

2Q21 Results Update

September 29, 2021

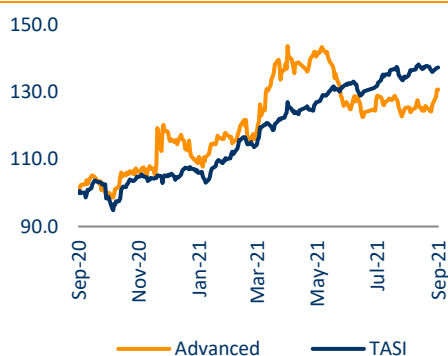
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	75.0
Target Price (SAR)	75.0
Upside/Downside (%)	(0.6%)

As of September 28, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	16.3
52-Wk High (SAR)	83.9
52-Wk Low (SAR)	56.3
Total Outstanding Shares (in mn)	216.5
Free Float (%)	80.6%

Advanced vs. TASI (Rebased)

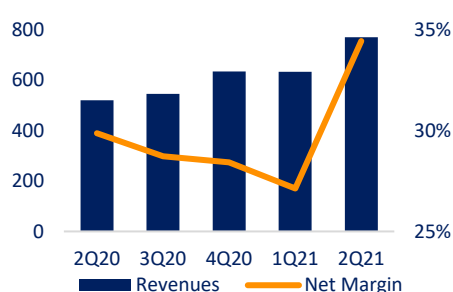


Price Performance (%)	Absolute	Relative
1m	4.1%	2.3%
6m	10.5%	(9.5%)
12m	30.6%	(6.6%)

Major Shareholders (%)

Polypropylene National Company Ltd.	7.95%
General Organization for Social Insurance	6.78%

Quarterly Sales (SAR mn) and Net Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 28, 2021

Higher PP sales price, profit share from SK Advanced boost bottom line in 2Q21

Advanced Petrochemical (Advanced)'s revenue increased 48.1% YoY to SAR 768.8mn in 2Q21 on higher polypropylene (PP) sales price during the quarter. Gross profit surged 77.4% YoY to SAR 330.1mn, while gross margin widened 709 bps YoY to 42.9%. Operating profit rose 86.4% YoY to SAR 283.9mn, whereas EBIT margin expanded 759 bps YoY to 36.9%. Increased profit share from subsidiary SK Advanced led to a 70.8% YoY increase in the net profit to SAR 264.6mn and 456 bps YoY widening of net margin to 34.4% during the quarter.

Continued momentum in demand for petrochemicals due to improving global economic outlook resulted in an increase in PP prices during the quarter and led Advanced to report record high top line and bottom line during 2Q21. However, PP price is expected to normalize around the current level going forward as supply constraints ease and additional capacities come online. The company's long-term 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 is seeking to finance 70% of this total capex through debt and is currently in talks with local banks to raise USD 1.2bn (SAR 4.5bn); the company has already received SAR 3.0bn in funding from the Saudi Industrial Development Fund. These projects are expected to be key catalysts for the company in the long term. However, with PP market dynamics normalizing, the implementation of the expansion projects could weigh on the balance sheet and profit margins due to higher capex costs and increasing debt. Moreover, rising feedstock costs and additions in global production capacity may pose challenges for the company in the near term. In view of the countervailing factors mentioned above, we maintain a "Neutral" rating on the stock.

- Advanced's revenue rose 48.1% YoY to SAR 768.8mn in 2Q21 owing to a 72% YoY surge in PP sale price. Sales volume fell 14% YoY in 2Q21 due to a temporary shutdown of the company's plant for maintenance works.
- Cost of sales increased 31.7% YoY to SAR 438.7mn due to 102% YoY and 61% YoY rise in prices of propane and outsourced propylene, respectively.
- The higher top line offset the drop in cost of sales, resulting in a 77.4% YoY rise in gross profit to SAR 330.1mn. Subsequently, gross margin widened to 42.9% from 35.8% in 2Q20.
- Higher gross profit offset the rise in G&A expenses and pushed operating profit up 86.4% YoY to SAR 283.9mn. As a result, EBIT margin expanded to 36.9% from 29.3% in 2Q20.
- Higher profit share from SK Advanced offset the increase in finance and zakat expenses, resulting in a 70.8% YoY rise in the net profit to SAR 264.6mn. Consequently, net margin increased to 34.4% from 29.9% in 2Q20.
- On June 30, Advanced's shareholders approved the SAR 0.65 per share cash dividend for 2Q21, equivalent to SAR 140.7mn (6.5% of the company's share capital).

Valuation: We reduce our target price to a fair value of SAR 75.0 per share but maintain our "Neutral" rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	768.8	519.0	48.1%	2,743	2,231	22.9%
Gross Profit (SAR mn)	330.1	186.1	77.4%	1,070	729	46.7%
EBITDA (SAR mn)	341.4	206.4	65.4%	1,122	809	38.6%
Net Profit (SAR mn)	264.6	155.0	70.8%	897	596	50.6%
EPS Basic (SAR)	1.22	0.72	70.8%	4.14	2.75	50.6%
Gross Margin (%)	42.9%	35.8%	7.1%	39.0%	32.7%	6.3%
EBITDA Margin (%)	44.4%	39.8%	4.6%	40.9%	36.3%	4.6%
Net Profit Margin (%)	34.4%	29.9%	4.6%	32.7%	26.7%	6.0%

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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