

Rating **Neutral**
12-Month Target Price **SAR 54.00**

ADVANCED PETROCHEMICAL COMPANY

1Q2019 First Look

Expected Total Return

Price as on Apr-08, 2019	SAR 55.90
Upside to Target Price	(3.4%)
Expected Dividend Yield	5.0%
Expected Total Return	(1.6%)

Market Data

52 Week H/L	SAR 57.20/44.20
Market Capitalization	SAR 10,863 mln
Shares Outstanding	196.8 mln
Free Float	92.1%
12-Month ADTV (000's)	221
Bloomberg Code	APPC AB

1-Year Price Performance



Source: Bloomberg

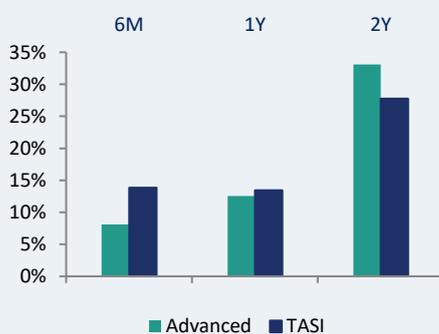


Fig in SAR mln	RC. Est	Actuals
Revenue	705	648
EBIT	162	152
Net Income	166	162
EPS (SAR)	0.84	0.82

Earnings Intact Q/Q

Advanced Petrochemical Company (Advanced) reported its 1Q2019 results with an EPS of SAR 0.82, in line with our and market's estimates of SAR 0.84 and SAR 0.86, respectively. Net income came in at SAR 162 million (+66% Y/Y, -1% Q/Q) and was affected by a 10-day shutdown in their propylene plant as well as lower polypropylene prices and sales volume (Q/Q basis). This was offset by a strong comeback from their share of profit in SK advanced. The stock is currently trading at a 2019E P/E of 14.7x, below TASI's forward P/E of 16.3x. We raise our target price to SAR 54.00 from SAR 48.00 earlier but maintain our Neutral recommendation.

Sales retreat Q/Q

The Company registered sales of SAR 648 million in 1Q2019 (+29% Y/Y, -14% Q/Q) which came in below our estimate of SAR 705 million. Advanced attributed the quarterly decline due to a -7.3% decrease in sales volume (mostly due to the 10-day propylene plant shutdown) and -6.7% decrease in PP prices. The yearly rise is attributed to a +39% increase in sales volume as the company performed periodic schedule maintenance in 1Q2018. Propylene and Polypropylene prices decreased -12% Y/Y and -9% Q/Q.

Margins unscathed despite shutdown

Gross profit increased by +63% Y/Y but decreased by -9% Q/Q, reaching SAR 194 million with a 30% gross margin. The Company's selling and distribution expense last quarter was unusually high, reaching SAR 11.7 million. Their quarterly selling and distribution expense have historically remained below SAR 5 million. We await detailed financials for further clarification as it could be to a one-time contract renewal charge or an actual increase in fees.

Raise target to SAR 54, maintain Neutral

Polypropylene demand remains firm in Asia despite the uneasiness felt by market players towards the global economy and the US-China trade negotiations. Prices have exhibited a strong uptrend since they bottomed in December 2018, but it is mostly supported by rising feedstock. The Company's strong balance sheet is set to attract foreign investors as TASI joins the MSCI and FTSE Russel index with decent dividend yield also a sweetener. However, as the company prepares to buy back a SAR 1 billion Sukuk in 4Q2019 (its only debt), we are skeptical if it will be able to continue a high dividend payout. Covenants on bank loans are generally much stricter than Sukuks and may result in lower dividends. It is best to keep on the sidelines and see how their balance sheet evolves to get a clearer view. The stock is trading at a 2019E P/E of 14.7x, below TASI's forward P/E of 16.3x, we raise our target price to SAR 54.00 but maintain a Neutral recommendation.

Key Financial Figures

FY Dec31 (SAR mln)	2018	2019E	2020E
Revenue	2,748	2,885	3,001
EBIT	700	704	712
Net Profit	717	746	756
EPS (SAR)	3.64	3.79	3.84
DPS (SAR)	2.80	2.80	2.80

Key Financial Ratios

FY Dec31	2018	2019E	2020E
ROAA	15.3%	15.5%	15.7%
ROAE	22.2%	21.8%	21.8%
P/E	15.2x	14.7x	14.4x
P/B	3.4x	3.2x	3.1x
EV/EBITDA	12.9x	11.1x	10.8x

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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