

Quarterly Review February 22 2022

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Boubyan Petrochemicals Co.

Q3 22A net income is up 10% y/y at KWD 2.5m, but misses our estimate by 16%. Maintain Hold.

- BPCC reported Q3 22A net income of KWD 2.5m (+10% y/y, -11% q/q), 16% below our expectations (ACe: KWD 3m)
- The y/y profit increase was driven by improved operating performance from subsidiaries (mainly AlKout), while q/q, lower investment income led to profit decline.
- BPCC is expected to report strong FY 22e EPS growth (+104% y/y) supported by
 a rebound in Equate's net income (+210% y/y) on higher petchem prices this
 year. The stock is up 12% YtD, capturing most of the upside, in our view.
 Equate's dividend income will be reflected in the fourth quarter of BPCC.
- M&A activity is likely to slow down in the MT, in our view, given minimum KWD 60 fils DPS guidance till FY 24e or 6.4% DY. Maintain Hold.

Q3 22A net income increased by 10% y/y, still 16% below estimates. BPCC reported Q3 22A revenues slightly below our estimates at KWD 19m (+16% q/q, +1% y/y), as sales of goods (mainly AlKout) increased by 10% q/q to KWD 12.9m (+4% y/y, -8% vs. ACe) while tuition fees came 14% below ACe at KWD 6.0m (+34% q/q, -6% y/y). Operating profit increased by 11% q/q to KWD 4.7m (-7% y/y, +10% vs. ACe). Net profit came in at KWD 2.5m, 16% below our estimate and 11% lower q/q (+10% y/y). Sequential decline was mainly driven by lower investment income (at KWD 0.2m vs. KWD 1.3m in Q2 22A) and other income (KWD 0.5m vs. KWD 1m in Q2).

BPCC's FY earnings growth to be driven by strong profit recovery at Equate. Equate's FY 21A net income rebounded sharply (+210% y/y) to USD 1.1bn vs. a 42% y/y drop last year to USD 358m and will support profit growth at BPCC in Q4 22e. BPCC has a 9% stake in Equate which distributes 100% of its earnings as dividends. Equate has reported revenues of USD 4.2bn in FY 21A compared to USD 2.9bn last year, while EBITDA increased from USD 945m last year to USD 1.7bn this year given 52% higher MEG average prices (USD 662/t vs. USD 436/t last year). This is expected to result in a strong 104% y/y net profit growth for BPCC in FY 22e (April year-end).

6.4% div. yield attractive; FCF to support payout in the absence of M&A. BPCC in Jan-22 increased the minimum DPS guidance to KWD 60 fils/share in FY 22-24e vs. KWD 55 fils/share earlier implying an attractive yield of 6.4%, in our view. We forecast FCF yield below DY at 5.1% in FY 22e, but rising to 7.8% in FY 23e, on our estimates. BPCC has been focusing on diversifying away from Equate's petrochemical business in the last three years, but the higher DPS implies a slow-down in M&A activity in the MT, in our view.

Maintain Hold at KWD 950 fils/share. BPCC's stock price is up 12% YtD backed by Equate's strong dividends in Q4e and together with the expectation of a gradual recovery in the Education portfolio as COVID-19 restrictions wane. However, MEG prices remain below USD 700/t and higher supply this year may limit any price growth. BPCC's acquisition strategy has witnessed a pause in light of COVID-19 disruption and with the DPS hike announcement, we expect limited M&A activity in the MT. The guaranteed 6.4% DY is expected to provide downside support to the stock price, but our TP of KWD 950 fils/share (70% contribution to SoTP from Equate) provides only limited upside to CMP. Maintain Hold.

HOLD

<u>KWD 950</u>

Petrochemicals / Kuwait

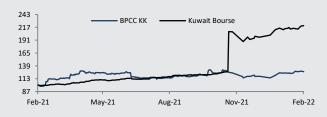
Bloomberg code	BPCC KK
Market index	Kuwait Bourse
Target Price	950
Upside (%)	1.1

Market data 21/02/2022

Last closing price	940.0
52 Week range	715.0-987.0
Market cap (KWD m)	490
Market cap (USD m)	1,621
Average Daily Traded Value (KWD m)	3.6
Average Daily Traded Value (USD m)	1.2
Free float (%)	67%

Year-end (local m)	2021	2022e	2023e	2024e
Revenues	66,869	74,280	77,376	79,384
EBITDA	32,610	54,520	56,368	62,023
Net income	18,048	36,798	38,421	42,490
EPS	35.04	71.44	74.59	82.49
EPS growth (%)	52.7	103.9	4.4	10.6
P/E (current price)	26.8	13.2	12.6	11.4
DPS	55.00	60.00	60.00	60.00
Div. yield (%)	5.9	6.4	6.4	6.4
FCF/share	89.7	68.2	104.0	112.3
FCF yield (%)	6.7	5.1	7.8	8.4
CAPEX	(242)	4,107	2,119	2,382
CAPEX/sales (%)	(0.4)	5.5	2.7	3.0
Net Debt/EBITDA (x)	6.1	3.7	3.3	2.7
EV/EBITDA (x)	21.2	12.7	12.2	11.1
RoAE (%)	8.0	14.9	15.6	16.6
RoIC (%)	5.6	10.4	10.7	12.1

Price Performance

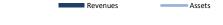


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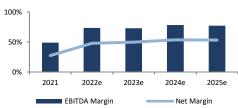


AbacusArqaam Capital Fundamental Data

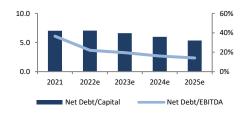
Profitability 20% 10% -0% -10% -2021 2022e 2023e 2024e 2025e



Growth



Gearing



Boubyan Petrochemical	
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Year-end	2020	2021	2022 e	2023e	2024e	2025e
Financial summary						
Reported EPS	22.95	35.04	71.44	74.59	82.49	83.91
Diluted EPS	22.95	35.04	71.44	74.59	82.49	83.91
DPS	35.00	55.00	60.00	60.00	60.00	62.94
BVPS	433.63	454.87	471.31	485.89	508.38	532.30

Year-end	2020	2021	2022 e	2023 e	2024 e	2025 e
Valuation metrics						
P/E (x) (current price)	41.0	26.8	13.2	12.6	11.4	11.2
P/E (x) (target price)	41.4	27.1	13.3	12.7	11.5	11.3
EV/EBITDA (x) (current price)	14.8	21.2	12.7	12.2	11.1	11.0
EV/EBITDA (x) (target price)	14.9	21.3	12.8	12.3	11.2	11.1
EV/FCF (x)	31.0	14.9	19.6	12.9	11.9	12.0
Free cash flow yield (%)	3.2	6.7	5.1	7.8	8.4	8.3
Dividend yield (%)	3.7	5.9	6.4	6.4	6.4	6.7

Year-end	2020	2021	2022e	2023 e	2024e	2025 e
Growth (%)						
Revenues	37.9	(11.4)	11.1	4.2	2.6	2.4
EBITDA	(19.9)	(29.9)	67.2	3.4	10.0	0.9
EBIT	(28.8)	(34.8)	85.7	3.6	11.2	0.7
Net income	(43.8)	(32.4)	94.6	8.2	10.6	1.7

Year-end	2020	2021	2022 e	2023 e	2024e	2025 e
Margins (%)						
EBITDA	61.7	48.8	73.4	72.8	78.1	77.0
EBIT	51.7	38.0	63.6	63.2	68.5	67.4
Net	35.8	27.3	47.8	49.7	53.5	53.2

Year-end	2020	2021	2022 e	2023e	2024e	2025e
Returns (%)						
RoAA	4.9	3.3	6.6	7.3	8.2	8.3
RoAE	10.6	8.0	14.9	15.6	16.6	16.1
RoIC	9.0	5.6	10.4	10.7	12.1	12.4
FCF margin	3.2	6.7	5.1	7.8	8.4	8.3

Year-end	2020	2021	2022 e	2023e	2024e	2025e
Gearing (%)						
Net debt/Capital	44.6	42.1	42.2	39.6	35.9	32.0
Net debt/Equity	97.6	84.7	82.1	73.6	63.2	53.5
Interest cover (x)	4.5	4.9	8.1	8.8	8.8	9.5
Net debt/EBITDA (x)	4.7	6.1	3.7	3.3	2.7	2.3



Abacus Argaam 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 portfoliocontributing to 2/3 of its net assets and net income in FY 21A and 70% of our core valuation.

Ownership structure

Shareholders	%
Sons Mubarak Al-Dabbous Company	15.4%
Public Institution for Social Security (PIFSS)	6.0%
Ali Alghanim Sons Company	5.5%
Others	73.1%

Source: Boursa Kuwait

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2020	2021	2022 e	2023e	2024 e	2025 e
75,489	66,869	74,280	77,376	79,384	81,278
(49,068)	(44,408)	(50,364)	(51,835)	(53,124)	(54,371)
26,421	22,460	23,916	25,540	26,260	26,907
(13,930)	(12,959)	(13,920)	(14,553)	(14,938)	(15,288)
46,549	32,610	54,520	56,368	62,023	62,596
(7,537)	(7,182)	(7,293)	(7,462)	(7,638)	(7,836)
39,012	25,428	47,226	48,905	54,385	54,760
(8,634)	(5,172)	(5,830)	(5,542)	(6,201)	(5,751)
7,353	7,513	7,115	9,428	9,701	9,981
17,582	22,703	44,200	46,145	51,022	51,904
(125)	(908)	(1,768)	(1,846)	(2,041)	(2,076)
-	-	-	-	-	-
17,367	21,704	42,342	44,209	48,891	49,738
5,544	3,657	5,544	5,788	6,401	6,512
11,823	18,048	36,798	38,421	42,490	43,225
(15,171)	(198)	1,300	-	-	-
26,994	18,245	35,498	38,421	42,490	43,225
	75,489 (49,068) 26,421 (13,930) 46,549 (7,537) 39,012 (8,634) 7,353 17,582 (125) - 17,367 5,544 11,823 (15,171)	75,489 66,869 (49,068) (44,408) 26,421 22,460 (13,930) (12,959) 46,549 32,610 (7,537) (7,182) 39,012 25,428 (8,634) (5,172) 7,353 7,513 17,582 22,703 (125) (908) 17,367 21,704 5,544 3,657 11,823 18,048 (15,171) (198)	75,489 66,869 74,280 (49,068) (44,408) (50,364) 26,421 22,460 23,916 (13,930) (12,959) (13,920) 46,549 32,610 54,520 (7,537) (7,182) (7,293) 39,012 25,428 47,226 (8,634) (5,172) (5,830) 7,353 7,513 7,115 17,582 22,703 44,200 (125) (908) (1,768) 17,367 21,704 42,342 5,544 3,657 5,544 11,823 18,048 36,798 (15,171) (198) 1,300	75,489 66,869 74,280 77,376 (49,068) (44,408) (50,364) (51,835) 26,421 22,460 23,916 25,540 (13,930) (12,959) (13,920) (14,553) 46,549 32,610 54,520 56,368 (7,537) (7,182) (7,293) (7,462) 39,012 25,428 47,226 48,905 (8,634) (5,172) (5,830) (5,542) 7,353 7,513 7,115 9,428 17,582 22,703 44,200 46,145 (125) (908) (1,768) (1,846) - - - - 17,367 21,704 42,342 44,209 5,544 3,657 5,544 5,788 11,823 18,048 36,798 38,421 (15,171) (198) 1,300 -	75,489 66,869 74,280 77,376 79,384 (49,068) (44,408) (50,364) (51,835) (53,124) 26,421 22,460 23,916 25,540 26,260 (13,930) (12,959) (13,920) (14,553) (14,938) 46,549 32,610 54,520 56,368 62,023 (7,537) (7,182) (7,293) (7,462) (7,638) 39,012 25,428 47,226 48,905 54,385 (8,634) (5,172) (5,830) (5,542) (6,201) 7,353 7,513 7,115 9,428 9,701 17,582 22,703 44,200 46,145 51,022 (125) (908) (1,768) (1,846) (2,041) - - - - - 17,367 21,704 42,342 44,209 48,891 5,544 3,657 5,544 5,788 6,401 11,823 18,048 36,798 38,421

Year-end	2020	2021	2022 e	2023 e	2024 e	2025 e
Balance sheet (KWD'000)						
Cash and equivalents	46,980	38,732	29,992	30,070	33,743	37,512
Receivables	40,309	35,293	24,319	23,750	23,934	24,114
Inventories	5,753	8,569	7,346	7,296	7,264	7,227
Tangible fixed assets	58,755	51,331	48,145	42,801	37,545	32,960
Other assets including goodwill	4,14,162	4,16,534	4,16,534	4,16,534	4,16,534	4,16,534
Total assets	5,65,960	5,50,459	5,26,336	5,20,451	5,19,019	5,18,347
Payables	39,158	46,669	20,940	21,507	21,897	22,210
Interest bearing debt	2,65,048	2,37,220	2,29,194	2,14,194	1,99,194	1,84,194
Other liabilities	-	-	-	-	-	-
Total liabilities	3,04,206	2,83,890	2,50,134	2,35,701	2,21,091	2,06,404
Shareholders equity	2,23,369	2,34,309	2,42,776	2,50,290	2,61,873	2,74,191
Minorities	38,385	32,260	33,426	34,461	36,055	37,751
Total liabilities & shareholders equity	5,65,960	5,50,459	5,26,336	5,20,451	5,19,019	5,18,347

Year-end	2020	2021	2022 e	2023 e	2024 e	2025 e
Cash flow (KWD'000)						
Cashflow from operations	35,413	41,414	39,219	55,708	60,221	60,689
Net capex	(22,547)	242	(4,107)	(2,119)	(2,382)	(3,251)
Free cash flow	22,273	46,215	35,112	53,589	57,840	57,438
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(25,756)	(18,029)	(28,331)	(30,907)	(30,907)	(30,907)
Net inc/(dec) in borrowings	81,634	(27,828)	(8,026)	(15,000)	(15,000)	(15,000)
Other investing/financing cash flows	(8,634)	(5,172)	(5,830)	(5,542)	(6,201)	(5,751)
Net cash flow	4,926	(8,248)	(8,740)	78	3,673	3,769
Change in working capital	(11,011)	9,711	(13,533)	1,186	239	169

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Exhibit 1: BPCC Q3 FY 21/22 results reviewBPCC Q3 22A results review							
KWD'000	Q3 22A AC	estimates	Δ	Q3 21A y	//y change	Q2 22A	q/q change
Sale of goods	12,981	12,077	7.5%	12,477	4.0%	11,841	9.6%
Tuition fees	6,048	7,084	-14.6%	6,440	-6.1%	4,493	34.6%
Total Revenues	19,029	19,161	-0.7%	18,916	0.6%	16,334	16.5%
Gross profit	5,969	6,741	-11.5%	6,408	-6.9%	5,396	10.6%
EBIT	4,681	4,276	9.5%	5,016	-6.7%	3,695	26.7%
Net income	2,524	3,020	-16.4%	2,303	9.6%	2,825	-10.6%
Gross margin	31.4%	35.2%	(381)	33.9%	(251)	33.0%	(167)
EBIT margin	24.6%	22.3%	228	26.5%	(192)	22.6%	198
Net margin	13.3%	15.8%	(250)	12.2%	109	17.3%	(403)

Source: Company Data, Arqaam Capital Research

Valuation - Maintain Hold with a TP of KWd 950/share

Exhibit 2: BPCC SoTP valuation summary

	%	Valuation	Total		Proportionate		TP	Impl. EV/EBITDA	
KWDm	ownership	methodology	EV	Equity	EV	Equity	KWD fils/share	FY 22e (x)	% of TP
Petrochemicals							1,040		71%
Equate	9.0%	DCF	7,272	5,954	654	536	1,040	14	71%
Education & healthcare							310		21%
EDU	83.0%	DCF	102	111	85	92	178	14	12%
Nafais	21.1%	DCF	122	119	26	25	49	9	3%
Al Borg	24.0%	DCF	52	52	12	12	24	8	2%
EYAS* (direct stake)	20.6%	DCF	116	147	24	30	59	11	4%
Industrials							72		5%
Al Kout	54.1%	DCF	74	69	40	37	72	8	5%
Manufacturing							35		2%
Awazel	20.8%	DCF	36	50	7	10	20	11	1%
Muna Noor	100.0%	1x P/BV	n/a	8	n/a	8	15	n/a	1%
Other							5		100%
Warba Capital	50.3%	Transaction value	n/a	5	n/a	3	5	n/a	0%
Subtotal for core units						754	1,463		100%
Subtotal for non-core units		1x P/BV				64	124		
Total						818	1,588		
Cash		Q3 22A				78	152		
Debt		Q3 22A				284	(551)		
Net debt						206	(399)		
BPC SoTP						612	1,189		
Conglomerate discount*							20%		
BPC SoTP target price						489	950		

Source: Arqaam Capital Research. Note: EYAS Indirect stake contribution included in EDU.



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