

3Q21 Results Update

December 2, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	69.2
Target Price (SAR)	72.0
Upside/Downside (%)	3.1%

As of December 1, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	15.1
52-Wk High (SAR)	83.9
52-Wk Low (SAR)	60.5
Total Outstanding Shares (in mn)	216.5
Free Float (%)	80.6%

Advanced vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(5.7%)	1.8%
6m	(14.8%)	(17.6%)
12m	12.6%	(12.2%)

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 December 1, 2021

Higher PP sales price boost topline; rise in feedstock prices weighed on margins in 3Q21

Advanced Petrochemical (Advanced)'s revenue surged by 47.8% YoY to SAR 805.3mn in 3Q21, largely driven by an increase in polypropylene (PP) sales price by 47% YoY. Gross profit soared by 57.1% YoY to SAR 270.0mn, while gross margin widened by 198 bps YoY to 33.5%. Higher topline countervailed the rise in general and administrative (G&A) expenses, as operating profit rose 64.9% YoY to SAR 231.3mn, while EBIT margin expanded 298 bps YoY to 28.7%. Consequently, Advanced reported a 39.1% YoY jump in net profit to SAR 217.8mn, while net margin contracted by 168 bps YoY to 27.0% during the quarter.

Advanced reported strong performance during 3Q21, as improving global economic outlook resulted in growing demand for petrochemical products, which led the company to record high top-line and bottom-line during the quarter. The strong growth in topline was attributed to higher sales volume following improvement in production efficiency and higher utilization rate. Despite the rise in revenues, gross margins of the company contracted QoQ, mainly due to higher feedstock prices during 3Q21. However, PP price is expected to normalize around the current level going forward as supply constraints ease and additional capacities come online. Weak contribution from SK Advanced company weighed on the bottom line of the company, which fell by 17.7% QoQ. Advanced received approximately SAR 15bn (USD 4bn) in financing from local banks for its Jubail project. The company seeks to finance 70% (approx. SAR 4.5bn) of this total capex through debt from local banks. It has already received SAR 3.0bn in funding from the Saudi Industrial Development Fund. The project is expected to be a key catalyst for the company in the long term. However, increasing debt and higher capex cost would weigh on its balance sheet and profit margins. Moreover, rising feedstock costs and global production capacity additions may pose challenges for the company in the near term. In view of the aforementioned factors, we maintain a "Neutral" rating on the stock.

- Advanced's revenue increased by 47.8% YoY to SAR 805.3mn in 3Q21 owing to a 47% YoY surge in PP sales price.
- Cost of sales rose by 43.5% YoY to SAR 535.3mn due to a 70% YoY surge in feedstock prices to USD440/ton from USD260/ton in 3Q20.
- Gross profit climbed by 57.1% YoY to SAR 270.0mn. Consequently, gross margin widened to 33.5% from 31.5% in 3Q20.
- Higher topline offset the rise in G&A expenses and pushed operating profit up 64.9% YoY to SAR 231.3mn. As a result, EBIT margin expanded to 28.7% from 25.7% in 3Q20.
- Higher operating profit resulted in a 39.1% YoY rise in net profit to SAR 217.8mn. However, net margin contracted to 27.0% from 28.7% in 3Q20.
- On November 11, Advanced's Board of Directors recommended a 6.5% cash dividend at SAR 0.65 per share for 3Q21, equivalent to SAR 140.7mn.

Valuation: We revise upward our target price to a fair value of SAR 72.0 per share but maintain our "Neutral" rating on the stock.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	805.3	545.0	47.8%	2,974	2,231	33.3%
Gross Profit (SAR mn)	270.0	171.9	57.1%	1,034	729	41.7%
EBITDA (SAR mn)	289.1	194.4	48.7%	1,079	809	33.3%
Net Profit (SAR mn)	217.8	156.5	39.1%	864	596	45.0%
EPS Basic (SAR)	1.01	0.72	39.1%	3.99	2.75	45.0%
Gross Margin (%)	33.5%	31.5%	2.0%	34.8%	32.7%	2.1%
EBITDA Margin (%)	35.9%	35.7%	0.2%	36.3%	36.3%	(0.01%)
Net Profit Margin (%)	27.0%	28.7%	(1.7%)	29.0%	26.7%	2.3%

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, FALCOM Research.

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