

Advanced Petrochemical posted net profit of SAR 180.0mn (SAR 0.81 EPS); in-line with AJC estimate of SAR 178.1mn and below the market consensus estimates of SAR 197.0mn. Sales increase of 15.9%Q/Q was ascribed to improved PP prices, along with higher volumetric sales. Stronger than expected gross margin was a result of higher than expected product spreads, which recorded 34.3% Vs. our estimate of 32.2%. We expect that the higher than expected contribution from SK advanced petrochemical was offset by an increase in other expenses (SAR 10.1mn) during the quarter. We maintain our **“Neutral”** recommendation on the stock with a TP at **SAR 60.50/share**.

- Advanced Petrochemical posted a net income of SAR 180mn; indicating a fall of 6.3%Y/Y and an increase of 15.4%Q/Q. AJC and the market consensus estimates stood at SAR 178.1 and SAR 197mn, respectively. The Q/Q increase can be majorly ascribed to i) improved product prices ii) increased volumetric sales. iii) increased PP spreads, despite the increase in feedstock prices and higher than expected other net expenses of SAR -10.1mn Vs. our estimate of SAR 1.5mn.
- The company's revenue stood at SAR 632mn, above SAR 545mn recorded in Q3-20 due to improved average selling prices of PP by 12.4%Q/Q. Sales came slightly above our estimate of SAR 615mn, which can be ascribed to a higher than expected volumetric sales and pick-up in demand after the impact of COVID-19. We assume that the sales volume increased by around 3.5% in Q4-20, as compared to previous quarter. SK Advanced Co. (associated company) recorded higher than expected contribution to advanced petrochemical with a net profit of SAR 23.7mn, as compared to our estimate of SAR 21.9mn and SAR 22.1mn posted in Q3-20. This could be ascribed to improved production efficiency after plant shutdown during H1-20.
- Gross profit stood at SAR 217mn (an increase of 26.2%Q/Q, and 1.6%Y/Y), above AJC expectation of SAR 198mn. Gross margin improved to 34.34% in Q4-20 vs. 31.56% in Q3-20 and our estimate of 32.2%. We believe this could be due to relatively higher Propylene-PP spreads, despite an increase in Propane (feedstock) and outsourced propylene prices. In Q4-20, Propane average prices jumped only by 15.1%Q/Q to USD 418/MT, resulting in Propylene-PP spreads expansion by 11.2%Q/Q to USD 708/MT. Operating profit stood at SAR 174mn, above our estimate of SAR 162mn due to strong gross margin. However, the company's OPEX increased to SAR 43mn, as compared our estimate of SAR 36mn and SAR 31.5mn in Q3-20.

AJC View and Valuation: Despite the challenging environment due to COVID-19, the company showed resilient operating performance. Furthermore, petrochemical sector fortunes have improved over the past 3 months due to strengthened demand and higher prices. The short-term outlook before the turn of 2021 was largely positive, with news of coronavirus vaccines. Going forward, products prices are expected to stabilize around the current level with the pick-up in the global economic activities and we don't expect a significant improvement during FY21 due to expected global additional new capacities. For FY21, we expect the company to gradually return to its pre-COVID sales level after Q1-21, driven by an expected further recovery of global demand and selling prices. However, the company will shut down its propylene plant for a maximum of 30 days during Q1-21 to perform essential assessment for critical reliability improvements with a planned maintenance cost of SAR 130mn. In the long term, the progress on the new expansion plan will be the key catalyst for the future performance. AGIC (subsidiary) signed a partnership agreement with SK Gas Co. Ltd to build a PDH and PP facilities in Saudi Arabia with a PP capacity of 800 KMT/year, Propylene capacity of 843 KMT/year and the addition Isopropanol (IPA) production of 70 KMT/year at a cost of USD 1.88bn. 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 818.7mn for FY21, as compared to a net profit of SAR 596mn in FY20. The company is currently trading at TTM PE of 24.3x compared to a forward PE of 17.7x based on FY21 earnings. **“Neutral”** recommendation on the stock with a TP at **SAR 60.5/share**.

Results Summary

SARmn	Q4-FY19	Q3-FY20	Q4-FY20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	618.4	545	632	2.2%	15.9%	2.8%
Gross Profit	213.7	172	217	1.6%	26.2%	9.6%
Gross Margin	34.55%	31.56%	34.34%	-	-	-
EBIT	171.2	140	174	1.6%	24.3%	7.3%
Net Profit	192.0	156	180	-6.3%	15.4%	1.1%
EPS	0.92	0.72	0.81	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **60.50**

Upside / (Downside)* **-9.7%**

*prices as of 11th of January 2021

Key Financials

	FY18	FY19	FY20	FY21E
Revenue	2,748.0	2,594.5	2,231	2,625
Growth %	15.2%	-5.6%	-14.0%	17.7%
Net Income	717.0	759.3	596	818
Growth %	13.6%	5.9%	-21.5%	37.5%
EPS	3.31	3.51	2.75	3.78

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	30.1%	34.7%	32.7%	34.8%
Net Margin	26.1%	29.3%	26.7%	31.2%
P/E	14.8x	14.1x	24.3x	17.7x
P/B	3.5x	3.2x	4.4x	4.1x
EV/EBITDA (x)	9.1x	9.4x	17.0x	13.2x
Dividend Yield	5.1%	5.8%	4.2%	3.7%

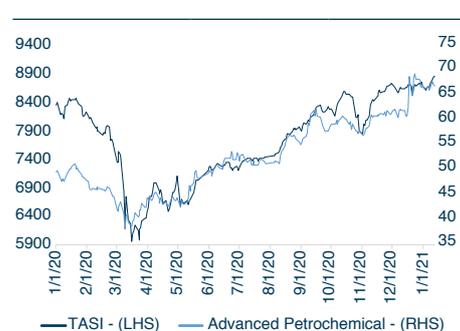
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	14.45
YTD %	1.2%
52 Week (High)/(Low)	72.00/37.30
Shares Outstanding (mn)	216.47

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

i.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.alsuweilmy@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

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