

# ADVANCED PETROCHEMICAL



## EVENT FLASH

### Record earnings on high operating rates and margins

Advanced net income came in at SR243mn, the highest since inception. This is 16.8% higher than the NCBC expectation of SR208mn and 25% higher than the consensus estimate. The deviation in earnings can be attributed to higher operating rates and margins. Net income increased 31.6% YoY and 171.1% QoQ. Higher operating rates post shutdown and margins expansion on increase in PP-propylene spreads supported the strong results.

- NCBC view on results:** Advanced reported the highest quarterly net income since inception. Net income came in at SR243mn in 2Q15, 16.8% above our estimate of SR208mn. This is a growth of 31.6% YoY and 171.1% QoQ. The company attributed the strong results to higher operating rates post shutdown and lower feedstock prices.
- Based on our calculation, Advanced operated at 125%; this is significantly higher than our estimate of 113%. The company operated at 110% in 1Q15 and 118% in 2Q14. We believe the company has sold 164,000mt of PP compared to 144,000mt in 2Q14 and 115,000mt in 1Q15. Higher than expected operating rates is attributed to efficiency improvement post the 22 days shutdown in 1Q15. The YoY increase in volumes is due to the additional 80K propylene supply from SATORP which started in 4Q14.
- Advanced's gross margin was 32.5%, vs our estimates of 30.8%. This is also higher than 23.7% and 23.9% reported in 1Q15 and 2Q14, respectively. We believe the 22 days shutdown improved operating efficiency.
- Average PP prices increased 18% QoQ but declined 15.8% YoY to US\$1,281/mt. On the other hand, naphtha prices grew 13.9% QoQ but declined 40.7% YoY to US\$564/mt.
- The PP-propylene spread stands at US\$280/mt vs. US\$173/mt in 2Q14 and the historical average of US\$171/mt which we believe is unsustainable. We expect the spread to decline to US\$192/mt in 2016E which will partially normalize Advanced's margin. We expect a gross margin of 25.7% in 2016E.
- Advanced BoD recommended DPS of SR0.75 for 2Q15, in-line with 1Q15. Thus, the company recommended the DPS of SR1.5/share for 1H15, higher than 1.25 paid in 1H14. We estimate Advanced to pay DPS of SR3 for 2015E representing dividend yield of 5.2% and dividend payout of 71.9%.
- We are currently Neutral on the stock with a PT of SR53.6. The stock is trading at 2016E P/E of 14.5x, higher than the sector average of 12.7x. Advanced key strength includes operational efficiency, high dividend yield, simple production process and accessibility.

#### 2Q15 Results Summary

SR mn	2Q14A	1Q15A	% QoQ	2Q14A	% YoY	2Q15E	%Var <sup>^</sup>
Gross income	264	111	137.6	193	36.9	222	18.7
Operating income	254	100	153.1	183	38.7	211	20.6
Net income	243	90	171.1	185	31.6	208	16.8
EPS (SR)	1.48	0.55	171.1	1.13	31.6	1.27	16.8

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

Please refer to the last page for important disclaimer

## NEUTRAL

<b>Target price</b>	<b>53.6</b>
<b>Current price (SR)</b>	<b>57.7</b>

#### STOCK DETAILS

52-week range H/L (SR)	62/35
Market cap (\$ mn)	2,525
Shares outstanding (mn)	164
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.9	39.2	32.9
Rel. to market	6.8	34.6	38.5

Avg daily turnover (mn)	SR	US\$
3M	47.1	12.6
12M	47.0	12.5

Reuters code	2330.SE
Bloomberg code	APPC AB
<a href="http://www.advancedpetrochem.com">www.advancedpetrochem.com</a>	

#### VALUATION MULTIPLES

	13A	14A	15E
P/E (x)	12.6	14.2	14.5
P/B (x)	4.0	3.7	3.5
EV/EBITDA (x)	10.3	10.9	11.1
Div Yield (%)	5.2	5.2	5.2

Source: NCBC Research estimates

#### SHARE PRICE PERFORMANCE



Source: Tadawul

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05 JULY 2015

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

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