

Advanced Petrochemical Company (APPC) - 4Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:

Accumulate

Target Price (SAR):

50.87

Previous Reco. & Date:

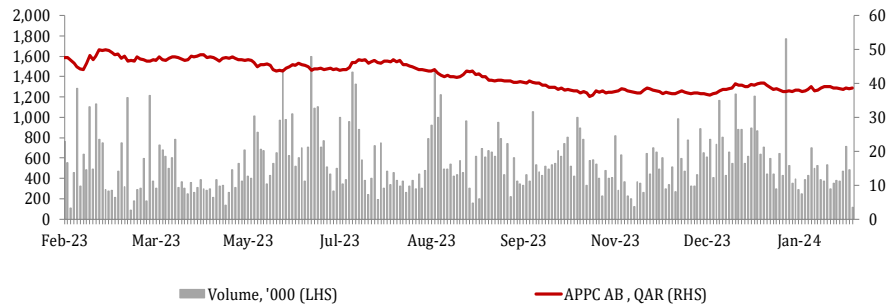
TP: SAR 50.87 per share; Accumulate on 23-July-2022

Upside / (Downside):

32.0%

Date: 15-02-2024

Bloomberg Ticker	APPC AB
Current Market Price (SAR)	38.6
52wk High / Low (SAR)	50.7/35.9
12m Average Vol. (000)	569.0
Mkt. Cap. (USD/SAR mn)	2,706/10,023
Shares Outstanding (mn)	260.0
Free Float (%)	88%
3m Avg Daily Turnover (000)	22,277.6
6m Avg Daily Turnover (000)	22,286.2
P/E'24e (x)	38.3
EV/EBITDA'24e (x)	18.7
Dividend Yield '24e (%)	5.3%
Price Perf. (1m/3m) (%)	1.2%/1.6%



Revenue dips 7% YoY in 4Q23, in-line with U-Capital's estimate

The company reported 4Q23 revenue of SAR 571mn (-7% YoY and -4% QoQ), which is in line with U-Capital's estimate of SAR 592mn and Bloomberg's consensus of SAR 601mn, The YoY decline in 4Q23 is likely due to decrease in selling price and volume. For FY23, revenue decreased 19% YoY amid a 15% reduction in net sales price and a 5% decrease in volumes in FY23.

Operating profit increase significantly YoY for 4Q23, in-line with U-Capital estimate and ahead of Bloomberg consensus

The company recorded a gross profit of SAR 98mn (45% YoY and -20% QoQ) for the quarter, aligning with U-Capital's estimate of SAR 90mn. Similarly, the operating profit for 4Q23 amounted to SAR 48mn (57% YoY and -40% QoQ), in line with U-Capital's estimate of SAR 50mn and surpassing Bloomberg's consensus of SAR 36mn. The substantial YoY increase in gross and operating profit for 4Q23 is likely driven by lower feedstock and operating cost compared to 4Q22. For FY23, operating income stood at SAR 274mn, a reduction of 31% YoY primarily due to lower topline; despite the reduction in propane and purchased propylene prices by 24% and 17% respectively in FY23 compared to FY22.

Net income decreases 47% QoQ for 4Q23 – below Bloomberg consensus and U-Capital estimate

Net income for 4Q23 stood at SAR 24mn (-47% QoQ) – below Bloomberg consensus of SAR 35mn and U-Capital estimate of SAR 39mn. The variance from our estimate for 4Q23 is likely attributable to a higher-than-anticipated loss in the SK Advanced investment. The significant QoQ decline in 4Q23 can be attributed to lower operating margins compared to 3Q23, standing at 8% versus 13% in the third quarter. For FY23, the net income totalled SAR 171 mn, representing a 42% YoY decline. This decline is primarily attributed to a sharp reduction in polypropylene prices in FY23 compared to previous year.

Maintain target price

The petrochemical industry is expected to encounter challenges in 1H24 due to global economic uncertainties, reduced demand from China, and the ongoing conflict in West Asia. Additionally, Advanced Petrochemical announced that its Propylene & Polypropylene plants will undergo scheduled periodic maintenance in 1Q24. However, these shutdowns for periodic maintenance align with normal industrial practices, and the resulting impact will be reflected in the financials for 1Q24. Moving forward into 2H24, we expect stability in the sector, with polypropylene prices steadily improving alongside stable feedstock prices, which are expected to positively impact margins post 1H24. Therefore, considering these factors, we are maintaining our **Accumulate** rating on the stock.

Valuation

Advanced Petrochemicals is trading at 2024e P/E of 38.3x, compared to its historical average 1-year forward P/E of 38.9x. Additionally, the stock is valued at EV/EBITDA multiple of 18.7x, based on the FY24 estimate, compared to the historical average of 27.65x.

Income Statement												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales/Revenue	612	627	582	594	571	592	-7%	-4%	-3%	2,948	2,374	-19%
Gross Profit (Loss)	68	102	125	122	98	90	45%	-20%	9%	536	447	-17%
Operating Profit (Loss)	30	64	82	80	48	50	57%	-40%	-4%	399	274	-31%
Net Profit	(6)	43	59	45	24	39	NM	-47%	-39%	295	171	-42%
Balance Sheet												
(SAR mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholders' Equity	3,240	3,118	3,252	3,207	3,230	2,841	0%	1%	14%	3,240	3,230	0%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Gross Margin	11%	16%	22%	21%	17%	15%				18%	19%	
Operating Profit Margin	5%	10%	14%	13%	8%	8%				14%	12%	
Net Profit Margin	-1%	7%	10%	8%	4%	7%				10%	7%	
Return on Equity (RoE)	-1%	5%	7%	6%	3%	6%				9%	5%	

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


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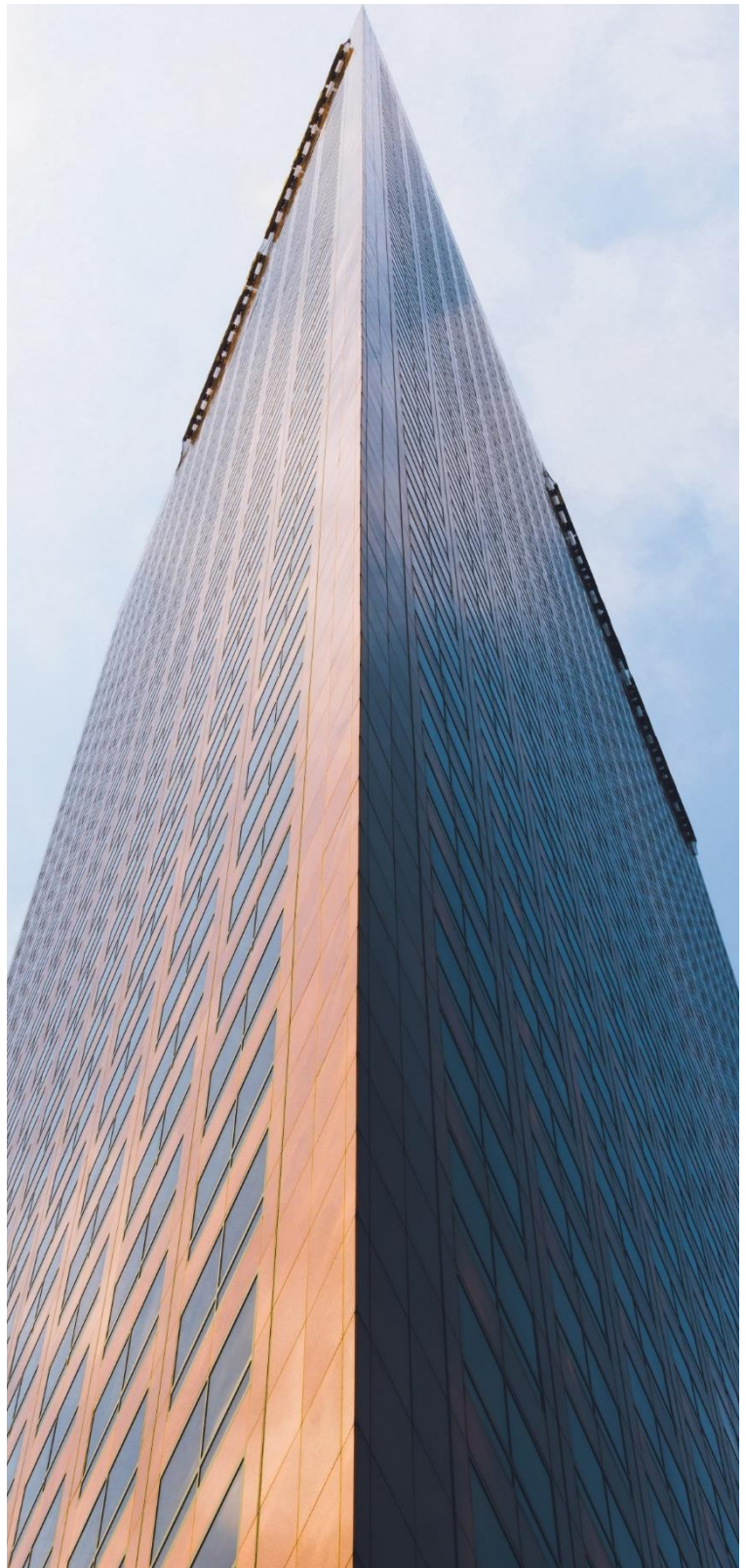
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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