FY20 Results Update

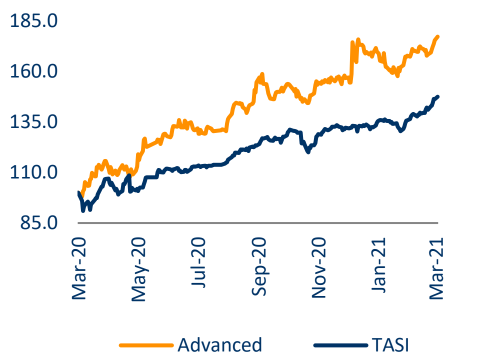
March 15, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	70.0
Target Price (SAR)	67.3
Upside/Downside (%)	(3.8%)

As of March 14, 2021

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	15.2
52-Wk High (SAR)	72.0
52-Wk Low (SAR)	38.2
Total Outstanding Shares (in mn)	216.5
Free Float (%)	92.1%

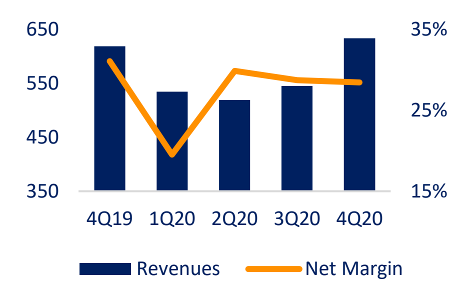
Advanced vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	5.9%	(2.2%)
6m	14.8%	(3.1%)
12m	77.2%	29.7%

Major Shareholders (%)	
Polypropylene National Company Ltd.	7.95%

Quarterly Sales (SAR mn) and Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 14, 2021

Profit margins contract in FY20, but capacity expansion to drive profitability in long term

Advanced Petrochemical (Advanced)'s revenue dipped 14.0% YoY to SAR 2.2bn on lower polypropylene (PP) sales price and volume during FY20. Gross profit nosedived 18.9% YoY to SAR 729.2mn while gross margin narrowed 197.7 bps to 32.7%. Operating profit fell 19.1% YoY to SAR 592.5mn while EBIT margin shrank 167.1 bps to 26.6%. The lower profit share from subsidiary SK Advanced led to a 21.6% YoY drop in net profit to SAR 595.6mn and a 257.4 bps contraction in net margin to 26.7%.

Advanced recorded a QoQ rise in top line in 4Q20, after six consecutive quarters of declining revenue, on improving prices of PP during 4Q20. The company plans to construct a 0.8 million ton per annum (mtpa) PP and 0.843 mtpa propane dehydrogenation facility in Jubail Industrial City. It received SAR 3.0bn funding from the Saudi Industrial Development Fund (SIDF) and has already secured a Murabaha facility worth SAR 1.5bn in July 2020 to finance the construction. Advanced is also expected to benefit from the Saudi Ministry of Energy's nod to allocate the necessary feedstock to set up another petrochemical complex in Jubail to manufacture ethylene, propylene, and their derivatives. However, expectations of a PP oversupply in the near-term pressuring prices, and scheduled shutdowns would remain concerns for Advanced. Therefore, we maintain a "Neutral" rating on the stock.

- Advanced's revenue fell 14.0% YoY to SAR 2.2bn in FY20 owing to a reduction in PP sale prices and volume by 12.2% YoY and 2.1% YoY, respectively. However, revenue inched up 2.3% YoY and 16.1% QoQ to SAR 633.8mn in 4Q20.
- The drop in revenue offset the fall in cost of sales, leading to a 18.9% YoY plunge in gross profit to SAR 729.2mn. Gross margin narrowed to 32.7% from 34.7% in FY19.
- The drop in gross profit offset the fall in total SG&A expenses and resulted in a 19.1% YoY dip in operating profit to SAR 592.5mn. EBIT margin contracted to 26.6% from 28.2% in FY19.
- Lower profit share from its subsidiary SK Advanced (down 55.1% YoY) led to a 21.6% YoY drop in net profit to SAR 595.6mn. Consequently, net margin shrank to 26.7% from 29.3% in FY19.
- On December 6, Advanced's subsidiary, Advanced Polyolefins Co. (APOC), secured a SAR 3.0bn loan from SIDF. The loan could be called down until June 2025 and repaid in 16 semi-annual instalments, starting July 2026. The loan would be utilized to finance the construction of additional capacity at the Jubail Industrial City facility.
- On December 12, Advanced's Board recommended a cash dividend of SAR 0.65 per share for 4Q20, equivalent to SAR 140.7mn or 6.5% of the company's share capital.
- On December 29, Advanced's subsidiary, Advanced Global Investment Co., signed long-term agreements with Vinmar International LLC and Tricon Dry Chemicals LLC for sale of 0.25mtpa each and with Mitsubishi Corporation for sale of 0.12mtpa of PP manufactured at APOC. The agreements will be effective until December 31, 2028.
- On March 7, Advanced announced plans to conduct maintenance at its propylene and PP plants from March 11. The plants will be shut down for 25 and 16 days, respectively; this is expected to have an impact on the company's 1H21 financials.
- On March 10, the Saudi Ministry of Energy approved AGIC's request to allocate the necessary quantities of feedstock at its petrochemical complex project in Jubail Industrial City. The complex will commence operations in 4Q25 and will utilize cracking technology to produce 1.15mtpa of ethylene, 0.85mtpa of propylene, and 0.4mtpa of derivatives.

Valuation: We revise our target price upward to a fair value of SAR 67.3 per share and maintain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	632.8	618.4	2.3%	2,466	2,231	10.5%
Gross Profit (SAR mn)	216.9	213.7	1.5%	814	729	11.6%
EBITDA (SAR mn)	229.2	224.7	2.0%	907	809	12.0%
Net Profit (SAR mn)	179.8	192.0	(6.4%)	664	596	11.5%
EPS Basic (SAR)	0.83	0.89	(6.4%)	3.07	2.75	11.5%
Gross Margin (%)	34.3%	34.6%	(0.3%)	33.0%	32.7%	0.3%
EBITDA Margin (%)	36.2%	36.3%	(0.1%)	36.8%	36.3%	0.5%
Net Profit Margin (%)	28.4%	31.0%	(2.6%)	26.9%	26.7%	0.2%

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 ≥ 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 ≥ 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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