



US\$1.004bn Market cap
94.6% Free float
US\$6.62mn Avg. daily volume

Target price **29.80** 29.7% over current
 Consensus price **29.91** 30.3% over current
 Current price **22.95** as at 9/7/2012

Research Department

ARC Research Team,

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Existing rating

Underweight

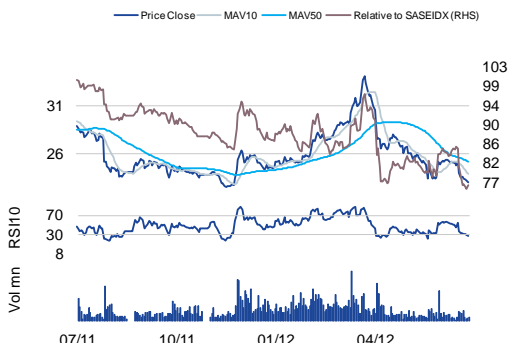
Neutral

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.

Performance



Earnings

Period End (SAR)	12/11A	12/12E	12/13E	12/14E
Revenue (mn)	2,791	2,099	2,115	2,157
Revenue Growth	37.4%	-24.8%	0.7%	2.0%
EBITDA (mn)	751	447	493	606
EBITDA Growth	31.9%	-40.5%	10.2%	23.0%
EPS	3.13	1.42	1.66	2.23
EPS Growth	56.2%	-54.6%	17.2%	34.1%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Advanced Petrochemicals Co

Q2 below expectations

Advanced Petrochemical Company (APC) reported a net profit of SAR53.9mn for Q2 2012, which was below our expectations (SAR59.9mn). Net profit declined by 65.4% y-o-y mainly on account of a steep decline in polypropylene prices and lower sales volume. Q2 performance was also affected by a scheduled maintenance shutdown for three weeks in May. As mentioned in our recent sector report (dated 25 June 2012), we expect product prices to remain under pressure as the global demand recovery is still not in sight and APC being a single-product company, could be affected from weak polypropylene prices. We await the detailed financial results before making changes in our estimates. For the moment, we remain Overweight on the stock with a target price of SAR29.8.

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

- **Q2 revenues not yet published:** APC has not yet reported its revenue figures for Q2 2012. We expect revenues of SAR472.8mn in Q2 based on the fact that the company's top-line has been affected by the drop in polypropylene prices in the last few weeks as well as the seasonal maintenance in May 2012. Polypropylene prices fell by 10% to US\$1274/ton in Q2 as compared to Q1 2012 average prices, owing to factors such as the Eurozone debt crisis and a slowdown in key Asian markets.
- **Operating profit 9% below our estimates:** APC reported operating profit of SAR58.1mn for Q2, down 63.8% y-o-y, which is 9% below our estimates, while the gross profit was 4% below our estimates (SAR67.8mn versus our estimate of SAR70.9mn). We believe that the lower operating profit may be attributed to higher-than-expected SG&A expenses.
- **Weak product prices point towards subdued demand ahead:** Polypropylene prices have tumbled from US\$1,433/ton in early May 2012 to US\$1,213/ton in the first week of July. We do not expect a price recovery in the next 2-3 months due to the weak demand environment. Hence, we expect a subdued performance from APC in Q3, despite a rise in operating rates after a maintenance shutdown in Q2.
- **Valuation and Conclusion:** Although APC has posted weak results in Q2 2012, we believe this is not on account of internal inefficiencies but has more to do with the steep decline in its product prices. Given the weak and uncertain global environment, we remain cautious on our outlook for APC for the next few quarters. For the moment, we remain Overweight on the stock with a target price of SAR29.8.



Corporate summary

APC is a pure-play producer of polypropylene. APC is a stand-alone company unlike other companies in Saudi Arabia, as most of its shares are owned by public shareholders. APC, earlier known as Advanced Polypropylene Company is listed on the TASI following an IPO in 2006. The company started commercial production of propylene in 2008, and is one of the few companies in the world which manufactures on-purpose polypropylene.

Share information

Market cap (SAR/US\$) 3.764bn / 1.004bn
 52-week range 22.50 - 34.00
 Daily avg volume (US\$) 6.62mn
 Shares outstanding 164.0mn
 Free float (est) 94.6%

Performance: 1M 3M 12M
 Absolute -1.9% -28.5% -22.2%
 Relative to index -3.3% -16.3% -24.1%

Major Shareholder:
 Polypropylene National Co. Ltd. 7.9%
 Public Institution for Social Security 5.3%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/11A	12/12E	12/13E	12/14E
Revenue (SARmn)	2,791	2,099	2,115	2,157
EBITDA (SARmn)	751	447	493	606
Net Profit (SARmn)	513	233	273	366
EPS (SAR)	3.13	1.42	1.66	2.23
DPS (SAR)	1.72	1.60	2.00	1.78
EPS Growth	56.2%	-54.6%	17.2%	34.1%
EV/EBITDA (x)	5.6	9.4	9.4	8.8
P/E (x)	7.3	16.2	13.8	10.3
P/B (x)	1.9	1.9	1.9	1.9
Dividend Yield	7.5%	7.0%	8.7%	7.8%

Source: Company data, Al Rajhi Capital

Figure 1 APC: summary of Q2 2012 results

(SAR mn)	Q2 2011	Q1 2012	Q2 2012	% chg y-o-y	% chg q-o-q	ARC est
Revenue	743	586	Not disclosed	n.a.	n.a.	473
EBITDA	213	110	Not disclosed	n.a.	n.a.	113
EBITDA margin (%)	28.7%	18.8%	n.a.			23.9%
Operating profit	161	61	58	-63.8%	-4.2%	64
Net profit	156	57	54	-65.4%	-5.6%	60

Source: Company data, Al Rajhi Capital



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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 15% 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 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 5% 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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