

1Q20 Results Update

June 03, 2020

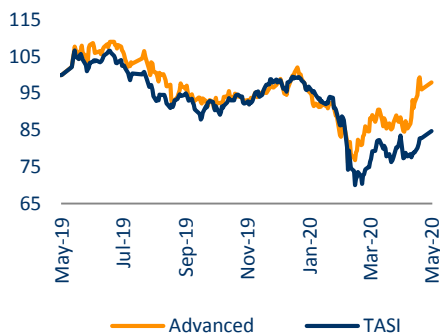
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	49.4
Target Price (SAR)	47.4
Upside/Downside (%)	(4.1%)

As of May 31st, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.7
52 Wk High (SAR)	57.6
52 Wk Low (SAR)	37.3
Total Outstanding shares (in mn)	216
Free Float (%)	92.1%

Advanced vs. TASI (Rebased)

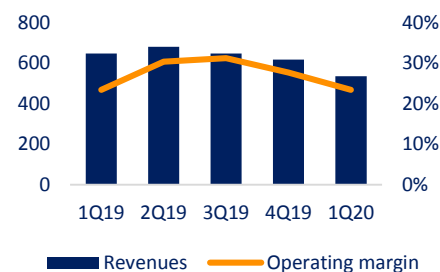


Price Performance (%)	Absolute	Relative
1m	10.6%	9.2%
6m	5.3%	13.6%
12m	(2.1%)	13.2%

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 31st May 2020

Reduced sales volume, lower prices hurt Advanced's net profit in 1Q20

In 1Q20, Advanced Petrochemical (Advanced)'s net profit contracted 35.5% YoY to SAR 104mn due to lower sales and losses from associates. The company's revenue declined 17.5% YoY to SAR 535mn due to shrinking sales volume and lower realized price for key products. With higher consumption of feedstock, the company recorded a lower gross profit. Despite lower general and administrative expense, the operating profit shrank 17.5% to SAR 125mn. During 1Q20, Advanced's finance expenses declined sharply, but the loss from the investment in SK Advanced Co. Ltd exacerbated the drop in net profit.

After posting a record net profit in FY19, Advanced came off the high in 1Q20 as oil prices nosedived and prices of the company's key products declined along with lower sales volumes. However, we expect the sales level to stabilize by the year end as oil prices are expected to pick up in 2H20. Meanwhile, Advanced boasts of a healthy operating performance and consistent utilization rates; this trend is likely to continue, given the recent plant maintenance. The company's balance sheet remains debt-free, which may aid its expansion plans for the PP plant. The company along with its subsidiaries is signing agreements to bolster production facilities. These plans are key to the company's future performance. Therefore, given the uncertain economic environment, we maintain a "Neutral" rating on this stock.

- Advanced's revenue declined 17.5% YoY to SAR 535mn as Polypropylene sales volumes reduced by 8.1% and prices lowered by 10.3%.
- The drop in cost of sales was slower than revenue growth as propane consumption was up 10.3%, leading to a decline of 20.4% in gross profit to SAR 154mn. Gross margin for the quarter stood at 28.9% as against 29.9% in 1Q19 and 34.6% in 4Q19.
- Operating profit for the quarter fell to SAR 125mn, down 17.5% YoY and 26.9% QoQ, despite a drop in general and administrative expenses over the comparable period. The operating margin remained in line with that in 1Q19 at 23% but was behind the 27.7% seen in 4Q19.
- Despite a drop in financing expenses, the company recorded sharp losses from its share of investment in SK Advanced Co. Ltd. at SAR 18.2mn, compared to a share of profit of SAR 20.7 mn million in 1Q19. Consequently, net profit for the period contracted 35.5% YoY to SAR 104mn against SAR 162mn in 1Q19. Net profit margin also shrank to 19.5% in 1Q20 as against 25.0% in 1Q19 and 31.0% in 4Q19.
- On May 14, 2020, Advanced paid 6.5% dividend to its 216.47 million shareholders, a payout amounting to SAR 140.7mn.
- South Korea's SK Engineering & Construction Co. won a contract worth USD 7.55bn for the preliminary design of the propane dehydrogenation (PDH) plant owned by Advanced Polyolefins Co., a subsidiary of the Saudi-Arabia-listed Advanced Petrochemical Co.

Valuation: We revise our target price to a fair value of SAR 47.4 per share in view of the company's expected performance and product price outlook. We maintain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	535	648	(17.5%)	2,120	2,595	(18.3%)
Gross Profit (SAR mn)	154	194	(20.4%)	735	899	(18.3%)
EBITDA (SAR mn)	179	205	(12.7%)	810	947	(14.5%)
Net Profit (SAR mn)	104	162	(35.5%)	627	759	(17.4%)
EPS Basic (SAR)	0.48	0.75	(35.5%)	2.90	3.52	(17.4%)
Gross Margin (%)	28.9%	29.9%	(1.0%)	34.7%	34.7%	0.0%
EBITDA Margin (%)	33.5%	31.7%	1.8%	38.2%	36.5%	1.7%
Net Profit Margin (%)	19.5%	25.0%	(5.5%)	29.6%	29.3%	0.3%

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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