

RESULT ANALYSIS

Q3 2021

Highest revenues since Q3 14

Advanced reported a better-than-expected set of Q3 21 results with a net income of SAR218mn, up 39.7% yoy (-17.7% qoq). This compares to the SNB Capital and consensus estimates of SAR193mn and SAR214mn, respectively. We believe the variance is due to higher operating rates, better realized prices and lower opex. Loss at SK Advanced was the major surprise of the results.

- Revenues grew by 47.7% yoy (+4.7% qoq) to SAR805mn, the highest since Q3 14 and was 7.2% higher than our estimates. Based on our calculations, we believe Advanced's facilities operated at 128% vs our estimates of 125%. Moreover, we believe Advanced net realized prices were higher than expected due to selling higher grades products in different regions.
- Gross profit stood at SAR270mn, up 57.0% yoy, (-18.2% qoq), and was higher than our estimates of SAR233mn. Gross margin contracted to 33.5% vs 42.9% in Q2 21, however was higher than our estimate of 31.0%. The margins were impacted by 1) the increase in propane and outsourced propylene prices and 2) higher offshore logistic cost which increased by 195% qoq.
- Operating profit stood at SAR231mn vs our estimates of SAR186mn and Q3 20 profit of SAR140mn. Operating expenses came in at SAR39.0mn vs SAR46.2mn in Q2 21, SAR31.6mn in Q3 20 and our estimates of SAR47.1mn. We believe the normalisation of operating expense is a key positive.
- SK Advanced reported a surprising loss of SAR5mn in Q3 21, vs our estimates of a profit SAR18.1mn and compared to a profit of SAR26.1mn in Q2 21. We believe the losses might be attributed to higher feedstock prices and/or operational issues.
- In Q3 21, PP prices increased 25.6% yoy (-3.1% qoq) to US\$1,168 while propylene prices increased 20.0% yoy (-6.9% qoq) to US\$970. PP-propane spread decreased 1.2% yoy (-12.5% qoq) to US\$564.

Outlook

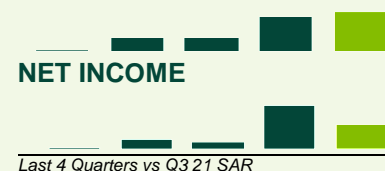
Based on our May 21 update, we are Neutral on Advanced with PT of SAR75.3. We believe Advanced's long-term outlook is positive driven by major expansions. However, high feedstock prices given the global energy issues is a key short-term risk. Advanced is trading at 2021f PE of 20.9x vs local peers average of 18.5x.

Q3 21 Results Summary (SAR mn)

	Q3 21	Q3 20	%yoy	Q3 21f	%Var [^]	Q2 21	% qoq
Revenues	805	545	47.7%	751	7.2%	769	4.7%
Gross income	270	172	57.0%	233	16.0%	330	(18.2)%
Gross margin (%)	33.5%	31.5%	2.0%	31.0%	2.6%	42.9%	-9.4%
EBIT	231	140	64.6%	186	24.4%	284	(18.7)%
EBIT margin (%)	28.7%	25.7%	2.9%	24.7%	4.0%	36.9%	-8.2%
Net income	218	156	39.7%	193	13.2%	265	(17.7)%
Net income	27.1%	28.7%	-1.6%	25.6%	1.4%	34.4%	-7.3%
EPS (SR)	1.01	0.72	39.7%	0.89	13.2%	1.22	(17.7)%

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

REVENUE



NEUTRAL

Price target (SAR) 75.3

Current price (SAR) 72.4

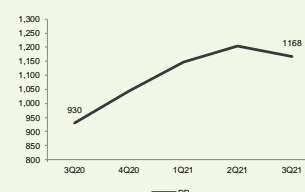
PT updated in May 2021

VALUATION MULTIPLES

	20	21f	22f
P/E (x)	26.3	20.9	20.8
P/B (x)	4.6	4.3	4.1
EV/EBITDA (x)	20.0	17.5	17.9
Div Yield (%)	3.6	3.6	3.6

Source: SNB Capital Research estimates

KEY PRODUCTS PRICES (PP)



Source: Bloomberg

STOCK DETAILS

M52-week range H/L (SAR)	83/57
Market cap (\$mn)	4,179
Shares outstanding (mn)	216
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	(0.8)	(2.6)	21.1
Rel. to market	(2.0)	(9.6)	(16.7)

Avg daily turnover (mn)	SAR	US\$
3M	44.4	11.8
12M	30.7	8.2

Reuters code	2330.SE
Bloomberg code	APPC AB
www.advancedpetrochem.com	

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