

Advanced Petrochemicals Co

Petrochemicals – Industrial

APPC AB: Saudi Arabia

27 January 2019

الراجحي المالية
Al Rajhi Capital



US\$2.75566bn Market cap 9% Free float US\$3.169mn Avg. daily volume

Target price 57.00 +8.6% over current
Current price 52.50 as at 24/1/2019

Research Department

Prithish K. Devassy, CFA

Tel +966 11 2119370, devassyp@alrajhi-capital.com

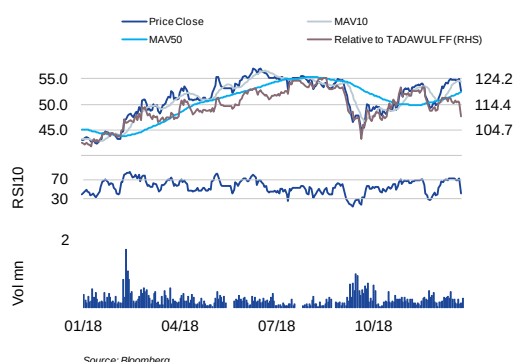
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2017	2018	2019e
Revenue	2,385	2,748	2,933
Y-o-Y	11.5%	15.2%	7.2%
Gross profit	738	828	906
Gross margin	31.0%	30.1%	30.9%
Net profit	631	717	798
Y-o-Y	-13.8%	13.6%	6.2%
Net margin	26.5%	26.1%	27.2%
EPS (SAR)	3.2	3.6	4.1
DPS (SAR)	2.8	2.8	3.0
Payout ratio	87.3%	76.9%	74.0%
P/E (Curr)	16.4x	14.4x	13.0x
P/E (Target)	17.8x	15.6x	14.1x

Source: Company data, Al Rajhi Capital

Advanced Petrochemicals Co

Q4: Revenue largely in-line; Earnings miss

Though Q4 revenue came slightly higher than our expectation, costs were even higher at both feedstock and operating level, leading to lower than expected bottom-line. Q4 sales volume is indicative of healthy plant performance after the maintenance shutdown to replace plant catalyst early in 2018. Though Polypropylene-propane spread is likely to have increased in Q4 with propane down 7% q-o-q as compared to decline in polypropylene price by around 1.5%, other costs seems to have been higher. Further, ~16% q-o-q higher SG&A costs (likely attributable to year end costs) as well as lower equity income from SK Advanced also seems to have contributed to the miss. Overall, despite the miss in results, we believe the company's operating performance continues to be healthy. Even if the product price remains broadly stable at current levels, we expect an EPS of SAR4.05 for 2019. Adjusting for lower product prices in 2019 we revise our TP to SAR57/share (from SAR58/share) with a Neutral rating on the stock.

Figure 1 APCC Q4 results

(SAR mn)	4Q17	3Q18	4Q18	q-o-q	y-o-y	ARCe	Comments
Rev	637	745	750	1%	18%	737	PP price was down 1.5% q-o-q, implying continued high plant operating rates.
Gross Profit	153	218	214	-2%	40%	225	PP-propane spread was higher but GP was lower implying higher other costs
Margin	24.0%	29.3%	28.5%			30.6%	
Op. profit	115	191	168	-12%	46%	186	SG&A was likely higher by 16% y-o-y
Margin	18.1%	25.6%	22.4%			25.3%	
Net profit	104	202	164	-19%	58%	198	Equity income was also lower than we expected
Margin	16.3%	27.1%	21.9%			26.8%	

Source: Company data, Al Rajhi Capital

Korean JV's new PP plant update: APCC's 30% South Korean subsidiary, SK Advanced Company Ltd, and PolyMirae Company have recently awarded an US\$350.6mn worth of EPC contract to SK Engineering & Construction Co. Ltd. (an affiliate of SK Gas Co., which holds 45% stake in SK Advanced) for the construction of its new PP plant in South Korea. The new PP plant will have a total production capacity of 400kmt and is expected to begin the construction in Q1 2019 with an anticipated in-service date in H1 2021. APCC indicated that there will not be any cash outflow from APCC for this project. As per our calculations, once the project starts commercial production in H1 2021, it would improve APCC's bottom-line by ~SAR24mn (or 3.3% incremental earnings on 2018 bottom-line at 100% utilization rate) annually.

Valuation and risks: The stock is currently trading at a P/E of 12.9x on our 2019E EPS in line with its 3-year historical average of 12.9x. Post Q4 results, we update our product and feedstock prices and slightly revise our TP downward to SAR57/share based on equal mix of relative (SAR60/sh. based on 14.0x 12 month forward PE) and DCF valuation (SAR54.0/sh. based on FCF, long term WACC/ cost of equity at 10.6%). The multiple we have chosen is conservative, given that we are in a down-cycle. One could attribute a premium to multiple due to management quality and solid past operating performance. The key upside trigger might be attributed to an increase in dividends (we expect an increase in DPS to SAR3/share for 2019) while further weakness in product spreads may act as the key downside trigger.

Please see penultimate page for additional important disclosures. Al Rajhi Capital (Al Rajhi) is a foreign broker-dealer unregistered in the USA. Al Rajhi research is prepared by research analysts who are not registered in the USA. Al Rajhi research is distributed in the USA pursuant to Rule 15a-6 of the Securities Exchange Act of 1934 solely by Rosenblatt Securities, an SEC registered and FINRA-member broker-dealer.



IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc. its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.