

3Q20 Results Update

December 01, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	58.9
Target Price (SAR)	55.0
Upside/Downside (%)	(6.6%)

As of November 08, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.8
52-Wk High (SAR)	63.0
52-Wk Low (SAR)	37.3
Total Outstanding Shares (in mn)	216.5
Free Float (%)	88.2%

Advanced vs. TASI (Rebased)

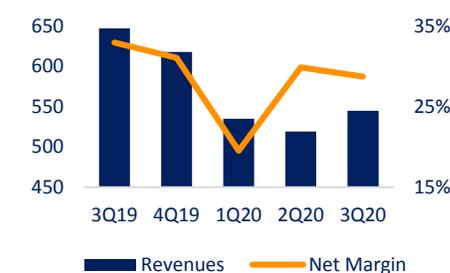


Price Performance (%)	Absolute	Relative
1m	(1.5%)	1.5%
6m	36.7%	13.5%
12m	24.1%	19.5%

Major Shareholders (%)

Polypropylene National Company Ltd.	7.95%
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Quarterly Sales (SAR mn) and Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 08, 2020

Lower polypropylene sales weigh on bottom line in 3Q20; margins contract

Advanced Petrochemical (Advanced)'s revenue declined 15.8% YoY to SAR 545.0mn, weighed down by 12.5% YoY and 3.8% YoY reduction in polypropylene sales price and volume, respectively. Cost of sales for the quarter fell 7.2% YoY to SAR 373.1mn as prices of key inputs declined compared to those in 3Q19. The drop in revenue offset the drop in operating expenses and led to 30.5% YoY plunge in operating profit to SAR 140.3mn in 3Q20. Lower profit share from subsidiary SK Advanced Co. Ltd., along with the low top line, hurt net profit, which fell 26.6% YoY to SAR 156.5mn in 3Q20.

Advanced recorded a sixth consecutive quarter of declining revenue as polypropylene prices declined compared to 3Q19. However, the company reported a 5.0% QoQ rise in the top line. Polypropylene prices retreated upward in the quarter compared to those in 2Q20 and are forecasted to continue the rising trend in the near term. The company is expected to benefit in the long term from the construction of the 0.8mn ton per annum polypropylene facility worth SAR 6.8bn, in partnership with SK Gas Co. Ltd. Advanced's balance sheet remains robust with negligible debt, and it has sufficient liquidity to support its growth plans post the signing of the Murabaha facility agreement worth SAR 1.5bn in July 2020. 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 15.8% YoY to SAR 545.0mn in 3Q20 as polypropylene sale prices and volume reduced 12.5% YoY and 3.8% YoY, respectively. Revenue inched up 5.0% QoQ from SAR 519.0mn in 2Q20.
- Cost of sales fell 7.2% YoY to SAR 373.1mn due to 7.5% YoY and 12.0% YoY decline in propane and outsourced propylene prices, respectively. However, the decline in revenue offset the fall in cost of sales, resulting in a 29.9% YoY drop in gross profit to SAR 171.9mn. Gross profit margin for the quarter contracted to 31.5% compared to 37.9% in 3Q19.
- The drop in gross profit counterbalanced the fall in SG&A expenses and led to a 30.5% YoY plummet in operating profit to SAR 140.3mn. Operating margin fell to 25.7% in 3Q20 compared to 31.2% in 3Q19.
- In addition to the lower top line, reduction in other income and profit contribution from subsidiary SK Advanced Co. Ltd., offset the improvement in financial charges and zakat expense. As a result, net profit nosedived 26.6% YoY to SAR 156.5mn. Consequently, net profit margin narrowed down to 28.7% in 3Q20 as against 32.9% in 3Q19.
- On September 29, Advanced's Board of Directors recommended a cash dividend of SAR 0.65 per share for Advanced's 3Q20 performance. The dividend amounts to SAR 140.7mn and is equivalent to 6.5% of the company's share capital.
- On October 8, Advanced announced an amendment to the agreement with SK Gas Co. Ltd., under which an isopropanol plant with a capacity of 70,000 tons per annum and worth SAR 300.0mn would be set up. The plant is expected to be financed with 25.0% equity and 75.0% debt, and it is anticipated to commence operations in 2H24.

Valuation: We revise our target price to a fair value of SAR 55.0 per share in view of the company's expected performance and product price outlook. We maintain "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	545.0	647.2	(15.8%)	2,173	2,595	(16.3%)
Gross Profit (SAR mn)	171.9	245.3	(29.9%)	700	899	(22.2%)
EBITDA (SAR mn)	194.1	256.3	(24.3%)	774	947	(18.3%)
Net Profit (SAR mn)	156.5	213.1	(26.6%)	573	759	(24.5%)
EPS Basic (SAR)	0.72	0.98	(26.6%)	2.65	3.52	(24.5%)
Gross Margin (%)	31.5%	37.9%	(6.4%)	32.2%	34.7%	(2.5%)
EBITDA Margin (%)	35.6%	39.6%	(4.0%)	35.6%	36.5%	(0.9%)
Net Profit Margin (%)	28.7%	32.9%	(4.2%)	26.4%	29.3%	(2.9%)

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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