Advanced Petrochemicals Co
Petroleum Chemicals – Industrial
APPC AB; Saudi Arabia
13 January 2020

US$2.85991bn 9% US$3.973mn
Market cap Free float Avg. daily volume
Target price 55.00 +11.0% over current
Current price 49.55 as at 12/1/2020

Existing rating
Underweight Neutral Overweight

Performance

Earnings

<table>
<thead>
<tr>
<th>(SAR mn)</th>
<th>2018</th>
<th>2019</th>
<th>2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,748</td>
<td>2,595</td>
<td>2,490</td>
</tr>
<tr>
<td>Y-o-Y</td>
<td>15.3%</td>
<td>-5.6%</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>828</td>
<td>899</td>
<td>894</td>
</tr>
<tr>
<td>Gross margin</td>
<td>30.1%</td>
<td>34.6%</td>
<td>35.9%</td>
</tr>
<tr>
<td>Net profit</td>
<td>717</td>
<td>759</td>
<td>791</td>
</tr>
<tr>
<td>Y-o-Y</td>
<td>13.6%</td>
<td>5.9%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Net margin</td>
<td>26.1%</td>
<td>29.2%</td>
<td>31.8%</td>
</tr>
<tr>
<td>EPS (SAR)</td>
<td>3.3</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>DPS (SAR)</td>
<td>2.8</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Payout ratio</td>
<td>84.5%</td>
<td>77.0%</td>
<td>82.0%</td>
</tr>
<tr>
<td>P/E (Curr)</td>
<td>15.0x</td>
<td>14.1x</td>
<td>13.6x</td>
</tr>
<tr>
<td>P/E (Target)</td>
<td>16.6x</td>
<td>15.7x</td>
<td>15.0x</td>
</tr>
</tbody>
</table>

Source: Company data, Al Rajhi Capital

Advanced Petrochemicals Co
4Q19: Earnings beat; TP raised to SAR55/sh.

APPC reported Q4 2019 earnings at ~SAR192mn, above our estimate of ~SAR184mn and consensus estimate of ~SAR163mn, primarily due to better-than-expected improvement in production cost efficiencies. While top-line came in at SAR619mn (largely in-line with our estimate of SAR598mn), the company managed to lower its fixed production costs (~15% q-o-q decline as per our calculations vs. ~3% drop expected), resulting into gross and operating profits beat. Further, higher-than-expected equity income (SAR27mn vs. SAR15.6mn expected) also contributed to net profit beat. Going forward, we believe that despite likely stable PP prices in the near-term, the company might witness a pressure on its margins in Q1 2020, given the steep rise in Propane price to US$365/t (+31% q-o-q increase so far in Q1 2020; the highest level since Oct 2018). Nonetheless, we continue to remain positive on the company, due to i) strong plant operating rates, ii) consistent operating performance, iii) debt free balance sheet, and iv) attractive dividend yield (~6% for 2020E). Post Q4 earnings beat, we revise our TP to SAR55/share (SAR52/share earlier) and retain “Overweight” rating on the stock.

Valuation and risks: The stock is currently trading at a P/E of 13.6x on our 2020E EPS, marginally below its 3-year historical average of 13.8x. We like APCC as the company is one of the most consistent petrochemical players in the Saudi petchem sector, given its strong operating performance, healthy cash flows generation ability, robust balance sheet, and excellent management quality. This is also evidenced from its 2019 annual financials, with production volume, sales volume and net profit (SAR598mn) reaching to the highest levels ever in its history. However, the near-term performance might be under-pressure, on the back of steep increase in feedstock prices amid likely stable PP prices. We believe that the company’s ability to control its costs in a challenging market condition will help it to partially offset the impact of likely lower product spreads in Q1 2020. Post Q4 2019 earnings beat on better cost efficiencies, we revise our forward looking estimates, leading to revision in our target price to SAR55/share based on equal mix of relative (SAR53.9/sh. based on 14.0x 12 month forward P/E) and DCF valuation (SAR56.1/sh. based on FCF, long term WACC/ cost of equity at 10.5%). The multiple we have chosen is conservative, given that we are in a down-cycle. One could attribute a premium due to management quality and consistent historical operating performance. The key upside trigger might be attributed to an increase in dividends while further weakness in product spreads and/or any unplanned shutdown may act as the key downside trigger.

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“Neutral”: We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

“Underweight”: Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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