

Q3 2017

Advanced Petrochemical Co.

Recommendation

Neutral

Fair Value (SAR)

49.00

Price as of October 04, 2017

46.02

Expected Return

%6.5

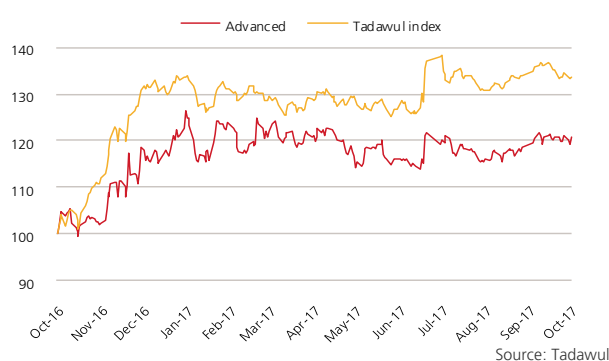
Company Data

Tadawul Symbol	2330.SE
52 Week High (SAR)	48.60
52 Week Low (SAR)	37.50
YTD Change	-1.5%
3-Month Average Volume (Thousand Shares)	202
Market Cap. (SAR Million)	9,056
Market Cap. (USD Million)	2,415
Outstanding Shares (Million Shares)	196.79

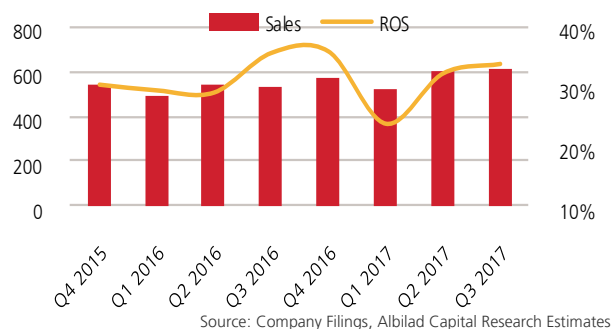
Major Shareholders (> 5%)

National Polypropylene Limited	7.95%
General Organization for Social Insurance	6.37%

52-week Stock Price Movement



Quarterly Net Income (SAR mn)



Meshal Alghaylan
Financial Analyst
MHALghaylan@albilad-capital.com

For more information, please contact::

Turki Fadaak
Research & Advisory Manager
TFadaak@albilad-capital.com



Advanced Petrochemical Company (Advanced) disclosed its Q3 2017 interim results revealing a bottom line of SAR 208 million, jumping 10% from SAR 189 million in Q3 2016. However, net earnings surged 7% QoQ from SAR 194.5 million in Q2 2017. Over the 9M, bottom line increased 0.56% to SAR 527 million compared to SAR 524 million in 9M 2016.

The company attributed the growth in Q3 2017 compared with Q3 2016 to the increase in the investment income from Korea's SK Advanced. Operating profit declined in 9M 2017 compared to the same period of the previous year on lower sales volume and planned maintenance in H1 2017. For the previous quarter, sales volume increased significantly which contributed to the higher net profit, while higher feedstock prices than Q2 2017 reduced the company's profitability.

The following table depicts the change in average prices for feedstock and polypropylene in the third quarter of the year :

Average Commodity Prices (US\$/Ton)	Current price	Q3 2017	Q3 2016	change	Q2 2017	change
Propane (Aramco)	480	450	290	%55	399	%13
Propylene (Asia)	945	896	773	%16	821	%9
Polypropylene (SE Asia)	1,130	1,125	1,034	%9	1,077	%4

Sales for Q3 2017 amounted to SAR 616 million jumping 17% YoY and 2% QoQ. The nine months sales hit SAR 1,747 million compared with SAR 1,563 million 9M 2016 displaying an increase of 11.78%.

Gross profit (GP) came in at SAR 222 million in Q3 2017 slumping 2% YoY. Nonetheless, GP improved 1% QoQ driven by rising sales volume compared to the previous quarter.

Operating income (EBIT) hit SAR 195 million in Q3 2017 shifting down 1% YoY while slightly growing 1.5% QoQ fueled by spiking feedstock prices compared to Q3 2016.

The third quarter's net earnings beat our estimate of SAR 198 million and the analysts' consensus of SAR 196 million due to from the increase in sales volume by 10.5% and improved efficiency and operating margins. Moreover, the results of Q3 2017 included investment income worth SAR 24 million in (SK Advanced). Skyrocketing 63% compared to Q3 2016. The nine-month figure recorded SAR 50 million.

According to (IHS Markit) China is moving towards self-sufficiency in Propylene by 2021, which will force exporters to expose new markets. This is one of the challenges that faces the company in the future. In terms of feedstock prices, rapid increase in prices will limit the profitability of the company in Q4 2017.

We believe Advanced Petrochemical will sustain SAR 3 cash dividend per year, thus we upgrade our fair value from SAR 46 to SAR 49.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	9.11	9.16	9.12	8.41
EV/Sales	2.83	3.67	3.89	3.41
P/E	11.35	11.95	11.66	10.78
Dividend Yield	%5.3	%5.8	%6.0	%6.9
P/BV	3.58	3.40	2.81	2.62
P/Revenue	2.81	3.58	3.98	3.58
Revenue Growth	%9.0	%21.7-	%10.0-	%11.1
EPS	2.75	3.00	2.60	3.00

Source: Company Filings, Albilad Capital Research Estimates

APPC AB - 2330.SE

October 4, 2017

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Sales	2,785.6	3,036.4	2,377.0	2,139.4	2,377.9
COGS	1,966.5	2,047.1	1,382.5	1,183.0	1,316.7
COGS/Sales	70.60%	67.42%	58.16%	55.30%	%55.37
SG&A	45.9	45.6	41.6	43.8	95.5
SG&A/Sales	1.6%	1.5%	1.8%	2.0%	%4.0
EBITDA	773.1	943.7	952.8	912.5	965.7
EBITDA Margin	27.8%	31.1%	40.1%	42.7%	%40.6
Depreciation and amortization	207.6	208.6	210.3	198.3	207.4
EBIT	565.5	735.1	742.5	714.2	758.4
Investment Income	0.00	27.09	0.00	47.22	60.80
Interest expense	(14.72)	(13.22)	(17.92)	(33.67)	(32.42)
Others (Net)	6.07	1.97	(11.57)	2.89	3.85
NAI	556.9	751.0	713.0	730.7	790.6
ROS	20.0%	24.7%	30.0%	34.2%	%33.2

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash	543.9	884.0	85.0	453.0	567.4
Inventory	145.2	123.3	124.3	116.7	129.7
Others	284.8	227.0	243.7	491.4	509.3
Total ST Assets	973.8	1,234.3	452.990	1,061.1	1,206.3
Net Fixed Assets	2,162.6	2,170.0	2,179.171	1,925.9	1,909.1
Intangible assets	54.0	18.1	5.1	3.5	2.7
Long Term Investments	1.9	377.6	1,222.8	1,239.4	1,314.4
others	32.7	28.2	26.0	162.4	164.0
Total LT Assets	2,251.2	2,593.9	3,433.1	3,331.1	3,390.2
Total Assets	3,225.0	3,828.2	3,886.1	4,392.2	4,596.6

Short term debt and CPLTD	125.0	30.0	40.0	40.0	10.0
Accounts Payable	158.2	118.4	96.8	86.2	96.3
Accrued Expenses	200.7	149.8	120.9	141.5	139.1
Dividends Payable	3.6	4.7	5.8	4.8	4.8
Others	0.0	24.3	19.6	21.8	21.8
Total ST Liabilities	487.5	327.2	283.1	294.4	272.1

Total Long Term Debt	455.0	1,087.7	1,048.3	1,008.7	999.2
Other Non-Current Liabilities	28.49	36.24	45.73	60.47	75.30
Equity	2,254.1	2,377.0	2,509	3,028.7	3,250.0
Total Liabilities and Equity	3,225.0	3,828.2	3,886.1	4,392.2	4,596.6

Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash flow from Operations	761.7	932.1	844.4	780.5	928.9
Cash flow from Financing	(568.9)	(32.8)	(522.7)	(539.7)	(608.8)
Cash flow from Investing	(111.2)	(559.2)	(1,120.8)	127.2	(205.7)
Change in Cash	81.6	340.1	(799.0)	368.0	114.4
Ending Cash	543.9	884.0	85.0	453.0	567.4

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

*Historical financial statements were prepared according to the previous Saudi reporting standards. Some items in the financials statements for 2017 are reclassified according to IFRS

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by $< 10\%$.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

Albilad Capital

Client Services

E-mail: clientservices@albilad-capital.com

Tel: +966-11-203-9888

Toll-free: 800-116-0001

Research & Advisory

E-mail: research@albilad-capital.com

Tel: +966-11-290-6250

Website: www.albilad-capital.com/en/research

Brokerage

E-mail: abiccctu@albilad-capital.com

Tel: +966-11-290-6230

Asset Management

E-mail: abicasstet@albilad-capital.com

Tel: +966-11-290-6280

Investment Banking

E-mail: investment.banking@albilad-capital.com

Tel: +966-11-290-6256

Disclaimer

Albilad Capital exerted utmost efforts to ensure that the information included in this report is accurate and correct. However, Albilad Capital Co., its managers, and staff bear no liability whether explicitly or implicitly for the content of the report and no legal responsibility, whether directly or indirectly, for any results based on it.

This report should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Albilad Capital.

We would also like to note that this information in no way constitutes a recommendation to buy or sell banknotes or make any investment decisions.

Any investment act taken by an investor based fully or partially on this report is the complete responsibility of the investor.

This report is not meant to be used or seen as advice or an option or any other measure to be taken in the future. We recommend consulting a qualified investment advisor before investing in these investment tools.

Albilad Capital preserves all rights associated with this report.

CMA Authorization Number 08100-37