

FY19 Results Update

March 15, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	41.3
Target Price (SAR)	44.9
Upside/Downside (%)	8.9%
As of March 11 th , 2020	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.9
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	(12.2%)	(2.3%)
6m	(16.6%)	(8.7%)
12m	(16.7%)	(2.8%)

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 11th March 2020

Advanced reports record net profit in FY19 on higher PP production and sales

In FY19, Advanced Petrochemical (Advanced)'s net profit increased 5.9% YoY to SAR 759.3mn even though revenues declined 5.6% YoY to SAR 2.6bn. The company' bottom line improved from higher sales volume and lower feedstock prices that offset the drop in polypropylene (PP) prices over the comparable period. In addition, a larger profit share from investment in SK Advanced Co. Ltd further supported the rise in profit. Propane prices reduced 26.5% YoY although consumption was up 5.6%. The prices of outsourced propylene declined 16.3% as well. Operating profit was up 4.5% YoY to SAR 732.2mn, despite a rise in production costs and general administrative expense by 21.7% and 30.9%, respectively.

Advanced posted record net profit for FY19, top line growth suffered due to lower PP prices despite the rise in the sales volume. Going forward, we expect the PP prices to remain stable but the company may face margin pressures as feedstock prices are expected to grow in 2020. On the other hand, Advanced boasts of healthy operating performance and consistent utilization rates; this trend is likely to continue given the recent plant maintenance. The company's balance sheet remains free of debt, which may aid its expansion plans for the PP plant. These expansion plans hold the key to the company's future performance. Yet given the uncertain economic environment, we maintain a "Neutral" rating on the stock.

- Advanced's revenues declined 5.6% YoY to SAR 2.6bn, pulled down by the 11.1% drop in PP prices, which failed to benefit from the rise in sales volume.
- Gross profit was up 8.7% YoY to SAR 899.2mn as feedstock prices fell considerably compared to last year. The gross margin for the year stood at 34.7% against 30.1% in FY18.
- Operating profit for the year stood at SAR 732.2mn, up 4.5% YoY. Selling and distribution expense increased 33.2% YoY to SAR 26.4mn, and general and administrative expense jumped 30.9% to SAR 140.6mn.
- Net profit for the period stood at SAR 759.3mn, up 5.9% YoY. The share of profit from associates (SK Advanced Co Ltd.) rose to SAR 76.6mn vis-à-vis SAR 66.9mn in FY18.
- The company's board of directors recommended a cash dividend of 6.5% for 4Q19 at SAR 0.65 per share, amounting to SAR 140.7mn. The annual dividend amount stood at SAR 556.9mn.
- In February 2020, Saudi Aramco and Advanced signed two deals worth SAR 11.8mn. A negotiated deal involves a stock purchase based on a bargain between buyers and sellers, apart from the market price. The negotiated price does not directly impact the market price.

Valuation: We revise our target price to a fair value of SAR 44.9 per share in view of the company's expected performance and product price outlook. We maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	618	750	(17.5%)	2,526	2,595	(2.6%)
Gross Profit (SAR mn)	214	213	0.2%	758	899	(15.7%)
EBITDA (SAR mn)	225	222	1.0%	808	947	(14.7%)
Net Profit (SAR mn)	192	164	17.2%	624	759	(17.8%)
EPS Basic (SAR)	0.89	0.76	17.2%	2.89	3.52	(17.8%)
Gross Margin (%)	34.6%	28.4%	6.1%	30.0%	34.7%	(4.7%)
EBITDA Margin (%)	36.3%	29.7%	6.7%	32.0%	36.5%	(4.5%)
Net Profit Margin (%)	31.0%	21.9%	9.2%	24.7%	29.3%	(4.6%)

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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