Advanced Petrochemicals Co

Petrochemicals – Industrial
APPC AB: Saudi Arabia
07 July 2021

الراجحي المالية
Al Rajhi Capital

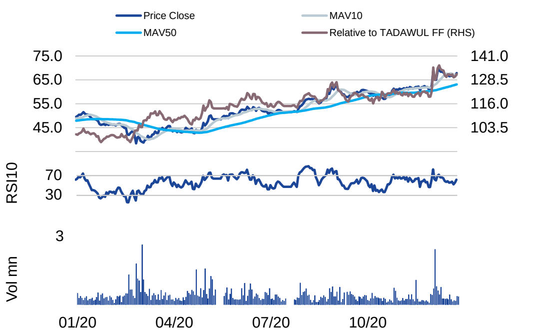
US$4.24bn	9%	US$9.04mn
Market cap	Free float	Avg. daily volume

Target price	90.00	+22.4% over current
Current price	73.50	as at 6/7/2021

Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

(SARmn)	2019	2020	2021E
Revenue	2,595	2,231	2,808
Y-o-Y	-5.6%	-14.0%	25.8%
Gross profit	899	729	1,005
Gross margin	34.7%	32.7%	35.8%
Net profit	759	596	880
Y-o-Y	5.9%	-21.6%	47.8%
Net margin	29.3%	26.7%	31.3%
EPS (SAR)	3.5	2.8	4.1
DPS (SAR)	2.6	2.6	2.6
Payout ratio	73.3%	94.5%	63.9%
P/E (Curr)	21.0x	26.7x	18.1x
P/E (Target)	25.7x	32.7x	22.1x

Source: Company data, Al Rajhi Capital

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In line Q2 results; TP maintained at SAR90/sh

APPC announced in line Q2 2021 results across the board. Despite 10 days shutdown in April, the company was able to generate a higher top-line (both annually and quarterly), mainly aided by higher PP prices (+72% y-o-y and +9% q-o-q) and increased equity income post commercialization of the new PP plant (400ktpa capacity) in South Korea. Going forward, we expect the company to continue witnessing a healthy financial performance, due to i) higher sales volume post completion of turnaround activities in H1 2021, ii) healthy PP realized prices (although we witnessed a correction recently due to seasonality factor; currently around US$1,200/t), iii) improvement in equity income, iv) better-operating efficiencies, v) the absence of any planned shutdowns (the next turnaround activities would be in March 2024). Overall, the expansion story is intact for the company, given the healthy project pipeline. Consequently, we maintain our TP at SAR90/sh based on SAR65/share for the existing plants (4% dividend yield on DPS2.6/share), SAR15/share for the PDH-PP Jubail plant (NPV basis), and SAR10/share for the latest project. We remain Overweight on the stock.

Figure 1 APPC Q2 2021 results

(SAR mn)	Q2 2021	Q2 2020	Y-o-Y	Q1 2021	Q-o-Q	ARC est	vs ARC
Revenue	**769**	**519**	**48.2%**	**632**	**21.7%**	**769**	**0.0%**
Gross profit	330	186	77.4%	207	59.4%	323	2.1%
Gross margin	42.9%	35.8%		32.8%		42.0%	
Operating profit	284	152	86.8%	164	73.2%	273	4.0%
Operating margin	36.9%	29.3%		25.9%		35.5%	
Net profit	**265**	**155**	71.0%	**171**	55.0%	**269**	-1.5%
Net margin	34.5%	29.9%		27.1%		35.0%	

Source: Company data, Al Rajhi Capital.

Q2 results: APPC reported Q2 revenues at SAR769mn, in line with our expectation (consensus: SAR719mn). The sequential rise was aided by higher sales volume (+12% q-o-q) and increased PP prices. Both gross and operating profits also reported mostly in line with our expectations with gross and operating margins expanding ~10pps q-o-q and ~11pps, respectively, primarily driven by improved product spreads. Equity income from SK Advanced jumped ~SAR10mn sequentially in Q2, due to the commercialization of the new PP plant in South Korea. Accordingly, net profit reported at SAR265mn, in line with our estimate of SAR269mn (consensus: SAR223mn).

Q2 DPS maintained at SAR0.65. APPC's board of directors approved a 6.5% cash dividend (SAR0.65/sh) for Q2 2021, amounting to SAR140.7mn, in line with the recent historical quarterly trend and our expectations. Given the ongoing expansion plans, we expect the company to maintain its annual dividend at SAR2.6 for 2021E, implying a dividend yield of ~4%.

Valuation and risks: We continue to remain positive on the company's medium to long-term growth prospects, due to i) strong utilization rates, ii) consistent operating performance, iii) FCF generation ability, iv) healthy balance sheet, and v) excellent management quality. The stock is currently trading at a P/E of 18.1x on our 2021E EPS despite the massive expansion (3Y historical avg. of 16.3x).

We value the existing plants using a 4% historical dividend yield on DPS of SAR2.6 for 2021. The management has reiterated its preference to maintain dividends giving us confidence especially as PP prices remain above the 2019 level. To this, we add our estimated value of the new PDH-PP KSA plant (SAR15/sh based on our NPV analysis) and the recently announced project (SAR10/sh) to arrive with a TP of SAR90/sh. We believe that the dividend yield-based valuation approach is ideal to value the fundamentally strong dividend-paying companies like APPC amid the current market dynamics. The key upside trigger might be attributed to sustained improvement in spreads while further weakness in product spreads, a dividend cut, and/or any unplanned shutdown may act as the downside triggers.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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