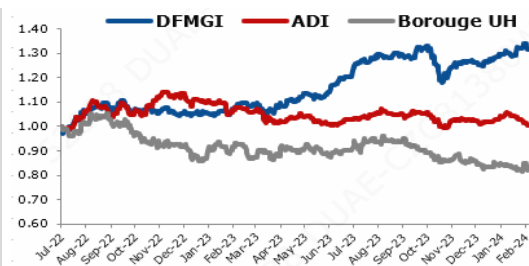


## Borouge Plc

Solid cost savings drove profitability

| Current Price | Target Price | Upside/Downside (%) | Rating |
|---------------|--------------|---------------------|--------|
| AED 2.43      | AED 2.95     | +21%                | BUY    |

- Borouge achieved USD 607 Mn in revenue optimization and cost savings in 2023 over the revised targeted savings of USD 500 Mn
- Management expects its premium over the benchmark prices to stay c. USD 200 per tonne for PE and c. USD 140 per tonne for PP in the upcoming period.
- Utilization of PE and PP stood at 112% and 99% in 4Q23, respectively, while the OCU plant was utilized at 92%.
- Borouge expects its PE and PP pricing in 1Q24 to stay slightly above the 4Q23 levels.
- Borouge will pay USD 650 Mn dividend in 1Q24 for 2H23 and further expects to pay USD 1.3 Bn in dividends for the year 2024.



### 4Q23 Net Profit higher than our estimate

Borouge Plc (Borouge/the company) net profit rose 16.6% YOY to USD 285 Mn in 4Q23, higher than our estimate of USD 231 Mn. The increase in net profit is mainly attributable to a fall in direct costs and operating expenses partially offset by a decline in revenue owing to lower average selling prices.

### P&L Highlights

Borouge's revenue declined 6.0% YOY to USD 1,497 Mn in 4Q23 mainly driven by a decline in average selling prices partially offset by a rise in sales volume. PE's average selling price fell 3.5% YOY to USD 1,077 per tonne in 4Q23, whereas PP's average selling prices decreased 2.5% YOY to USD 991 per tonne in 4Q23. Economic slowdown and de-stocking impacted the prices in the end of 2023. The decline in revenue was partially offset by an increase in sales volume. Borouge's PE sales volume rose 2.5% YOY to 751 thousand tonnes in 4Q23, while PP volume fell 3.2% YOY to 608 thousand tonnes. The Company's production units recorded high utilization rate for PE and PP at 112% and 99% in 4Q23 respectively. Moreover, Olefin Conversion Unit (OCU) which internally produces propylene operated at a utilization rate of 92% in 4Q23 compared to 109% in 3Q23. The Company's direct cost declined 9.9% YOY to USD 899 Mn in 4Q23 driven by decline in other variable and fixed production cost. Furthermore, Borouge's G&A expenses declined 33.4% YOY to USD 47 Mn in 4Q23, whereas selling and distribution expenses declined 32.5% YOY to USD 100 Mn in 4Q23 owing reduction in unit cost driven by significant fall in freight costs. Thus, the Company's EBITDA rose 10.9% YOY to AED 600 Mn in 4Q23 with an improved EBITDA margin of 40.1% in 4Q23 as compared to 34.0% in 4Q22. Borouge's operating profit rose 16.5% YOY to USD 452 Mn in 4Q23. Moreover, the Company's finance cost increased 9.0% YOY to USD 57 Mn in 4Q23,

### Stock Information

|                          |            |
|--------------------------|------------|
| Market Cap (AED, Mn)     | 73,040.19  |
| Paid Up Capital (Mn)     | 4,809.23   |
| 52 Week High             | 2.92       |
| 52 Week Low              | 2.35       |
| 3M Avg. daily value(AED) | 17,684,490 |

### 4Q23 Result Review (USD, Mn)

|                   |       |
|-------------------|-------|
| Total Assets      | 8,944 |
| Total Liabilities | 4,389 |
| Total Equity      | 4,546 |
| EBITDA            | 600   |
| Net Profit        | 285   |

### Financial Ratios

|                         |        |
|-------------------------|--------|
| Dividend Yield (12m)    | 6.50   |
| Dividend Pay-out (%)    | 131.13 |
| Price-Earnings Ratio(x) | 17.06  |
| Price-to-Book Ratio (x) | 4.39   |
| Book Value (AED)        | 0.15   |
| Return-on Equity (%)    | 21.13  |

### Stock Performance

|                        |         |
|------------------------|---------|
| 5 Days                 | -0.82%  |
| 1 Months               | -0.82%  |
| 3 Months               | -6.18%  |
| 6 Months               | -11.64% |
| 1 Year                 | -10.00% |
| Month to Date (MTD%)   | 1.67%   |
| Quarter to Date (QTD%) | -1.62%  |
| Year to Date (YTD%)    | -1.62%  |

while finance income declined 34.7% YOY to USD 6 Mn. In addition, income tax expense grew 19.0% YOY to USD 112 Mn in 4Q23 in line with growth in profitability.

### Balance Sheet Highlights

The company's cash conversion declined from 93% in 2022 to 91% in 2023. The Cash conversion was lower as a result of capex incurred for upcoming operational maintenance, whereas the adjusted operating free cash flow stood at USD 2.0 Bn in 2023 as compared to USD 2.5 Bn in 2022. The Company incurred a capex of USD 199 Mn in 2023, up from USD 189 Mn in 2022. Borouge's borrowings declined from USD 3.4 Bn in 2022 to USD 3.2 Bn in 2023 due to repayments while net debt marginally declined from 2.84 Bn in 2022 to USD 2.79 Bn in 2023.

### Target Price and Rating

We revise our rating on Borouge from ACCUMULATE to BUY with an unchanged target price of AED 2.95. The Company's profitability was mainly driven by a decline in operating expenses owing to the value enhancement programme. Borouge achieved USD 607 Mn in revenue optimization and cost savings in 2023 over the revised targeted savings of USD 500 Mn. Cost per tonne declined 15% in 2023 whereas the selling and distribution cost was primarily lower due to a decline in freight charges. The Company's revenue declined due to lower realization owing to de-stocking and slow economic growth. However, product optimization and differentiation led to healthy premium over the benchmark prices of USD 215 per tonne for PE and USD 125 per tonne PP in 2023. On the other hand, production remained robust as all units continued to operate at high utilization rates and further aims to operate OCU unit at a higher utilization rate to produce low-cost propylene. Improvement in operating efficiency resulted in a healthy EBITDA margin of 37.5% in 2023. The polyolefin market is expected to stay challenging in 2024 mainly due to geopolitical conflicts, capacity addition in the near term, and slower global demand. Borouge's production volumes will be lower by 500 thousand tonnes in 2024 due to the planned plant turnaround while the Company expects its PE and PP pricing in 1Q24 to stay slightly above the 4Q23 levels. The Company's management expects its premium over the benchmark prices to stay c. USD 200 per tonne for PE and c. USD 140 per tonne for PP in the upcoming period. In addition, the long-term supply and pricing agreement will limit the potential rise in ethane cost, the primary feedstock to produce PE benefiting the cost base. Borouge repaid USD 850 Mn in debt from a commercial facility and USD 500 Mn in a revolving credit facility. In addition, the board will pay USD 650 Mn dividend in 1Q24 for 2H23 and further expects to pay USD 1.3 Bn in dividends for the year 2024. The improvements in the cost efficiency will continue to benefit the Company's bottom line in the upcoming period. The Company trades at an attractive 2023 dividend yield of 6.6%. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

### Borouge - Relative valuation

| (at CMP)       | 2021 | 2022  | 2023  | 2024F |
|----------------|------|-------|-------|-------|
| PE             | NA   | 13.95 | 19.64 | 21.34 |
| PB             | NA   | 4.04  | 4.32  | 5.47  |
| EV/EBITDA      | NA   | 7.72  | 9.43  | 11.58 |
| Dividend yield | NA   | 5.0%  | 6.6%  | 5.4%  |

Note – Borouge listed on ADX in June 2022. Thus, financial multiple for the prior period is unavailable

FABS Estimates & Co Data

**Borouge – P&L**

| USD Mn                     | 4Q22       | 3Q23       | 4Q23       | 4Q23F      | Var.         | YOY Ch       | QOQ Ch      | 2022         | 2023         | Change        |
|----------------------------|------------|------------|------------|------------|--------------|--------------|-------------|--------------|--------------|---------------|
| Revenues                   | 1,593      | 1,496      | 1,497      | 1,400      | 6.9%         | -6.0%        | 0.0%        | 6,727        | 5,791        | -13.9%        |
| Direct Cost                | -998       | -915       | -899       | -881       | 2.0%         | -9.9%        | -1.7%       | -3,792       | -3,627       | -4.3%         |
| <b>Gross Profit</b>        | <b>595</b> | <b>581</b> | <b>598</b> | <b>519</b> | <b>15.2%</b> | <b>0.6%</b>  | <b>2.9%</b> | <b>2,935</b> | <b>2,164</b> | <b>-26.3%</b> |
| Other income               | 17         | 4          | 3          | 7          | -54.3%       | -79.9%       | -9.9%       | 35           | 17           | -50.4%        |
| G&A expense                | -71        | -41        | -47        | -44        | 6.3%         | -33.4%       | 14.6%       | -176         | -183         | 3.9%          |
| Selling and dist. expenses | -148       | -95        | -100       | -100       | -0.2%        | -32.5%       | 5.4%        | -703         | -399         | -43.2%        |
| <b>EBITDA</b>              | <b>541</b> | <b>592</b> | <b>600</b> | <b>530</b> | <b>13.2%</b> | <b>10.9%</b> | <b>1.3%</b> | <b>2,646</b> | <b>2,171</b> | <b>-18.0%</b> |
| <b>Operating Profit</b>    | <b>388</b> | <b>449</b> | <b>452</b> | <b>382</b> | <b>18.5%</b> | <b>16.5%</b> | <b>0.7%</b> | <b>2,075</b> | <b>1,597</b> | <b>-23.0%</b> |
| Finance costs              | -52        | -59        | -57        | -63        | -9.9%        | 9.0%         | -2.7%       | -119         | -221         | 85.6%         |
| Finance income             | 9          | 7          | 6          | 4          | 47.5%        | -34.7%       | -20.5%      | 21           | 27           | 27.7%         |
| FX (loss)/Gain             | -3         | 0          | 0          | 0          | NM           | NM           | NM          | -4           | -2           | NM            |
| <b>Profit before tax</b>   | <b>342</b> | <b>398</b> | <b>401</b> | <b>322</b> | <b>24.3%</b> | <b>17.1%</b> | <b>0.7%</b> | <b>1,973</b> | <b>1,401</b> | <b>-29.0%</b> |
| Income tax expenses        | -94        | -116       | -112       | -89        | 26.2%        | 19.0%        | -3.0%       | -564         | -400         | -29.0%        |
| <b>Net Profit</b>          | <b>245</b> | <b>279</b> | <b>285</b> | <b>231</b> | <b>23.4%</b> | <b>16.6%</b> | <b>2.2%</b> | <b>1,393</b> | <b>991</b>   | <b>-28.8%</b> |

FABS estimate & Co Data

**Borouge - Margins**

|                   | 4Q22  | 3Q23  | 4Q23  | YOY Ch | QOQ Ch | 2022  | 2023  | Change |
|-------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross margin      | 37.3% | 38.9% | 39.9% | 261    | 109    | 43.6% | 37.4% | -626   |
| EBITDA margin     | 34.0% | 39.6% | 40.1% | 611    | 49     | 39.3% | 37.5% | -185   |
| Operating margin  | 24.4% | 30.0% | 30.2% | 584    | 21     | 30.8% | 27.6% | -327   |
| Net profit margin | 15.4% | 18.7% | 19.1% | 370    | 41     | 20.7% | 17.1% | -359   |

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash Flow (DCF), Discount Dividend Method (DDM), and Relative Valuation (RV) to value Borouge. We have assigned 50% weight to DCF and 25% each to DDM and RV.

| Valuation Method                        | Target | Weight | Weighted Value |
|---|--------|--------|----------------|
| DCF Method                              | 3.03   | 50.0%  | 1.51           |
| DDM Method                              | 3.39   | 25.0%  | 0.85           |
| Relative Valuation (RV)                 | 2.34   | 25.0%  | 0.58           |
| <b>Weighted Average Valuation (AED)</b> |        |        | <b>2.95</b>    |
| Current market price (AED)              |        |        | 2.43           |
| Upside/Downside (%)                     |        |        | +21%           |

### 1) DCF Method:

Borouge is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.8%. It is arrived after using cost of equity of 8.3% and after-tax cost of debt of 4.7% with an equity weight of 86.2% and debt of 13.8%. The cost of equity is calculated using a 10-year government bond yield of 4.7%, a beta of 0.90, and an equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Cost of debt of 6.2% is adjusted for a tax rate of 24.8% to arrive at after tax cost of debt of 4.7%. Also, assumed a terminal growth rate of 2.5%.

|  |               |
|--|---------------|
| Sum of PV (USD, Mn)                        | 3,660         |
| Terminal value (USD, Mn)                   | 23,914        |
| <b>FV to Common shareholders (USD, Mn)</b> | <b>24,786</b> |
| No. of share (Mn)                          | 30,058        |
| Current Market Price (AED)                 | 2.43          |
| <b>Fair Value per share (AED)</b>          | <b>3.03</b>   |

### DCF Method

| (All Figures in USD Mn)              | FY 2024E   | FY 2025E      | FY 2026E     | FY 2027E     | FY 2028E     | FY 2029E     |
|--------------------------------------|------------|---------------|--------------|--------------|--------------|--------------|
| Cash flow from operating activities  | 1,324      | 1,848         | 2,936        | 2,977        | 2,337        | 2,190        |
| (-) Capex                            | -240       | -6,680        | -180         | -250         | -250         | -250         |
| <b>Free Cash Flow to Firm (FCFF)</b> | <b>978</b> | <b>-4,832</b> | <b>2,756</b> | <b>2,727</b> | <b>2,087</b> | <b>1,940</b> |
| Discounting Factor                   | 0.93       | 0.87          | 0.80         | 0.75         | 0.69         | 0.64         |
| <b>Discounted FCFF</b>               | <b>914</b> | <b>-4,186</b> | <b>2,214</b> | <b>2,032</b> | <b>1,442</b> | <b>1,243</b> |

Source: FAB Securities

## 2) DDM Method:

Borouge distributed a healthy dividend in 2023 and further aims to pay a dividend of USD 1.3 Bn in 2024. It further expects this dividend payment will be sustained even in the forecasted period due to strong cash flow generation. The dividend is discounted at the cost of equity of 8.3%.

|                                     |             |
|-------------------------------------|-------------|
| Sum of PV (USD, Mn)                 | 8,617       |
| Terminal value (USD, Mn)            | 19,118      |
| FV to Common shareholders (USD, Mn) | 27,735      |
| No. of share (Mn)                   | 30,058      |
| Current Market Price (AED)          | 2.40        |
| <b>Fair Value per share (AED)</b>   | <b>3.39</b> |

| (All Figures in USD Mn)          | FY 2024E     | FY 2025E     | FY 2026E     | FY 2027E     | FY 2028E     | FY 2029E     |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Dividend Paid</b>             |              |              |              |              |              |              |
| H1                               | 650          | 751          | 1,240        | 1,227        | 939          | 873          |
| H2                               | 650          | 751          | 1,240        | 1,227        | 939          | 873          |
| <b>Total Dividend</b>            | <b>1,300</b> | <b>1,501</b> | <b>2,480</b> | <b>2,455</b> | <b>1,878</b> | <b>1,746</b> |
| Discounting Factor               | 0.93         | 0.86         | 0.79         | 0.73         | 0.68         | 0.62         |
| <b>Present Value of Dividend</b> | <b>1,209</b> | <b>1,289</b> | <b>1,966</b> | <b>1,796</b> | <b>1,268</b> | <b>1,089</b> |

Source: FAB Securities

## 3) Relative Valuation:

We have used local peers to value Borouge using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 10.2x.

| Company                            | Market<br>(USD Mn) | EV/EBITDA (x) |             | P/E (x)      |              | P/B (x)     |             |
|------------------------------------|--------------------|---------------|-------------|--------------|--------------|-------------|-------------|
|                                    |                    | 2024F         | 2025F       | 2024F        | 2025F        | 2024F       | 2025F       |
| Yanbu National Petrochemical       | 5,700              | 11.8          | 8.9         | 57.3         | 23.0         | 1.9         | 1.9         |
| National Industrialization Co.     | 2,100              | 8.2           | 5.7         | 12.6         | 10.6         | 0.8         | 0.7         |
| Sahara International Petrochemical | 6,230              | 8.6           | 7.5         | 14.1         | 11.9         | 1.5         | 1.4         |
| Advanced Petrochemicals Co         | 2,690              | 24.7          | 10.4        | 0.8          | 3.3          | 2.6         | 2.2         |
| Saudi Ind Investment Group         | 62,750             | 7.8           | 6.0         | 27.3         | 17.7         | 1.3         | 1.3         |
| Saudi Kayan Petrochemical Co       | 3,670              | 9.2           | 7.0         |              | 47.2         | 1.1         | 1.1         |
| <b>Average</b>                     |                    | <b>11.7x</b>  | <b>7.6x</b> | <b>22.4x</b> | <b>19.0x</b> | <b>1.5x</b> | <b>1.4x</b> |
| <b>Median</b>                      |                    | <b>8.9x</b>   | <b>7.3x</b> | <b>14.1x</b> | <b>14.8x</b> | <b>1.4x</b> | <b>1.3x</b> |
| <b>Max</b>                         |                    | <b>11.1x</b>  | <b>8.6x</b> | <b>27.3x</b> | <b>21.7x</b> | <b>1.8x</b> | <b>1.8x</b> |
| <b>Min</b>                         |                    | <b>8.3x</b>   | <b>6.2x</b> | <b>12.6x</b> | <b>10.9x</b> | <b>1.2x</b> | <b>1.1x</b> |

Source: FAB Securities

