

**Target Price: SAR53.0/share**  
Market price: SAR43.45/share  
Upside: +22% (+Div. Yield: 4.6%)  
**Rating: Overweight**

## Alujain Corp.

### NATPET deal unlocks significant value; Remain Overweight

- Alujain inked a deal to sell a 35% stake in its sole operating asset, NATPET, for SAR1.87bn (~SAR50 per share) to a chemical giant LyondellBasell Industries unit.
- The deal unlocks a significant value in Alujain, providing enough cushion to fund its PDH-PP expansion and getting LYB as a strategic partner in addition to several marketing, volume, and cost-sharing agreements.
- LYB values NATPET at SAR5.3bn, implying a significant premium over its pre-deal market cap (SAR2.9bn). We reiterate our TP of SAR53.0/sh. based on an equal blend of DCF (9.5% WACC) and EV/EBITDA valuation (10x on 2024e EBITDA).

**Alujain signs an agreement to sell a 35% stake in NATPET for SAR1.87bn.** Alujain has inked a deal to sell a 35% stake (representing 37.45mn shares) of its subsidiary, NATPET (98.7% stake as per the latest release) to Basell International Holdings, a unit of NY-listed LyondellBasell Industries (LYB), for ~ SAR1.87bn (US\$500mn).

- The deal:** In addition to a 35% stake in NATPET, LYB will also get a 35% stake in NATPET's 600ktpa PDH-PP expansion (capex: SAR7.5bn; of which ~SAR2bn would be equity financing; 24kbpd of Propane already secured by Alujain from the MoE). Further, the deal includes the signing of multiple agreements, including i) a marketing and offtake agreement, ii) an allocation of volume agreement, iii) a project management agreement and iv) a cost-sharing and reimbursement agreement. The deal is expected to be completed once the conditions of the agreement have been fulfilled and the necessary approvals have been obtained.
- Deal size and use of proceeds:** Upon completion of the deal, Alujain will receive SAR1.87bn in cash, which it plans to use to pay its current and future financial obligations. In addition, Alujain will also receive a proportion of the investment made (SAR250-300mn already spent) in the new project upon the conclusion of the comprehensive design phase in addition to a development bonus (~SAR100mn implied LYB's share + some premium) post obtaining the final approvals for investment in the new project.

Figure 1: Key financial metrics\*

SARmn	2022a	2023e	2024e	2025e
Revenue	1,911	1,651	1,763	1,834
Revenue growth	NM	-14%	7%	4%
Gross Profit	404	283	374	406
Gross Profit margin	21%	17%	21%	22%
EBITDA	415	321	404	430
Op. income	225	129	213	239
Net profit	120	38	155	188
Net profit margin	6%	2%	9%	10%
EPS (SAR)	1.7	0.5	2.2	2.7
P/E	25.1x	79.5x	19.4x	16.0x

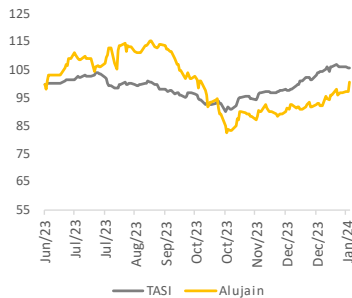
Source: Company data, GIB Capital. \* Before the deal

#### Stock data

TASI ticker	2170
Mcap (SARmn)	3,007
Avg. Trd. Val (SARmn)	13.1
Free Float	87.9%
QFI Holding	4.7%
TASI FF weight	0.12%

Source: Bloomberg

#### Prices indexed to 100



Source: Bloomberg

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- **Our take:** We see this deal as a positive development, which will unlock significant value in Alujain. The agreement will complement Alujain's current growth initiatives into high-end co-polymer grades (HPGs) and high-value PP Compounds (HVPs) as well as strengthen its global competitiveness and business sustainability. This deal will also help the company in improving leverage (SAR1bn total debt as of 9M23; likely debt-free post the deal), as well as provide financial muscle to fund its expansion project (Alujain's likely total equity contribution: ~SAR1.3bn; out of this, it almost secured SAR400mn as explained above). Overall, an inflow of SAR1.87bn and bringing the global chemical giant, LYB, as a strategic partner, will ease the project financing concerns and significantly de-risk its growth plans.
- **Valuation impact:** Based on a back-of-the-envelope calculation, LYB values NATPET at SAR5.3bn, implying a 2.1x multiple over its current book value of SAR2.5bn (as of Nov 2023) and 1.8x of Alujain's market cap (SAR2.9bn pre-deal). We believe that this premium could be due to its expansion project in which LYB will also get a 35% stake. We note that despite announcing a big PDH-PP expansion project (600ktpa vs the existing plant capacity of 400ktpa), and strong management team track record (delivering a great turnaround from a fire incident at NATPET in 2018 to building a new plant and gaining a controlling interest in NATPET), the stock has been trading at 0.9x P/B multiple (vs. peers' average of 1.3x), which is unwarranted in our view.

Overall, we maintain our TP at SAR53/sh with an Overweight rating, given that the timing of deal completion is still uncertain, and the PDH-PP expansion is still far away (EPC contracts are expected to be awarded by June 2024; likely to begin operation in 1H26e). Any positive outcome on the deal will act as an upside risk to our valuation and may push our TP upwards by ~13% (implying a total upside of +35% from the current level).

#### Risks to our view:

- **Expansions:** Expansions come with its own risks. Such a huge expansion plan could dent profitability in its early years, especially when interest rates are relatively high.
- **Shutdowns:** Given that its closest competitor in terms of product mix is APPC, usually shutdowns are compared with that of APPC. Thus, there might be a valuation discount applied to Alujain if the number of shutdowns is frequent (APPC sets the benchmark with one shutdown every three years).
- **Volatility in product and feedstock prices:** Petrochemical prices are subject to demand-supply market dynamics. Any significant variation in these prices compared to our estimates may impact our valuation.

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/- 10%, we have a Neutral rating.

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