

Advanced Petrochemical posted Q1-19 earnings in-line with AJC estimates and consensus. Net income came at SAR 162mn (SAR 0.82 EPS) against our estimates of SAR 160.4mn. Top line continues to perform well, due to high operating rate and production efficiency. Higher than expected OPEX was offset by strong contribution from SK advanced petrochemical. Gross margin expanded by 150bps to 29.93% from 28.43% in Q4-18 due to lower Propane-PP cost margin; which is further likely to improve after Q1-19; given the low feedstock prices and expected recovery in PP prices. We maintain our “Overweight” recommendation on the stock with a TP at SAR 61.0/share.

- Advanced Petrochemical posted net income of SAR 162mn; (an increase of 66.1%Y/Y, but a decline of 1.1%Q/Q). Q1-19 net profit came in-line with AJC and the market consensus estimates of SAR 160.4mn and SAR 168.6mn. The Y/Y increase in net profit was mainly associated with i) higher volumetric sales due to scheduled shutdown of PP and PDH plants in Q1-18. ii) higher contribution from SK Advanced petrochemical. iii) reduction in Propane and outsourced Propylene prices; despite the 11.6%Y/Y decline in Polypropylene prices.
- The company's sales revenue stood at SAR 648mn, in-line with AJC estimates of SAR 648.8mn but below SAR 749.8mn recorded in Q4-18, this is mainly due to scheduled shutdown of Propylene plants for 11 days in Q1-18 and a decline in average selling prices of PP-Asia by 8.4%Q/Q. We assume that the plant was running at a high utilization rate of around 137% in Q1-19, the company offset the decline in Propylene volume by utilizing inventories, as well as outsourced Propylene. SK Advanced Co. (associated company) posted higher than expected contribution to advanced petrochemical at SAR 20.7mn, as compared to our estimate of SAR 15.3mn and the actual of SAR 7.7mn in Q4-18; this is could be ascribed to improved margins and one-off impact in Q4-18.
- Gross profit stood at SAR 194mn (an increase of 62.8%Y/Y, but a fall of -9.0%Q/Q), in-line with AJC expectation of SAR 195.8mn. Gross margin increased to 29.93% in Q1-19 vs. 28.43% in Q4-18. This we believe is due to relatively higher decline in Propane prices compared to polypropylene decline. In Q1-19, Propane (feedstock) average prices declined by 17.1%Q/Q to USD 453/MT from USD 547/MT in Q4-18, while polypropylene prices declined only by 8.4%Q/Q to USD 1,081/MT.
- Operating profit stood at SAR 152mn, as compared to our estimate of SAR 164.1mn due to higher than expected OPEX of SAR 42.0mn as compared to our estimates of SAR 31.8mn and SAR 24.4mn in Q1-18, due to increase in selling and distribution expenses since previous quarter.

**AJC View:** Although the company witnessed periodic schedule maintenance of Propylene plant for 11 days in Q1 2019, Advanced petrochemical performed strongly on back of improved utilization rate and inventory utilization. We expect that the high utilization rate in Q1-19 was due to additional outsourced Propylene from SATROP. For FY19, the company will continue improving its utilization rate, driven by improved efficiency after plant maintenance. The company's gross margin is likely to improve after Q1-19; given the slowdown in feedstock price hikes and expected recovery in Petrochemical prices. Despite the global trade tension between US & China and expected Staggering growth in the global petrochemical industry; Polypropylene price is expected to stabilize high during FY19 on the back of multiple planned cracker maintenance globally that may support PP price. Strong contribution from SK Advanced Petrochemical is expected to continue in FY19, given the higher operating rate, expected improvement in prices; and healthy global demand for propylene. The company is currently trading at TTM PE of 14.4x compared to a forward PE of 13.75x based on FY19 earnings, this is below the current sector average PE of 15.0x. Dividend payment is still attractive and is expected to continue at SAR 2.8/DPS (4.9% D/Y) in FY19, owing to its strong balance sheet, Cash flow and low debt level. We remain ‘Overweight’ on the stock with a TP at **SAR 61.0/share**.

### Results Summary

SARmn (unless specified)	Q1- FY18	Q4- FY18	Q1- FY19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	<b>503.8</b>	<b>749.8</b>	<b>648</b>	28.6%	-13.6%	-0.1%
Gross Profit	119.1	213.2	194	62.8%	-9.0%	-0.9%
<b>Gross Margin</b>	<b>23.64%</b>	<b>28.43%</b>	<b>29.93%</b>	-	-	-
EBIT	94.7	168.5	152	60.5%	-9.8%	-7.3%
Net Profit	<b>97.6</b>	<b>163.9</b>	<b>162</b>	66.1%	-1.1%	0.9%
EPS	0.50	0.83	0.82	-	-	-

Source: Company Reports, Aljazira Capital

### Overweight

**Target Price (SAR)** **61.00**

**Upside / (Downside)\*** **6.6%**

Source: Tadawul \*prices as of 11<sup>th</sup> of April 2019

### Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	2,384.5	2,748.0	2,827.7
Growth %	11.5%	15.2%	2.9%
Net Income	631.1	717.0	818.9
Growth %	-13.7%	13.6%	14.2%
EPS	3.21	3.64	4.16

Source: Company reports, Aljazira Capital

### Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	30.91%	30.1%	33.0%
Net Margin	26.5%	26.1%	29.0%
P/E	13.5x	14.8x	13.7x
P/B	2.8x	3.5x	3.3x
EV/EBITDA (x)	8.03x	9.1x	8.8x
Dividend Yield	6.5%	5.1%	4.9%

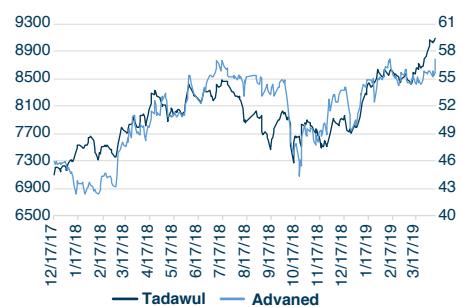
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	11.25
YTD %	13.2%
52 Week (High )/(Low)	57.20/44.20
Shares Outstanding (mn)	196.70

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

i.aljabran@aljaziracapital.com.sa

## RESEARCH DIVISION

Head of Research	Senior Analyst
<b>Talha Nazar</b>	<b>Jassim Al-Jubran</b>
+966 11 2256250 t.nazar@aljaziracapital.com.sa	+966 11 2256248 j.aljabran@aljaziracapital.com.sa

## BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales	AGM-Head of international and institutional brokerage	AGM-Head of Qassim & Eastern Province
<b>Alaa Al-Yousef</b> +966 11 2256060 a.yousef@aljaziracapital.com.sa	<b>Luay Jawad Al-Motawa</b> +966 11 2256277 lalmutawa@aljaziracapital.com.sa	<b>Abdullah Al-Rahit</b> +966 16 3617547 aalrahit@aljaziracapital.com.sa
AGM-Head of Sales And Investment Centers Central Region, & acting head Western and Southern Region Investment Centers	Sultan Ibrahim AL-Mutawa +966 11 2256364 s.almutawa@aljaziracapital.com.sa	

## RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Sharia Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

## Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.