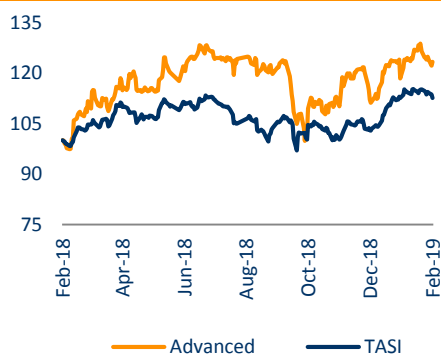


FY18 Results Update
February 27, 2019

Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	54.8
Target Price (SAR)	57.5
Upside/Downside (%)	4.9%

As of February 26th 2019
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.8
52 Wk High (SAR)	57.2
52 Wk Low (SAR)	43.1
Total Outstanding shares (in mn)	197
Free Float (%)	92.1%

Advanced vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	4.2%	4.2%
6m	(0.7%)	(7.9%)
12m	23.3%	10.7%

Major Shareholders (%)

Poly Propylene National Company	7.95%
General Organization for Social Insurance	6.37%

Quarterly Sales (SAR bn) and Operating Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th February 2019

Q4 net profit misses estimates on higher feedstock prices

Advanced Petrochemical (Advanced)'s net profit for FY18 grew 13.6% Y/Y to SAR 717mn and in 4Q18 grew 57.8% Y/Y to SAR 164mn, slightly behind consensus. Sales for the year grew 15.3%Y/Y to SAR 2.7bn, driven by increase in Polypropylene (PP) prices. Increased earnings from the equity investment in SK Advanced Co. Ltd. contributed to the gain in net profit (which rose despite rising feedstock prices), although the margin spread was narrower.

We anticipate healthy demand for PP, driven by economic growth in China and India. Advanced, which produces PP as its single end product, stands to benefit from this trend. Also, we are positive about the company's valuation, considering its strong fundamentals and operational expertise. Advanced's high utilization rate (> 100%) historically indicates the company would be able to meet the increased demand. Besides, SK Advanced Co. (owned 30% by Advanced) is well positioned to capture increasing demand for propylene, via its collaboration with PolyMirae. Although healthy balance sheet, strong cash flows, low debt/equity, and high dividend yield support the price, further weakness in product spreads may act as a downside risk. We reduce our rating from 'Overweight' to 'Neutral'.

- Advanced's top line increased (15.3% Y/Y, SAR 2.7bn), led by rise in sales volume and 14% increase in prices of polypropylene, the company's main product. Advanced's Turkish plant contributed the largest sales volume growth
- Gross profit rose 12.1% Y/Y to SAR 828mn despite higher feedstock prices. Prices of propane and propylene rose 18.8% Y/Y and 18.8% Y/Y, respectively. Consequently, gross margins fell marginally to 30.1% in FY18 from 31.0% in FY17.
- Operating profit increased to SAR 700mn, up 13% Y/Y, primarily due to rise in sales, despite higher feedstock and SG&A costs. Operating margin, however, fell marginally to 25.5% in FY18 from 26.0% in FY17.
- Net profit for the period improved 13.6% Y/Y to SAR 717mn, driven by strong sales volume. Furthermore, the share of profit from associates (SK Advanced Co Ltd.) grew 40.5% Y/Y to SAR 67mn, contributing to the improvement in net profit. Net profit margin, however, declined 40bps Y/Y to 26.1% in FY18 (FY17: 26.5%).
- The company declared a dividend of SAR 0.70 per share for 4Q18. This took the annual dividend to SAR 0.28 per share for FY18, implying a total dividend of SAR 551mn.
- Operating cash flows continued to improve, rising to SAR 921mn in FY18 from SAR 846mn in FY17 and SAR 779mn in FY16.
- The company informed that its propylene plant will be shut down for essential assessment for critical reliability improvements for a maximum period of 10 days starting from February 22, 2019. The financial impact of this would be recorded in 1Q19. The plant, however, will continue to operate at lower throughput, utilizing inventories available in the tank.
- Advanced's subsidiary, SK Advanced (30% stake) will commence the construction of a 400kmt PP plant in South Korea in 1Q19 and expects to commence production in 1H21.

Valuation: We have revised our target price upward to a fair value of SAR 57.5 per share, considering the expected improvement in earnings, going forward. We reduce our rating from 'Overweight' to 'Neutral' as the stock has surpassed our previous target and has limited upside from these levels.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	750	637	17.6%	2,838	2,748	3.3%
Gross Profit (SAR mn)	213	153	39.5%	897	828	8.4%
EBITDA (SAR mn)	222	164	35.9%	980	908	7.9%
Net Profit (SAR mn)	164	104	57.8%	817	717	13.9%
EPS basic (SAR)	0.8	0.5	57.8%	4.1	3.6	13.9%
Gross Margin (%)	28.4%	24.0%	4.5%	31.6%	30.1%	1.5%
EBITDA Margin (%)	29.7%	25.7%	4.0%	34.5%	33.0%	1.5%
Net Profit Margin (%)	21.9%	16.3%	5.6%	28.8%	26.1%	2.7%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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