

1Q21 Results Update

May 25, 2021

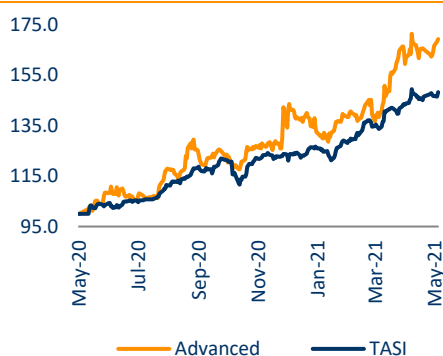
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	82.0
Target Price (SAR)	78.4
Upside/Downside (%)	(4.3%)

As of May 25, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	17.8
52-Wk High (SAR)	83.5
52-Wk Low (SAR)	48.5
Total Outstanding Shares (in mn)	216.5
Free Float (%)	87.3%

Advanced vs. TASI (Rebased)

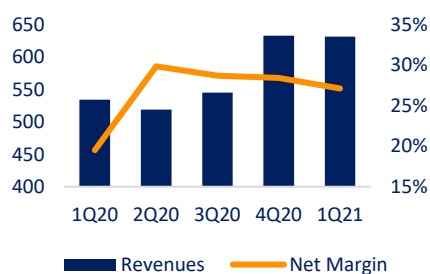


Price Performance (%)	Absolute	Relative
1m	3.9%	0.9%
6m	32.3%	11.3%
12m	69.2%	21.1%

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 May 25, 2021

Higher PP sales price, profit share from subsidiary boost bottom line in 1Q21

Advanced Petrochemical (Advanced)'s revenue increased 18.2% YoY to SAR 631.7mn in 1Q21 on higher polypropylene (PP) sales price during the quarter. Gross profit inched up 34.4% YoY to SAR 207.5mn, while gross margin widened 396 bps YoY to 32.8%. Operating profit scaled up 30.6% YoY to SAR 163.5mn, whereas EBIT margin expanded 246 bps YoY to 25.9%. Increased profit share from subsidiary SK Advanced led to a 64.2% YoY surge in the net profit to SAR 171.4mn and 761 bps YoY widening of net margin to 27.1% during the quarter.

Advanced reported steady rise in top line and bottom line in 1Q21 due to rising PP prices and improvement in SK Advanced's performance. The company's expansion plans include constructing PP and propane dehydrogenation facilities as well as setting up a petrochemical complex to manufacture ethylene, propylene, and other derivatives in Jubail Industrial City. Advanced plans to finance the projects through loans worth SAR 7.0bn and has already received SAR 3.0bn in funding from the Saudi Industrial Development Fund. These projects are likely to be key catalysts for the company in the long term. However, implementation of the projects could result in higher capex costs and increasing debt, and add pressure on the profit margins. Moreover, expectation of PP prices stabilizing due to increasing supply, rising feedstock costs, and plant shutdowns for maintenance work could create challenges for Advanced. Therefore, we maintain a "Neutral" rating on the stock.

- Advanced's revenue rose 18.2% YoY to SAR 631.7mn in 1Q21 owing to a 36% YoY surge in PP sale price; sales volume fell 13% YoY in 1Q21 due to a temporary shutdown of the company's plant for maintenance works.
- Cost of sales increased 11.6% YoY to SAR 424.3mn due to 22% YoY and 11% YoY rise in prices of propane and outsourced propylene, respectively, as well as a 126% YoY surge in outsourced propylene volume consumption.
- The higher top line offset the drop in cost of sales, resulting in a 34.4% YoY rise in gross profit to SAR 207.5mn. Subsequently, gross margin widened to 32.8% from 28.9% in 1Q20.
- The increase in gross profit offset higher G&A expenses and pushed operating profit up 30.6% YoY to SAR 163.5mn. As a result, EBIT margin expanded to 25.9% from 23.4% in 1Q20.
- Higher profit share from SK Advanced offset the increase in finance and zakat expenses, resulting in a 64.2% YoY rise in the net profit to SAR 171.4mn. Consequently, net margin increased to 27.1% from 19.5% in 1Q20.
- On March 31, Advanced's shareholders approved the SAR 0.65 per share cash dividend for 4Q20. The Board also recommended a cash dividend of SAR 0.65 per share for 1Q21, equivalent to SAR 140.7mn, or 6.5% of the company's share capital.
- On April 11, Advanced announced completion of maintenance work and resumption of operations at its propylene and PP plants. The PP plant was shut down for 25 days, up to March 28, while the propylene plant was shut for 16 days, until April 11.
- On April 26, Advanced announced that it failed to reach an agreement with Global Company for Downstream Industries on the development of a Pygas and Pyoil downstream project in Jubail Industrial City II.
- On May 17, Advanced announced restart of operations at its PP plant (operated by SK Advanced) in South Korea.

Valuation: We revise our target price upward to a fair value of SAR 78.4 per share and maintain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	631.7	534.5	18.2%	2,818	2,231	26.3%
Gross Profit (SAR mn)	207.5	154.4	34.4%	1,099	729	50.7%
EBITDA (SAR mn)	213.9	179.4	19.2%	1,149	809	42.0%
Net Profit (SAR mn)	171.4	104.3	64.2%	944	596	58.5%
EPS Basic (SAR)	0.79	0.48	64.2%	4.36	2.75	58.5%
Gross Margin (%)	32.8%	28.9%	4.0%	39.0%	32.7%	6.3%
EBITDA Margin (%)	33.9%	33.6%	0.3%	40.8%	36.3%	4.5%
Net Profit Margin (%)	27.1%	19.5%	7.6%	33.5%	26.7%	6.8%

Source: Company Financials, FALCOM Research

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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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