

Advanced Petrochemical Co. (Advanced)

Target Price: SAR 57.5

Upside: 7.1%

Recommendation	Hold
Bloomberg Ticker	APPC:AB
Current Market Price (SAR)	53.7
52wk High / Low (SAR)	74.2 / 42.9
12m Average Vol. (mn)	0.6
Mkt.Cap. (SAR bn)	14.0
Shares Outstanding (mn)	260.0
Free Float (%)	87.2%
3m Avg Daily Turnover (SAR mn)	34.3
6m Average Daily Turnover (SAR mn)	32.9
PE 2023e (x)	28.2x
EV/EBITDA 2023e (x)	19.3x
Dividend Yield '23e (%)	4.1%

Price Performance:	
1 month (%)	17.4%
3 months (%)	-13.4%
12 months (%)	-11.1%

Source: Refinitiv, as of 18th Aug. 2022

Price -Volume Performance



Source: Refinitiv

Valuation method	SAR	Percentage from CMP	Weights
DCF	66.0	23%	80%
EV/EBITDA	21.6	-60%	10%
PE multiple	25.6	-52%	10%
Target price	57.5	7.1%	

Source: U Capital Research

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- One of the largest producers of polypropylene across the MENA region
- Margins to remain comparatively lower due to increased crude oil and feedstock cost
- Upcoming polypropylene expansion to increase Advanced's capacity by 151.1% to 1,130K tpa by 2024/2025
- Global demand likely to remain affected amidst looming slowdown
- Consistently rewards its shareholders through dividends
- We retain our previous Hold rating on the stock

Advanced Petrochemical's (Advanced) bottom-line in 2Q22 decreased by 58.4% YoY to SAR 110 mn, below our estimate of SAR 180 mn. The decline in bottom-line was mainly due to higher than expected feedstock prices. As per the management, the price of key feedstock propane increased by 60% YoY while the price of propylene increased by 15% YoY. Like other petrochemicals, propane price is also linked to crude oil prices. Price of Brent crude in 2Q22 increased on an average by 62% YoY. The upside witnessed in crude oil prices was also reflected in the propane price which increased by 56% YoY. Despite some softening in price witnessed in quarter to date in crude oil and propane, the unexpected increase in propane price during 2Q22 has impacted our annual net income forecast.

The net income was further impacted due to loss reported by the company's associate SK Advanced due to increase in feedstock costs and lower selling prices. SK Advanced operates a PDH plant which processes propane to produce propylene. SK Advanced has been reporting losses sequentially since 3Q21.

Corporate actions:

Bonus issue: In a bid to increase company's capital base in line with assets and future expansions, Advanced in March 2022 issued bonus shares in the ratio of 1:5 following which number of shares increased by 20.0% to 259.7 mn. Advanced's share capital stands increased at SAR 2,600.0 mn from SAR 2,164.7 mn in 4Q21.

Dividend: Advanced's board of directors approved a cash dividend of SAR 0.55 per share (5.5% of par value per share) for 2Q22. This is lower by 15.4% compared to 2Q21. Dividend for 1H22 is SAR 1.1 per share.

Valuation and risk: Post 2Q22 earnings, we revise downward our bottom-line estimate on Advanced for FY22 by 31.6%, due to higher than expected increase in the feedstock price triggered by Russia's invasion of Ukraine and continued losses reported sequentially by the associate company due to higher feedstock costs and lower selling prices. However, post adjusting the bottom-line, and accounting for changes in valuation, we arrive at our revised target price of SAR 57.5 per share as compared to SAR 54.3 per share, previously. We retain our previous rating of **Hold** on the stock. The performance in 2H22 is expected to mellow down compared to 1H22 in the backdrop of looming slowdown in the global markets. The FY22 EPS estimate is at SAR 1.77 vs SAR 3.10 earlier. Currently, the stock trades at 28.2x P/E and 19.3x EV/EBITDA, based on our FY23 estimates. The downside risks to our valuation include weaker than expected economic activities and consumer demand owing to the looming slowing in overall economic activities. Key upside risks to our valuation include rise in polypropylene price, lower feedstock cost, improved demand, and higher utilization levels.

Valuation:

Valuation for existing capacity

	FY22	FY23	FY24	Terminal Value
Pegged on	Aug.18,2022			
Time period index	0.37	1.37	2.37	2.37
Free cash flow				
NOPAT	525	553	603	
Depreciation	211	233	237	
Changes in Working Capital	(50)	(43)	(22)	
Less: Capex	(153)	(140)	(138)	
Free cash flow to firm (FCFF)	533	603	681	14,892
Discounted FCFF	523	560	598	13,080

Valuation for additional 680K tpa capacity

	FY25	FY26
	3.37	4.37
Free cash flow		
NOPAT		
Depreciation		
Changes in Working Capital		
Less: Capex		
Free cash flow to firm (FCFF)	424	
Discounted FCFF		

Enterprise Value	14,761	PV of cash flows in FY25	10,102
Less: Non-controlling interest	(327)	Enterprise Value	8,514
Less: Net debt (Includes leases)	(1,320)	Less: Net debt (Includes leases)	(4,494)
Equity Value	13,113	Equity Value	4,020
Shares O/S	260	Shares O/S	260
Equity Value per share	50.5	Equity Value per share	15.5
Current share price (SR)	53.7		
% upside/downside	-6.0%		

We use a DCF methodology with a WACC of 5.6% (WACC of 5.2% for upcoming plants) and a long term growth rate of 1% which gives us a TP of SAR 66.0. We have given a weightage of 80% to DCF valuation.

Petrochemical comps

Company	Region	MCap (USD bn)	PE FY22E	EV/EBITDA FY22E
Advanced Petrochemicals	KSA	3.7	28.2	19.3
SABIC	KSA	84.9	13.5	6.9
Saudi Kayan	KSA	6.5	21.9	9.0
TASNEE	KSA	3.0	8.0	9.3
YANSAB	KSA	7.9	16.1	8.6
SIIG	KSA	5.5	12.2	10.7
SIPCHEM	KSA	9.9	12.6	9.0
Petro Rabigh	KSA	8.2	18.5	12.2
Median			13.5x	9.0x

We have given an equal weightage of 10% each to the P/E and EV/EBITDA multiples. At a median peer P/E multiple of 13.5x and EV/EBITDA multiple of 9.0x, we arrive at target price of SAR 25.6 and SAR 21.6 per share respectively.

Sensitivity table

APPC:AB

		Cost of Equity					PP price (USD/t, 2022e)						
		7%	8%	9%	10%	11%							
Terminal Growth rate	0.50%	63.9	56.3	50.6	46.1	42.5	Propane price (USD/t, 2022e)	900	56.7	57.4	58.1	58.7	59.4
	0.75%	68.8	60.2	53.9	49.0	45.1		950	56.5	57.1	57.8	58.5	59.1
	1.00%	74.3	64.6	57.5	52.1	47.9		1000	56.2	56.8	57.5	58.2	58.8
	1.25%	80.7	69.5	61.6	55.6	51.0		1050	55.9	56.5	57.2	57.9	58.5
	1.50%	88.2	75.2	66.2	59.5	54.5		1100	55.6	56.3	56.9	57.6	58.3
			999	1099	1199	1299		1399					

Key Financials

(SAR mn)	FY19	FY20	FY21	Prev. FY22e	FY22e	Prev. FY23e	FY23e	Prev. FY24e	FY24e
Income Statement									
Sales	2,595	2,231	3,111	2,864	3,064	2,914	2,807	2,861	2,758
COGS	(1,695)	(1,502)	(2,052)	(2,039)	(2,394)	(1,993)	(2,106)	(2,048)	(1,994)
Gross profit	899	729	1,059	826	670	921	702	813	764
Selling & distribution expenses	(26)	(27)	(25)	(26)	(37)	(29)	(34)	(29)	(33)
G&A expenses	(141)	(110)	(169)	(123)	(92)	(131)	(98)	(129)	(110)
Operating profit	732	592	865	677	541	760	570	655	621
Finance charges	(40)	(6)	(16)	(44)	(20)	(55)	(55)	(78)	(78)
Other income/expenses	20	3	11	5	5	21	27	40	61
Share in loss of an associate	77	34	11	65	(33)	75	(14)	86	(16)
Income before zakat	789	624	871	703	493	801	528	703	588
Zakat and income tax	(29)	(29)	(59)	(32)	(34)	(37)	(36)	(32)	(40)
Net income	759	596	812	671	459	765	492	671	548
Balance Sheet									
Bank balances and cash	48	62	243	430	486	798	704	1,140	997
Trade receivables	311	328	435	430	460	445	429	444	428
Inventories	132	175	202	228	243	234	227	235	228
Property, Plant & Equipment	1,779	1,756	2,985	4,510	4,510	5,832	5,832	7,149	7,149
Investment in an associate	637	693	637	815	604	890	590	976	574
Total assets	3,803	3,959	5,891	7,476	7,400	9,278	8,843	11,021	10,436
Accounts payable	88	144	190	204	231	206	194	216	188
Accruals and other current liabilities	208	216	340	304	343	303	286	315	275
End-of-service indemnities	111	129	145	213	213	273	273	350	350
Loan	0	0	0	2,875	1,790	4,423	3,131	5,970	4,472
Share capital	2,165	2,165	2,165	2,165	2,600	2,165	2,600	2,165	2,600
Statutory reserve	637	697	697	697	435	697	435	697	435
Other components of equity	84	122	299	122	122	122	122	122	122
Retained earnings	465	435	492	836	207	1,027	130	1,124	109
Total stockholders' equity	3,350	3,419	3,956	3,819	3,666	4,010	3,587	4,107	3,564
Total liabilities & stockholders' equity	3,803	3,959	5,891	7,476	7,400	9,278	8,843	11,021	10,436
Cash Flow Statement									
Cash from operations	845	758	1058	935	584	949	798	923	873
Cash from investing activities	564	(179)	(1181)	(1554)	(1458)	(1554)	(1554)	(1554)	(1554)
Cash from financing	(1554)	(565)	303	975	1116	973	974	973	974
Net changes in cash	(145)	14	181	356	243	368	218	342	293
Cash at the end of period	48	62	243	430	486	798	704	1140	997
Key Ratios									
Current ratio	1.6	1.6	0.7	2.2	0.8	2.9	0.8	3.4	0.9
Inventory turnover ratio	11.9	9.8	10.9	8.8	11.9	8.6	9.0	8.7	8.8
Debtors' turnover ratio	8.8	7.0	8.2	6.5	7.1	6.7	6.3	6.4	6.4
Creditors turnover ratio	14.8	12.9	12.3	10.2	12.6	9.7	9.9	9.7	10.4
Gross profit margin	34.7%	32.7%	34.0%	28.8%	21.9%	31.6%	25.0%	28.4%	27.7%
Operating margin	28.2%	26.6%	27.8%	23.6%	17.7%	26.1%	20.3%	22.9%	22.5%
Net profit margin	29.3%	26.7%	26.1%	23.4%	15.0%	26.2%	17.5%	23.4%	19.9%
EBITDA margin	36.5%	36.3%	34.9%	31.6%	24.5%	34.1%	28.6%	31.2%	31.1%
Return on equity	23.1%	17.6%	22.8%	17.8%	12.8%	19.5%	14.5%	16.5%	16.4%
Return on assets	17.9%	15.3%	16.5%	10.1%	7.1%	9.1%	6.1%	6.6%	5.7%
Debt/Equity (x)	0.0x	0.0x	0.0x	0.8x	0.5x	1.1x	0.9x	1.5x	1.3x
Interest coverage ratio (x)	18.4x	107.0x	54.2x	15.5x	26.5x	13.8x	10.4x	8.4x	7.9x
P/E	11.9x	20.2x	15.1x	23.7x	30.3x	20.8x	28.2x	23.7x	25.3x
P/Sales	3.5x	5.4x	4.0x	5.6x	4.6x	5.5x	5.0x	5.6x	5.1x
EV/Sales	3.9x	6.2x	5.0x	5.8x	5.1x	5.7x	5.5x	5.8x	5.6x
EV/EBITDA	10.6x	17.1x	14.2x	18.2x	20.6x	16.6x	19.3x	18.4x	18.0x
EPS (SR)	3.51	2.75	3.77	3.10	1.77	3.53	1.90	3.10	2.12
Dividend yield (%)	6.5%	4.7%	4.6%	3.6%	4.1%	3.6%	4.1%	3.6%	4.1%
Net debt (SR 'mn)	(34)	(49)	820	2,457	2,401	3,636	3,730	4,841	4,984

Source: Company Reports, U Capital Research

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%



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