

## ADVANCED PETROCHEMICAL

الأهلي كابيتال  
NCB Capital

## EVENT FLASH

## Margin expansion despite lower spreads

Advanced reported a better than expected set of Q2 19 results with a net income of SAR192mn, higher than the NCBC and consensus estimates of SAR181mn and SAR176mn, respectively. This reflects a growth of +18.6% qoq and a decline of -24.2% yoy. With revenues coming in-line with our estimates, we believe the better than expected results are attributed to a qoq expansion in margins due to lower production costs.

- Revenues stood at SAR681mn in Q2 19, in-line with our estimates. This is an increase of 5.1% qoq but a decline of 9.2% yoy. Based on our calculations, Advanced facilities operated at 119% in Q2 19, in-line with our estimates and compared to 116% in Q1 19. In Q1 19, Advanced's PDH facility was closed for 10 days to improve operational efficiency.
- Gross profit stood at SAR246mn (-11.2% yoy, +29.9% qoq), coming higher than our estimates of SAR210mn. This growth was driven by a strong gross margin expansions at 36.1% vs our estimates of 30.9% and 37.0% in Q2 18. We believe the qoq margin expansion is due to lower production costs following to the 10 days shutdown in Q1 19.
- The higher than expected gross profit was offset by a weak performance at SK Advanced. Advanced's share in the profits of SK Advanced came-in at SAR3.0mn vs our estimates of SAR18.3mn and SAR23.6mn in Q2 18. We believe the weak performance at the facility is attributed to weak spreads and operational efficiency.
- In Q2 19, average PP prices increased 2.5% qoq but declined -10.1% yoy to US\$1,111. Propylene prices declined -4.5% qoq and -17.9% yoy to US\$859. PP-propane spread declined -6.9% qoq (-19.9% yoy) to US\$601.
- Advanced signed three MoUs with SK Gas which include building PDH and PP facilities in Saudi with a capacity of 750,000mt and a cost of SAR6.8bn. Advanced secured an approval from the Ministry of Energy to supply propane. The facility is expected to start operations in H2 2024.
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- We are Neutral on Advanced, with a PT of SAR58.8. The progress on the MoU's will be a key catalyst for the company in the future. The stock trades at 2019f PE of 15.1x, higher than the peer average of 14.8x.

## Q2 19 Results Summary

SARmn	Q2 19	Q2 18	% yoy	Q2 19f	%Var^	%qoq
Revenues	681	750	(9.2)%	680	0.1%	5.1%
Gross Profit	246	277	(11.2)%	210	17.1%	26.9%
Gross margin (%)	36.1%	37.0%	(84)bps	30.9%	526bps	620bps
Operating Income	207	247	(16.1)%	173	19.7%	36.4%
Operating margin (%)	30.4%	32.9%	(250)bps	25.4%	498bps	698bps
Net income	192	253	(24.2)%	181	6.0%	18.6%
EPS (SAR)	0.98	1.29	(24.2)%	0.92	6.0%	18.6%

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

## STOCK DETAILS

M52-week range H/L (SAR)	63/44
Market cap (\$mn)	3,101
Shares outstanding (mn)	197
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	6.5	7.3	7.3
Rel. to market	3.0	9.5	(0.5)

Avg daily turnover (mn)	SAR	US\$
3M	32.8	8.7
12M	16.8	4.5

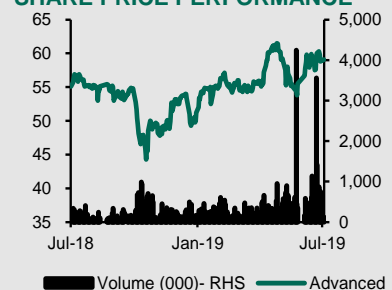
Reuters code	2330.SE
Bloomberg code	APPC AB
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## VALUATION MULTIPLES

	18	19f	20f
PE (x)	16.2	15.1	14.4
PB (x)	3.6	3.4	3.2
EV/EBITDA (x)	13.0	12.4	12.3
Div Yield (%)	4.7	4.7	4.7

Source: NCBC Research estimates, \*Actual

## SHARE PRICE PERFORMANCE



Source: Tadawul

## RELATIVE PERFORMANCE



Source: Tadawul

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JULY 2019

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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JULY 2019

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