

Advanced Petrochemical posted lower than expected net income of SAR 104mn (SAR 0.48 EPS), due to losses from its associated company. Sales volumes were affected by weak demand due to the spread of COVID-19, while weak gross margin was a result of higher feedstock prices. Lower than expected contribution from SK advanced petrochemical was offset by a decline in OPEX. Current gross margin is not likely to continue in Q2-20; given the 50% decline in feedstock prices. we maintain our **“Neutral”** recommendation on the stock with a revised TP at **SAR 49.50/share**.

- Advanced Petrochemical posted net income of SAR 104mn; indicating a fall of 38.8%Y/Y and 45.8%Q/Q. Q1-20 net profit came below our estimate of SAR 139.4mn. The decline in net profit was mainly due to i) a decline in volumetric sales and polypropylene prices. ii) an increase in feedstock prices iii) lower contribution from SK Advanced petrochemical (associated company).
- The company's revenue stood at SAR 535mn, below SAR 618.4mn recorded in Q4-19 due to a decline in volumetric sales, and average selling prices of PP (-7.1%Q/Q). Sales came slightly below our estimate of SAR 545.5mn, which can be ascribed to weaker than expected demand due to the spread of COVID-19. We assume that the sales volume declined by around 6.7% in Q1-20, as compared to previous quarter.
- SK Advanced Co. (associated company) contributed with a loss of SAR -18.2mn to advanced petrochemical, as compared to our profit estimate of SAR 24.5mn and the actual of SAR 27.1mn in Q4-19; this is could be ascribed to unannounced plant maintenance.
- Gross profit stood at SAR 154mn (a decline of 20.6%Y/Y, and 27.6%Q/Q), in-line with AJC expectation of SAR 153.7mn. Gross margin squeezed to 28.8% in Q1-20 vs. 29.9% in Q2-19 and 34.6% in Q4-19. This we believe is due to relatively higher Propane-PP spreads. In Q1-20, Propane (feedstock) average prices jumped by 16.3%Q/Q to USD 500/MT, resulting in Propane-PP spreads contraction by 19.3%Q/Q to USD 504/MT.
- Operating profit stood at SAR 125mn, as compared to our estimate of SAR 118.8mn due to lower than expected OPEX of SAR 29.0mn as compared to our estimates of SAR 34.9mn and SAR 42.4mn in Q4-19, which could be ascribed to decrease in general and administrative expenses by 33.8%, according to the management.

AJC View: We believe that the company's weak revenue in Q1-20 is likely to continue next quarter, in light of the slowdown due to Covid-19. However, the company's gross margin is likely to improve due to 50% decline feedstock prices. For H2-20, we expect the company to return gradually to its normal sales level, driven by expected recovery of global demand and selling prices. The progress on the new expansion plan will be the key catalyst for the future performance. As AGIC (it's subsidiary) signed a partnership agreement with SK Gas Co. Ltd to build a PDH and PP facilities in Saudi Arabia with a capacity of 800 KMT/year at a cost of USD 1.8bn. FY20 DPS is estimated to stand at SAR 2.60 per share, resulting in an attractive dividends yield of 5.9% at current prices. The company is currently trading at TTM PE of 13.7x compared to a forward PE of 13.5x based on FY20 earnings. **“Neutral”** recommendation on the stock with a TP at **SAR 49.50/share**.

Results Summary

SARmn (unless specified)	Q1- FY19	Q4- FY19	Q1- FY20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	647.97	618.4	535	-17.4%	-13.5%	-1.9%
Gross Profit	193.91	213.67	154	-20.58%	-27.9%	0.3%
Gross Margin	29.92%	34.55%	28.78%	-	-	-
EBIT	151.74	171.22	125	-17.6%	-26.9%	4.9%
Net Profit	161.88	192.01	104	-35.8%	-45.8%	-34.0%
EPS	0.75	0.89	0.48	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **49.50**

Upside / (Downside)* **11.40%**

Source: Tadawul *prices as of 6th of April 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenue	2,748.0	2,594.5	2,247
Growth %	15.2%	-5.6%	-13.4%
Net Income	717.0	759.3	710.3
Growth %	13.6%	5.9%	-6.4%
EPS	3.31	3.51	3.28

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY18	FY19	FY20E
Gross Margin	30.1%	34.7%	37.2%
Net Margin	26.1%	29.3%	31.6%
P/E	14.8x	14.08	13.5
P/B	3.5x	3.2x	3.1x
EV/EBITDA (x)	9.1x	9.40x	9.86x
Dividend Yield	5.1%	5.8%	5.9%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	9.54
YTD %	-10.9%
52 Week (High)/(Low)	57.57/37.30
Shares Outstanding (mn)	216.47

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.

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