

Advanced Petrochemical's net income declined 58.5% Y/Y to SAR 110mn, missing our and consensus estimates of SAR 151mn and SAR 142mn, respectively. The deviation in net income from our estimate was mainly due to lower-than-expected revenue and gross margin. The company's share in loss of SK Advanced Co. (associated company) stood at SAR 19.0mn compared with our estimate of loss of SAR 6.1mn and SAR 14.6mn posted in Q1-22. Revenue increased 5.9% Y/Y to SAR 814mn in Q2-22, below our estimate of SAR 856mn. We maintain our "Neutral" recommendation with a TP at SAR 59.0/share.

- Advanced Petrochemical posted a net income of SAR 110mn in Q2-22, down 58.5% Y/Y and 32.9% Q/Q. On Y/Y basis, the bottom line was weighed down by higher feedstock prices (propane and propylene), steep rise in offshore logistic costs (+165% Y/Y) and losses on investment in SK Advanced vs. profit in Q2-21. The Q/Q decline in net income was due to lower revenue, contraction in gross margin and higher share in losses of SK Advanced. The major deviation from our estimates is mainly ascribed to lower-than-expected top line and gross margin.
- Advanced Petrochemical's sales grew 5.9% SAR 814mn, below AJC estimate of SAR 856mn. The lower-than-expected sales is likely to be due to our estimated discounts on PP offered by the company, compared with the previous sales that were sold at a premium. Total sales volume increased 13% Y/Y in Q2-22. SK Advanced Co. recorded lower-than-expected contribution to Advanced Petrochemical with a net loss of SAR 19.0mn compared with our estimate of loss SAR 6.1mn and SAR 14.6mn posted in Q1-22. On Q/Q basis, sales fell 6.0%.
- Gross profit plunged 48.5% Y/Y and 19.9% Q/Q to SAR 169mn, missing AJC's expectation of SAR 190mn. Gross margin contracted to 20.8% in Q2-22 as against our estimate of 22.2% and 24.4% in Q1-22. Propane (feedstock) prices reached a multi-year high during the quarter and average prices increased by 5.4% Q/Q to USD 847/MT, while polypropylene-Asia prices declined 1.0% Q/Q to USD 1,148/MT, resulting in Propane-PP spreads to decrease by 9.0% Q/Q.
- Operating profit stood at SAR 133mn (-53.2% Y/Y; -26.9% Q/Q), below our estimate of SAR 162mn due to higher-than-expected general and administrative expenses (OPEX) in addition to the impact of lower gross margin. The company's OPEX increased 24.1% Q/Q to SAR 36mn, while it was down 18.2% compared to the same quarter previous year.

**AJC View and valuation:** Advanced Petrochemical Q2-22 results were below our expectations, impacted by higher prices of feedstocks both propane and outsourced propylene. We expect the pressure on the company's margins to ease during H2-22 with the current slowdown in feedstock prices; however, the global addition in PP capacity is expected to weigh in PP prices in the mid-term. In the long term, the company's expansion plans are likely to help it grow its volumes. The commercial operations of new facility are expected to commence by H2-24. The company has announced signing financing worth SAR 6.1bn for its expansion plans in Jubail Industrial City II. The company announced total dividend of SAR 1.1 per share in H1-22. The company is currently trading at TTM PE of 18.7x compared to a forward PE of 18.9x based on FY22 earnings. We maintain a "Neutral" recommendation on the stock with a TP at SAR 59.0/share.

## Results Summary

SARmn	Q2- 21	Q1-21	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	769	866	814	5.9%	-6.0%	-4.9%
Gross Profit	328	211	169	-48.5%	-19.9%	-11.3%
Gross Margin	42.7%	24.4%	20.8%	-	-	-
EBIT	284	182	133	-53.2%	-26.9%	-18.0%
Net Profit	265	164	110	-58.5%	-32.9%	-27.4%
EPS	1.02	0.63	0.42	-	-	-

Source: Company Reports, AlJazira Capital

## Neutral

Target Price (SAR) 59.0

Upside / (Downside)\* 19.4%

Source: Tadawul \*prices as of 5<sup>th</sup> of July 2022

## Key Financials

SARmn (unless specified)	FY20	FY21	FY22E	FY23E
Revenue	2,231	3,111	3,233	2,747
Growth %	-14.0%	39.4%	3.9%	-15.0%
Net Income	595.6	811.8	695.7	781.2
Growth %	-21.6%	36.3%	-14.3%	12.3%
EPS	2.29	3.12	2.67	3.00

Source: Company reports, AlJazira Capital

## Key Ratios

	FY20	FY21	FY22E	FY23E
Gross Margin	32.7%	34.0%	25.5%	30.7%
Net Margin	26.7%	26.1%	21.5%	28.4%
P/E (x)	24.3	18.6	18.9	16.8
P/B (x)	4.2	3.8	3.1	2.6
EV/EBITDA (x)	20.3	17.4	14.6	14.2
Dividend Yield	3.9%	3.7%	4.3%	4.3%

Source: Company reports, AlJazira Capital

## Key Market Data

Market Cap (bn)	12.2
YTD %	-15.8%
52 Week (High)/(Low)	75.0/48.0
Shares Outstanding (mn)	260.0

Source: Company reports, AlJazira Capital

## Price Performance



Source: Bloomberg, AlJazira Capital

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa



RESEARCH DIVISION

Head of Sell-Side Research  
Jassim Al-Jubran  
+966 11 2256248  
j.aljabran@aljaziracapital.com.sa

RESEARCH  
DIVISION

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RATING  
TERMINOLOGY

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