

Advanced Petrochemical posted a net income of SAR 218mn; missing our estimates of SAR 248mn due to lower-than-expected gross margins and losses in share of profit on SK Advanced investment. Gross margin contracted by 937bps to 33.54% from 42.91% registered in Q2-21, as a result of higher feedstock prices. SK Advanced Co. (associated company) recorded a net loss of SAR 5.0mn compared with our profit estimate of SAR 18.9mn and SAR 26.1mn posted in Q2-21. However, the company's revenue increased 47.7%Y/Y to SAR 805mn in Q3-21, recording the highest level in five years. The higher-than-expected operating rate was offset by weak GP and contribution from SK advanced petrochemical. We maintain our "Neutral" recommendation with a TP at SAR 75.0/share.

- Advanced Petrochemical posted a net income of SAR 218mn in Q3-21, indicating an increase of 39.7%Y/Y and a fall of 17.7%Q/Q. The company positively surprised the market by reporting a strong improvement in production efficiencies and sales volume, despite the gross margin contraction. The Q/Q decline can be majorly ascribed to lower gross margins, despite the decrease in OPEX and higher volumetric sales. The major deviation from our estimates is mainly ascribed to lower-than-expected gross margin and weak contribution from SK advanced petrochemical.
- The company's sales stood at SAR 805mn, above AJC estimates of SAR 722mn; this is mainly due to higher-than-expected sales volumes and utilization rate after the plants' maintenance. We assume that the sales volume increased by around 10%Q/Q in Q3-21, with a utilization rate of 135%. SK Advanced Co. recorded lower-than-expected contribution to advanced petrochemical with a net loss of SAR 5.0mn compared with our profit estimate of SAR 18.9mn and SAR 26.1mn posted in Q2-21.
- Gross profit declined 18.8%Q/Q to SAR 270mn, slightly below AJC expectation of SAR 283mn. Gross margin contracted to 33.54% in Q3-21 vs. our estimate of 39.2% and 42.9% in Q2-21. Accordingly, Propane (feedstock) average prices increased by 22.7%Q/Q to USD 648/MT, resulting in Propane-PP spreads decrease by 18.5%Q/Q, as polypropylene-Asia prices declined by 3.6%Q/Q to USD 1,128/MT. Operating profit stood at SAR 231mn, in-line with our estimate of SAR 239mn due to higher-than-expected top line. However, the company's OPEX decreased to SAR 39.0mn, below SAR 46.2mn recorded last quarter, which could be ascribed to decrease in general and administrative expenses by 22%, according to the management

**AJC View and valuation:** The company showed a very strong utilization rate and sales volume during Q3-21 owing to improved production efficiency after plant maintenance, along with healthy demand and despite an increase in average feedstock prices. The short-term outlook on PP price is largely driven by a combination of very high LPG (feedstock) prices, tight global supply, where logistics issues continues to keep petrochemical prices high in the short run. Going forward, we don't expect PP prices to show a noticeable improvement during 2H-21 due to expected global additional new capacities, eased supply and demand starts to normalize. On the other hand, propane feedstock prices are near seven-year highs amid tight supply and rising crude oil prices, which could continue pressuring the gross margin in the coming quarters. In the long term, the progress on the new expansion plan will be the key catalyst for the future performance. The company expects to begin construction by FY21 and commercial operations will likely commence by H2-24. Advanced petrochemical Co. is expected to post net profit of SAR 842.7mn for FY21, as compared to a net profit of SAR 596mn in FY20. The company is currently trading at TTM PE of 18.8x compared to a forward PE of 19.4x based on FY22 earnings. We maintain a "Neutral" recommendation on the stock with a TP at SAR 75.0/share.

## Results Summary

SARmn	Q3- 20	Q2-21	Q3-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	545	769	805	47.7%	4.7%	11.4%
Gross Profit	172	330	270	56.9%	-18.8%	-4.6%
Gross Margin	31.56%	42.91%	33.54%	-	-	-
EBIT	140	284	231	65.0%	-18.7%	-3.4%
Net Profit	156	265	218	39.7%	-17.7%	-12.3%
EPS	0.72	1.22	1.01	-	-	-

Source: Company Reports, AlJazira Capital

## Neutral

Target Price (SAR) **75.0**

Upside / (Downside)\* **3.5%**

Source: Tadawul \*prices as of 10<sup>th</sup> of October 2021

### Key Financials

SARmn (unless specified)	FY18	FY19	FY20	FY21E
Revenue	2,748	2,594	2,231	2,948.8
Growth %	15.2%	-5.6%	-14.0%	32.2%
Net Income	717	759	596	842.7
Growth %	13.6%	5.9%	-21.5%	41.5%
EPS	3.31	3.51	2.75	3.89

Source: Company reports, Aljazira Capital

### Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	30.1%	34.7%	32.7%	35.4%
Net Margin	26.1%	29.3%	26.7%	28.6%
P/E (x)	14.8	14.1	24.3	18.6
P/B (x)	3.5	3.2	4.4	4.4
EV/EBITDA (x)	9.1	9.4	17.0	15.5
Dividend Yield	5.1%	5.8%	4.2%	3.6%

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	15.69
YTD %	8.1%
52 Week (High)/(Low)	83.9/56.3
Shares Outstanding (mn)	216.47

Source: Company reports, Aljazira Capital

### Price Performance



Source: Bloomberg, Aljazira Capital

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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