

Advanced Petrochemical Company (APPC) - 3Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:

Accumulate

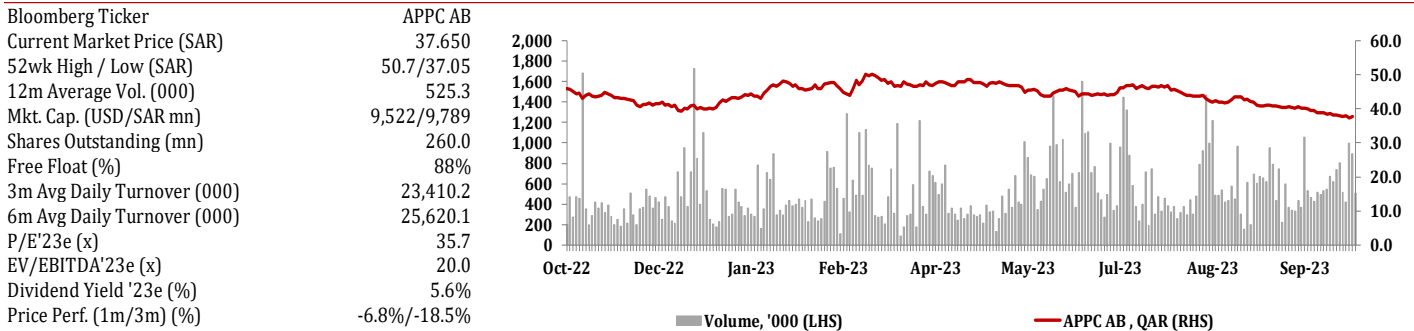
Target Price (SAR): 50.87

Previous Reco. & Date:

TP: SAR 50.87 per share; Accumulate on 23-July-2022

Upside / (Downside): 35.1%

Date: 19-10-2023



Revenue dips 10% YoY, in-line with U-Capital's estimates.

The company reported Q3'23 revenue of SAR 594mn, in-line with our estimated SAR 608mn. On a YoY basis, revenue declined 10% mainly due to decrease in selling prices of polypropylene by 13% compared to previous year. On a QoQ basis, revenue improved 2% primarily due to increase in sales volume by 12% compared to Q2'23.

Gross and Operating profits in-line with estimates.

The company's gross profit for the quarter was SAR 122mn, slightly below our estimated SAR 136mn. Additionally, the operating profit for Q3'23 was SAR 80mn, in line with UCapital's estimate of SAR 86mn. Gross and operating profits improved by 36% and 45% on a YoY basis, primarily due to a 32% decrease in propane and a 14% decrease in propylene purchase prices, as well as a 54% reduction in freight expenses for Q3'23 compared to Q3'22.

Net income increases 67% YoY, misses estimates.

Net income for Q3'23 stood at SAR 45mn, missing our estimated SAR 95mn. Net income increased 67% on a YoY basis primarily due to better operating margins compared to Q3'22 (13% vs 8% for Q3'22). However, on a QoQ basis, net income declined 24% due to increase in losses in the SK Advanced investment.

Maintain target price.

We anticipate that the petrochemical industry will continue to face challenges throughout the remainder of 2023 and into the first half of 2024. This is primarily due to global economic concerns, which include the potential for a recession, extended periods of higher interest rates, a slow recovery in China, and the ongoing conflict in West Asia. However, we expect the sector to stabilize beyond the first half of 2024, and we foresee favourable pricing trends driven surging demand for its end-products likely plastic packaging, textile in MENA and Asia region. Consequently, we are keeping our target price at SAR 50.9 per share and maintaining our 'Accumulate' rating for the stock.

Valuation.

Advanced Petrochemicals is trading at 2023e P/E of 35.7x based on our FY23 estimate, compared to its historical average 1-year forward P/E of 34.2x. Additionally, the stock is valued at EV/EBITDA multiple of 20x, based on our FY23 estimate, compared to the historical average of 25x.

Income Statement												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Sales/Revenue	657	612	627	582	594	608	-10%	2%	-2%	2,337	1,802	-23%
Gross Profit (Loss)	89	68	102	125	122	136	36%	-2%	-10%	469	482	3%
Operating Profit (Loss)	55	30	64	82	80	86	45%	-3%	-7%	369	297	-19%
Net Profit attributable to shareholder	27	(6)	43	59	45	95	67%	-24%	-53%	301	273	-9%
Balance Sheet												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Shareholders' Equity	3,240	3,240	3,118	3,252	3,207	3,347	-1%	-1%	-4%	3,240	3,207	-1%
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e						
Gross Margin	14%	11%	16%	22%	21%	22%						
Operating Profit Margin	8%	5%	10%	14%	13%	14%						
Net Profit Margin	4%	-1%	7%	10%	8%	16%						
Return on Equity (RoE)	3%	-1%	5%	7%	6%	11%						

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


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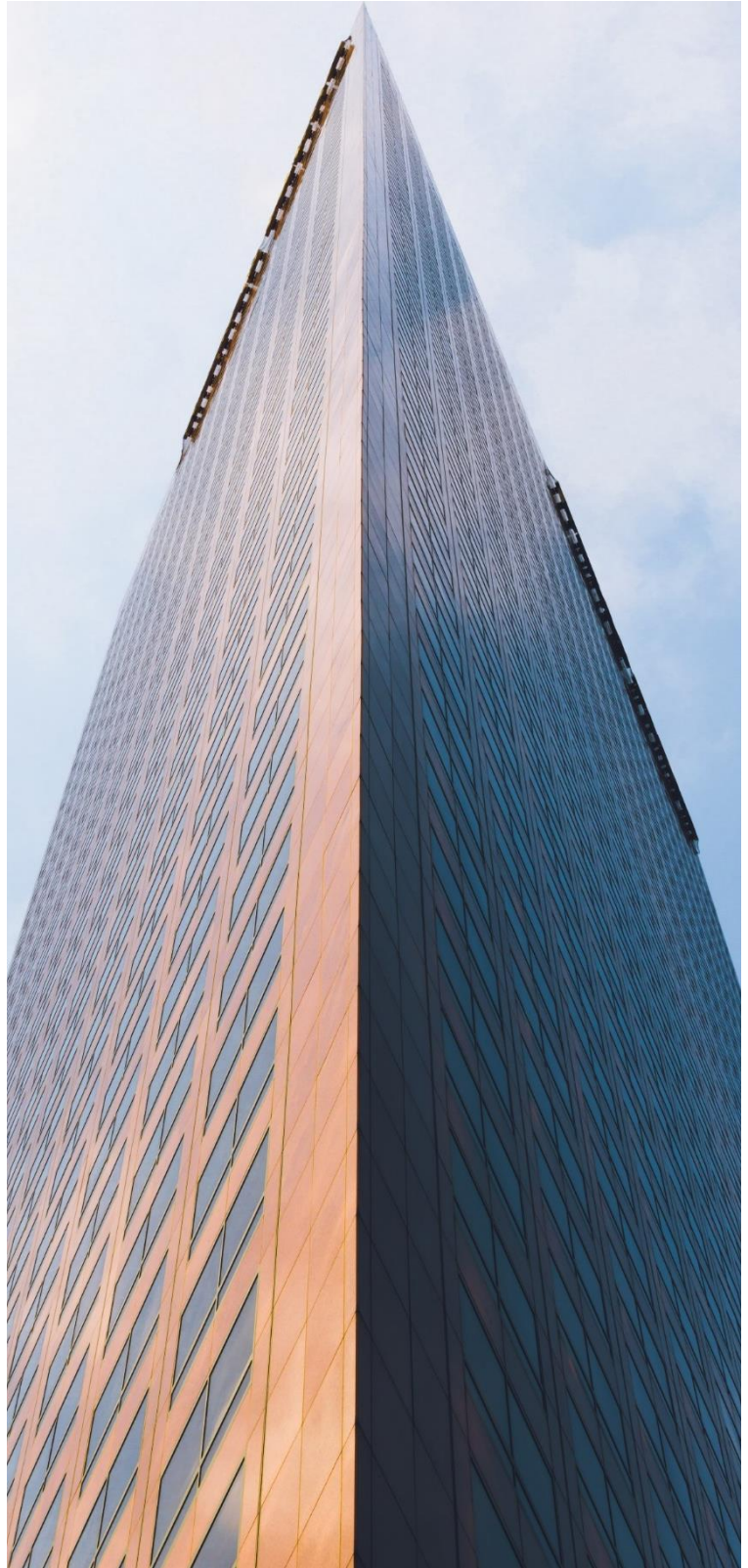
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Recommendation

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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