

First Look Note

**UAE Equity Research** 

Sector: Basic Material 4Q23 Market: ADX

# **Borouge Plc**

Solid cost savings drove profitability

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

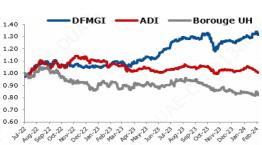
- Borouge achieved USD 607 Mn in revenue optimization and cost savings in 2023 over the revised targeted savings of USD 500 Mn
- Management expects its premium over the benchmark prices to stay c. USD 200 per tonne for PE and c. USD 140 per tonne for PP in the upcoming period.
- Utilization of PE and 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 4023 with an improved EBITDA margin of 40.1% in 4023 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						

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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 2022 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 valu	lation			
(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%
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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%
Gross Profit	595	581	598	519	15.2%	0.6%	2.9%	2,935	2,164	-26.3%
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%
EBITDA	541	592	600	530	13.2%	10.9%	1.3%	2,646	2,171	-18.0%
Operating Profit	388	449	452	382	18.5%	16.5%	0.7%	2,075	1,597	-23.0%
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
Profit before tax	342	398	401	322	24.3%	17.1%	0.7%	1,973	1,401	-29.0%
Income tax expenses	-94	-116	-112	-89	26.2%	19.0%	-3.0%	-564	-400	-29.0%
Net Profit	245	279	285	231	23.4%	16.6%	2.2%	1,393	991	-28.8%

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
Weighted Average Valuation (AED)			2.95
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		
FV to Common shareholders (USD, Mn)	24,786		
No. of share (Mn)	30,058		
Current Market Price (AED)	2.43		
Fair Value per share (AED)	3.03		

#### 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
Free Cash Flow to Firm (FCFF)	978	-4,832	2,756	2,727	2,087	1,940
Discounting Factor	0.93	0.87	0.80	0.75	0.69	0.64
Discounted FCFF	914	-4,186	2,214	2,032	1,442	1,243

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
Fair Value per share (AED)	3.39

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

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 EV/EBITDA (x)		P/E (x)		P/B (x)		
Company	(USD Mn)	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
Average		11.7x	7.6x	22.4x	19.0x	1.5x	1.4x
Median		8.9x	7.3x	14.1x	14.8x	1.4x	1.3x
Мах		11.1x	8.6x	27.3x	21.7x	1.8x	1.8x
Min		8.3x	6.2x	12.6x	10.9x	1.2x	1.1x

Source: FAB Securities



## **Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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