

Rating **Neutral**
 12-Month Target Price **SAR 48.00**

ADVANCED PETROCHEMICAL COMPANY

1Q2018 First Look

Expected Total Return

Price as on Apr-15, 2018	SAR 49.78
Upside to Target Price	-3.6%
Expected Dividend Yield	5.6%
Expected Total Return	2.0%

Market Data

52 Week H/L	SAR 51.9/41.9
Market Capitalization	SAR 9,797 mln
Shares Outstanding	196.8 mln
Free Float	93.2%
12-Month ADTV (000's)	320.0
Bloomberg Code	APPC AB

1-Year Price Performance



Source: Bloomberg

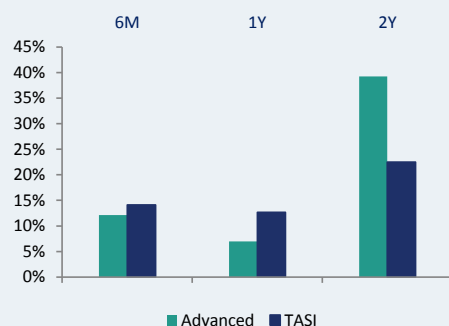


Fig in SAR mln	RC. Est	Actuals
Revenue	549	504
Gross Profit	154	119
Net Income	133	98
EPS (SAR)	0.67	0.50

Shutdown, Feedstock Hit Quarter

Advanced Petrochemical Company (Advanced) reported its 1Q2018 results with an earnings miss as EPS of SAR 0.50 came in below our SAR 0.68 estimate and street's SAR 0.65 forecast. Revenue of SAR 504 million was also lower than our estimate of SAR 549 million due to a greater than anticipated impact of shutdowns. Net income at SAR 98 million is down -21% Y/Y and -6% Q/Q. 1Q was squeezed by a scheduled shutdown as well as a steeper rise in propane and propylene prices while the impact was somewhat mitigated by a better contribution from its associate (SK Advanced). The stock is currently trading at 2018 P/E of 16.5x, above TASI's 14.8x. We maintain our target price at SAR 48.00 as well as our Neutral recommendation.

Sales volumes take a hit

Revenues of SAR 504 million have declined by -4% Y/Y and -21% Q/Q on the back of scheduled shutdowns at both propylene & polypropylene plants for 26 days and 15 days respectively. This resulted in a decline in production and lower volumetric sales (-16% lower Y/Y). However, an increase in polypropylene selling prices helped to soften the blow on topline. Polypropylene witnessed a rise of +14% Y/Y and +8% Q/Q spurred by rising crude prices.

Gross margins dip Y/Y

Gross profit declined by -17% Y/Y and -22% Q/Q, reaching SAR 119 million primarily due to the impact of shutdowns that the company witnessed during the quarter. Gross margins have declined by 300bps Y/Y to 24% as output prices increased +14% but input prices witnessed a much higher rise between +15% and +22%. On a quarterly basis as well, polypropylene went up by +7% but was outpaced by a +13% increase in propylene prices. However, gross margins were flat Q/Q.

SK Advanced supports net income Q/Q

Operating expenses have decreased by -8% Y/Y and -37% Q/Q to reach SAR 24 million. Operating profit was recorded at SAR 95 million, below our expectations of SAR 126 million, decreasing by -19% Y/Y and -17% Q/Q. Net income missed market expectations, coming in at SAR 98 million, down -21% Y/Y. The -6% EPS decline Q/Q was mitigated by the higher contribution of SK Advanced to bottomline. As a result, net margin reached 19% this quarter, a rise from 16% in the previous quarter but lower than 24% last year.

Maintain Neutral

Our outlook remains Neutral on the stock particularly post a strong performance at the Tadawul in 1Q, where the Advanced stock rallied by +14%, despite weak earnings in 4Q2017 and the scheduled shutdowns in 1Q. Dividend yield of 5.6% is attractive for value investors but the stock now trades in the vicinity of our SAR 48.00 target price. We believe the Company will bounce back to report better results in the remainder of the year as oil prices continue to move up, although the output-input price dynamic can move margins either way.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	2,385	2,451	2,476
EBITDA	811	882	921
Net Profit	662	682	721
EPS (SAR)	3.36	3.47	3.66
DPS (SAR)	2.80	2.80	2.80
BVPS (SAR)	15.81	17.62	18.48

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	14.6%	18.6%	18.9%
ROAE	21.3%	19.7%	19.8%
P/E	17.0x	16.5x	15.6x
P/B	3.6x	3.3x	3.1x
EV/EBITDA	14.8x	14.2x	12.9x
EV/Sales	5.0x	5.1x	4.8x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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