Target Price: SAR46.0/share
Market price: SAR32.8/share
Upside: +40.5%
Rating: Overweight

Advanced Petrochemical Company - APPC

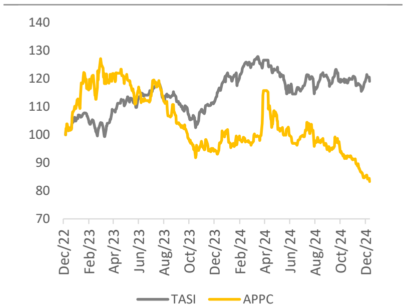
PDH-PP plant nearing completion; Remain Overweight

- PDH-PP expansion remains EPS accretive at the current product spreads despite a slight delay and likely initial start-up costs.
- 4Q spreads are expected to be weak mainly due to higher feedstock prices; however, easing freight costs and its focus on high-margin markets may partially offset the impact
- Post revision in our estimates, we revise our TP to SAR46.0/sh. (SAR48.0/sh. earlier) based on DCF and EV/EBITDA (15x on 2025e EBITDA), implying an Overweight rating.

Stock data	
TASI ticker	2330
Mcap (SARmn)	8,515
Avg. Trd. Val (SARmn)	15.1
Free Float	87.5%
QFI Holding	9.7%
TASI FF weight	0.36%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

New PDH-PP plants update - Line 1 likely to start by Dec-end: APPC's new PDH (843ktpa) and PP plants (800ktpa) are near completion (97% completed as of 3Q24) with the pre-commissioning activities are on the ground. APPC expects to begin the trial production from line 1 of the PDH plant by the end of Dec-24 with line 2 starting by the end of Jan-25 or the beginning of Feb-25 (vs 2H24 earlier timeline). The PP plant will also begin trial production around the same time. Further, the company expects the ramp-up period to be relatively faster (3-4 weeks guidance) given a similar product line, enabling it to reach near the nameplate capacity (~200kt per quarter) in 2Q25e. We note that APPC has already inked three offtake agreements for ~80% of the production (620ktpa; vs ~48% offtake agreements YTD for the existing plant) while the remaining would be marketed through its 100% owned subsidiary, AGMC. 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 reach ~SAR10bn (+43% rise based on SAR8.76bn capex spent so far and future capital commitments excluding its planned capex for the IPA plant as of 3Q24), slightly higher than our estimate of SAR9.8bn.

Near-term earnings pressure before realizing full benefits from 2Q25: We expect APPC to witness initial start-up costs, higher depreciation (SAR347mn annually as per our calculation vs. SAR325-330mn guidance; excluding the Isopropanol plant), and financial expenses (SAR315mn annually vs. SAR275-300mn guidance; excluding the Isopropanol plant) post-commercialization, which may pressure the near-term earnings before realizing its full benefits later in 2025e and 26e. Overall, despite witnessing a significant rise in capex and additional D&A and financial costs, we still see the expansion as an EPS accretive (even at the current spreads).

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Revenue	2,374	2,310	5,247	5,917
Revenue growth	*-20%*	*-3%*	*127%*	*13%*
Gross Profit	447	393	1,009	1,200
Gross Profit margin	*19%*	*17%*	*19%*	*20%*
EBITDA	452	397	1,230	1,460
Op. income	274	201	742	928
Net profit	171	71	270	407
Net profit margin	*7%*	*3%*	*5%*	*7%*
EPS	0.7	0.3	1.0	1.6
P/E	49.5x	119.0x	31.4x	20.8x

Source: Company data, GIB Capital

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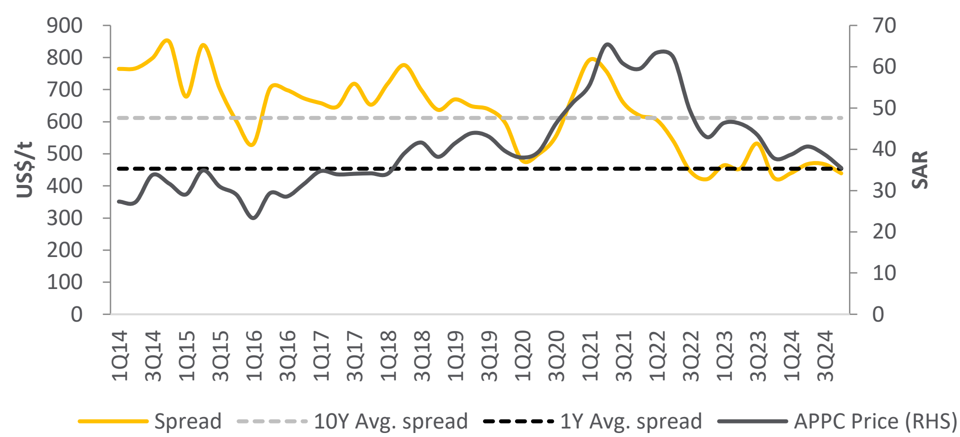
Product spreads are likely to decline in 4Q on higher propane prices: SEA PP prices are likely to have bottomed out with the average SEA PP prices hovering at around US$1,000/t throughout this year. Going forward, we expect PP prices to remain stable at the current level, although below the historical levels mainly due to weak demand and ample supply. Further, Brazil's recent import tariff increases from 12.6% to 20% may create further pressure on the demand. We note that KSA (16.4kt) was the top source for Brazil's PP imports in September, followed by Argentina (6.3kt). Moreover, we believe that the recent Chinese government's stimulus packages may take time to support its economy and thereby petrochemical prices.

Meanwhile, we expect propane prices to increase further in 4Q (1M lag - averaged at ~US$622/mt in 4Q24; +6.6% q/q; remain above the historical average) mainly due to seasonality (growing propane usage as a winter heating fuel). In addition, average freight costs have increased notably this year (APPC witnessed a 40% q/q jump in freight costs in 3Q), driven by geopolitical concerns (causing longer routes and tariffs). Although it has recently started normalizing, it remains high compared to the historical levels. Accordingly, we expect the product spread to remain under check in 4Q24 with the PP-Propane spread (before the discount; 1M lag) likely to decline to US$372/mt from US$419/t in 3Q24 (as per our calculation). However, we believe that APPC's focus on high-margin markets like Turkey, Africa, LATAM, and easing freight costs may partially offset the impact on its product spread. Overall, we may expect a sustainable recovery in PP demand and prices by mid-2025, aided by improvement in the global economy, and a possible recovery in China (home prices declined at the slowest pace in 17 months in November, indicating a sign of recovery).

Figure 2: Weighted average APPC's spreads (US$/t) vs. average stock price (SAR)



Source: Company data, Bloomberg, GIB Capital

APPC's associated gas pipeline started operation on 3 November: APPC launched the commercial operation of its pipeline on November 3, 2024, transporting associated petroleum gas from its PDH unit to Jubail United Petrochemical Co.'s ethylene plant, an affiliate of SABIC. Back in March 2023, they awarded the SAR50.98mn EPC contract to Gas Arabian (excluding VAT). The total capex of the project is estimated to be in the range of SAR65-70mn with 50:50% sharing between APPC and United. This initiative aims to reduce carbon emissions, enhance efficiency, and convert the gas into high-value-added chemicals. These benefits are expected to positively impact the environment as well as the company's financials (SAR15-20mn annual earnings impact; likely reflected in 4Q24).

Recap of 3Q24 earnings: APPC reported strong 3Q24 results with the top line coming largely in line while the bottom line beat our expectations. Revenues remained largely flat at SAR643mn (-0.9% q/q), largely in line with our estimate of SAR627mn (consensus: SAR635mn) as increased sales volume (+1% q/q) was offset by lower product prices (-2% q/q). The company witnessed an increase in propane price (+6% q/q) and Propylene (+5% q/q), leading to a slight reduction in gross profit (-3.3% q/q; largely in line) with the corresponding margin narrowing by 40bps to 18.5% (vs 18.3% expected) in 3Q. However, the company has shown a significant improvement in operating efficiencies with OPEX declining 10% q/q (better-than-expected), translating it into an above-expected operating profit of SAR76mn. This, along with a slight improvement in losses from its JV, SK Advanced (SAR30mn vs. SAR33mn losses in 2Q24), further helped the company's profitability. Overall, the company posted a net profit of SAR46mn, beating our estimate by ~21%, largely due to better operating efficiencies.

Figure 3: 3Q24 results summary

SARmn	3Q24	3Q23	y/y %	2Q24	q/q %	GIBC est.	Variance %
Revenues	**643**	**594**	**8.2%**	**649**	**-0.9%**	**627**	**2.6%**
Cost of sales	524	472	11.0%	526	-0.4%	512	2.3%
Gross profit	**119**	**122**	**-2.5%**	**123**	**-3.3%**	**115**	**3.9%**
Opex	43	42	2.4%	48	-10.4%	50	-14.2%
Operating profit	**76**	**80**	**-5.0%**	**75**	**1.3%**	**64**	**17.9%**
Net income	**46**	**45**	**2.2%**	**42**	**9.5%**	**38**	**20.8%**
Gross margin	18.5%	20.5%		19.0%		18.3%	
Operating margin	11.8%	13.5%		11.6%		10.3%	
Net margin	7.2%	7.6%		6.5%		6.1%	

Source: Company data, GIB Capital

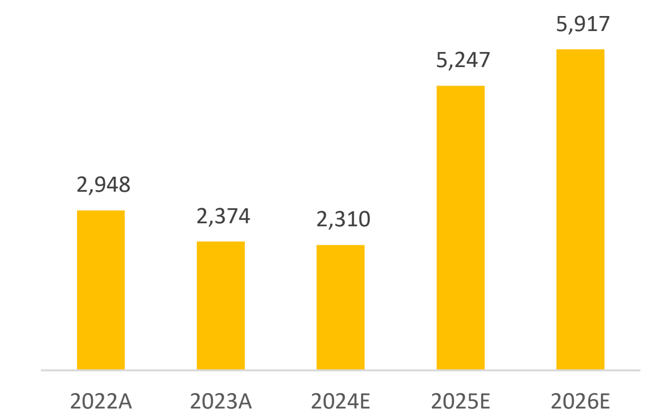
Valuation: Post revision in our product spreads and estimates, we marginally lower TP to SAR46.0/sh. (SAR48.0/sh. earlier) based on an equal blend of DCF (7.5% WACC, 2% terminal growth) and EV/EBITDA (15x on 2025e EBITDA), implying an Overweight rating with 40.5% upside potential.

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.

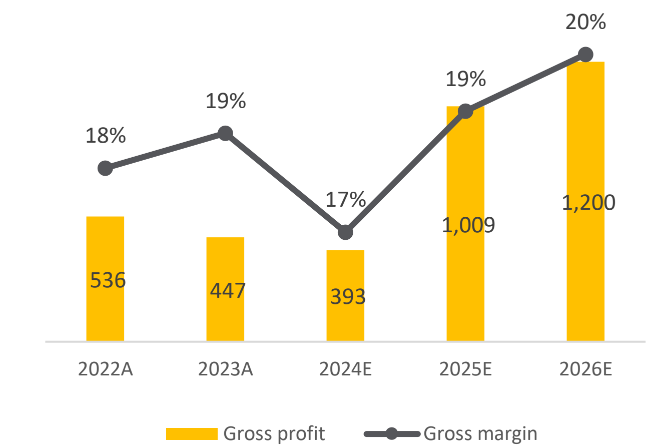
Financial analysis in chart

Figure 3: Revenue trend (SARmn)



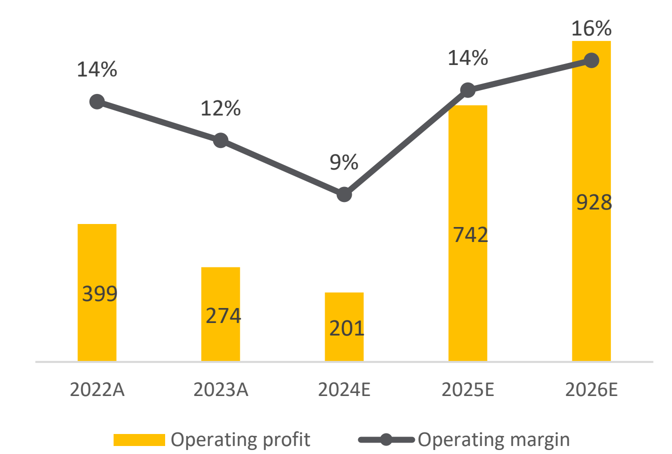
Source: Company data, GIB Capital

Figure 1: Gross profit and gross margin trend (SARmn)



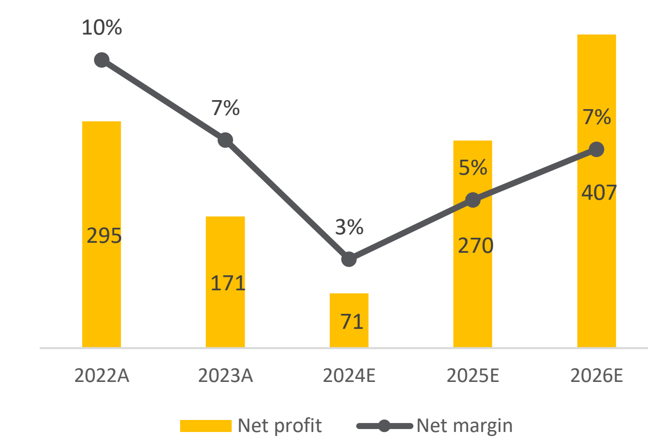
Source: Company data, GIB Capital

Figure 2: Operating profit and operating margin trend (SARmn)



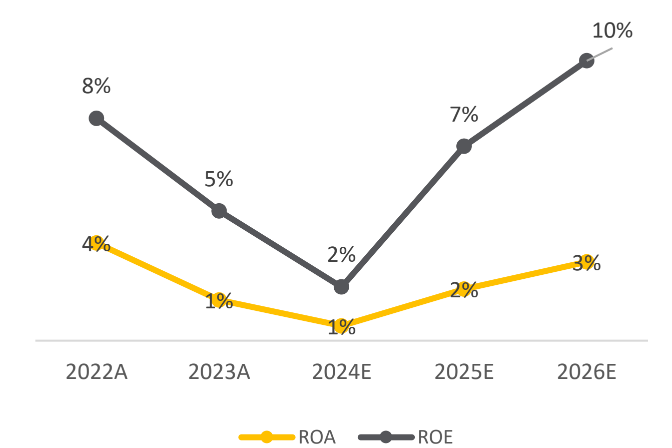
Source: Company data, GIB Capital

Figure 6: Net profit and net margin trend (SARmn)



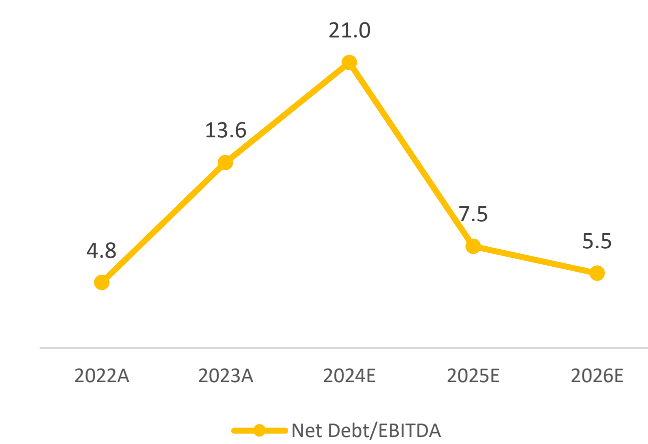
Source: Company data, GIB Capital

Figure 7: ROE & ROA



Source: Company data, GIB Capital

Figure 3: Net Debt to EBITDA



Source: Company data, GIB Capital

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Financials

Figure 9: Financial statement

Income statement	2023a	2024e	2025e	2026e
Revenue	**2,374**	**2,310**	**5,247**	**5,917**
revenue y/y	*-20%*	*-3%*	*127%*	*13%*
COGS	1,927	1,917	4,238	4,717
Gross Profit	**447**	**393**	**1,009**	**1,200**
Gross Profit margin	*19%*	*17%*	*19%*	*20%*
Operating expenses	173	192	267	272
Operating profit	**274**	**201**	**742**	**928**
Operating margin	*12%*	*9%*	*14%*	*16%*
Finance costs	3	4	319	374
Net income	**171**	**71**	**270**	**407**
Net margin	*7%*	*3%*	*5%*	*7%*
y/y	*-42%*	*-58%*	*279%*	*51%*
EPS	**0.7**	**0.3**	**1.0**	**1.6**
DPS	0.0	0.0	0.5	1.0
Payout	0%	0%	48%	64%
EBITDA	**452**	**397**	**1,230**	**1,460**
Net debt	6,166	8,331	9,208	8,040

Balance Sheet	2023a	2024e	2025e	2026e
Inventories	193	222	464	429
Trade Receivables	331	586	1,262	765
Prepayments/Other Current Assets	187	195	195	195
Cash and Equivalents	924	211	134	902
Total Current Assets	**1,635**	**1,214**	**2,055**	**2,291**
Intangible Assets	0	0	0	0
Property, Plant & Equipment	8,615	10,857	11,341	11,045
Total Non-Current Assets	**9,835**	**11,872**	**12,238**	**11,852**
Total Assets	**11,470**	**13,087**	**14,293**	**14,143**
Current Liabilities	590	705	904	925
Non-current Liabilities	7,078	8,530	9,330	8,930
Equity	3,605	3,626	3,790	3,976
Total Equity and Liabilities	**11,470**	**13,087**	**14,293**	**14,143**
BVPS	44.3	50.6	55.2	54.7

Cashflow	2023a	2024e	2025e	2026e
Cashflow from Operations	211	111	225	1,664
Cashflow from Investing	-3,210	-2,249	-973	-237
Cashflow from Financing	2,916	1,425	671	-659
Total Cashflows	**-83**	**-713**	**-77**	**769**

Source: Company, GIB Capital

Figure 10: Key ratios

Key ratios	2023a	2024e	2025e	2026e
Profitability ratios				
RoA	1%	1%	2%	3%
RoE	5%	2%	7%	10%
RoIC	3%	2%	6%	7%
Sales/Assets	21%	18%	37%	42%
Net margin	7%	3%	5%	7%
Liquidity ratios				
Current Assets/ Current Liabilities	2.8	1.7	2.3	2.5
Debt to Total Equity	197%	236%	246%	225%
Receivable Days	51	93	88	47
Inventory Days	37	42	40	33
Payable days	24	35	33	31
Debt ratios				
Net Debt/EBITDA	13.6	21.0	7.5	5.5
Debt/Assets	62%	65%	65%	63%
Valuation ratios				
P/E	49.5	119.0	31.4	20.8
P/B	0.7	0.6	0.6	0.6
EV/EBITDA	33.2	37.8	12.2	10.3
Div. yield	0.0%	0.0%	1.5%	3.1%

Source: Company, GIB Capital

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