Initiation Report

July 5 2018

Rita Guindy, CFA
rita.guindy@arqaamcapital.com
+20227289658

Sidharth Saboo
Arqaam Capital Research Offshore s.a.l

Boubyan Petrochemical Co. (BPC)

A mixed bag of growth; initiate with Buy

- **Initiate with Buy at SoTP-based TP of KWD fils 1,155 ~ 33% upside.**
- **Petchem player Equate, Boubyan's primary investment (74% of SoTP), contributes 53% of the group's recurring FY 18-21e EPS CAGR on higher petchem prices and new MEG capacity (+30% in FY 19e) in the US.**
- **Boubyan's diversification strategy into education and healthcare (19% of SoTP), provides attractive long-term returns, in our view, and caters for 27% of the group's FY 18-21e EPS CAGR.**
- **Further potential impairments cloud earnings visibility (KWD 51m impaired in FY 16-18 – c.11% of market cap), although recurring earnings growth has been steady (FY 15-18A EPS CAGR of 5%).**

Equate remains the key earnings contributor (72% of FY 19e EPS), for now. We value BPC's 9% stake in Equate Group (Equate + TKOC*) at KD fils 1,141/share - 74% of our core portfolio valuation. Higher petchem prices (+4% CAGR in FY 17-20e), together with increased MEG capacity starting H2 FY 19e (+30%), imply 10% EPS CAGR for Equate in FY 17-20e.

Education and healthcare present a long-term opportunity. The education and healthcare portfolio (EDU, Nafais, EYAS and Al Borg) represents 19% of our core asset valuation, and we expect the EPS contribution of education and healthcare to grow to 19% in FY 20e from 7% in FY 17A, given Boubyan's continued strategic focus on their growth. Both education and healthcare remain structural growth stories in Kuwait. Despite high literacy rate (>99% for the 15-24 year age bracket) and high government spending on education (12% of budget), the quality of education in Kuwait is considered sub-par (IMF Country report – Dec-2017). Growth in the private school segment of general education is likely to continue to outpace growth in public schools in the foreseeable future, attributable to perceptions of better-quality education. Low spending on healthcare in Kuwait (3% vs. 9% of GDP in advanced economies), despite high per capita income, also indicates growth potential.

BPC budgets KWD 70-80m for M&A for the next 2-3 years as the shopping spree continues. BPC acquired 82.7% in Education Holding Group and increased its stake in Al Kout Industrials (from 24.8% to 46.5%) in FY 18A, at a total cost of c.KWD 80m (USD 264m). BPC's medium-term target is to increase the net income contribution of the non-Equate portfolio to KWD 20m vs. KWD 7m in FY 18A. On our numbers, the existing non-Equate portfolio should contribute c.KWD 16.5m to net income in FY 21e, while continued M&A (we expect BPC to shop at c.KWD 25-40m p.a.), is likely to fulfil BPC's targets.

Initiate with Buy, FTSE EM index inclusion (Sep) may be a short-term catalyst. BPC's share price is up 30% in the ytd, mainly thanks to Equate's improved performance (TTM EPS +67% y/y). We see c.33% further upside, mainly driven by an increasing contribution from BPC's non-Equate portfolio. The stock still trades at reasonable multiples of 10.2x FY 19e P/E and provides a sustainable dividend yield of +6%. Further potential impairments, although non-cash and have limited impact on our DCF-based valuation, may lead to negative earnings surprises. On the flip side, BPC should be added to the FTSE EM index over two phases (Sep-18, Dec-18), with a total weight of c.2bps and expected inflows of c.USD 50m, equivalent to c.43 trading days (though Sep-18 inclusion would only see half of the inflows at c.USD 25m).

BUY KWD fils 1,155

Petrochemicals / Kuwait

Bloomberg code	BPCC KK
Market index	Kuwait Bourse
Target Price (KWD fils)	1,155
Upside (%)	33.2

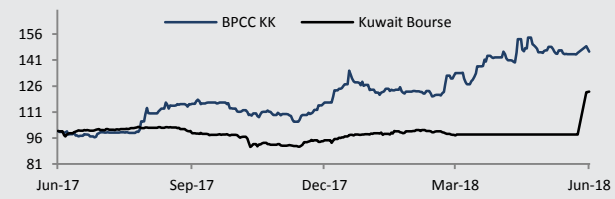
Market data 3/07/2018	
Last closing price (KWD fils)	867
52 Week range (KWD fils)	540.0-885.0
Market cap (KWD m)	433
Market cap (USD m)	1,430
Average Daily Traded Value (KWD m)	2.9
Average Daily Traded Value (USD m)	9.7
Free float (%)	79%

Year-end ('000 KWD)	2018	2019e	2020e	2021e
Revenues	28,297	55,810	58,496	61,089
EBITDA	44,804	55,226	56,343	58,461
Net income	5,456	43,970	45,619	48,066
EPS	10.59	85.36	88.56	93.31
EPS growth (%)	(47.5)	705.9	3.7	5.4
P/E (current price)	81.9	10.2	9.8	9.3
DPS	45.00	51.22	53.14	69.98
Div. yield (%)	5.2	5.9	6.1	8.1
FCF/share	77.9	89.5	98.1	101.1
FCF yield (%)	6.6	7.5	8.3	8.5
CAPEX	716	3,295	3,695	3,885
CAPEX/sales (%)	2.5	5.9	6.3	6.4
Net Debt/EBITDA (x)	3.5	2.5	2.1	1.7
EV/EBITDA (x)	13.6	11.1	10.9	10.5
RoAE (%)	10.7	14.6	14.2	14.1
RoIC (%)	10.4	11.1	11.2	11.7

Note (*): TKOC stands for The Kuwait Olefins Company

* Important disclosure in the disclaimer, refer to clause 7.5

Price Performance



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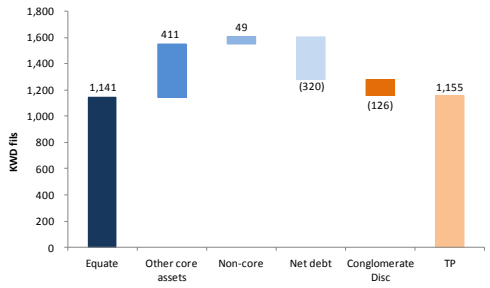
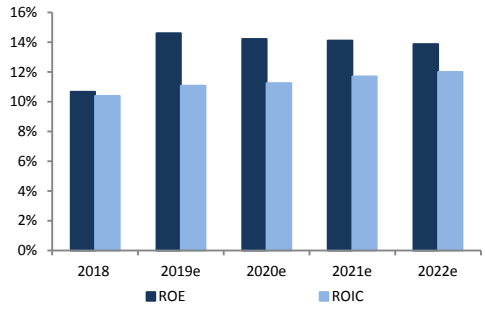
Abacus

Arqaam Capital Fundamental Data

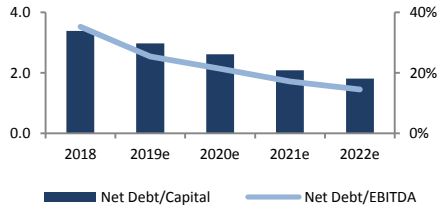
SoTP Valuation Summary



Returns on Equity and Invested Capital



Gearing



Boubyan Petrochemical

Year-end	2017	2018	2019e	2020e	2021e	2022e
Financial summary						
Reported EPS	20.18	10.59	85.36	88.56	93.31	96.37
Diluted EPS	20.19	10.59	85.36	88.56	93.31	96.37
DPS	40.00	45.00	51.22	53.14	69.98	72.28
BVPS	573.67	564.36	604.72	642.06	682.24	708.62

Year-end	2017	2018	2019e	2020e	2021e	2022e
Valuation metrics						
P/E (x) (current price)	n/m	n/m	10.2	9.8	9.3	9.0
P/E (x) (target price)	n/m	n/m	13.5	13.0	12.4	12.0
EV/EBITDA (x) (current price)	21.1	13.6	11.1	10.9	10.5	10.2
EV/EBITDA (x) (target price)	26.2	17.0	13.8	13.5	13.0	12.7
EV/FCF (x)	19.5	15.2	13.3	12.1	11.7	11.4
Free cash flow yield (%)	5.1	6.6	7.5	8.3	8.5	8.7
Dividend yield (%)	4.6	5.2	5.9	6.1	8.1	8.3

Year-end	2017	2018	2019e	2020e	2021e	2022e
Growth (%)						
Revenues	(15.6)	9.7	97.2	4.8	4.4	2.6
EBITDA	(2.4)	54.7	23.3	2.0	3.8	2.5
EBIT	(3.0)	57.7	19.6	2.1	4.0	2.7
Net income	(16.9)	68.3	40.7	3.7	5.4	3.3
Book value	(1.4)	(1.6)	7.2	6.2	6.3	3.9

Year-end	2017	2018	2019e	2020e	2021e	2022e
Returns (%)						
RoAA	4.5	6.9	8.8	9.2	9.6	9.7
RoAE	6.2	10.7	14.6	14.2	14.1	13.9
RoIC	7.1	10.4	11.1	11.2	11.7	12.0
FCF margin	5.1	6.6	7.5	8.3	8.5	8.7

Year-end	2017	2018	2019e	2020e	2021e	2022e
Gearing (%)						
Net debt/Capital	22.5	33.8	29.8	26.2	20.9	18.1
Net debt/Equity	30.7	54.3	45.0	36.5	28.5	23.9
Interest cover (x)	9.2	7.5	10.0	11.8	13.8	14.9
Net debt/EBITDA (x)	3.1	3.5	2.5	2.1	1.7	1.5

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Abacus *Arqaam Capital Fundamental Data*

Company profile

Boubyan Petrochemical Company (BPC) was established in 1995 as the first privately held company to enter the government-controlled petrochemical arena in Kuwait. BPC entered into a JV with Petrochemical Industrials Company (PIC) and Union Carbide (subsequently acquired by Dow Chemical) and formed Equate Petrochemical Company - the largest petrochemical complex in Kuwait.

BPC has since evolved into an industrial holding company with investments focused in petrochemicals and the industrial/manufacturing sectors and has recently also ventured into the education and healthcare sectors. BPC's 9% stake in Equate continues to be the single largest investment in its portfolio – contributing to 2/3 of its net assets; 79% of net income in FY 18A and 74% of our core valuation.

Investment thesis

We value BPC's 9% stake in Equate Group (Equate + TKOC) at KD fils 1,141/share - 74% of our core portfolio valuation. Higher petchem prices, together with increased capacity starting H2 FY 19e, imply double digit (10%) EPS CAGR for Equate in FY 17-20e. Meanwhile, the education and healthcare portfolio (EDU, Nafais, EYAS and Al Borg) represents 19% of our core asset valuation; we expect the EPS contribution of education and healthcare to grow to 19% in FY 20e from 7% in FY 17A, given Boubyan's continued strategic focus on their growth.

Equate's improved performance (TTM EPS +67% y/y) has been the main stock price driver in last 6 months, we think. However, we see c.33% further upside from current levels, mainly driven by an increasing contribution from BPC's non-Equate portfolio. The stock still trades at reasonable multiples of 10.2x FY 19e P/E and provides a sustainable dividend yield of +6%.

Ownership Structure

Shareholders	%
Sons Mubarak Al-Dabbous Company	6.1%
Public Institution for Social Security (PIFSS)	6.0%
Ali Alghanim Sons Company for General Trading and Contracting	5.5%
Others	82.4%

Source: Boursa Kuwait

Boubyan Petrochemical

Year-end	2017	2018	2019e	2020e	2021e	2022e
Income statement (KWD'000)						
Sales revenue	25,796	28,297	55,810	58,496	61,089	62,648
Cost of sales	(21,822)	(23,840)	(43,092)	(44,978)	(46,701)	(47,643)
Gross profit	**3,974**	**4,457**	**12,718**	**13,518**	**14,388**	**15,005**
SG&A	(5,454)	(8,965)	(11,917)	(12,217)	(12,514)	(12,511)
Dividend income	19,322	30,758	40,656	40,558	41,558	42,089
Gain/(loss) on financial assets	5,634	8,784	0	0	0	0
Share of results of associates & JV	4,279	8,833	10,805	11,473	12,019	12,350
EBITDA	**28,956**	**44,804**	**55,226**	**56,343**	**58,461**	**59,893**
Depreciation	(1,422)	(1,394)	(3,318)	(3,367)	(3,370)	(3,324)
EBIT	**27,535**	**43,410**	**51,907**	**52,976**	**55,091**	**56,569**
Interest expense	(3,006)	(5,809)	(5,204)	(4,495)	(4,005)	(3,792)
Others	(13,735)	(32,878)	667	700	735	750
Profit before tax	**10,794**	**4,723**	**47,370**	**49,181**	**51,820**	**53,526**
Taxes	(317)	(126)	(2,132)	(2,213)	(2,332)	(2,409)
Net profit (group)	**10,402**	**4,522**	**45,163**	**46,893**	**49,413**	**51,042**
Minorities	-	(934)	1,193	1,274	1,347	1,402
Net profit (parent)	**10,402**	**5,456**	**43,970**	**45,619**	**48,066**	**49,641**
Impairments and one-offs	(8,172)	(25,803)	-	-	-	-
Recurring Net profit	**18,574**	**31,259**	**43,970**	**45,619**	**48,066**	**49,641**

Year-end	2017	2018	2019e	2020e	2021e	2022e
Balance sheet (KWD'000)						
Cash and equivalents	16,625	18,070	19,400	9,436	27,861	29,386
Receivables	11,081	15,417	20,335	20,906	21,639	21,962
Inventories	7,494	5,739	5,607	5,762	5,906	5,885
Tangible fixed assets	18,428	14,139	14,116	14,444	14,959	15,698
Other assets including goodwill	362,578	441,416	441,416	441,416	441,416	441,416
Total assets	**416,205**	**494,782**	**500,873**	**491,965**	**511,782**	**514,348**
Payables	9,734	17,200	18,302	19,125	19,850	20,129
Interest bearing debt	107,337	176,029	159,712	130,267	128,150	116,508
Other liabilities	3,632	3,630	3,630	3,630	3,630	3,630
Total liabilities	**120,703**	**196,859**	**181,644**	**153,021**	**151,629**	**140,267**
Shareholders equity	295,502	290,707	311,497	330,734	351,429	365,020
Minorities	-	7,216	7,732	8,210	8,723	9,061
Total liabilities & shareholders equity	**416,205**	**494,782**	**500,873**	**491,965**	**511,782**	**514,348**

Year-end	2017	2018	2019e	2020e	2021e	2022e
Cash flow (KWD'000)						
Cashflow from operations	**28,724**	**49,561**	**49,410**	**54,225**	**55,978**	**57,461**
Net capex	(782)	(716)	(3,295)	(3,695)	(3,885)	(4,063)
Free cash flow	**31,333**	**40,136**	**46,116**	**50,529**	**52,092**	**53,398**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(20,621)	(20,604)	(23,180)	(26,382)	(27,371)	(36,050)
Net inc/(dec) in borrowings	9,519	68,692	(16,317)	(29,445)	(2,117)	(11,642)
Other investing/financing cash flows	(3,006)	(5,809)	(5,204)	(4,495)	(4,005)	(3,792)
Net cash flow	**(3,269)**	**1,446**	**1,330**	**(9,964)**	**18,425**	**1,525**
Change in working capital	85	4,882	(3,684)	95	(151)	(24)

Rita Guindy, CFA
rita.guindy@arqaamcapital.com
+20227289658

Sidharth Saboo
Arqaam Capital Research Offshore s.a.l

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Investment case

- **Our SoTP valuation of KWD fils 1,155/share leaves 33% upside; initiate with Buy.**
- **Equate, Boubyan's primary investment (74% of SoTP), contributes 53% of the group's recurring FY 18-21e EPS CAGR on higher petchem prices and capacity.**
- **Diversification into education and healthcare (19% of SoTP) presents a long term strategic play for Boubyan (27% FY 18-21e EPS CAGR).**
- **Further potential impairments cloud earnings visibility (KWD 51m impaired in FY 16-18 – 11% of market cap); although they do not impact our DCF-based valuation, and recurring EPS growth has been steady (FY 15-18A CAGR of 5%).**

A long-term strategic investor in petchems, education and healthcare

Boubyan Petrochemical Company (BPC) was established in 1995 as the first privately held company to enter the government-controlled petrochemical arena in Kuwait. BPC entered into a JV with Petrochemical Industrials Company (PIC) and Union Carbide (subsequently acquired by Dow Chemical) and formed Equate Petrochemical Company - the largest petrochemical complex in Kuwait.

BPC has since evolved into an industrial holding company with investments focused in petrochemicals and the industrial/manufacturing sectors and has recently also ventured into the education and healthcare sectors. BPC's 9% stake in Equate continues to be the single largest investment in its portfolio – contributing 2/3 of its net assets; 79% of net income in FY 18A and 74% of our core valuation.

To reduce its reliance on ethylene glycol (2,410 ktpa) and polyethylene (1,000 ktpa) producer Equate, BPC acquired several other industrial companies: **Muna Noor** (Manufacturing), **Al Kout Industrial Projects** (Industrial), **Awazel** (Manufacturing) and **Al Borg Medical Laboratories** (Healthcare). Recently, Boubyan forayed into the education and health care sectors as well through its acquisition of **Educational Group Holding**, **Nafais Holdings** and **EYAS** (Exhibit 1).

Exhibit 1: BPC's main subsidiaries and investments

Investments/associates	% owned	Country	Year	Subsidiaries	% owned	Country	Year
Equate + TKOC	9.0%	Kuwait	1995, 2005	Educational Holding	82.7%	Kuwait	2017/18
Al Kout	46.5%	Kuwait	2010, 2017/18	EYAS	55.1%	Kuwait	2017/18
Al Borg	24.0%	Saudi Arabia	2012, 2016	Muna Noor Group	100.0%	Oman	2005
Awazel	20.8%	Saudi Arabia	2012	Boubyan Plastic Industries	100.0%	Kuwait	1997
Nafais	21.1%	Kuwait	2016/17	Jubail Integrated Packaging	100.0%	Saudi Arabia	2014

Source: Company Data, Arqaam Capital Research

We see continued growth at BPC's crown jewel Equate, on the back of a pickup in oil and petchem prices, together with increasing Ethylene Glycol capacity (+750 ktpa to 3,160 ktpa) at MEGlobal (100% owned by Equate) (Exhibit 2) – representing about 53% of Boubyan's FY 18-21e recurring EPS CAGR. Given the company's focus on diversification through M&A and organic growth, we expect the EPS contribution of Equate, albeit still significant, to decline to 72% in FY 19e (FY 18A: 79%) and to 70% in FY 21e.

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Exhibit 2: BPC's net income breakdown

KWD'000	FY 17A	FY 18A	FY 19e	FY 20e	FY 21e
EQUATE + TKOC	**18,542**	**30,344**	**40,221**	**40,101**	**41,078**
% of total income	*80%*	*79%*	*72%*	*71%*	*70%*
EDU	**0**	**2,973**	**5,701**	**6,090**	**6,438**
% of total income	*0%*	*8%*	*10%*	*11%*	*11%*
EYAS* (direct stake)	**0**	**0**	**1,302**	**1,395**	**1,478**
% of total income	*0%*	*0%*	*2%*	*2%*	*3%*
Nafais	**0**	**2,274**	**1,984**	**2,130**	**2,285**
% of total income	*0%*	*6%*	*4%*	*4%*	*4%*
Al Borg	**1,624**	**1,031**	**1,245**	**1,443**	**1,587**
% of total income	*7%*	*3%*	*2%*	*3%*	*3%*
Al Kout	**1,397**	**1,486**	**3,372**	**3,461**	**3,518**
% of total income	*6%*	*4%*	*6%*	*6%*	*6%*
Awazel	**1,258**	**461**	**678**	**737**	**780**
% of total income	*5%*	*1%*	*1%*	*1%*	*1%*
Muna Noor	**(312)**	**(1,180)**	**200**	**350**	**450**
% of total income	*-1%*	*-3%*	*0%*	*1%*	*1%*
Total core investments	**22,508**	**37,389**	**54,705**	**55,709**	**57,615**
Non-core	750	414	435	457	479
Other income/(loss)	9	1,106	667	700	735
Total income	**23,273**	**38,370**	**55,806**	**56,865**	**58,829**
Total Expenses	(4,699)	(7,112)	(11,836)	(11,246)	(10,763)
Normalised Net Income	**18,574**	**31,259**	**43,970**	**45,619**	**48,066**
Impairments	(8,172)	(25,803)	0	0	0
Reported Net Income	**10,402**	**5,456**	**43,970**	**45,619**	**48,066**

Source: Company Data, Arqaam Capital Research. Note (*): EYAS 34.5% Indirect stake contribution included in EDU's projection

Potential index inclusions could be medium-term share price catalysts

We expect BPCC to be included in the FTSE EM index at the time of the Kuwait upgrade

FTSE announced in Sep-17 that it will be including Kuwait in its EM index in 2018, with implementation to take place over two phases, Sep-18 and Dec-18. The cut-off for price and liquidity for the Sep-18 review was June 30 and is already behind us with BPCC now having met the criteria for inclusion into the EM index, on our numbers. The stock met the liquidity criteria for 10 of the past 12 months, the minimum required, while also comfortably exceeding the size requirements. BPCC should be added to the index over the two phases starting in September, with a total weight of c.2bps and expected inflows of c.USD 50m, equivalent to c.43 trading days (though September inclusion would only see half of the inflows at c.USD 25m).

Boubyan could also meet the criteria for MSCI Frontier Market inclusion in November

Kuwait continues to be classified as a Frontier Market by MSCI, for now. MSCI has recently launched a consultation to potentially upgrade Kuwait to Emerging Market status, effective in June 2020, in a best-case scenario. However, Kuwait remains in the FM index. On our numbers, BPCC could potentially meet the criteria for inclusion in the FM space in November should the current level of liquidity hold, though it is still too early to determine whether it will be included in the Standard or Small Cap size segments, as it is just on the edge. Nonetheless, inclusion into the Frontier Markets space should be positive, though with negligible passive inflows.

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SOTP valuation of KWD fils 1,155/share yields 33% upside; mainly driven by Equate

Boubyan Petrochemical Company's main investment is the 9% stake in Equate group (Equate + The Kuwait Olefins Company or TKOC). The company is in a sweet spot as petrochemical prices have been on the rise and are expected to remain at elevated levels relative to 2017, as industry costs have crept up along with the uptick in oil prices (+30% ytd CY 18A vs. CY 17A).

We use a sum of the parts (SoTP) approach to value BPC, based on DCF valuation for the individual investments/subsidiaries. Equate is the largest contributor to our TP with 74% of core valuation (before adding non-core investments, and deducting net debt and the conglomerate discount), followed by EDU Holdings (11%). Al Kout Industrial and Nafais contribute 5% and 4% of core valuation, respectively, while Al Borg and Awazel each represent 2%. EYAS direct stake of 20.6% (in addition to indirect stake through EDU) contribute 2% to core valuation. That said, we value Boubyan Petrochemicals' core holdings at KWD fils 1,552/share. Adding non-core investments at 10% discount to book value and adjusting for net debt (KWD fils 320/share), yields an equity value KWD fils 1,281/share. After deducting a conglomerate discount of 10% (KWD fils 126/share), we arrive at our TP of KWD fils 1,155/share. This implies potential upside of 33% from the current price of 867/share.

We initiate coverage on Boubyan Petrochemicals with a Buy Rating, and highlight Boubyan's sustainable dividend yield of +6%, on our numbers. The stock is currently trading at (recurring) FY 19e P/E of 10.2x, c.30% below petchem industry peers, and EV/EBITDA of 11.1x, despite FY 18-21e EPS CAGR of 15% and EBITDA CAGR of 9% (vs. 8% and 6% for the sector).

Exhibit 3: SoTP valuation summary

KWD m	% ownership	Valuation methodology	Total EV	Total Equity	Proportionate EV	Proportionate Equity	TP KWD fils/share	Impl. EV/EBITDA FY 18e/19e (x)	% of TP
Petrochemicals							**1,141**		**74%**
Equate	9.0%	DCF	7,314	6,532	658	588	1,141	12x	74%
Education & healthcare							**297**		**19%**
EDU	82.7%	DCF	98	106	81	88	170	13x	11%
Nafais	21.1%	DCF	148	151	31	32	62	11x	4%
Al Borg	24.0%	DCF	79	76	19	18	35	12x	2%
EYAS* (direct stake)	20.6%	Transaction value	61	74	13	15	30	7x	2%
Industrials							**79**		**5%**
Al Kout	46.5%	DCF	89	91	41	41	79	8x	5%
Manufacturing							**35**		**2%**
Awazel	20.8%	DCF	52	62	11	13	25	12x	2%
Muna Noor	100.0%	0.9x P/BV	n/a	5	n/a	5	10	n/a	1%
Subtotal for core units						**799**	**1,552**		**100%**
Subtotal for non-core units		**0.9x P/BV**				**25**	**49**		
Total						**825**	**1,601**		
Cash		FY 18A				11	22		
Debt		FY 18A				176	(342)		
Net debt						**165**	**(320)**		
BPC SoTP						660	1,281		
Conglomerate discount*							10%		
BPC SoTP target price						**595**	**1,155**		

Source: Arqaam Capital Research. Note: EYAS Indirect stake contribution included in EDU. Note (*): The conglomerate discount also accounts for holding company costs which the company does not disclose separately.

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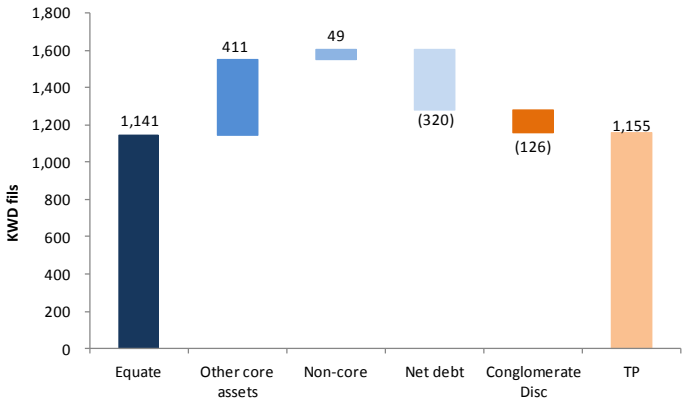
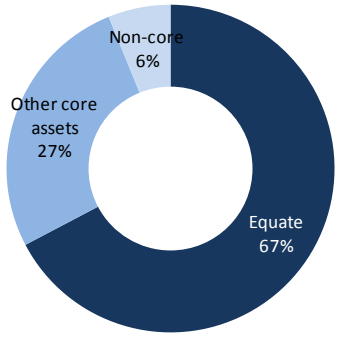
Exhibit 4: Summary of SoTP valuation



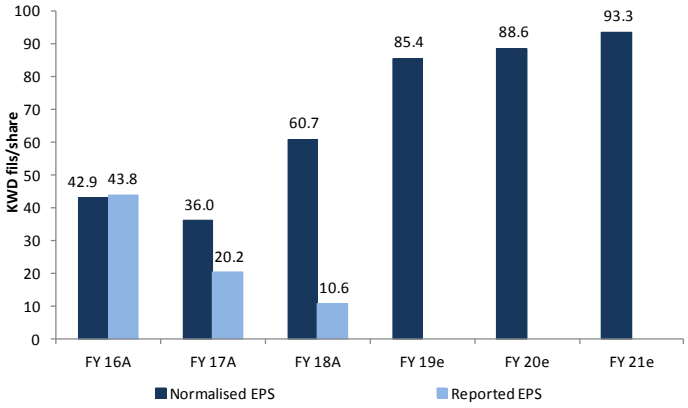
Source: Arqaam Capital Research

Exhibit 5: BPC portfolio by net asset value



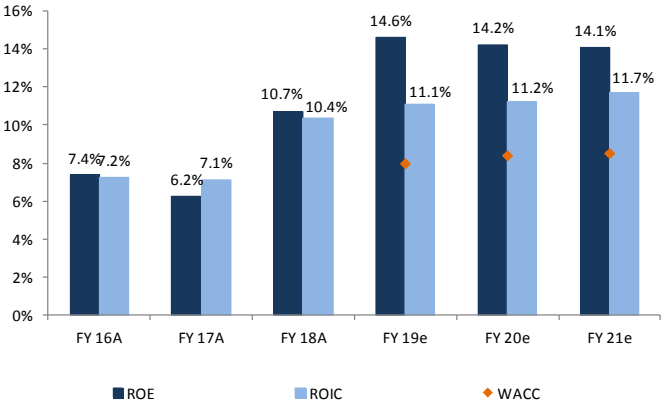
Source: Arqaam Capital Research

Exhibit 6: BPC normalized EPS expected to improve supported by strong performance at Equate and increased contribution from non-Equate portfolio



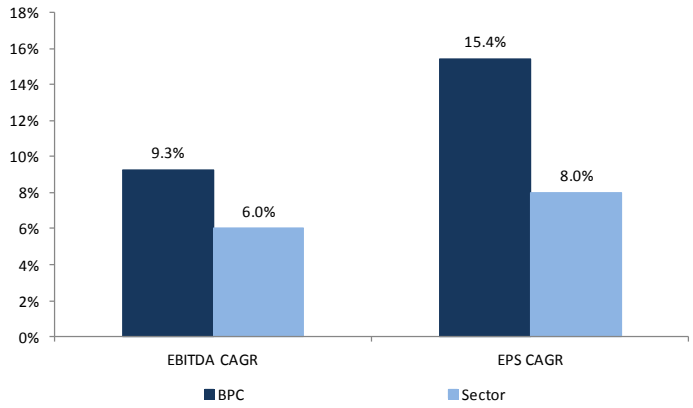
Source: Company data, Arqaam Capital Research

Exhibit 7: BPC RoIC expected to exceed WACC in the forecasting period



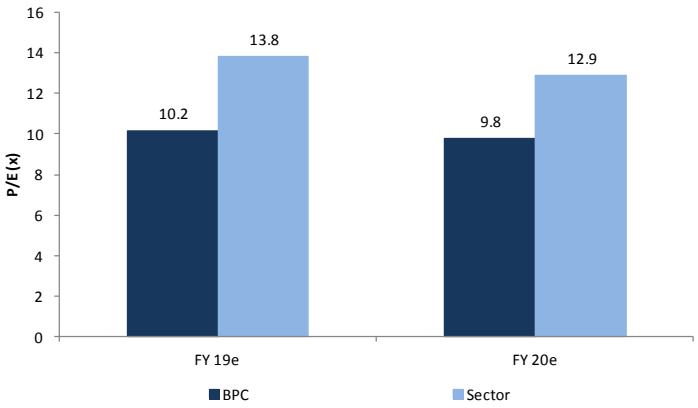
Source: Company data, Arqaam Capital Research

Exhibit 8: BPC FY 18-21e EBITDA/EPS CAGR vs. petchem sector



Source: Company data, Arqaam Capital Research

Exhibit 9: BPC trades c. 30% below petchem sector P/E



Source: Company data, Arqaam Capital Research

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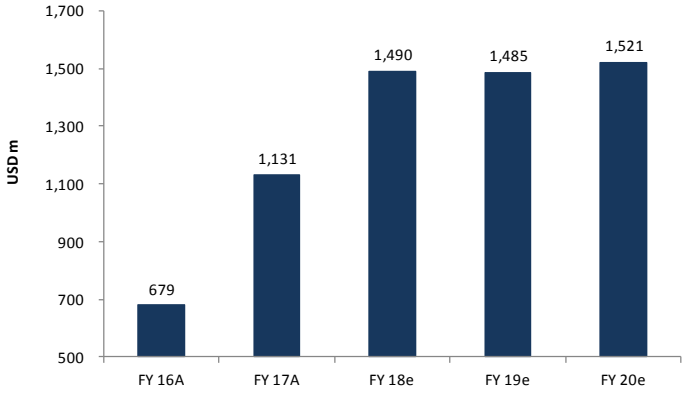
Equate expected to post EPS CAGR of 10% in FY 17-20e on higher prices and capacity

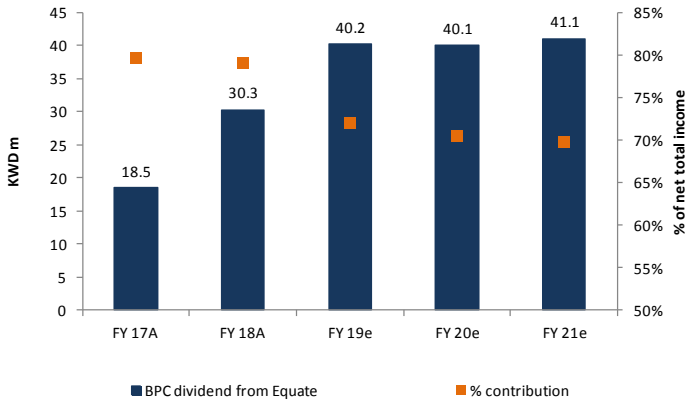
We expect Equate's net income to grow 32% y/y in FY 18e (Dec-year end) on the back of higher Mono Ethylene Glycol (MEG) and polyethylene (PE) prices. FY 19e/20e earnings are expected to be supported by increased MEG capacity - new capacity of 750 ktpa in addition to its 2,410 ktpa (31% increase), expected to start by H2 FY 19e. The expansion cost for Equate is expected to be above USD 1bn, financed by debt and internal equity. We expect the capacity increase to add 12% to FY 20e revenues, when fully ramped up, although we see FY 19e/20e revenue growth being toned down due to normalizing petchem prices (at oil price of USD/bbl 68/65, or -3% /-4% y/y). Equate has high operating leverage as costs are largely fixed, and we therefore expect high prices in FY 18e (+20% y/y) to bode well for margins and profitability.

Exhibit 10: Equate net income growth continues into FY 20e



Source: Company data, Arqaam Capital Research

Exhibit 11: Equate remains BPC's main income contributor



Source: Company data, Arqaam Capital Research

Education and healthcare will be the next main growth drivers for BPC's earnings

To reduce its earnings dependence on Equate's petchem business, Boubyan has been diversifying into a wide array of different sectors. The company has spent KWD c.80m in FY 18A to acquire 82.7% in Educational Holding Group and increase its ownership in Al Kout Industrial projects from 24.8% to 46.5%. BPC's medium term objective is to increase the contribution of its non-Equate portfolio. Education and healthcare are likely to remain a key focus area for BPC. We expect the total income contribution of these segments to increase to 19% in FY 20e vs. 7% in FY 17A. BPC plans to spend another KWD 25-40m in FY 19e (or KWD 70-80m in 2 to 3 years) on acquisitions, which may help reach its goals.

Both education and healthcare remain structural growth stories in Kuwait. Kuwait has a high literacy rate of >99% for population aged 15-24 years and government spending on education remains high (c. 12% of total budget). Despite the seemingly higher spending, quality of education in considered sub-par in Kuwait as measured by Kuwait's average math score in TIMSS (Trends in International Mathematics and Science Study) being lower than that of many peer countries (source: IMF Country report – December 2017). This is likely to continue to drive growth in the private school segment of general education (currently c.40% vs. 60% government) and outpace growth in public schools for the foreseeable future. Also, Kuwait's population is expected by the IMF to grow at a 2.8% CAGR until FY 20e. The rapidly expanding number of school and college pupils, made up of both nationals and expatriates, is expected to drive education demand and lead to an increase in student enrolment.

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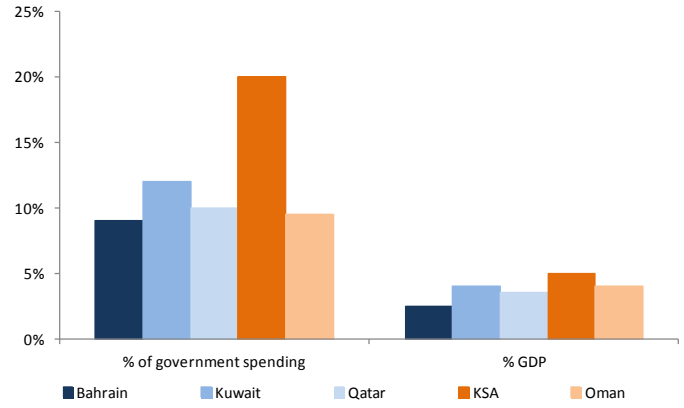
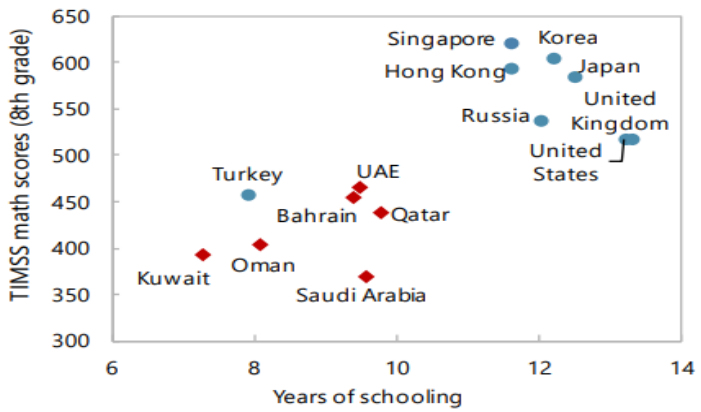
Exhibit 12: Government spending on education high in Kuwait..



Source: IMF Country Report (Kuwait – Dec 2017), Arqaam Capital Research

Exhibit 13: .. but quality of education remains poor (years of schooling and performance in math)

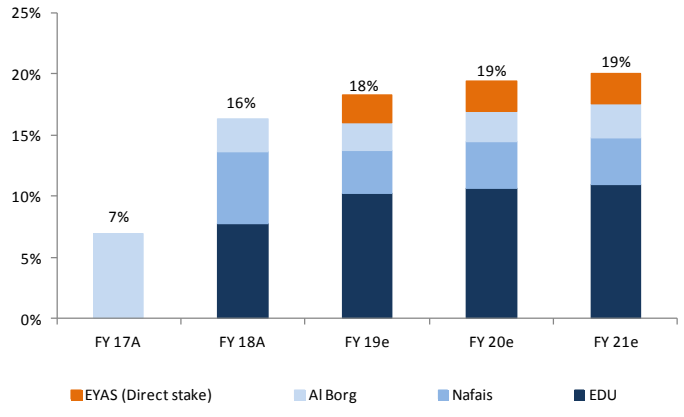


Source: IMF Country Report (Kuwait – Dec 2017), Arqaam Capital Research

Growth potential for healthcare sector remains high in Kuwait. Also, on healthcare, Kuwait's per capita income stands well above that of many other emerging and developed countries in the world. However, spending on healthcare as a percentage of the GDP remains relatively modest. Kuwait's healthcare spending is just 3% of its GDP whereas the advanced economies of the world spend more than 9% of GDP on healthcare. This shows Kuwait's inadequacy in terms of healthcare spending or in other words, healthcare expenditure in the GCC and Kuwait in particular, and suggests significant room for growth and improvement to which BPC would be part through its new investments in this space.

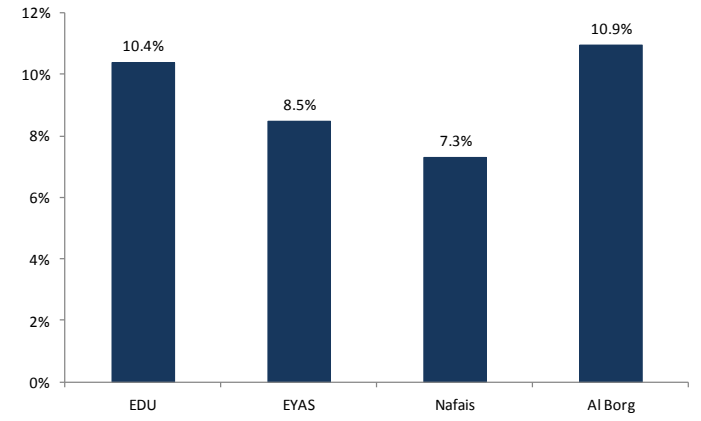
We note that the health expenditure per capita in Kuwait witnessed two-fold growth in the last two decades to USD 1,386/capita in 2014 from just USD 618/capita in 1995. This figure is significantly lower than the average USD 3,531/capita spent by OECD countries. In fact only 2 of the 34 OECD countries spend below USD 1,500/capita on healthcare with the US standing out as the leader with a per capita expenditure of USD 9,532. The same conclusion is reached when comparing Kuwait's health expenditure to the total yearly expenditure of the country.

Exhibit 14: Education and health sector portfolio contribution to BPC total income



Source: Company data, Arqaam Capital Research

Exhibit 15: Education and health sector portfolio companies FY 17A-20e EPS CAGR



Source: Arqaam Capital Research

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Potential further impairments may cloud earnings visibility, but do not affect valuation

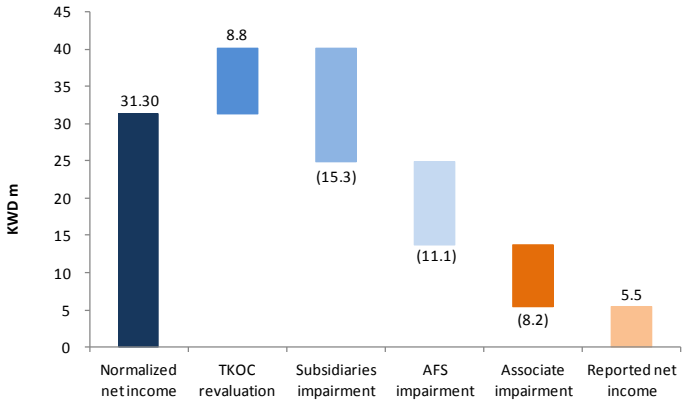
BPC booked significant impairments in both FY 17A (KWD 13m) and FY 18A (KWD 34m) which materially clouded the otherwise strong bottom line performance. BPC's one-off impairments and revaluations in FY 18A amounted to KWD 25.8m (of which KWD 34m impairments)

- KWD 15.3m impairment at subsidiaries
- KWD 11.1 impairment in financials assets for sale
- KWD 8.2m impairment in associates
- Offset by positive KWD 8.8m TKOC revaluation (due to higher commodity price outlook)

BPC one-off impairments and revaluations in FY 17A amounted to total KWD 8.2 (of which KWD 13.8m impairment or 3% of market cap)

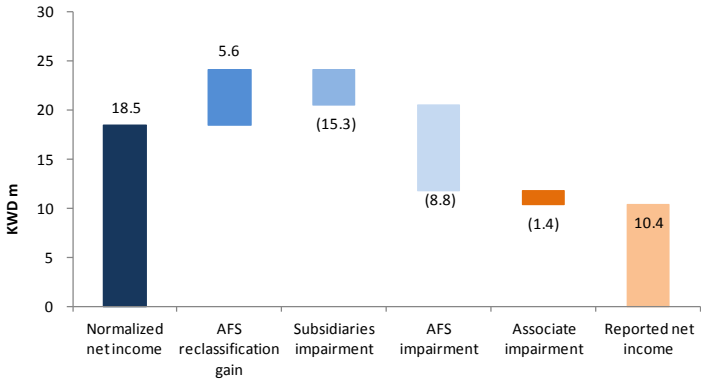
- KWD 3.6m impairment at subsidiaries
- KWD 8.8m impairment in financials assets for sale
- KWD 1.4m impairment in associates
- Offset by KWD 5.6m gain on reclassification of financial afs to associate

Exhibit 16: FY 18A impairments



Source: Company Data, Arqaam Capital Research

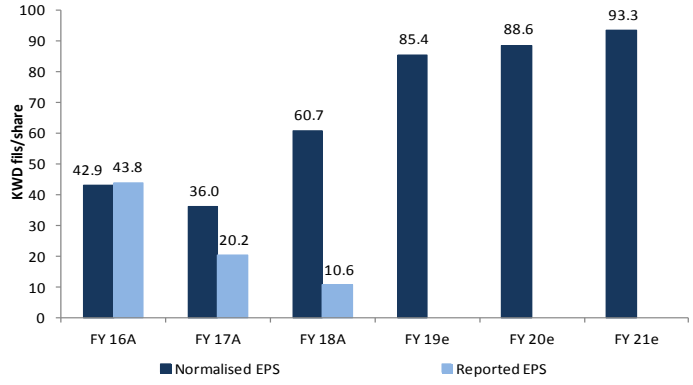
Exhibit 17: FY 17A impairments



Source: Company Data, Arqaam Capital Research

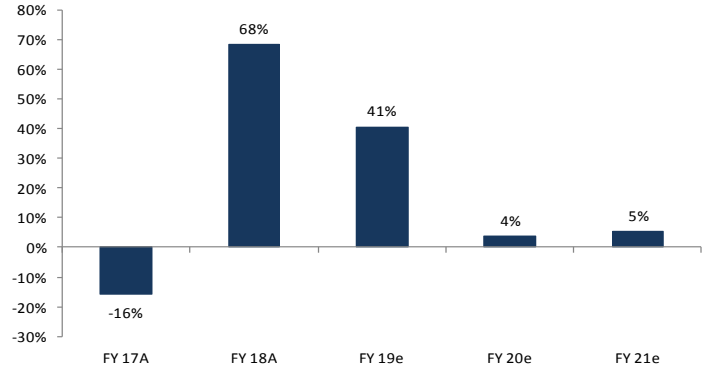
Management highlights that the impairment (non-cash) has been due to their conservative approach, however, further potential impairments cloud earnings visibility (KWD 51m impaired in FY 16-18 – c.11% of market cap). **We do not include any impairments in our estimates.**

Exhibit 18: BPC EPS forecasts



Source: Company Data, Arqaam Capital Research

Exhibit 19: BPC EPS growth forecast (y/y)



Source: Company Data, Arqaam Capital Research

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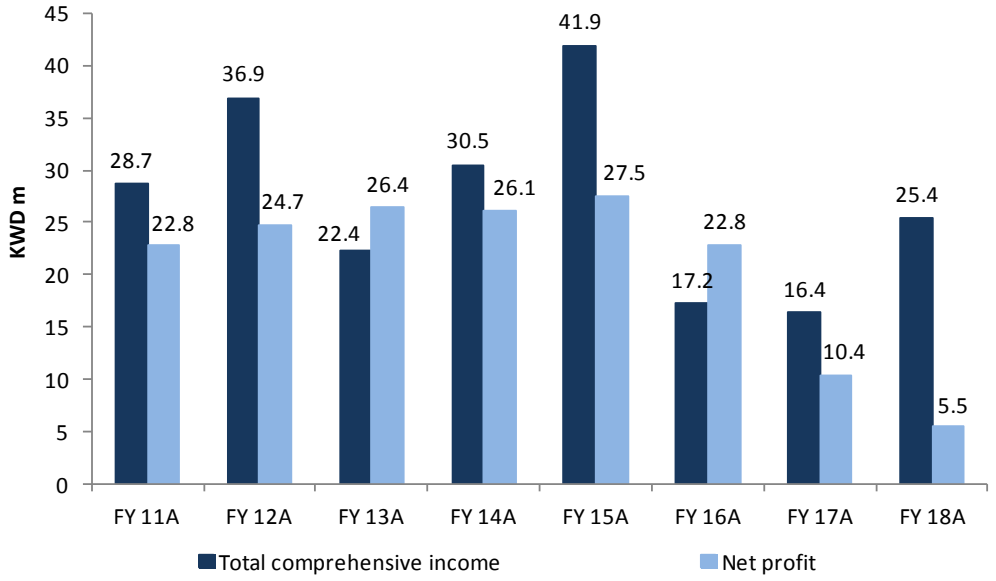
Exhibit 20: Total comprehensive income has been on an average 60% (23% excl-FY 18A) higher than net profit



Source: Company Data, Arqaam Capital Research

We forecast BPC's normalised EPS to grow 41% y/y in FY 19e to KWD fils 85.4/share, supported by both the Equate and non-Equate portfolio (Exhibit 19). FY 20e EPS is expected to grow 4% y/y with flat net income from Equate and 8% y/y growth from non-Equate portfolio.

Dividend yield of >6% sustainable on strong cash flow generation (FCF yield 7% in FY 19e); further acquisitions unlikely to stretch balance sheet

BPC generated c.KWD 40m of free cash flow in FY 18A of which c. KWD 21m was distributed to shareholders as dividend. The company has raised KWD 69m in gross debt (to KWD 176m) and together with free cash flow after dividends, it was able to fund KWD 91m worth of acquisitions in FY 18A.

We do not include any further acquisitions in our forecasts but BPC plans to invest a further KWD 70-80m in the next 2-3 years. With roughly c.KWD 20-25m p.a. in post dividend free cash flow, BPC is in a position to raise KWD 15m debt/year, if it maintains gearing at the same level (FY 18A: 0.54x; Exhibit 22), implying **that there is space in BPC's balance sheet to finance further acquisitions**.

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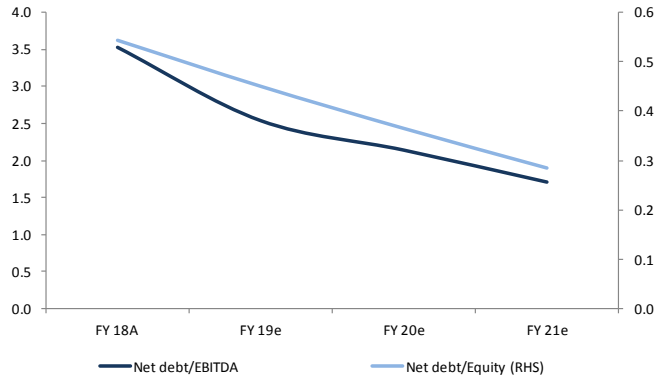
Exhibit 21: Cash flow generation and debt repayment

KWD'000	FY 18A	FY 19e	FY 20e	FY 21e
NOPAT	44,678	53,094	54,130	56,129
Capex	(716)	(1,395)	(1,755)	(1,955)
FCFE	**36,500**	**24,595**	**16,590**	**45,970**
FCFF	**40,136**	**46,116**	**50,529**	**52,092**
Dividend distributions	(20,604)	(23,180)	(26,382)	(27,371)
Net debt (Cash)	157,959	140,312	120,831	100,289
Net debt/EBITDA	3.53	2.54	2.14	1.72
Net debt/Equity (RHS)	0.54	0.45	0.37	0.29
FCFE yield	8.2%	5.5%	3.7%	10.3%
FCFF yield	6.6%	7.5%	8.3%	8.5%
Dividend yield	5.2%	5.9%	6.1%	8.1%

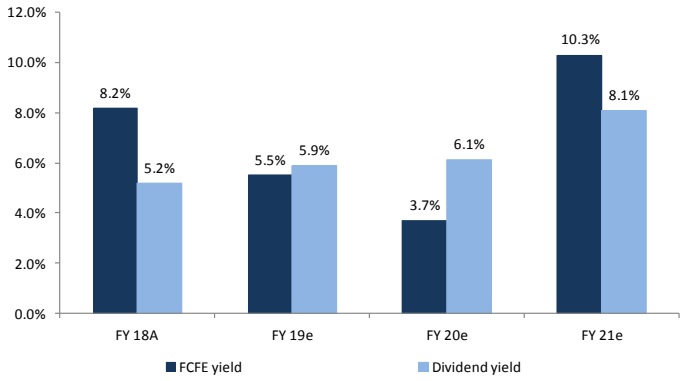
Source: Company Data, Arqaam Capital Research

Exhibit 22: Net debt/EBITDA and Net Debt/Equity



Source: Company data, Arqaam Capital Research

Exhibit 23: FCFE yield and dividend yield



Source: Company data, Arqaam Capital Research

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Upside/downside risks to our valuation

Equate performance and scheduled start of new capacity

Equate is expected to continue to significantly contribute to BPC's total earnings (c. 72% of BPC net profit for FY 19e) and earnings growth (53% of FY 17-20e EPS CAGR). Petchem prices, which have been robust, present near term risks to our assumptions. Our estimates are based on oil prices of USD 70/bbl and USD 68/bbl in FY 18e and FY 19e, and USD 65/bbl in the terminal year, and historical product price correlations with crude oil prices. 5% lower product prices on average (vs. our current estimate) in Equate's FY 18e (Dec YE) would reduce Equate's net income and dividends to BPC by 6%. This would imply a 5% reduction to BPC's FY 19e (April YE) net income and 4% reduction to BPC's target price.

The scheduled start of Equate's new capacity in the USA is also key to our earnings growth forecasts. The plant is scheduled to start in H2 19e, however, a one-year delay is expected to reduce Equate's FY 20e revenue by 13% and net income by 19%. This would imply a 16% reduction to BPC's FY 21e net income but only 2% reduction to BPC's target price (as this is post two years). The construction of the plant is currently going as planned (Exhibit 17).

Exhibit 24: Equate US Gulf Coast project key dates

Timeline	Key dates
Authorization by EQUATE BOD	26 May 2016
Ground Breaking	08 August 2016
EPCm Contract Signed	05 October 2016
Air Permit Granted	25 October 2016
Award Site Entrance & Bridge Construction Contract	31 March 2017
Award Buildings Design/Build Contract	13 April 2017
Award Piling Contract	02 May 2017
Award Cooling Water Tower Contract	30 May 2017
Award HV Substation Design/Build Contract	31 May 2017
3rd Party Terminal Contract Complete	26 June 2017
90% of Major Equipment POs Issued	30 June 2017
Award Civil Contract	18 July 2017
Main Scope of Site Development Complete	20 July 2017
Site Development Complete	24 August 2017
Piling Complete	17 November 2017
Site Entrance Bridge Complete	22 December 2017

Source: Equate, Arqaam Capital Research

US ethylene production costs c. USD 320-400/t; are only slightly above the costs in the MENA region and very competitive globally. However, we highlight Equate's US production are even cheaper compared to that in Kuwait (average MENA costs are deflated due to low gas prices in KSA). This implies that the new US capacity is likely to enhance Equate's overall margins when operational in FY 19e.

Further impairments

BPC has made significant impairments in the last three years, to the tune of KWD 51m, c.11% of current market cap. Any further potential impairments are likely to cloud earnings visibility and may impact share price performance. Given we value all subsidiaries based on DCF, our valuation is unlikely to be affected by any potential further impairments.

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Future M&A strategy

BPC is likely to remain in acquisition mode and the company expects to invest a further KWD 70-80m. Further acquisitions, if closed at unreasonable multiples or if they perform poorly, pose risk to future earnings profile and may present an overhang. We highlight, however that Boubyan's recent acquisitions have largely been closed at reasonable multiples, and investment strategy has been prudent.

Unfavourable government regulations in the education and healthcare sectors

The revenue models employed by private schools in Kuwait are subject to government oversight, particularly with regards to tuition fees. Any further restrictions on tuition fees or delays by education sector companies in raising the fees, is likely to impact the profitability of the sector. BPC expects fees increase for GUST (Gulf University for Science & Technology) in FY19e/20e or FY 20e/21e depending upon the discussion with PUC (Private Universities Council).

Similarly, the healthcare sector again is dependent on government regulation with respect to patient and medicine charges. Any adverse regulation is likely to impact sector growth.

GCC economy and dependence on crude oil

GCC countries remain dependent on crude oil prices for their fiscal maths. Increases in crude prices in YTD FY 18 helped most of the countries to reduce their deficits and increase spending and has also increased consumer confidence in these countries. Oil price movements pose both upside or downside challenges to MENA countries and hence remains a risk to our forecasts.

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Overview of BPC main investments and subsidiaries

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Equate – Cornerstone investment; healthy short to medium term outlook (74% of core valuation)

Background

EQUATE was established in 1995 and became Kuwait's first manufacturer of Ethylene, EG and PE when it commenced production in 1997. The company's founding shareholders were Petrochemical Industries Co (45%) and Union Carbide (now Dow Chemicals, 45%) and Boubyan Petrochemical Company (BPC, 10%). The shareholding structure of EQUATE changed in 2005 through the introduction of a new shareholder, Al-Qurain Petrochemical Industries Company (Al-Qurain), with a 6% equity stake; and as such BPC's stake was reduced to 9% while PIC and DOW now own 42.5% each.

EQUATE is currently the owner and single-operator of several fully integrated petrochemical complexes in Kuwait, North America and Europe that produce over 6 million tons of of Ethylene, Ethylene Glycol (EG), Polyethylene (PE), Polyethylene Terephthalate (PET), Polypropylene (PP), Styrene Monomer (SM), Paraxylene (PX), Heavy Aromatics (HA) and Benzene (BZ) annually. The products are marketed throughout Asia, the Americas, Europe, the Middle East and Africa

The Kuwait Olefins Company (TKOC) was established in 2005 by PIC (42.5%), Dow Chemical (42.5%), BPC (9%), and Al-Qurain (6%). The company is essentially an extension of EQUATE, whose existing facilities were expanded resulting in an increase in the production capacities of the current line of products, therefore, allowing for capacity optimization with minimal capital investment.

Fully operated by EQUATE, the Greater EQUATE joint-venture includes The Kuwait Styrene Company (TKSC), Kuwait Paraxylene Production Company (KPPC) and The Kuwait Olefins Company (TKOC) under one fully integrated operational umbrella at Kuwait's Shuaiba Industrial Area. We note that BPC has a 9% stake only in EQUATE and TKOC.

EQUATE acquired MEGlobal in 2015 and became the world's second largest producer of EG. The combined entity benefits from significant economies of scale with a larger and more diversified distribution platform through Kuwait, Germany, Canada, and the United States.

Exhibit 25: EQUATE and TKOC capacity

Company	Shareholders	Products	Location	Marketing Outlet
EQUATE	PIC 42.5% Dow 42.5% BPC 9% QPIC 6%	PE (1.0 mtpa) EG (550 ktpa) Ethlyene (850 ktpa)	Kuwait	EQUATE Marketing Company (EMC)
MEGlobal	EQUATE 100%	EG (1.34 mtpa) EG (750 ktpa, under construction)	Canada USA	MEGlobal
TKOC	PIC 42.5% Dow 42.5% BPC 9% QPIC 6%	EG (600 ktpa) Ethylene (850 ktpa)	Kuwait	MEGlobal

Source: EQUATE, Arqaam Capital Research. Note: the Greater EQUATE JV includes other companies as well, but BPC does not own stakes in them.

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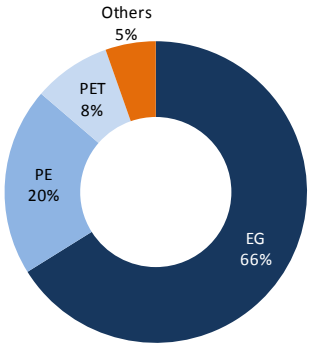
Equate's new EG capacity to add 750 ktpa mt to its 2.4 mtpa capacity (from 2H FY 19e)

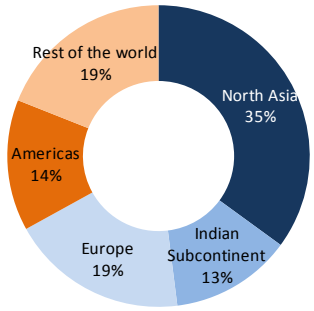
During 2016, EQUATE became the first Kuwaiti petrochemical company to establish an industrial complex in the USA and the first in the Middle East to benefit from USA-based shale gas production. Located in Freeport, Texas, the new facility – to be completed during the 2nd half of FY 19e, will increase EQUATE's Monoethylene Glycol (MEG) capacity by 31% or 750 ktpa to a total of 3,160 ktpa.

Exhibit 26: EQUATE + TKOC: EG contributed 66% of total revenue in FY 17A



Source: Company data, Arqaam Capital Research

Exhibit 27: Revenue by region: Equate sells products globally with highest contribution from Asia



Source: Company data, Arqaam Capital Research

Petchem prices supported by rising industry costs amid higher oil price environment

Exhibit 28: Summary of key product prices (USD/t, unless stated otherwise)

USD/t	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Brent (USD/bbl)	**57**	**54**	**53**	**52**	**50**	**52**	**53**	**57**	**60**	**63**	**66**	**70**	**67**	**70**	**76**	**75**
Naphtha (Japan)	469	479	446	414	427	468	509	532	590	596	605	566	577	610	671	650
Ethylene	1,216	1,175	1,145	958	952	1,188	1,313	1,290	1,281	1,331	1,381	1,289	1,317	1,348	1,270	1,364
Propylene	889	804	738	751	772	776	854	865	817	830	925	1,009	968	943	986	1,013
HDPE	1,180	1,155	1,137	1,107	1,088	1,135	1,206	1,225	1,256	1,289	1,301	1,379	1,385	1,339	1,372	1.365
LLDPE	1,212	1,183	1,144	1,103	1,085	1,125	1,193	1,205	1,190	1,181	1,192	1,239	1,233	1,176	1,199	1,177
MEG	802	732	723	773	840	879	927	898	905	925	1,004	1,022	938	1,004	981	964

Source: Bloomberg, Arqaam Capital Research

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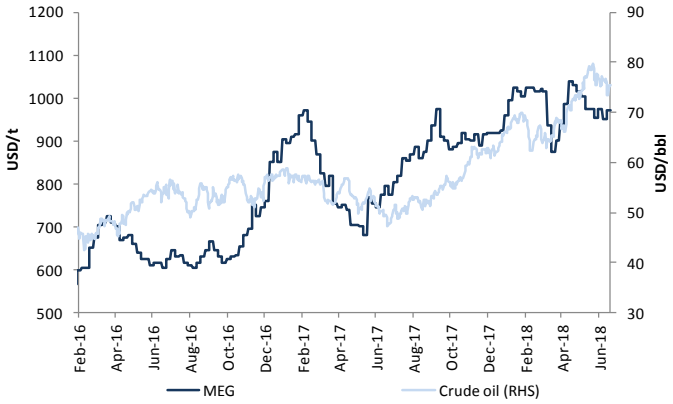
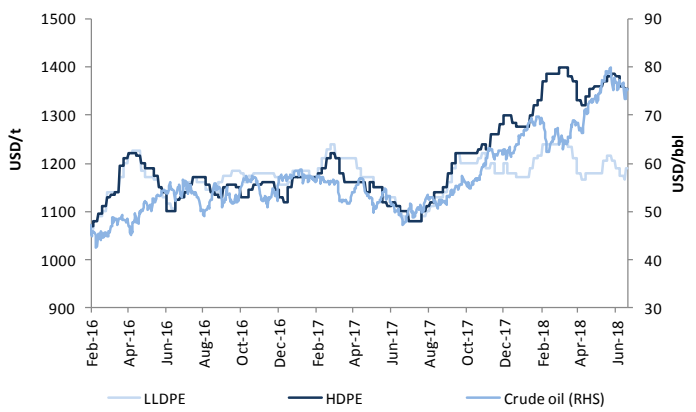
Exhibit 29: MEG price trend vs. crude oil



Source: Bloomberg, Arqaam Capital Research

Exhibit 30: HDPE/LLDPE price trend vs. crude oil



Source: Bloomberg, Arqaam Capital Research

Exhibit 31: Arqaam Capital price forecasts (USD/t, unless stated otherwise) – long term assumptions based on USD 65/bbl crude oil price

USD/t	2016A	2017A	2018e	2019e	2020e	2021e
Brent Crude Oil (USD/bbl)	45	54	70	68	65	65
% change y/y	-17%	21%	29%	-3%	-4%	0%
MEG	664	856	1,027	998	954	954
% change y/y	-16%	29%	20%	-3%	-4%	0%
PE	1,112	1,151	1,381	1,342	1,283	1,283
% change y/y	-9%	4%	20%	-3%	-4%	0%
PET	961	1,106	1,327	1,289	1,232	1,232
% change y/y	-9%	15%	20%	-3%	-4%	0%

Source: Bloomberg, Arqaam Capital Research

MEG FY 18e outlook strong on Chinese downstream demand

Within the Ethylene Glycols product group, Monoethylene Glycol (MEG) is by far the largest product by volume of production, accounting for more than 90% of the overall Ethylene Glycols market. MEG is consumed primarily in the production of polyester, which is subsequently used to produce fiber, films, solid-state resins and other consumables. Polyester/PET applications commanded c. 75% of global MEG consumption. **Overall, consumption of Ethylene Glycol is broadly tied to the general economy and has been increasingly linked to emerging economies, where the improvement in living standards is driving an increasing use of packaging, films and textile fibers, as well as an increasing number of vehicles (antifreeze).**

The Asian MEG market outlook is strong in FY 18e, driven by robust demand from the downstream polyester market in China in the first half of 2018. MEG demand is expected to be supported by consistently high production rates at Chinese downstream polyester facilities. Average operating rates of polyester facilities in China have been running at relatively high levels for some time (hovering around c.80% since March 2017, according to ICIS data, vs. below 75% earlier).

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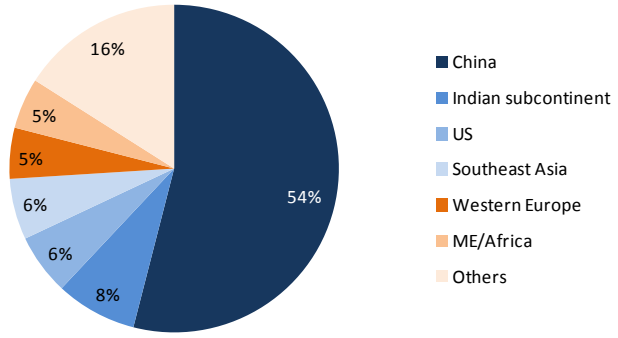
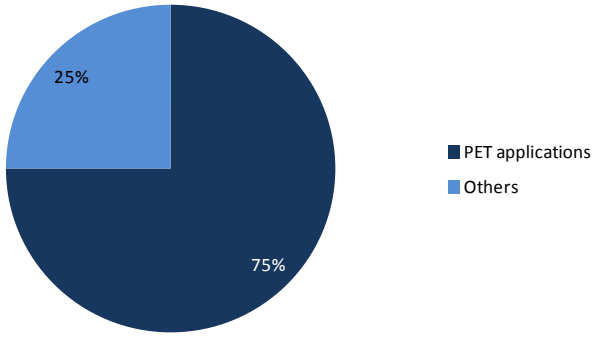
Exhibit 32: MEG consumption by region (2016)



Source: IHS, Arqaam Capital Research

Exhibit 33: MEG mainly used in PET applications

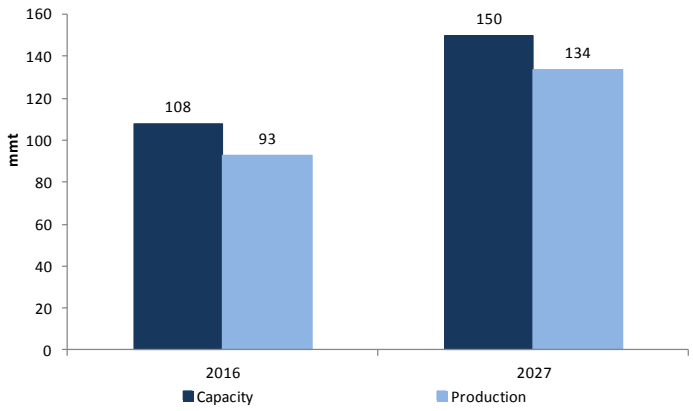


Source: IHS, Arqaam Capital Research

Polyethylene – Asia remains the key demand driver

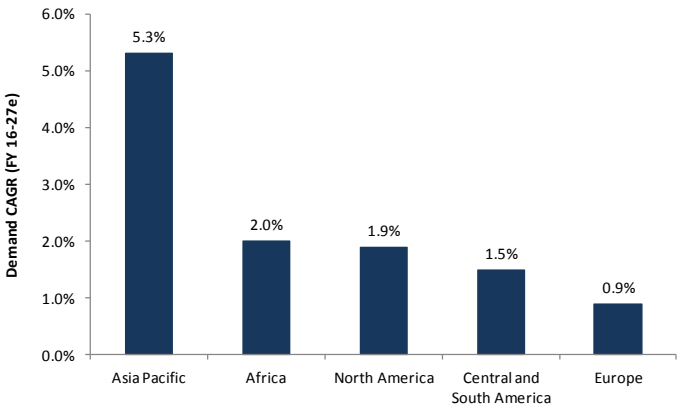
Global PE capacity is set to grow from 108mmt in 2016 to 150mmt by 2027, and production is expected to grow from 93mmt in 2016 to 134mmt by 2027, according to Platts. Meanwhile, global operating rates are expected to average 85%. Asia, led by China and India remains a key demand driver for PE. In the medium term, however, capacity additions in US, China and Iran (between 2017 and 2023) is likely to keep operating rates under check (rates are expected to average c.83%, dropping to as low as 82% in 2020e to balance the market, according to Platts).

Exhibit 34: 3% 10 year CAGR for PE capacity and production..



Source: Platts, Arqaam Capital Research

Exhibit 35: .. primarily driven by a growing demand in Asia



Source: Platts, Arqaam Capital Research

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Equate: Robust performance in FY 17A on the back of higher petchem prices; outlook positive

FY 17A was a good year for EQUATE (incl. TKOC) with 20% y/y increase in revenues to USD 4,252m; 47% y/y increase in EBITDA to USD 1,730m and 67% increase in net income to USD 1,131m. This led to a proportional increase in BPC dividends (9% ownership) to KWD 30.3m in FY 18A from KWD 18.5m in FY 17A.

The robust performance was driven by higher petchem prices. 68% of FY 17A revenues was contributed by Ethylene Glycol (EG), which saw 29% y/y price increase. PE (20% of revenues) saw 3% y/y increase in prices and PET (8% of revenues) increased by 15% y/y.

We expect petchem prices to remain strong in FY 18e, in-line with higher crude prices. Crude is up c.30% YTD in FY 18A vs. FY 17A average; and we forecast petchem prices to increase c.20% y/y for FY 18e (Exhibit 36).

Exhibit 36: Equate financial estimates

Dec-year end	FY 16A	FY 17A	FY 18e	FY 19e	FY 20e
Sales volume (k mt)					
EG	3,461	3,390	3,390	3,578	4,140
PE	736	743	743	743	743
PET	320	320	320	320	320
Total	**4,517**	**4,453**	**4,453**	**4,641**	**5,203**
% change y/y		*-1%*	*0%*	*4%*	*12%*
Price (USD /mt)					
EG	664	856	1,027	998	954
PE	1,112	1,151	1,381	1,342	1,283
PET	961	1,106	1,327	1,289	1,232
Sales (USDm)					
EG	2,233	2,813	3,402	3,490	3,671
PE	819	855	1,026	997	953
PET	307	354	425	413	394
Others	198	230	276	268	256
Total	**3,557**	**4,252**	**5,129**	**5,167**	**5,275**
% change y/y		*20%*	*21%*	*1%*	*2%*
EBITDA (USDm)					
Total	**1,176**	**1,730**	**2,119**	**2,128**	**2,176**
margin	33.1%	40.7%	41.3%	41.2%	41.3%
Net Income (USDm)	**679**	**1,131**	**1,490**	**1,485**	**1,521**
% change y/y	*-8%*	*67%*	*32%*	*0%*	*2%*

BPC (April-year end)	FY 17A	FY 18A	FY 19e	FY 20e	FY 21e
BPC % ownership	9.0%	9.0%	9.0%	9.0%	9.0%
Dividend (USDm)	**61**	**102**	**134**	**134**	**137**
Dividend (KWDm)	**19**	**30**	**40**	**40**	**41**

Source: EQUATE, Arqaam Capital Research

Based on higher prices, we expect revenues to inch up by 21% y/y in FY 18e (+20% y/y in FY 17A). We currently reflect only 25% of the new MEG capacity in our FY 19e forecasts and 100% in FY 20e (but at a 5% y/y lower operating rate in FY 20e); supporting 2% y/y total revenue growth in FY 20e, despite our expectation of some normalisation in petchem prices.

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The increase in revenues is expected to filter through to net income, leading to a 32% y/y growth in FY 18e or 10% CAGR in FY 17-20e, supporting stable dividends for BPC from Equate in the next three years.

Valuation

Our DCF implies an Equity value of KWD 588m for BPC's 9% stake implying KWD fils of 1,141/share. We discount cash flows using a cost of equity of 10.5% and a cost of debt of 4%, resulting in a WACC of 6.3%, which slightly increases to 8% by FY 22e as the company deleverages. We use a terminal growth rate of 2.5%.

Exhibit 37: Equate DCF

USDm	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
EBIT	1,761	1,754	1,790	1,781	1,864	1,856	1,848	1,839	1,831
COPAT	**2,020**	**2,030**	**2,076**	**2,074**	**2,156**	**2,156**	**2,155**	**2,155**	**2,154**
Working capital changes	(88)	(2)	(11)	0	(20)	0	0	0	0
Net operating cash flow	1,933	2,028	2,065	2,074	2,136	2,156	2,155	2,155	2,154
CAPEX	(410)	(258)	(211)	(158)	(164)	(164)	(164)	(164)	(164)
Free cash flow	**1,522**	**1,769**	**1,854**	**1,916**	**1,972**	**1,991**	**1,991**	**1,991**	**1,990**
PVOP	12,015								
PVTV	12,366								
Enterprise Value	**24,381**								
Net Debt (End 2017)	2,608								
Equity Value (USDm)	**21,773**								
USD to KWD	0.30								
Equity Value (KWD m)	**6,532**								
% Stake of BPC	9%								
Equity Value for BPC (KWD m)	**588**								
NoSH of BPC (m)	515								
Per Share (KWD fils)	**1,141**								
Ke	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Kd	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
WACC	**6.3%**	**6.3%**	**6.4%**	**7.2%**	**8.0%**	**8.0%**	**8.5%**	**8.5%**	**9.9%**
Terminal growth Rate	2.5%								

Source: Arqaam Capital Research

Our DCF-based valuation for Equate implies FY 18e/19e P/E of 14.6x/14.7x, 7% above the sector average, as it reflects the company's EPS growth (FY17-19e: 15% vs. 8% for peers) and EBITDA CAGR (11% vs 6% sector).

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Exhibit 38: Peer analysis

Company	Mkt Cap (USD mn)	EV (USD mn)	EV/EBITDA		P/E		EBITDA CAGR	EPS CAGR
			FY18e	FY19e	FY18e	FY19e	17-19e	17-19e
Solvay	13,767	20,556	7.8	7.4	16.7	14.9	3%	4%
Croda	8,452	8,979	16.8	15.7	25.5	23.5	6%	9%
Linde AG	42,732	50,778	10.2	9.3	23.4	20.6	5%	25%
Bayer AG	104,635	106,414	9.8	8.4	n/a	n/a	8%	8%
Koninklijke DSM NV	11,637	20,666	7.6	7.5	20.2	17.6	-1%	3%
BASF SE	91,048	105,190	7.1	6.7	13.8	12.8	3%	3%
Wacker Chemie AG	7,003	7,399	5.8	5.6	16.9	15.0	6%	15%
Reliance Industries Ltd	94,878	119,508	12.6	9.8	17.1	14.9	32%	21%
LG Chem. Ltd.	22,552	23,794	6.1	5.6	13.0	11.9	4%	2%
Honam	10,934	10,734	3.4	3.2	5.5	5.2	2%	0%
Hanwha Chemical	3,331	6,047	5.5	n/a	4.0	4.1	n/a	-4%
Daelim Industrial Co	2,513	3,577	n/a	n/a	5.1	5.5	n/a	-9%
Formosa Plastics Corp	22,673	20,516	18.9	18.9	13.5	13.2	5%	6%
Nan Ya Plastics Corp	22,178	22,573	n/a	n/a	13.1	13.5	-1%	7%
Formosa Chemical&Fiber	22,235	22,627	11.8	11.9	12.7	13.0	0%	4%
Formosa Petrochemical	38,190	35,123	10.8	11.2	16.5	17.3	-8%	-6%
PTT Chemical	11,521	12,869	6.5	6.4	9.1	9.0	3%	6%
Petkim Petrokimya Holding	1,460	1,961	7.0	5.7	9.4	6.5	-3%	-10%
Westlake Chemical	13,686	16,462	7.1	7.0	11.2	10.4	12%	29%
SIDPEC	769	685	6.5	6.7	8.2	7.9	10%	12%
IQ	17,397	15,648	63.0	58.3	15.7	14.2	13%	14%
SABIC	100,621	113,520	8.6	8.4	16.9	16.3	5%	8%
Sahara	10,918	10,126	9.8	9.5	14.8	14.5	7%	12%
Yansab	2,082	1,815	n/a	n/a	15.6	15.1	n/a	5%
Advanced	2,739	2,577	10.8	10.1	14.5	13.3	7%	7%
Sipchem	2,063	3,848	7.5	7.3	12.4	11.7	12%	26%
Chemanol	304	508	8.5	9.1	21.5	27.8	15%	n/a
Average			**8.9**	**8.7**	**13.8**	**12.9**	**6%**	**8%**
Equate (Implied Valuation)		**24,381**	**11.5**	**11.5**	**14.6**	**14.7**	**11%**	**15%**

Source: Bloomberg, Arqaam Capital Research.

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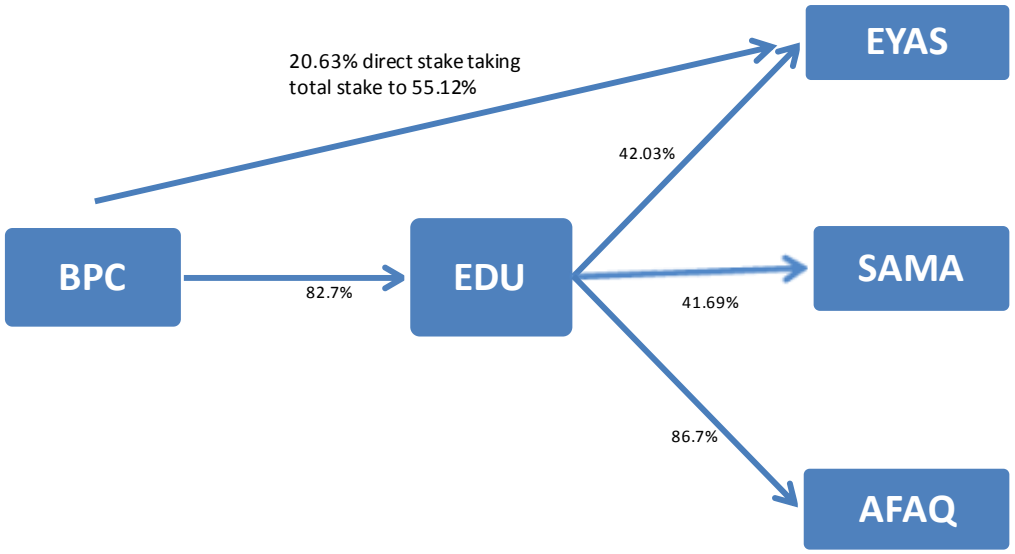
Educational Holding Group (11% of core valuation)

Founded in 1982, Educational Holding Group (EDU) was the first private educational investments organization in Kuwait to offer educational services in Kuwait that include Arabic, bilingual and special needs schools. The company is primarily engaged in kindergarten, K-12, tertiary education, and vocational training and development services.

BPC has gradually raised its shareholding from 53.3% to 82.7% in EDU

BPC acquired a 53.3% stake in EDU through an auction in May 2017 (including 32.8% stake owned by Nafais) and acquired an additional 25.1% in August 2017 through MTO. **BPC has further increased its ownership and now owns a total of c. 82.7% as at 30th April 2018.**

Exhibit 39: BPC ownership in EDU holding and EYAS for Higher and Technical Education



Source: Arqaam Capital Research

EDU has many subsidiaries and associates operating across Kuwait, Saudi Arabia and Lebanon. Its subsidiaries include Afaq Educational Company KSCC (86.9%), Knowledge City (75%), Knowledge Village Educational Company (61.8%), EYAS (42.03%) and SAMA (41.69%).

SAMA: Sama Educational Co. was established in 2008, Kuwait. Sama's business focus concentrates in Kindergarten (KG) to Grade 12 (K – 12) educational business in MENA. **ACA, American Creativity Academy was acquired by SAMA in 2008.** ACA has a membership in NESA, Near East South Asia Council of Overseas Schools, NACAC, National Association for College Admission Counselling, and CIS, Council of International Schools. ACA's curriculum is based on the American system; however it's aligned with the Islamic social values. Both genders have their own campus prepared with technology and equipment which help in facilitating and improving knowledge acquisition for students.

AFAQ Educational: Afaq Educational Co. was established in 1993 under the name of "Dar Al-Arqam for Educational Services". It is specialized in running private education Arab schools, special needs schools and conductive education schools for people with special needs.

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AFAQ subsidiaries include Conductive Education School of Kuwait, provides conductive education for people with special needs applying the British curriculum; Mashael Al-Jahra School, Umm Hani School & Al-Qabas schools, which cover the K-12 educational level. The medium of instruction in all three schools is Arabic. Mashael Al-jahra School & Umm Hani School are considered to be for girls, where Al-Qabas School is for boys.

EYAS for Higher and Technical Education Company: The company was established in 2000 and listed on Boursa Kuwait in 2004. The company was delisted last year in November 2017. The company operates the Gulf University for Science and Technology in Kuwait and has a 25% stake in Knowledge Village Education Company.

BPC bought another 20.63% in EYAS in May 2018, taking its total direct and indirect stake to 55.12% and EYAS will be classified as BPC's subsidiary from Q1 19. We value BPC's direct stake in EYAS (20.6%) at transaction value of KWD 15.2m i.e. KWD fils 30/share or 2% of BPC's core valuation.

EDU's solid operational performance overshadowed by heavy impairments

Educational Holding group reported 3% y/y increase in total income in H1 FY 18A; supported by associate income which increased 8% y/y while standalone tuition fees remained flat. Company reported net loss of KWD 4.2m in H1 18A vs profit of KWD 3.2m, primarily driven by impairments of KWD 7.5m despite EBIT increasing by 8% y/y.

In Q2 18A, EDU reported impaired intangible assets of KWD 4.6m and property and equipment of KWD 2.9. This represents concession arrangements including right to use land, for two schools operating under build, operate and transfer (B.O.T.) contracts with Ministry of Finance which have legally expired in 2009 and Group has applied for extension; however there is no certainty and hence the impairment. The Group is able to renew the school operating licenses on an annual basis and management believes that schools will continue to operate in foreseeable future.

Due to this impairment, we expect the FY 18e net income to reduce to KWD 622k from KWD 5.6m in FY 17A. However we expect net income to improve to KWD 7.1m in FY 19e, and we expect no further impairments.

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Exhibit 40: EDU Holding Financials (KWD'000)

Aug-year end	FY 16A	FY 17A	FY 18e	FY 19e	FY 20e
Sales					
Educational services	6,095	5,973	6,087	6,392	6,711
Investments	4,686	5,230	6,001	6,357	6,732
Others	613	530	396	416	437
Total	**11,393**	**11,732**	**12,484**	**13,164**	**13,880**
% change y/y		*3%*	*6%*	*5%*	*5%*
EBIT					
Educational services	1,400	1,130	1,143	1,209	1,269
Investments	4,686	5,230	6,001	6,357	6,732
Others	(423)	(428)	(102)	(125)	(44)
Total	**5,664**	**5,931**	**7,042**	**7,441**	**7,958**
EBIT margin					
Educational services	23.0%	18.9%	18.8%	18.9%	18.9%
Investments	100.0%	100.0%	100.0%	100.0%	100.0%
Total	**49.7%**	**50.6%**	**56.4%**	**56.5%**	**57.3%**
Net Income	**5,065**	**5,662**	**622**	**7,116**	**7,613**
BPC (April-year end)	FY 17A	FY 18A	FY 19e	FY 20e	FY 21e
BPC % stake		82.7%	82.7%	82.7%	82.7%
Net income (BPC)		**2,973**	**5,701**	**6,090**	**6,438**

Source: Company Data, Arqaam Capital Research. Note, Year-end is different for EDU and BPC

Exhibit 41: EYAS financial (KWD'000)

Aug-year end	FY 16A	FY 17A	FY 18e	FY 19e	FY 20e
Revenues	**22,312**	**22,862**	**24,006**	**25,206**	**26,466**
Profit	**4,762**	**5,482**	**6,095**	**6,533**	**6,996**

BPC (April-year end)	FY 17A	FY 18A	FY 19e	FY 20e	FY 21e
BPC % stake			55.12%	55.12%	55.12%
Net income (BPC)			**3,480**	**3,728**	**3,948**
Direct stake (20.63%)			1,302	1,395	1,478
Indirect (through EDU)			2,178	2,333	2,470

Source: Company Data, Arqaam Capital Research

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Valuation

Our DCF implies an Equity value of KWD 87.7m for BPC's 82.7% stake in EDU implying KWD fils 170/share. We discount cash flows using a cost of equity of 10.5% and a cost of debt of 4%, resulting in a WACC of 10.5%, as EDU is debt free. We use a terminal growth rate of 2.5%.

Exhibit 42: EDU Holding DCF

KWD'000	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
EBIT	7,441	7,958	8,315	8,614	8,952	9,225	9,507	9,796	10,095
COPAT	**7,520**	**8,028**	**8,388**	**8,696**	**9,042**	**9,330**	**9,622**	**9,928**	**10,243**
Working capital changes	7	(104)	(47)	(6)	(14)	13	19	19	22
Net operating cash flow	7,527	7,924	8,340	8,690	9,028	9,343	9,641	9,947	10,265
CAPEX	(395)	(347)	(359)	(371)	(384)	(395)	(407)	(420)	(432)
Free cash flow	**7,132**	**7,577**	**7,981**	**8,319**	**8,645**	**8,947**	**9,234**	**9,527**	**9,832**
PVOP	47,197								
PVTV	51,290								
Enterprise Value	**98,488**								
Net Debt (End 2018e)	(6,813)								
ST Investments	760								
Equity Value (KWD'000)	**106,061**								
% Stake of BPC	82.7%								
Equity Value for BPC (KWD'000)	**87,712**								
NoSH of BPC (m)	515								
Per Share (KWD fils)	**170**								
Ke	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Kd	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
WACC	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**
Terminal growth Rate	2.5%								

Source: Arqaam Capital Research

Kuwait Education sector – Government spending on education high but quality remains low; private sector participation to continue to increase

Kuwait's government allocated c.12%% of spending to education, in line with the GCC peers; with Bahrain c.9%, Oman 10% while Saudi Arabia the highest at 20% (Exhibit 43), according to IMF). Developed country norms vary, with Germany spending c.5.2% of its budget on education, the UK 11.9% and the US 14.9%. Per capita expenditure in Kuwait on education has grown rapidly in recent years (FY 11-16A CAGR: 13%) and is significantly above global average.

According to World Bank data, literacy rate (population 15-24 years of age) in Kuwait was >99% in 2015. The country's long-term development plan, laid out in the Kuwait Vision 2035, places a strong emphasis on education as a catalyst to economic diversification, sustainable growth and social progress. Substantial investment from the government is now being coupled with reform tailored to Kuwait's needs and values. The private sector has a strong presence, educating more than 40% of pupils in the country, and it is expanding even more rapidly than the public education system, as demographics and economic growth drive demand.

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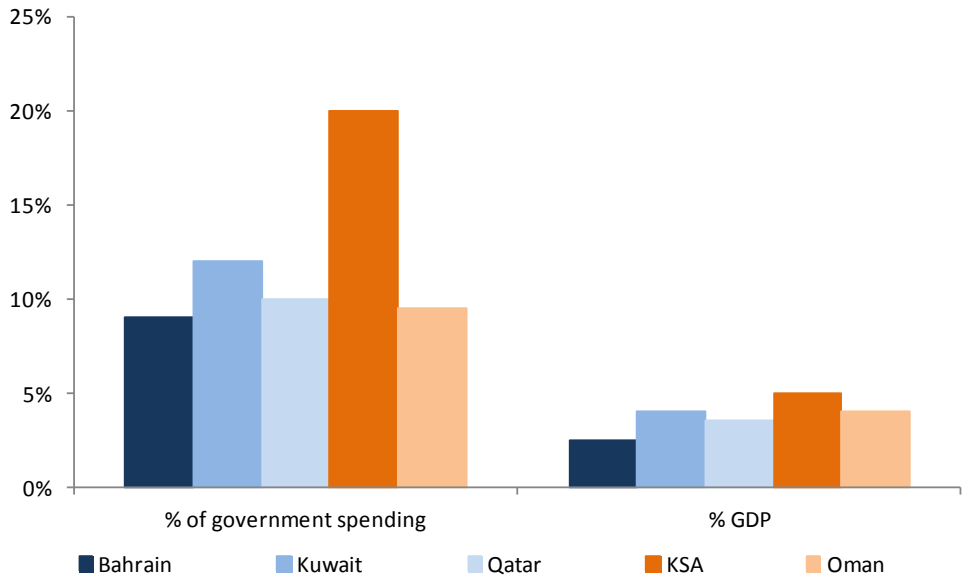
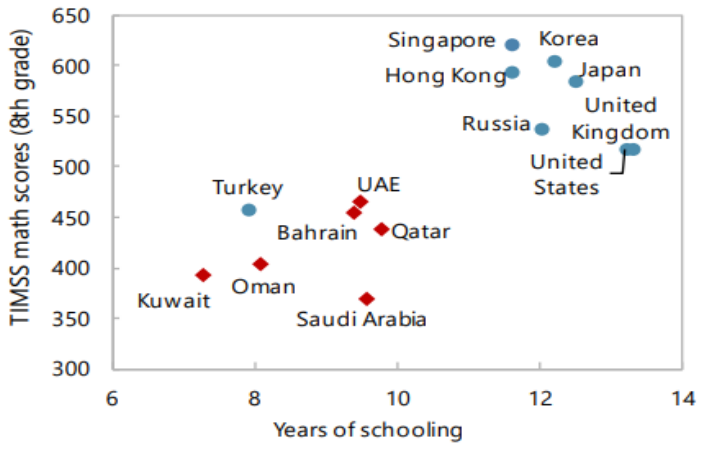
Exhibit 43: Government spending on education



Source: IMF Country Report (Kuwait – Dec 2017), Arqaam Capital Research

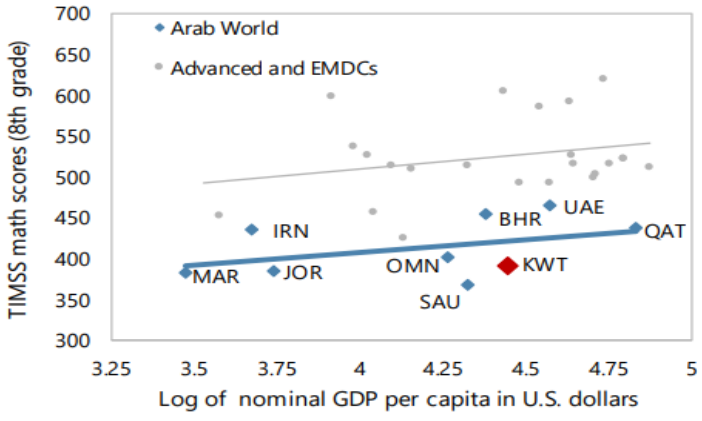
Education outcomes, however, point to lower quality of education in certain areas, and there are indications of mismatches between existing curricula and the skills required in the private sector. Kuwait's average math score in TIMSS (Trends in International Mathematics and Science Study) is lower than that of many peer countries, despite a higher level of education spending, according to IMF Country report on Kuwait (Exhibit 44/45). Kuwait also underperforms in math tests among countries with similar levels of income, highlighting the lower quality of sciences and math education. Many private sector representatives stress the importance of better aligning education curricula with the needs of the private sector. To address part of the problem, the Kuwait authorities are working with the World Bank to improve the quality of general education under the Integrated.

Exhibit 44: Years of schooling and performance in Maths



Source: IMF Country Report (Kuwait – Dec 2017), Arqaam Capital Research

Exhibit 45: Income and performance in Math



Source: IMF Country Report (Kuwait – Dec 2017), Arqaam Capital Research

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Growth in the private school segment of general education is likely to continue to outpace growth in public schools for the foreseeable future. This is largely attributable to perceptions of better-quality education in the private sphere. Also, Kuwait's population is expected to grow at a 2.8% compound annual growth rate (CAGR) until 2020. The rapidly expanding number of school and college pupils, made up of both nationals and expatriates, is expected to drive education demand and lead to an increase in student enrolment.

The revenue models employed by private schools in the country are subject to government oversight, particularly with regards to the amount that schools may charge for tuition. Hence, despite the growth, regulations restrict the profitability potential of companies involved in Educational activities.

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Nafais Holding Company (4% of core valuation)

Nafais Holding Company is a Kuwaiti company with interests in ownership and operation of K-12, childcare, elementary and secondary schools and also provides direct investments in the educational services and healthcare sectors in Kuwait, in addition to real estate property investment and development. Nafais was established in Kuwait in 1984 as a Kuwaiti Closed Shareholding Company and was listed on the Kuwait Stock Exchange in 2005; however the company was delisted in February 2018.

The Group fully owns and manages the Al-Takamul International School and Gulf English School and owns various subsidiaries in the education sector.

Exhibit 46: Nafais subsidiaries in the education sector

Name	Country	% ownership	Principal activity
Al-Tafawoq Educational Services	Kuwait	99%	School operations
Al-Andulas Educational Services	Kuwait	99%	School operations
Al-Tafawoq International Educational Services	Kuwait	99%	School operations
Al Rawada Educational Services	Egypt	99%	School operations
New Vision Educational Services	Egypt	99%	School operations
Kids Garden School	KSA	75%	School operations
Al Malee Educational Services	KSA	99%	School operations

Source: Company Data, Arqaam Capital Research

In the healthcare sector, Nafais owns and operates New Mowasat Hospital. The New Mowasat Hospital is one of the first private hospitals in Kuwait established over half a century ago, and has grown to become a leading provider of premium healthcare in Kuwait. The hospital is a 100-bedded facility that expands over an area of 27k square meters and offers a full range of medical services within its luxurious premises. The hospital is owned by Mowasat Healthcare Company (MHC). Nafais increased the stake in Al Mowasat hospitals this year to 65% vs. 49% last year.

The real estate activities are carried through subsidiaries including Al-Mouzon Real Estate Company and Tamadrus Real Estate Company (99% stake in both), while investing activities are carried through Mawared United Holding Company (43% stake). Nafais disposed off its entire 32% stake in Educational Holding Group to BPC last year (March 2017).

BPC has a current stake at 21.12% in Nafais.

Latest results and expectations

Nafais reported slight increase in FY 17A revenues (1% y/y), however strict cost controls helped gross profit to increase by 5% y/y and EBIT by 7% y/y. Associate income declined by 6% y/y with disposal of Educational Holding stake, offset by improved performance from Mowasat. With increased stake in Mowasat Healthcare (64% vs. 49% last year), Nafais will consolidate it as of FY 18e. This is likely to reduce gross and EBIT margin (on consolidation of lower margin healthcare business), but, increase net income (on higher Mowasat stake). We expect net income CAGR of c.7% in FY 17-20e, supported by growth in both educational and healthcare services.

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Exhibit 47: Nafai Holdings financials (KWD'000)

Dec-year end	FY 16A	FY 17A	FY 18e	FY 19e	FY 20e
Sales					
Educational services	12,973	13,145	13,802	14,492	15,217
Healthcare services	0	0	31,000	32,550	34,178
Total	**12,973**	**13,145**	**44,802**	**47,042**	**49,394**
EBIT					
Total	**4,962**	**5,397**	**12,042**	**12,862**	**13,735**
EBIT margin					
Total	**38.2%**	**41.1%**	**26.9%**	**27.3%**	**27.8%**
Associate income					
Educational services	1,763	492	0	0	0
Healthcare services	2,160	3,201	0	0	0
Total	**3,923**	**3,694**	**0**	**0**	**0**
Net Income	**4,893**	**8,755**	**9,396**	**10,086**	**10,818**
BPC (April-year end)	**FY 17A**	**FY 18A**	**FY 19e**	**FY 20e**	**FY 21e**
BPC % stake		21.12%	21.12%	21.12%	21.12%
Net income (BPC)		**2,274**	**1,984**	**2,130**	**2,285**

Source: Company Data, Arqaam Capital Research. Note: Healthcare services to become subsidiary from FY 18e onwards

Valuation

Our DCF implies an Equity value of KWD 32m for BPC's 21.1% stake in Nafais implying KWD fils 62/share. We discount cash flows using a cost of equity of 10.5% and a cost of debt of 4%, resulting in a WACC of 10.5%. We use a terminal growth rate of 2.5%.

Exhibit 48: Nafais DCF

KWD'000	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
EBIT	12,042	12,862	13,735	14,142	14,560	14,991	15,434	15,891	16,361
COPAT	**13,238**	**14,113**	**15,043**	**15,488**	**15,947**	**16,420**	**16,906**	**17,407**	**17,923**
Working capital changes	(2,483)	(1,920)	(1,372)	(1,469)	(388)	(412)	(436)	(461)	(488)
Net operating cash flow	10,755	12,193	13,670	14,020	15,559	16,008	16,470	16,946	17,435
CAPEX	(2,688)	(2,823)	(2,964)	(2,544)	(2,620)	(2,699)	(2,780)	(2,863)	(2,949)
Free cash flow	**8,067**	**9,371**	**10,707**	**11,476**	**12,939**	**13,309**	**13,691**	**14,083**	**14,486**
PVOP	68,161								
PVTV	79,591								
Enterprise Value	**147,752**								
Net Debt (End 2017A)	(16,835)								
Minority Interest	13,645								
Equity Value (KWD'000)	**150,942**								
% Stake of BPC	21.12%								
Equity Value for BPC (KWD'000)	**31,879**								
NoSH of BPC (m)	515								
Per Share (KWD fils)	**62**								
Ke	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Kd	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
WACC	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**
Terminal growth Rate	2.5%								

Source: Arqaam Capital Research

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Al Kout (5% of core valuation)

Al-Kout is the exclusive producer of chlorine, caustic soda, and hydrochloric acid in Kuwait. It sells its products to the Kuwait Ministry of Electricity & Water for utilization in water desalination plants, to the Public Authority of Industry in Kuwait for sea water cooling stations, in addition to companies working within the Oil and Gas sector in Kuwait. The company also sells its products to other regional customers. Al-Kout is listed on Kuwait Stock Exchange.

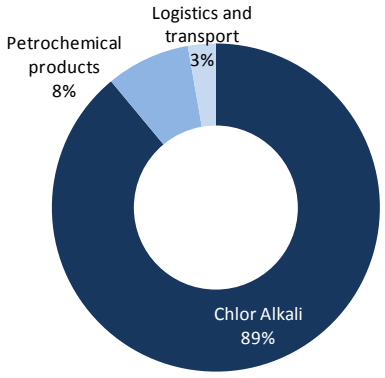
BPC stake now up to 46.5% from 24.8% in 2010

Boubyan Petrochemical Company acquired a 24% equity stake in Al-Kout Industrial Projects Company in May of 2010, through an auction on the Kuwait Stock Exchange; and increased it to 24.75% since the initial purchase. **It further acquired 21.7% through stock market auction for KWD 16.8m and raised the stake to 46.47% at 30 April 2018.**

Operating performance strong solid chlor alkali fundamentals

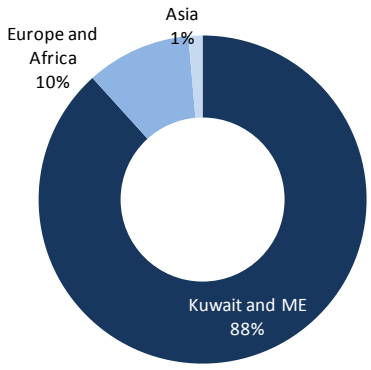
Al Kout reported 28% increase in FY 17A revenue; as product prices rebounded. Chlor Alkali, which contributed c.89% to total revenues, saw 23% y/y revenue increase. The global prices of caustic soda have seen c.30-40% in FY 17A, driven by healthy demand and lower supplies due to plant closures in Europe and China. European Union discontinued the Mercury process for chlor-alkali units beyond December 2017 and China has imposed stricter environmental norms. This has reduced supply and supported the upward price increases. We expect this trend to continue in FY 18e, and forecast 8% y/y revenue increase and normalizing growth thereafter. We forecast 17% y/y net profit growth in FY 18e and expect limited growth beyond FY 18e.

Exhibit 49: Revenue by product



Source: Company Data, Arqaam Capital Research

Exhibit 50: Revenue by geography



Source: Company Data, Arqaam Capital Research

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Exhibit 51: Al Kout financials (KWD'000)

Dec-year end	FY 16A	FY 17A	FY 18e	FY 19e	FY 20e
Sales					
Chlor Alkali	15,832	19,460	21,016	21,010	21,001
Petrochemical products	1,050	1,813	1,958	1,957	1,956
Logistics and transport	249	600	648	648	648
Total	**17,131**	**21,873**	**23,622**	**23,616**	**23,605**
Gross profit					
Chlor Alkali	7,520	9,557	9,901	10,003	10,104
Petrochemical products	68	104	112	112	112
Logistics and transport	5	108	110	113	117
Total	**7,593**	**9,768**	**10,123**	**10,228**	**10,332**
GPM					
Chlor Alkali	47.5%	49.1%	47.1%	47.6%	48.1%
Petrochemical products	6.5%	5.7%	5.7%	5.7%	5.7%
Logistics and transport	2.2%	18.0%	17.0%	17.5%	18.0%
Total	**44.3%**	**44.7%**	**42.9%**	**43.3%**	**43.8%**
Net Income	**5,838**	**6,219**	**7,258**	**7,450**	**7,573**
BPC (April-year end)	**FY 17A**	**FY 18A**	**FY 19e**	**FY 20e**	**FY 21e**
BPC % ownership	24.75%	24.75%	46.47%	46.47%	46.47%
Net income (BPC)	**1,397**	**1,486**	**3,372**	**3,461**	**3,518**

Source: Company Data, Arqaam Capital Research

Valuation

Our DCF implies an Equity value of KWD 41m for BPC's 46.5% stake in Al Kout implying KWD fils 79/share. We discount cash flows using a cost of equity of 10.5% and a cost of debt of 4%, resulting in a WACC of 9.7%. We use a terminal growth rate of 2.5%.

Exhibit 52: Al Kout DCF

KWD'000	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
EBIT	7,413	7,590	7,695	7,695	7,695	7,695	7,695	7,695	7,695
COPAT	**10,354**	**10,397**	**10,058**	**10,134**	**8,752**	**8,751**	**8,742**	**8,741**	**8,739**
Working capital changes	(257)	78	127	60	209	129	129	129	129
Net operating cash flow	10,097	10,474	10,186	10,194	8,962	8,880	8,871	8,870	8,869
CAPEX	(2,362)	(1,889)	(1,652)	(1,416)	(1,416)	(1,416)	(1,416)	(1,416)	(1,416)
Free cash flow	**7,734**	**8,585**	**8,533**	**8,777**	**7,545**	**7,464**	**7,455**	**7,454**	**7,452**
PVOP	47,976								
PVTV	40,864								
Enterprise Value	**88,840**								
Net Debt (Q1 18A)	1,348								
ST Investments	0								
Equity Value (KWD'000)	**87,492**								
% Stake of BPC	46.47%								
Equity Value for BPC (KWD'000)	**40,658**								
NoSH of BPC (m)	515								
Per Share (KWD fils)	**79**								
Ke	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Kd	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
WACC	**9.7%**	**9.7%**	**9.7%**	**9.8%**	**9.8%**	**9.8%**	**10.5%**	**10.5%**	**10.5%**
Terminal growth Rate	2.5%								

Source: Arqaam Capital Research

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Al Borg Medical Laboratories (2% of core valuation)

Al Borg Medical Labs is a Saudi-based company that specializes in managing and operating medical laboratories that provide a wide range of clinical diagnostic tests through a large number of branches across the GCC region as well as in some other Arab countries. Al Borg Labs was established in 2002 as a Limited Liability Company with its headquarters in Jeddah, Saudi Arabia. The management of the company has been continuously seeking to expand both on the local and regional level as well as through strategic acquisitions of shares in companies with similar activities. . One of the largest chain of private laboratories with 28 branches covering KSA, 4 branches covering UAE, 2 branches in Qatar,1 branch in Oman, 3 branches in Sudan and 1 branch in Ethiopia. The company ran 12m tests last year and had c.15k walk in patients/day.

Boubyan raised its stake to 24% from an initial shareholding of 20%

Boubyan acquired a 20% stake in 2012 for KWD 5.7m and increased its stake to 24% in 2016.

Al Borg Medical Labs reported 6% increase in revenue in FY 17A. However, company's EBIT margin was impacted by increase in COGS (c. 300bps y/y as % of sales) and provision for doubtful debts (c. 200bps as % of sales). We forecast FY 18e net income to grow by 7% y/y, supported by revenue growth of 5% y/y. Al Borg purchased 99% of the share capital of Proficiency Healthcare Diagnostic Laboratories LLC, UAE in December 2017 for SAR 181.6m (purchase was financed by obtaining a long-term loan for an amount of SAR 109m).

Exhibit 53: Al Borg Medical financials

Dec-year end	FY 16A	FY 17A	FY 18e	FY 19e	FY 20e
SAR'000					
Sales	**341,593**	**362,267**	**380,381**	**399,400**	**419,370**
% growth	*15%*	*6%*	*5%*	*5%*	*5%*
Net Income	**90,241**	**59,813**	**64,058**	**74,220**	**81,643**
% growth	*18%*	*-34%*	*7%*	*16%*	*10%*
BPC (April-year end)	**FY 17A**	**FY 18A**	**FY 19e**	**FY 20e**	**FY 21e**
KWD'000					
BPC % stake	24.0%	24.0%	24.0%	24.0%	24.0%
Net income (BPC)	**1,624**	**1,031**	**1,245**	**1,443**	**1,587**

Source: Company data, Arqaam Capital Research

Valuation

Our DCF implies an Equity value of KWD 18.1m for BPC's 24% stake in Al Borg implying KWD fils 35/share. We discount cash flows using a cost of equity of 10.5% and a cost of debt of 4%, resulting in a WACC of 9.5%. We use a terminal growth rate of 2.5%.

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Exhibit 54: Al Borg Medical DCF

SAR'000	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
EBIT	69,301	79,128	86,151	90,512	94,206	95,785	97,412	99,088	100,814
COPAT	**78,809**	**90,380**	**98,985**	**104,895**	**110,230**	**113,571**	**117,013**	**120,558**	**124,209**
Working capital changes	(1,689)	(2,205)	(2,128)	(3,691)	(3,818)	(3,372)	(3,474)	(3,578)	(3,685)
Net operating cash flow	77,120	88,175	96,857	101,204	106,412	110,199	113,539	116,980	120,524
CAPEX	(27,007)	(23,964)	(20,968)	(21,598)	(22,245)	(22,913)	(23,600)	(24,308)	(25,037)
Free cash flow	**50,113**	**64,211**	**75,889**	**79,607**	**84,166**	**87,286**	**89,939**	**92,672**	**95,487**
PVOP	455,744								
PVTV	523,598								
Enterprise Value	**979,342**								
Net Debt (End 2017A)	44,873								
ST Investments	0								
Equity Value (SR'000)	**934,468**								
SAR to KWD	0.08								
Equity Value (KWD'000)	**75,692**								
% Stake of BPC	24.00%								
Equity Value for BPC (KWD'000)	**18,166**								
NoSH of BPC (m)	515								
Per Share (KWD fils)	**35**								
Ke	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Kd	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
WACC	**9.4%**	**9.8%**	**10.1%**	**10.3%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**
Terminal growth Rate	2.5%								

Source: Arqaam Capital Research

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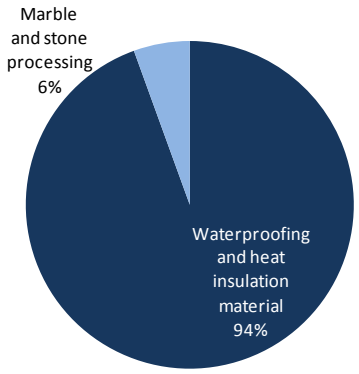
Awazel (2% of core valuation)

Awazel was established in 1981 in Saudi Arabia through an oxidation plant and a membrane production line that has since grown to become one of the largest and most comprehensive manufacturer of bitumen (asphalt) based waterproofing material in the Middle East. It is worth noting that Awazel started diversifying its risk through acquisition of stakes in companies that have products that complement its own; i.e. mainly in the construction and building materials sector.

Bituminous membranes are one of the most widely used waterproofing systems in the GCC Countries because of their performance and low prices compared with other available alternatives such as polymers with different types. It is a reinforced layer of fiberglass or polyester, coated with either modified or oxidized bitumen. Awazel is the largest membrane producer in the Gulf, with 18% of the market's production capacity and has 20% market share, according to Frost & Sullivan research.

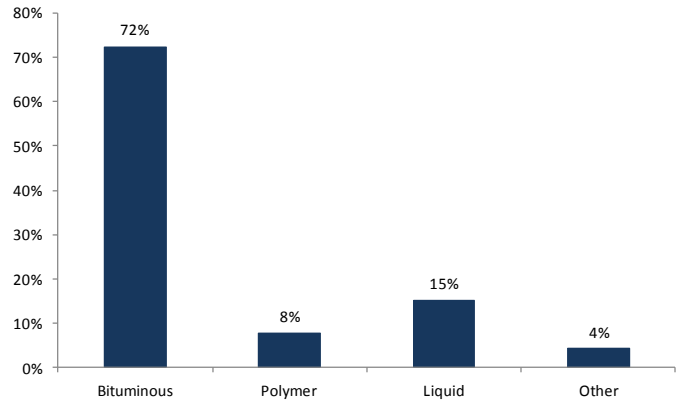
BPC has a stake of 20.78% in Awazel (since 2012).

Exhibit 55: Awazel revenue by products (FY 17A)



Source: Company data, Arqaam Capital Research

Exhibit 56: GCC waterproofing materials market dominated by Bituminous membranes



Source: Company data, Arqaam Capital Research

Exhibit 57: Awazel financials

March-year end	FY 17A	FY 18A	FY 19e	FY 20e	FY 21e
SAR'000					
Sales	**341,026**	**344,437**	**351,325**	**367,726**	**375,081**
% growth	*-17%*	*1%*	*2%*	*5%*	*2%*
Net Income	**73,192**	**27,398**	**40,302**	**43,799**	**46,324**
% growth	*0%*	*-63%*	*47%*	*9%*	*6%*

BPC (April-year end)	FY 17A	FY 18A	FY 19e	FY 20e	FY 21e
KWD'000					
BPC % ownership	20.78%	20.78%	20.78%	20.78%	20.78%
Net income (BPC)	**1,258**	**461**	**678**	**737**	**780**

Source: Arqaam Capital Research

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Valuation

Our DCF implies an Equity value of KWD 12.8m for BPC's 20.78% stake in Awazel implying KWD fils 25/share. We discount cash flows using a cost of equity of 10.5% and a cost of debt of 4%, resulting in a WACC of 10.5%. We use a terminal growth rate of 2.5%.

Exhibit 58: Awazel DCF

SAR'000	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
EBIT	43,799	47,682	50,511	53,435	56,454	59,574	62,795	66,122	69,556
COPAT	**48,027**	**51,646**	**52,939**	**54,262**	**57,078**	**59,984**	**62,985**	**66,081**	**69,275**
Working capital changes	5,539	(2,729)	2,958	3,157	426	497	(1,713)	(1,696)	(1,677)
Net operating cash flow	53,567	48,917	55,897	57,419	57,504	60,481	61,271	64,385	67,598
CAPEX	(5,270)	(5,516)	(5,626)	(5,739)	(5,854)	(5,971)	(6,090)	(6,212)	(6,336)
Free cash flow	**48,297**	**43,401**	**50,271**	**51,680**	**51,650**	**54,511**	**55,181**	**58,173**	**61,262**
PVOP	305,912								
PVTV	335,929								
Enterprise Value	**641,841**								
Net Debt (End 2018A)	(117,777)								
Equity Value (SAR'000)	**759,617**								
SAR to KWD	0.08								
Equity Value (KWD'000)	**61,529**								
% Stake of BPC	20.78%								
Equity Value for BPC (KWD'000)	**12,786**								
NoSH of BPC (m)	515								
Per Share (KWD fils)	**25**								
Ke	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Kd	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
WACC	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**
Terminal growth Rate	2.5%								

Source: Arqaam Capital Research

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Muna Noor (1% of core valuation)

Muna Noor was established in 1975 as a plastic pipe manufacturer to participate in Oman's and GCC rapid infrastructure development. Muna Noor offers pipe solutions for modern, unconventional and economic pipe laying applications in dredging, desalination, water and sewage, irrigation, oil and gas, telecoms, industrial, mining, construction and infrastructure sectors. Muna Noor group of companies include Muna Noor Manufacturing & Trading Company (MNMT), Muscat; Muna Noor Plastic Industries Company (MNPI), Sohar; and Muna Noor LLC, Salalah. Muna Noor's divisions deliver large-scale and bespoke HDPE, UPVC, DWC and Multi-layer HDPE pipes, fittings, plastic fabrication, lining for steel pipe, traditional and electro fusion welding solutions, complete irrigation systems, SCADA control systems and a multiplicity of valves and controls for water.

BPC acquired the company in 2005 and has multiplied the production capacity and geographic footprint extended by adding three production facilities. Muna Noor has manufacturing facilities strategically located in Muscat, Salalah and Sohar, in addition to representative offices in Kuwait and the UAE.

Latest results and expectations

Muna Noor losses increased to KWD 1.2m in FY 18A from KWD 0.3m in FY 17A. Muna Noor is the only loss making core investment that BPC has in its portfolio, led by both external and internal factors. BPC is taking concrete steps to turn it around and has streamlined manufacturing process and cut variable costs. We estimate a profit of KWD 0.2m in FY 19e, in line management focus to bring back the company into profits this year.

We value Muna Noor at a 10% discount to its carrying value at FY 18A stage i.e. a value of KWD 5.1m or 10/share for BPC. This implies c. 1% contribution to core valuation.

Exhibit 59: Muna Noor profit and valuation

KWD'000	FY 17A	FY 18A	FY 19e	FY 20e	FY 21e
Profit	**(312)**	**(1,180)**	**200**	**350**	**450**
Carrying Value for BPC		**5,729**			
Discount		10%			
Value		5,156			
Per share		**10**			

Source: Arqaam Capital Research

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