



US\$2.030bn Market cap 94% Free float US\$7.03mn Avg. daily volume

Target price 47.6 2.6% over current
Consensus price 55.8 20.3% over current
Current price 46.4 as at 6/10/2015

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Existing rating

Underweight Neutral Overweight

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.

Earnings

Period End (SAR)	12-13A	12-14A	12-15E	12-16E
Revenue (mn)	2,786	3,036	2,603	2,509
Revenue Growth	12.7%	9.0%	-14.3%	-3.6%
EBITDA (mn)	773	944	1,009	973
EBITDA Growth	42.2%	22.1%	7.0%	-3.6%
EPS	3.40	4.58	4.66	4.57
EPS Growth	83.2%	34.9%	1.7%	-1.9%

Source: Company data, Al Rajhi Capital

APC Q3: Robust performance

APC repeated its robust performance in Q3 2015 as well, with net income of SAR234mn (+2.3% y-o-y) surpassing our and the consensus estimates by a sizeable margin. We had expected the company to fare better than many of its Saudi peers, primarily on the back of a steeper decline in the feedstock prices. However, a double-digit jump in operating profit (y-o-y) has taken us by surprise. In this backdrop, we believe the company may have posted a record operating margin in Q3 2015. Investors took the news positively and the stock was up over 6% in the early hours of trade on Wednesday. We will evaluate the results after the release of detailed financials. For now, we maintain our Neutral rating on the stock with a target price of SAR47.6 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 declare the top-line number for Q3 2015. In the wake of healthy performance, we expect the company to report revenues higher than our forecast of SAR594.7mn (consensus: SAR583.5mn).
- **Operating performance:** APC surprised us with a 22.4% jump (y-o-y) in operating profit in Q3, which stood at SAR241mn (ARC estimate: SAR209.9mn and consensus: SAR186mn). We had anticipated marginal increase in volumes y-o-y (on account of the short-term agreement with SATORP that commenced in Q4 2014) to partially offset the polypropylene (PP) price decline (-28% y-o-y), and a steeper decline in the feedstock prices to boost operating profit ~6.6% y-o-y.
- **Net profit:** Despite a stellar operating performance, APC reported a modest 2.3% (y-o-y) increase in net income, indicating that the company may have booked a loss on its investment portfolio. However, the net profit bettered our (SAR206.3mn) and the consensus (SAR172.8mn) estimates.
- **Q3 2015 dividend:** APC recently announced a dividend of SAR0.75 per share in Q3 2015, unchanged y-o-y, except that the company had paid an additional SAR0.25 as extraordinary dividend in Q3 2014. At the current price level, this translates into an annualized dividend yield of 6.3%.

Figure 1 APC: Summary of Q3 2015 results

SAR (mn)	Q3 2014	Q2 2015	Q3 2015	y-o-y change	q-o-q change	ARC est
Revenues	819.8	735.4	NA	-	-	594.7
Gross profit	205.7	264.0	248.0	20.6%	-6.1%	220.0
Gross margin	25.1%	35.9%	-	-	-	37.0%
Operating Profit	196.9	253.5	241.0	22.4%	-4.9%	209.9
Net Income	228.7	243.1	234.0	2.3%	-3.8%	206.3

Source: Company data, Al Rajhi Capital



Valuation & Conclusion: The dual advantage of relatively resilient PP prices and a steeper decline in the naphtha prices seemed to have helped APC post a higher profit even in the weak macro environment. However, with oil price expected to remain in the range of US\$47-50 a barrel over the near-term, we anticipate a limited downside for naphtha prices, suggesting a limited scope for further margin expansion in the coming quarters.

Despite rallying over 15% YTD (Saudi Petrochemical Index: -16.1%), the stock is currently trading at a P/E of 10.2x (2016E), largely in line with the benchmark index's multiple 10.9x. Given the single product focus and the risks associated with it, we continue with the Neutral rating on the stock and a target price of SAR47.6 a share.



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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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