

2Q20 Results Update

September 12, 2020

| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 56.8 |
| Target Price (SAR) | 53.1 |
| Upside/Downside (%) | (6.5%) |

As of August 25, 2020

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 12.3 |
| 52-Wk High (SAR) | 57.2 |
| 52-Wk Low (SAR) | 37.3 |
| Total Outstanding shares (in mn) | 216 |
| Free Float (%) | 92.1% |

Advanced vs. TASI (Rebased)

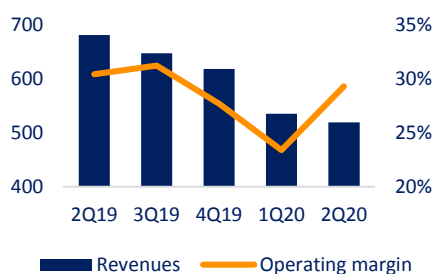


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 8.6% | 1.7% |
| 6m | 25.1% | 22.8% |
| 12m | 11.0% | 14.7% |

Major Shareholders (%)

| | |
|-------------------------------------|-------|
| Polypropylene National Company Ltd. | 7.95% |
|-------------------------------------|-------|

Quarterly Sales (SAR bn) and Operating Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 25, 2020

Net profit margin rebounds in 2Q20 due to lower expenses

In 2Q20, Advanced Petrochemical (Advanced)'s revenue declined by 23.8% YoY to SAR 519.0mn due to a 26.7% YoY reduction in polypropylene sales. Cost of sales for the quarter plunged by 23.4% YoY as prices of key inputs declined in line with oil prices. However, this failed to lift gross profit, which fell 24.5% YoY during the quarter to SAR 186.1mn. Gross margin stood at 35.8% compared with 36.2% in 2Q19 and 28.9% in 1Q20. Despite a 13.5% YoY reduction in Advanced's total operating expenses, operating profit for 2Q20 fell 26.5% YoY to SAR 152.3mn. During 2Q20, Advanced's finance expenses declined sharply, while SK Advanced contributed SAR 6.7mn to net profit.

Advanced recorded a fifth consecutive quarter of declining revenue as polypropylene prices nosedived due to lower oil prices. However, polypropylene sales volume improved by 4.0% YoY in 2Q20, providing a ray of hope amid a low-demand scenario caused by the COVID-19 pandemic. We expect Advanced's sales to improve in 2H20 as oil prices pick up gradually. The company is also expected to benefit from the resumption of production at its subsidiary, SK Advanced, which halted operations due to scheduled maintenance in 1H20. The company's balance sheet remains healthy with negligible debt. With the Murabaha facility agreement worth SAR 1.5bn signed in July 2020, the company has sufficient liquidity to support its growth plans. However, in view of the recent run-up in the company's stock price, we see limited upside potential and maintain a Neutral rating on the stock.

- Advanced's revenue fell 23.8% YoY to SAR 519.0mn as polypropylene sale prices reduced by 26.7% YoY. Revenue declined 2.9% QoQ from SAR 534.5mn in 1Q20.
- Gross profit decreased by 24.5% YoY in 2Q20 to SAR 186.1mn. Cost of sales fell by 23.4% YoY due to a 45.7% YoY and 24.9% YoY decline in propane and outsourced propylene prices, respectively. However, this was offset by the decline in revenue, resulting in a 33 bps YoY decline in gross profit margin for the quarter to 35.8%.
- Operating profit narrowed by 26.5% YoY to SAR 152.3mn, despite a 20.2% YoY drop in general and administrative expenses. Operating margin fell to 29.3% in 2Q20 compared with 30.4% in 2Q19, but improved from the 23.4% recorded in 1Q20.
- Financial charges and net other income declined sharply in 2Q20 compared with 2Q19. Irrespective of this, the company's net profit contracted by 19.4% YoY to SAR 155.0mn. However, the net profit margin reversed the downward trend to end at 29.9% in 2Q20 as against 28.2% in 2Q19 and 19.5% in 1Q20.
- On June 23, 2020, Advanced's Board of Directors decided to distribute dividend of SAR 0.65 per share to its 216.5 million shareholders for 2Q20, amounting to a total of SAR 140.7mn.
- On July 9, 2020, Advanced inked a Murabaha facility agreement worth SAR 1.5bn with a duration of 5.5 years. The facility will be utilized to finance the growth plans of Advanced and its subsidiary, SK Advanced.

Valuation: We revise our target price upward to a fair value of SAR 53.1 per share in view of the company's expected performance and product price outlook. We maintain our "Neutral" rating on the stock.

| | 2Q20 | 2Q19 | % YoY | FY20E | FY19 | % YoY |
|-----------------------|-------|-------|---------|-------|-------|---------|
| Revenues (SAR mn) | 519.0 | 681.0 | (23.8%) | 2,120 | 2,595 | (18.3%) |
| Gross Profit (SAR mn) | 186.1 | 246.4 | (24.5%) | 693 | 899 | (22.9%) |
| EBITDA (SAR mn) | 206.1 | 261.4 | (21.1%) | 769 | 947 | (18.8%) |
| Net Profit (SAR mn) | 155.0 | 192.3 | (19.4%) | 562 | 759 | (26.0%) |
| EPS Basic (SAR) | 0.72 | 0.89 | (19.4%) | 2.60 | 3.52 | (26.0%) |
| Gross Margin (%) | 35.8% | 36.2% | (0.3%) | 32.7% | 34.7% | (2.0%) |
| EBITDA Margin (%) | 39.7% | 38.4% | 1.3% | 36.3% | 36.5% | (0.2%) |
| Net Profit Margin (%) | 29.9% | 28.2% | 1.6% | 26.5% | 29.3% | (2.8%) |

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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