

2Q19 Results Update

August 25, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	56.3
Target Price (SAR)	57.5
Upside/Downside (%)	2.1%

As of August 25th 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	11.1
52 Wk High (SAR)	63.3
52 Wk Low (SAR)	44.2
Total Outstanding shares (in mn)	197
Free Float (%)	93.6%

Advanced vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(6.2%)	0.4%
6m	6.8%	9.1%
12m	7.4%	2.6%

Major Shareholders (%)

Poly Propylene National Company	7.95%
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Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 25th August 2019

Net profit for 2Q19 beats consensus estimates, supported by higher sales volumes

In 2Q19, Advanced Petrochemical (Advanced)'s net profit fell 24.1% YoY, but improved 18.8% QoQ to SAR 192mn, beating the market expectations. Decline in net profit on an annual basis may be attributed to a drop in sales volumes by 2.8% YoY, lower polypropylene (PP) prices, and the higher consumption of outsourced propylene. Net profit increased on a quarterly basis, aided by a rise in PP prices, lower cost and consumption of propylene, and a fall in fixed production cost.

Since the beginning of 2019, Advanced witnessed improved sales volumes, which helped prop up overall revenue. Moreover, the company recorded profit growth as it benefitted from price decline in propane and outsourced propylene. Going forward, we expect the company to record further improvement in product spreads given the recovery in PP prices and drop in propane prices. On the operational front, the company continues to note healthy utilization rates. However, there are concerns surrounding higher operational expenses for Advanced and decline in profit share on its investment in SK Advanced Co. Ltd, the company's 30% owned subsidiary. Thus, in light of these countervailing factors, we maintain a "Neutral" rating on the stock.

- Advanced's revenue declined 9.2% YoY to SAR 681mn as sales volumes contracted 2.8% YoY on account of PP prices declining 6.5%. Conversely, the consumption of outsourced propylene increased 8.3%. On a quarterly basis, revenue improved 5.1% owing to higher PP prices and lower cost of propylene.
- Gross profit fell 11.1% YoY, but increased 27.1% QoQ to SAR 246mn. Cost of sales declined 8.0% YoY and 4.3% QoQ, resulting in a gross margin of 36.2% in 2Q19, against 29.9% in 1Q19 and 37.0% in 2Q18.
- Operating profit for the quarter stood at SAR 207mn, up 36.6% QoQ and down 15.9% YoY. Operating expenses edged down on a quarterly basis, but were up on an annual basis. General and administrative costs were up 39% for 1H19, compared with this period last year.
- The company's net profit for the period stood at SAR 192mn, down 24.1% YoY and up 18.8% QoQ. Contribution from the share of profit from associates (SK Advanced Co Ltd.) plunged to SAR 3.1mn, vis-à-vis SAR 20.7mn and SAR 23.6mn recorded in 1Q19 and 2Q18, respectively.
- The company signed a two-year Memorandum of Understanding (MOU) with South Korea's SK Group to conduct a detailed feasibility study for a mixed feed or liquid cracker project in Saudi Arabia.
- On June 23 2019, Advanced received approval from the Capital Market Authority (CMA) to raise its capital to SAR2.16bn through the distribution of one bonus share for every ten outstanding shares.
- Advanced's chairman informed the company was eyeing various expansion opportunities in the domestic as well as international markets.
- The company's CEO, Eng. Abdullah M. Al Garawi, submitted his resignation, to be effective from 16th August 2019, as he is near the end of his contract. He would be replaced by Eng. Fahad Salem Al Matrafi, currently serving as Vice President, Technical.

Valuation: We maintain our target price at a fair value of SAR 57.5 per share, in light of the 2Q19 results. We maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	681	750	(17.1%)	2,838	2,748	3.3%
Gross Profit (SAR mn)	246	277	(11.1%)	894	828	8.0%
EBITDA (SAR mn)	261	298	(12.4%)	929	908	2.3%
Net Profit (SAR mn)	192	253	(24.1%)	764	717	6.6%
EPS basic (SAR)	0.98	1.29	(24.1%)	3.88	3.64	6.6%
Gross Margin (%)	36.2%	37.0%	(0.8%)	31.5%	30.1%	1.4%
EBITDA Margin (%)	38.3%	39.8%	(1.4%)	32.7%	33.0%	(0.3%)
Net Profit Margin (%)	28.2%	33.8%	(5.6%)	26.9%	26.1%	0.8%

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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