
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.4)	(5.5)	15.4
Rel. to market	(3.7)	(4.3)	10.9

Avg daily turnover (mn)	SR	US\$
3M	16.3	4.3
12M	20.2	5.4

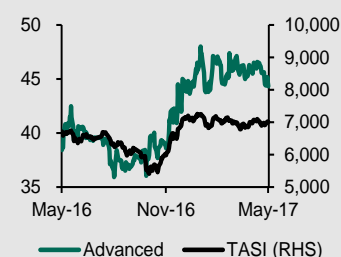
Reuters code	2330.SE
Bloomberg code	APPC AB
<a href="http://www.advancedpetrochem.com">www.advancedpetrochem.com</a>	

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	11.9	12.4	16.5
P/B (x)	2.9	3.0	3.0
EV/EBITDA (x)	10.1	10.7	13.5
Div. Yield (%)	6.4	5.6	5.6

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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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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