

ADVANCED PETROCHEMICAL



EVENT FLASH

Weaker than expected earnings

Advanced Petrochemical Company (APPC) announced its preliminary 2Q12 results on 10 July 2012 before market hours. Net income came in at SR53.9mn, 7.6% lower than our estimate of SR58.3mn and 9.4% lower than consensus estimates of SR59.5mn. Lower sales volumes due to scheduled maintenance in 2Q12 led to YoY and QoQ decline in earnings. On YoY basis, earnings were also impacted by lower polypropylene prices.

- 2Q12 net income came in lower than our expectations:** APPC reported net income of SR53.9mn in 2Q12 against our estimate of SR58.3mn. The 2Q12 net income was down 65.4% YoY mainly due to lower sales volumes, a 13% YoY decline in benchmark polypropylene prices and increased operating expenses. The company conducted a one month long maintenance work at its plants in May 2012 which lowered production and sales volumes in 2Q12. Net income fell 5.6% QoQ due to lower sales volumes and increased operating expenses.
- 2Q12 gross income missed our estimates by 3.1%:** APPC reported a gross income of SR67.8mn in 2Q12 lower than our expectation of SR69.9mn. Gross income decreased 60.2% YoY which we believe is attributed to lower revenues. Although revenue figures are currently not available, we expect lower production volumes and lower prices to reduce top line on YoY basis. The company's gross income dropped 2.3% QoQ.
- 2Q12 operating income came in 6.4% below our estimates:** APPC's operating income came in at SR58.1mn for 2Q12 against our estimate of SR62.1mn, due to operating costs coming in 23% higher than our estimates. The operating income dropped 63.8% YoY due to lower gross income and higher operating expenses. On QoQ basis, operating income fell 4.2%.
- We believe the deviation in earnings can be attributed to slightly lower operating rates and higher than expected operating expenses. Considering the one month shutdown, we assumed an effective operating rate of 67%. However, we believe the company effectively operated its plants at 65% in 2Q12, which led to the deviation on the gross income level.
- We are currently Neutral on the stock with a price target of SR27.0.** The stock currently trades at a 2012E P/E of 10x. We believe the weaker set of numbers could exert some pressure on the stock price in today's trading session. We await detailed results before updating our estimates.

2Q12 Results Summary

SR mn	2Q12A	1Q12A	2Q11A	% Y o Y	2Q12E	% Var [^]
Gross income	67.8	69.4	170.1	(60.2)	69.9	(3.1)
Operating income	58.1	60.6	160.6	(63.8)	62.1	(6.4)
Net income	53.9	57.1	155.6	(65.4)	58.3	(7.6)
EPS (SR)	0.33	0.35	0.95	(65.4)	0.36	(7.6)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price (SR)	27.0
Current price (SR)	23.0

STOCK DETAILS

52-week range H/L (SR)	34/22
Market cap (\$ mn)	1,005
Shares outstanding (mn)	164
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.9)	(28.5)	(22.2)
Rel. to market	(3.3)	(16.3)	(24.1)

Avg daily turnover (mn)	SR	US\$
3M	24.7	6.6
12M	35.5	9.5

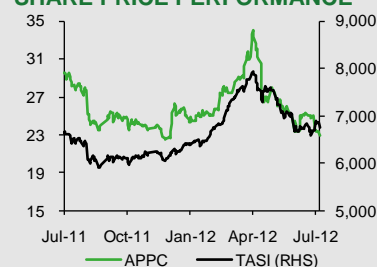
Reuters code	2330.SE
Bloomberg code	APPC AB
www.advancedpetrochem.com	

VALUATION MULTIPLES

	10A	11A	12E
P/E (x)	11.5	7.3	10.0
P/B (x)	2.1	1.9	1.8
EV/EBITDA (x)	7.6	5.8	7.6
Div Yield (%)	7.6	8.7	8.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

- OVERWEIGHT:** Target price represents expected returns in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents expected returns between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

- NR:** Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

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