

## ADVANCED PETROCHEMICAL



## RESULT ANALYSIS

## Weak results on higher expenses

Advanced reported a weaker than expected set of Q4 20 results with a net income of SAR180mn, lower than the NCBC and consensus estimates of SAR205mn and SAR197mn, respectively. This is a decline of -6.1% yoy and a growth of +15.2% qoq. Although sales were inline with our estimates, we believe the variance is due to lower margin, higher opex and other expenses.

- Revenues increased by +2.3% yoy (+16.1% qoq) to SAR632mn, in-line with our estimates. Based on our calculations, we believe Advanced's facilities operated at 118 % vs our estimates of 115% and Q3 20 levels of 114%. In 2020, revenues declined to SAR2.2bn (-14% yoy) on lower prices (-12.2% yoy) and lower volumes (-2.1% yoy).
- Gross profit stood at SAR217mn (+1.4% yoy, +26.1% qoq). This is lower than our estimates of SAR225mn. Gross margin came-in at 34.3% vs our estimates of 36.3% and 31.5% in Q4 19. We believe the lower than expected margins are due to 1) higher production cost prior to the planned shutdown in Q1 21 and/or 2) higher supply of propylene from external sources. Gross profit in 2020 declined to SAR729mm (-18.9% yoy).
- EBIT came-in at SAR174mn, lower than our estimates of SAR187mn. Opex stood at SAR43mn higher than our estimates of SAR37mn, which reflects OPEX-to-sales ratio of 6.7% (our estimates of 6.0%).
- Advanced's share in profits of SK Advanced came-in at SAR23.8mn inline with our estimates and compared to SAR27mn in Q4 19. Moreover, other expenses stood at SAR17.7mn vs our estimates of SAR5.7mn and Q4 19 of SAR6.2mn which might be attributed to higher financial charges.
- In Q4 20, average PP prices increased +7.0% yoy +12.4% qoq to US\$1,045. For propylene, prices increased +7.6% yoy and +11.5% qoq to US\$902. PP-propane spread increased +13.6% yoy, and +14.6% qoq to US\$655, the highest level since Q3 18.
- Based on our last published update in June 2020, we are Neutral on Advanced with PT of SAR46.5. Since then, the stock recorded a strong rally of 46%. We await for the full financials to update our PT and estimates. Expansion plans, operational efficiency, a debt-free balance sheet, FCF/share (in 2020f) of SAR2.8 and a sustainable dividend policy are Advanced's key strengths. Advanced is trading at a 2021f PE of 26.6x compared to its local peer group average of 33.8x.

## Q4 20 Results Summary

SARmn	Q4 20	Q4 19	yoy	Q4 20f	var <sup>^</sup>	qoq
Revenues	632	618	2.3%	618	2.3%	16.1%
Gross income	217	214	1.4%	225	(3.5)%	26.1%
Gross margin (%)	34.3%	34.6%	(29)bps	36.3%	(207)bps	272bps
EBIT	174	171	1.7%	187	(7.0)%	24.1%
EBIT Margin (%)	27.5%	27.7%	(15)bps	30.3%	(275)bps	179bps
Net income	180	192	(6.1)%	205	(12.0)%	15.2%
Net margin (%)	28.5%	31.0%	(256)bps	33.1%	(462)bps	(22)bps
EPS (SAR)	0.83	0.89	(6.1)%	0.95	(12.0)%	15.2%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

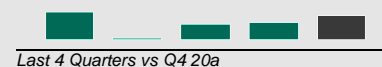
## NEUTRAL

Price target (SR) 46.5

Current price (SR) 67.8

\*PT last updated in June 2020

## NET INCOME



## STOCK DETAILS

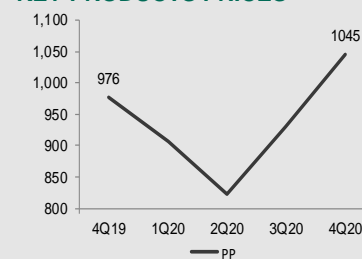
M52-week range H/L (SAR)	69.5/38.4
Market cap (\$mn)	3,914
Shares outstanding (mn)	216
Listed on exchanges	TADAWUL

## VALUATION MULTIPLES

	19a	20f	21f
P/E (x)	19.3	25.6	26.6
P/B (x)	4.4	4.4	4.4
EV/EBITDA (x)	15.4	18.9	20.7
Div Yield (%)	4.0	3.8	3.8

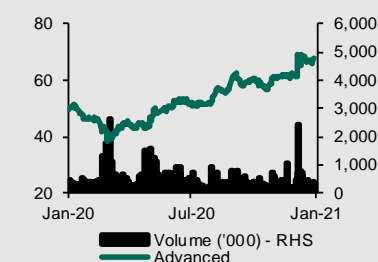
Source: NCBC Research estimates

## KEY PRODUCTS PRICES



Source: Bloomberg

## SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam +966 11 874 7811  
i.ghulam@alahlicapital.com

الأهلي كابيتال  
NCB Capital



AlAhli Capital [www.alahlicapital.com](http://www.alahlicapital.com)  
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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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