

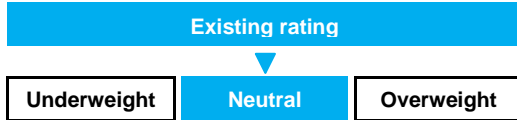


US\$2.524bn Market cap
94% Free float
US\$12.60mn Avg. daily volume

Target price 59.8 3.6% over current
Consensus price 52.8 -8.5% over current
Current price 57.7 as at 2/7/2015

Research Department
ARC Research Team

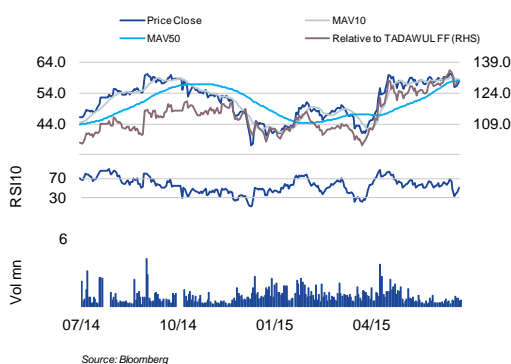
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Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	12-13A	12-14A	12-15E	12-16E
Revenue (mn)	2,786	3,036	2,643	2,745
Revenue Growth	12.7%	9.0%	-13.0%	3.9%
EBITDA (mn)	773	944	869	893
EBITDA Growth	42.2%	22.1%	-7.9%	2.8%
EPS	3.40	4.58	3.92	4.16
EPS Growth	69.7%	34.9%	-14.5%	6.2%

Source: Company data, Al Rajhi Capital

Advanced Petrochemicals Co.

Q2: A healthy quarter

APC reported a healthy set of numbers for Q2 2015. The company posted net income of SAR243mn (up 31.6% y-o-y) beating our estimate as well as consensus estimates by a wide margin. We believe APC may have operated at higher-than-expected utilization rates in Q2, supported by a planned shutdown in the previous quarter. Further, APC also benefitted from lower feedstock costs. We will analyze the beat post the release of the detailed financials. For now, we continue with our Neutral rating with a target price of SAR59.8 a share.

Earnings vs. our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues:** APC is yet to release its Q2 2015 revenues. Given the performance, we expect revenues to come ahead our estimate of SAR698.6mn (consensus: SAR665mn).
- Gross and operating profit:** APC reported gross profit of SAR264mn (+36.9% y-o-y) surpassing our estimate of SAR206.1mn. We believe APC's utilization rates were higher than our expectations. This coupled with lower feedstock costs helped APC post healthy profit growth. Operating income too was ahead of our forecast of SAR195.3mn (consensus: SAR207mn).
- Net profit:** APC's net income of SAR243mn (+31.6% y-o-y) beat our as well as the consensus estimates of SAR192.4mn and SAR190mn respectively.
- Dividend declaration:** APC announced a dividend of SAR0.75 per share (7.5% of the stock's face value) for Q2 2015. The total distribution amount stands at SAR123mn. Record date has been decided as June 30, while details of dividend distribution would be announced on July 9. At current price level, this translates into an annualized dividend yield of 5.2%.
- Valuation and conclusion:** Our calculations indicate that average polypropylene prices in Q2 2015 were around 13% y-o-y lower (+21% q-o-q), suggesting that APC may have operated at higher than expected utilization rates, to more than offset lower prices. We will analyze the financials once the details are released. For now, we reiterate a Neutral rating with a target price of SAR59.8 a share.

Figure 1 APC: Summary of Q2 2015 results

APC: Summary of Q2 2015 results						
SAR (mn)	Q2 2014	Q1 2015	Q2 2015	y-o-y change	q-o-q change	ARC est
Revenues	807.6	467.9	NA	-	-	698.6
Gross profit	192.9	111.1	264.0	36.9%	137.6%	206.1
Gross margin	23.9%	23.7%	-	-	-	29.5%
Operating Profit	183.2	100.3	254.0	38.7%	153.1%	195.3
Net Income	184.6	89.6	243.0	31.6%	171.1%	192.4

Source: Company data, Al Rajhi Capital



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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