

### 3Q19 Results Update

November 18, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	47.4
Target Price (SAR)	51.5
Upside/Downside (%)	8.7%

As of November 17<sup>th</sup> 2019

#### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.3
52 Wk High (SAR)	57.6
52 Wk Low (SAR)	44.79
Total Outstanding shares (in mn)	216
Free Float (%)	93.7%

#### Advanced vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.1%	(1.6%)
6m	(11.1%)	(0.3%)
12m	9.3%	6.9%

#### 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 17<sup>th</sup> November 2019

#### Lower feedstock costs boost net profit that surpass consensus estimates

During 3Q19, Advanced Petrochemical (Advanced)'s net profit jumped 5.4% YoY and 10.8% QoQ to SAR 213.1mn, beating the market expectation of SAR 180.8mn as the company benefitted from low feedstock prices. Consumption of outsourced propylene fell 24.3% YoY and the prices also declined 15.6% YoY. Propane consumption rose 11.9% YoY while its prices declined by 41.0% YoY. On the other hand, revenues shrank 13.1% YoY to SAR 647mn as Polypropylene (PP) prices declined 13.8% YoY. On a quarterly basis, revenues fell 5.0% as a 4.9% increase in sales volume failed to offset the 9.4% decline in PP prices. During the quarter, SK Advanced contributed SAR 25.8mn to net profit which was mostly offset by a rise in operating costs.

Lower feedstock costs and higher sales volume benefitted the company but the top line suffered due to lower PP prices. Besides, the strong performance at the gross level is unlikely to continue as feedstock prices are expected to rise from the 3Q19 level. On the operational front, the company's utilization rate remains healthy and is likely to continue given the recent plant maintenance activity. The company's expansion plans for the PP plant hold the key to its performance and ability to pay quarter dividends in future. We maintain a "Neutral" rating on the stock.

- Advanced's revenues declined 13.1% YoY to SAR 647mn on account of lower PP prices. On a quarterly basis, revenues shrank due to lower sales volume and lower PP prices.
- Gross profit jumped 12.5% YoY to SAR 245mn as feedstock costs declined sharply over the comparable period. In addition, gross profit declined a marginal 0.5% QoQ. Gross margin for the quarter stood at 37.9% in 3Q19 vis-à-vis 36.2% in 2Q19 and 29.3% in 3Q18.
- Operating profit for the quarter stood at SAR 202mn, up 6.0% YoY and down 2.6% QoQ. Selling and distribution expenses more than doubled annually and rose 25.8% QoQ, whereas general and administrative costs were up 47.7% YoY and 8.5% QoQ.
- The company's net profit for the period stood at SAR 213mn, up 5.4% YoY and 10.8% QoQ. The share of profit from associates (SK Advanced Co Ltd.) rose to SAR 25.8mn vis-à-vis SAR 3.1mn and SAR25.4mn in 2Q19 and 3Q18, respectively.
- The company's board of directors recommended a cash dividend of 6.5% for 3Q19 at SAR 0.65 per share.
- Advanced Petrochemical signed a Murabaha facility, of SAR 250mn with Samba Financial Group for a tenor of five years ending on December 31, 2024. The loan will be partially utilized to repay the company's sukuk maturing on November 17, 2019 and meet working capital requirements.

**Valuation:** We revise our target price to a fair value of SAR 51.5 per share in view of the company's performance. We maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	647	745	(13.1%)	2,832	2,748	3.1%
Gross Profit (SAR mn)	245	218	12.5%	935	828	12.9%
EBITDA (SAR mn)	256	244	5.0%	988	908	8.8%
Net Profit (SAR mn)	213	202	5.4%	817	717	14.0%
EPS basic (SAR)	0.98	0.93	5.4%	3.78	3.32	14.0%
Gross Margin (%)	37.9%	29.3%	8.6%	33.0%	30.1%	2.9%
EBITDA Margin (%)	39.6%	32.8%	6.8%	34.9%	33.0%	1.8%
Net Profit Margin (%)	32.9%	27.1%	5.8%	28.9%	26.1%	2.8%

Source: Company Financials, FALCOM Research

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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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