Equity Research report
APPC AB Equity
11 March 2024

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Target Price: SAR48.0/share
Market price: SAR38.35/share
Upside: +25.2%
Rating: Overweight

Advanced Petrochemical Company - APPC

PDH-PP plant yet to be priced in; Remain Overweight

- PDH-PP expansion is on track (88% complete), which will more than double annual production and earnings next year; however, project costs surpass our earlier estimates.
- Despite weak spreads, we remain positive, due to i) industry-leading operating rates, ii) PDH-PP expansion (likely to start in 2H24), iii) significant earnings growth with healthy FCF generation from 2025, and iv) a possible resumption of dividends (likely in 2025).
- We revise our TP to SAR48.0/sh. (SAR54.0/sh. earlier) to reflect higher-than-expected PDH-PP expansion capex (+39% over initial estimate) and relatively lower spreads.

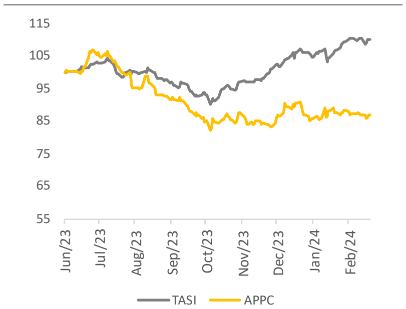
PDH-PP expansion acts as a key positive catalyst: The new PDH-PP plant is expected to be finally completed in 2H24 (slightly delayed from the earlier start-up timeline of 2Q24; source: 2023 board report). Post completion, APPC's PDH and PP capacity will expand by 843ktpa and 800ktpa, respectively, which will more than double the current capacities and top-line / bottom-line (at full utilization rate). However, we note that the company has been witnessing a significant increase in capex over its planned capex, rising from SAR7bn earlier announced capex to possibly reach SAR9.8bn (+39% rise; based on capex spent so far and future capital commitments) with a possibility of further escalation. Despite a rise in capex spending, we still believe that the PDH-PP expansion will remain a key positive catalyst for the stock this year, given the continuous weak product spreads. As the project is near to completion (~88% work is done), we start factoring it in our forecasts (assumed the commercial production to begin in 4Q24 with revised capex assumptions). We expect the ramp-up period would be relatively faster, but the company may face initial start-up costs, higher depreciation, and financial expenses post commercialization, which may weigh on earnings later this year before realizing its full benefits in 2025. Overall, despite increased capex, we still see this expansion as an EPS accretive, which is not reflecting in current stock price, in our view.

Product spreads to remain stable, although below the historical levels: We expect the product spread to remain under check in 2024e with the PP-Propane spread likely to remain mostly stable at US$424/mt before gradually improving to US$459/mt in 2025e (although likely to remain below the historical average of US$570/mt over 2018-23).

Stock data	
TASI ticker	2330
Mcap (SARmn)	9,971
Avg. Trd. Val (SARmn)	23.6
Free Float	88.2%
QFI Holding	10.7%
TASI FF weight	0.40%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e
Revenue	2,948	2,374	2,827	5,623
Revenue growth	*-5%*	*-20%*	*19%*	*99%*
Gross Profit	536	447	520	1,114
Gross Profit margin	*18%*	*19%*	*18%*	*20%*
EBITDA	615	452	608	1,368
Op. income	399	274	338	799
Net profit	295	171	201	404
Net profit margin	*10%*	*7%*	*7%*	*7%*
EPS	1.1	0.7	0.8	1.6
P/E	33.8x	58.0x	49.4x	24.6x

Source: Company data, GIB Capital

Kunal Doshi
+966-11-834 8372
Kunal.doshi@gibcapital.com

Lower product spreads could be attributable to weak PP prices (averaged at ~US$990/mt in 1Q24 so far; +3% q/q; remain below the historical average) on excess supply and weak demand, coupled with relatively high Propane prices (1m lag - averaged at ~US$620/mt in 1Q24; +6% q/q; remain above the historical average). Nonetheless, we may expect a sustainable recovery in PP demand and prices later this year or early next year, aided by a recovery in demand on improvement in the global economy, and a possible recovery in China.

Advanced inks SAR717mn worth of EPC contract for isopropanol plant: APPC, last month, announced the signing of EPC contracts worth SAR717mn (US$191.3mn) with SGC eTEC E&C and SGC Arabia Co. Ltd. for the construction of the isopropanol plant (70ktpa capacity) in Jubail Industrial City. The project is expected to be completed in 32 months and is likely to begin commercial production by 4Q26. We note that this project is part of its already-announced PDH-PP project, which is expected to begin during 2H24. Based on our quick calculations, the isopropanol plant may contribute ~SAR80mn annually (assuming full capacity), which is ~3% of 2023 revenue. However, we await further details before factoring it into our forecasts.

4Q23 earnings: Top-line dropped 3.9% q/q to SAR571mn, largely in line with our estimate of SAR594mn (consensus: SAR591mn). The q/q decline in revenue could be due to lower PP prices. Further, as expected, higher Propane price dragged gross margin down by 3.4ppts to 17.2% (GIBCe: 16.7%), resulting in a ~20% decline in gross profit (in-line). However, higher-than-expected OPEX (likely due to year-end adjustments; ~19% q/q) impacted operating profit. Nonetheless, a key takeaway from 4Q23 earnings is the improvement in losses from its JV, SK Advanced, which reported lower losses at SAR21mn compared to our estimate of SAR33mn (SAR45mn losses in 4Q22 and SAR32mn losses in 3Q23). Accordingly, better-than-expected equity losses helped the company to beat our earnings estimate. Overall, net income declined by ~49% q/q to reach SAR23mn, above our estimate of SAR19mn (consensus: SAR30mn).

Figure 2: 4Q23 results summary

SARmn	4Q23	4Q22	y/y %	3Q23	q/q %	GIBC est.	Variance %
Revenues	**571**	**611**	**-6.5%**	**594**	**-3.9%**	**594**	**-3.9%**
Cost of sales	473	544	-13.1%	472	0.2%	495	-4.4%
Gross profit	**98**	**67**	**46.3%**	**122**	**-19.7%**	**99**	**-1.3%**
Opex	50	37	35.1%	42	19.0%	45	10.6%
Operating profit	**48**	**30**	**60.0%**	**80**	**-40.0%**	**54**	**-11.3%**
Net income	**23**	**(6)**	**NM**	**45**	**-48.9%**	**19**	**18.4%**
Gross margin	17.2%	11.0%		20.5%		16.7%	
Operating margin	8.4%	4.9%		13.5%		9.1%	
Net margin	4.0%	-1.0%		7.6%		3.3%	

Source: Company data, GIB Capital

Valuation: Post including the new PDH-PP expansion project in our forecasts (earlier, we used to add its fair value separately), 1Q24 shutdown (23 days for PP and 28 days for PDH plants), and revised product spreads, we raise our 2024 top line by 14% upwards but cut earnings by 51%, mainly due to higher depreciation and financial charges post the expansion. We also assume higher capex (~SAR2.4bn) to factor in a rise in spending associated with the PDH-PP expansion projects, resulting in a negative FCF for 2024e. Nonetheless, for 2025e, we expect the top-line and bottom-line to grow 99% y/y and 101%, respectively, realizing the full benefits of expansion. Overall, we revise TP to SAR48.0/sh. (SAR54.0/sh. earlier) based on an equal blend of DCF (7.5% WACC, 2% terminal growth) and EV/EBITDA (13x on 2025e EBITDA), implying an Overweight rating with ~25% upside potential.

Risks to our view:

- **Dividend risk:** With current spreads, there is a possibility for a reduction in expected dividends as debt and rates have increased to fund the growth plan.
- **Expansion risks:** Delay in execution, and cost overruns of the new project are major risk factors.
- **High benchmark set:** Additionally, there is a risk for the newer plants not to match the current plant's efficiencies given the high bar set by the current plant. Notably, the results of its Korean investment have not been as attractive as the Saudi plant.
- **Others:** Investment bets taken such as the one in Tasnee may not pay off as expected or may weigh on sentiments of investors looking for APPC as a pure PP-P play.

Financials

Figure 1: Financial statement

Income statement	2022a	2023a	2024e	2025e
Revenue	**2,948**	**2,374**	**2,827**	**5,623**
revenue y/y	*-5%*	*-20%*	*19%*	*99%*
COGS	2,412	1,927	2,307	4,509
Gross Profit	**536**	**447**	**520**	**1,114**
Gross Profit margin	*18%*	*19%*	*18%*	*20%*
Operating expenses	137	173	183	315
Operating profit	**399**	**274**	**338**	**799**
Operating margin	*14%*	*12%*	*12%*	*14%*
Finance costs	1	3	84	395
Net income	**295**	**171**	**201**	**404**
Net margin	*10%*	*7%*	*7%*	*7%*
y/y	*-64%*	*-42%*	*18%*	*101%*
EPS	**1.1**	**0.7**	**0.8**	**1.6**
DPS	2.2	0.0	0.0	1.0
Payout	194%	0%	0%	64%
EBITDA	**615**	**452**	**608**	**1,368**
Net debt	2,958	6,166	8,103	7,637

Balance Sheet	2022a	2023a	2024e	2025e
Inventories	181	193	282	327
Trade Receivables	354	331	501	579
Prepayments and Other Current Assets	165	187	187	187
Cash and Equivalents	1,007	924	136	202
Total Current Assets	**1,707**	**1,635**	**1,106**	**1,295**
Intangible Assets	0	0	0	0
Property, Plant & Equipment	5,185	8,615	10,715	10,371
Total Non-Current Assets	**6,532**	**9,835**	**11,876**	**11,571**
Total Assets	**8,238**	**11,470**	**12,982**	**12,866**
Current Liabilities	2,158	590	714	772
Non-current Liabilities	2,212	7,078	8,228	7,828
Equity	3,618	3,605	3,815	3,988
Total Equity and Liabilities	**8,238**	**11,470**	**12,982**	**12,866**
BVPS	31.7	44.3	50.2	49.7

Cashflow	2022a	2023a	2024e	2025e
Cashflow from Operations	460	211	433	950
Cashflow from Investing	-1,971	-3,210	-2,371	-225
Cashflow from Financing	2,274	2,916	1,150	-659
Total Cashflows	**764**	**-83**	**-787**	**66**

Source: Company, GIB Capital

Figure 2: Key ratios

Key ratios	2022a	2023a	2024e	2025e
Profitability ratios				
RoA	4%	1%	2%	3%
RoE	8%	5%	5%	10%
RoIC	5%	3%	3%	7%
Sales/Assets	36%	21%	22%	44%
Net margin	10%	7%	7%	7%
Liquidity ratios				
Current Assets/ Current Liabilities	0.8	2.8	1.5	1.7
Debt to Total Equity	110%	197%	216%	197%
Receivable Days	44	51	65	38
Inventory Days	27	37	45	26
Payable days	22	24	40	25
Debt ratios				
Net Debt/EBITDA	4.8	13.6	13.3	5.6
Debt/Assets	48%	62%	63%	61%
Valuation ratios				
P/E	33.8	58.0	49.4	24.6
P/B	1.2	0.9	0.8	0.8
EV/EBITDA	26.8	36.4	27.1	12.0
Div. yield	5.7%	0.0%	0.0%	2.6%

Source: Company, GIB Capital

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Contact us for queries:

Sell Side Research Department,
GIB Capital,
B1, Granada Business & Residential Park,
Eastern Ring Road, PO Box 89589, Riyadh 11692
www.gibcapital.com