

2Q22 Results Update

September 7, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	48.3
Target Price (SAR)	52.1
Upside/Downside (%)	7.8%

As of September 6, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	12.6
52-wk High (SAR)	75.0
52-wk Low (SAR)	42.9
Total Outstanding shares (in mn)	260
Free Float (%)	87.2%

Advanced vs. TASI (Rebased)

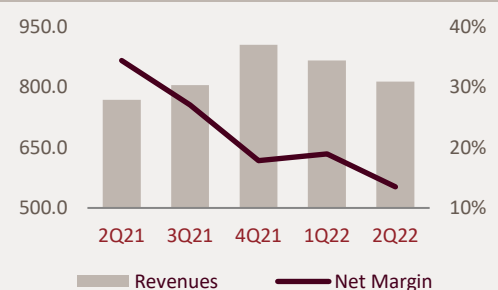


Price Performance (%)	Absolute	Relative
1m	(12.5%)	(10.1%)
6m	(27.5%)	(21.2%)
12m	(20.7%)	(25.8%)

Major Shareholders (%)

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



Source: Bloomberg, Company Financials, Yaqeen Capital;
Data as of September 6, 2022

Rise in feedstock prices, loss of investments drags bottom line in 2Q22

Advanced Petrochemical (Advanced)'s revenue increased by 5.9% YoY to SAR 814.0mn in 2Q22, largely due to a 13% YoY rise in sales volume. However, rise in feedstock prices led to a 46.1% YoY surge in cost of sales in 2Q22. During the quarter, propane and outsourced propylene prices rose 60% YoY and 15% YoY, respectively. Consequently, gross profit nosedived 48.5% YoY to SAR 168.4mn during the quarter, while gross margin contracted to 20.7% in 2Q22. The increase in selling and distribution (S&D) expenses countervailed the decline in general and administrative (G&A) expenses and led to a 53.7% YoY drop in operating income to SAR 131.5mn in 2Q22. As a result, EBIT margin narrowed 2,077bps YoY to 16.2% in 2Q22. Loss on share in results of its associate and lower other income during the quarter led to 58.6% YoY decline in net profit to SAR 109.6mn. Consequently, net margin contracted 2,096bps YoY to 13.5% during the quarter.

Advanced continued to report weak earnings in 2Q22 as bottom line slipped, attributable to loss of SAR 19mn on investment in SK Advanced and rise in offshore logistics cost during the quarter. The company's topline improved during the quarter, supported by a 13% YoY rise in volumetric sales. However, growth was slightly offset by the decline in realized price. In addition, the increase in feedstock prices during the quarter negatively impacted Advanced's gross margin (down 2,182bps YoY to 20.7%). Propene and propylene prices rose significantly during the quarter. Furthermore, loss on share in results of its associate during the quarter led to a 58.6% YoY decline in the company's bottom-line to SAR 109.6mn in 2Q22. The company expects its new Propane Dehydrogenation, Polypropylene & Isopropanol (PDH-PP-IPA) project in Jubail, which is twice its current size, to be a key driver for long-term growth. It expects commercial operations at this plant to begin from 2H24. Moreover, Brent crude prices are expected to stay high in 2022, which will lead to an increase in average selling prices during the rest of the year. However, feedstock prices are also expected to remain elevated which would continue to put pressure on margins. In view of the aforementioned factors, we maintain a "Neutral" rating on the stock.

- Advanced's top line soared 5.9% YoY to SAR 814.0mn in 2Q22, mainly attributable to a 13% YoY rise in volumetric sales.
- Cost of sales increased 46.1% YoY to SAR 645.7mn, owing to the rise in feedstock prices and logistics costs. Propane and outsourced propylene prices rose 60% YoY and 15% YoY, respectively.
- Consequently, gross profit declined 48.5% YoY to SAR 168.4mn. Subsequently, gross margin contracted to 20.7% from 42.5% in 2Q21.
- Operating profit dropped 53.7% YoY to SAR 131.5mn, as the rise in S&D expenses offset the lower G&A expenses. EBIT margin narrowed to 16.2% from 36.9% in 2Q21.
- Loss on share in results of its associate offset the fall in zakat expense and resulted in a 58.6% YoY decline in net profit to SAR 109.6mn. Subsequently, net margin contracted to 13.5% from 34.4% in 2Q21.
- On July 6, 2022, Advanced's Board of Directors declared 5.5% cash dividend for 2Q22 at SAR 0.55 per share, totaling SAR 142.5mn.

Valuation: We revise our target price to a fair value of SAR 52.1 per share but maintain our "Neutral" rating on the stock.

	2Q22	2Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	814.0	768.8	5.9%	3,310.0	3,111.3	6.4%
Gross Profit (SAR mn)	168.4	326.8	(48.5%)	744.8	1,058.9	(29.7%)
EBITDA (SAR mn)	188.5	341.4	(44.8%)	812.5	1,087.0	(25.3%)
Net Profit (SAR mn)	109.6	264.6	(58.6%)	501.0	815.4	(38.6%)
EPS Basic (SAR)	0.42	1.02	(58.6%)	1.9	3.1	(38.6%)
Gross Margin (%)	20.7%	42.5%	(21.8%)	22.5%	34.0%	(11.5%)
EBITDA Margin (%)	23.2%	44.4%	(21.2%)	24.5%	34.9%	(10.4%)
Net Profit Margin (%)	13.5%	34.4%	(21.0%)	15.1%	26.2%	(11.1%)

Source: Company Financials, Yaqeen Capital

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Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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