

Rating **Neutral**  
 12-Month Target Price **SAR 48.00**

## ADVANCED PETROCHEMICAL COMPANY

2Q2018 First Look

### Expected Total Return

Price as on July-8, 2018	SAR 55.70
Upside to Target Price	(13.8%)
Expected Dividend Yield	5.0%
Expected Total Return	(8.8%)

### Market Data

52 Week H/L	SAR 56.40/41.90
Market Capitalization	SAR 10,843 mln
Shares Outstanding	196.8 mln
Free Float	93.2%
12-Month ADTV (000's)	279
Bloomberg Code	APPC AB

### 1-Year Price Performance



Source: Bloomberg

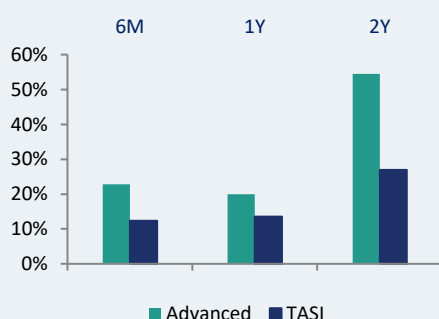


Fig in SAR mln	RC. Est	Actuals
Revenue	671	750
EBIT	204	247
Net Income	204	253
EPS (SAR)	1.04	1.29

## Earnings Rebound

Advanced Petrochemical Company (Advanced) reported its 2Q2018 results with an EPS of SAR 1.29, beating both our estimates and street's expectations of SAR 1.04. Revenues of SAR 750 million was also higher than our estimate of SAR 671 million due to increase in sales quantity stemming from scheduled turnaround in Q1 2018. Net income of SAR 253 million is up +30% Y/Y and +160% Q/Q. Multiple factors played in the company's favor in Q2 such as increased sales quantity, higher PP prices, decrease in propane prices and a greater share of profits from its associate (SK Advanced). All these factors managed to provide a boost for Advanced's earnings. The stock is currently trading at a P/E of 17.9x, slightly above TASI's 17.7x. We maintain our target price at SAR 48.00 as well as our Neutral recommendation.

### Sales volumes surge

Revenues of SAR 750 million have increased by +24% Y/Y and +49% Q/Q mostly due to a scheduled turnaround in Q1. This allowed the company to operate at improved levels throughout Q2 and increase their volumetric sales by +5% Y/Y and +43% Q/Q. Moreover, an increase in polypropylene selling prices coupled with a decrease in propane prices further enhanced Advanced's topline. Selling prices witnessed a rise of +4.9% Y/Y and +4.1% Q/Q.

### Gross margins improve

Gross profit increased by +25% Y/Y and +132% Q/Q, reaching SAR 276 million which was primarily due to the scheduled maintenance witnessed in Q1 and improved spreads. Gross margin was relatively flat on a Y/Y basis, however it improved significantly on a Q/Q basis rising from 24% to 37%.

### SK Advanced contributes well

Operating profit was recorded at SAR 247 million, higher than our expectations of SAR 204 million, increasing by +29% Y/Y and +161% Q/Q. Net income of SAR 253 million surpassed both our estimates and street's expectations of SAR 204 million and SAR 205 million respectively. SK Advanced contributed a noticeable SAR 24 million to the company's bottom line, compared to SAR 10.5 million for the same quarter last year and SAR 10.2 million for the previous quarter. As a result, net margin reached 34% this quarter, a rise of 19% from the previous quarter and 32% from last year.

### Maintain Neutral

Advanced stock rallied by +11% at the Tadawul in Q2, outperforming the TASI by +4%. While dividend yield of 5.0% is attractive for value investors, we leave our target price unchanged at SAR 48.00. We believe the Company can benefit from elevated oil prices although prices have weakened of late. Nevertheless, possible tightening of spreads still poses a threat to the company's earnings. We maintain Neutral on the stock.

### Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	2,385	2,451	2,476
EBITDA	811	882	921
Net Profit	662	682	721
EPS (SAR)	3.36	3.47	3.66
DPS (SAR)	2.80	2.80	2.80
BVPS (SAR)	15.81	17.62	18.48

### Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	14.6%	18.6%	18.9%
ROAE	21.3%	19.7%	19.8%
P/E	17.0x	16.5x	15.6x
P/B	3.6x	3.3x	3.1x
EV/EBITDA	14.8x	14.2x	12.9x
EV/Sales	5.0x	5.1x	4.8x

## 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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