

Advanced Petrochemical posted weaker than expected set of results with a net profit of SAR 156.0mn; missing AJC and the market consensus estimates. The deviation of Q3-20 earnings from our estimates is mainly attributed to weaker than expected sales volume, which declined by 6.6% on weak demand. While weak gross margin was a result of higher outsourced Propylene. Higher than expected contribution from SK advanced petrochemical and a decline in OPEX were the key supports during the quarter. We maintain our **"Neutral"** recommendation on the stock with a revised TP at **SAR 55.0/share**.

- Advanced Petrochemical posted a net income of SAR 156mn; indicating a fall of 26.8%Y/Y and an increase of 0.7%Q/Q. AJC and the market consensus estimates stood at SAR 173.90 and SAR 184.0mn, respectively. Weaker than expected performance was mainly due to i) a decline in volumetric sales. ii) an increase in feedstock and outsourced propylene prices, despite improved PP prices and higher contribution from SK Advanced petrochemical (associated company).
- The company's revenue stood at SAR 545mn, above SAR 519mn recorded in Q2-20 due to improved average selling prices of PP by 12.5%Q/Q. Sales came below our estimate of SAR 576mn, which can be ascribed to a weaker than expected pick-up in demand due to the spread of COVID-19 and our estimated decline in the exported volume to Turkish market. We assume that the sales volume declined by around 6.6% in Q3-20, as compared to previous quarter.
- SK Advanced Co. (associated company) recorded higher than expected contribution to advanced petrochemical with a net profit of SAR 22.2mn, as compared to our estimate of SAR 14.6mn and the actual of SAR 6.7mn in Q2-20. This could be ascribed to higher demand from South Korea and improved production efficiency after plant shutdown during Q1-20.
- Gross profit stood at SAR 172mn (a decline of 29.9%Y/Y, and 7.6%Q/Q), below AJC expectation of SAR 200mn. Gross margin squeezed to 31.56% in Q3-20 vs. 35.86% in Q2-20 and our estimate of 34.5%. This we believe is due to relatively lower Propylene-PP spreads, despite expanding Propane-PP spreads. In Q3-20, outsourced Propylene average prices jumped by 19.7%Q/Q to USD 808/MT, resulting in Propylene-PP spreads contraction by 19.1%Q/Q to USD 120/MT.
- Operating profit stood at SAR 140mn, below our estimate of SAR 164mn due to weak top line. However, the company's OPEX stood at SAR 32mn, as compared our estimate of SAR 35mn and SAR 33.8n, which could be ascribed to lower expenses associated with weaker sales volume and continuous focus on cost controls.

AJC View: Despite the challenging environment due to COVID-19, the company showed resilient operating performance. However, during Q3-20, pressure on the company's margins was mainly due to the significant increase in outsourced propylene. Going forward, products prices started to improve gradually. We expect further recovery beyond FY20 with the pick-up in the global economic activities. For FY21, we expect the company to gradually return to its pre-covid sales level, driven by an expected recovery of global demand and selling prices. The progress on the new expansion plan will be the key catalyst for the future performance. As AGIC (subsidiary) signed a partnership agreement with SK Gas Co. Ltd to build a PDH and PP facilities in Saudi Arabia with a capacity of 800 KMT/year at a cost of USD 1.8bn. FY20 DPS is estimated to stand at SAR 2.60 per share, resulting in a dividends yield of 4.4% at current prices. The company is currently trading at TTM PE of 21.2x compared to a forward PE of 15.8x based on FY20 earnings. **"Neutral"** recommendation on the stock with a TP at **SAR 55.0/share**.

Results Summary

SARmn (unless specified)	Q3-FY19	Q2-FY20	Q3-FY20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	647.2	519	545	-15.8%	5.0%	-5.5%
Gross Profit	245.3	186.1	172	-29.9%	-7.6%	-14.0%
Gross Margin	37.90%	35.86%	31.56%	-	-	-
EBIT	201.9	152.3	140	-30.7%	-8.0%	-15.1%
Net Profit	213.1	154.9	156	-26.8%	0.7%	-10.3%
EPS	0.98	0.72	0.72	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **55.0**

Upside / (Downside)* **-7.7%**

Source: Tadawul *prices as of 6th of October 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Revenue	2,748.0	2,594.5	2,194	2,640
Growth %	15.2%	-5.6%	-15.4%	20.3%
Net Income	717.0	759.3	587.4	817.9
Growth %	13.6%	5.9%	-22.6%	39.2%
EPS	3.31	3.51	2.71	3.78

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20E	FY21E
Gross Margin	30.1%	34.7%	32.2%	34.7%
Net Margin	26.1%	29.3%	26.8%	31.0%
P/E	14.8x	14.08	21.93	15.75
P/B	3.5x	3.2x	3.89x	3.65x
EV/EBITDA (x)	9.1x	9.40x	15.44x	11.78x
Dividend Yield	5.1%	5.8%	4.45%	-

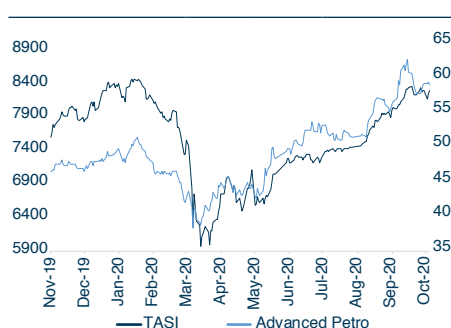
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	12.77
YTD %	20.45%
52 Week (High)/(Low)	63.00/37.30
Shares Outstanding (mn)	216.47

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aliabran@aljaziracapital.com.sa



RESEARCH DIVISION

AGM-Head of Research

Talha Nazar

+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst

Faisal Alsuwelimy

+966 11 2256115
F.alsuwelimy@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions

Ahmad Salman, CFA

+966 11 2256201
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region

Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068