

Boubyan Petrochemical Co.

Upgrade to Buy as B/S improves on robust cash flow

- BPCC FY22 net income more than doubled y/y to KWD 38.8m on strong dividend income from Equate (KWD 30.2m vs. 9.7m last year) and a 13% y/y increase in core investment income.
- BPCC recently sold a GBK stake for KWD 51.2m and we expect this will lead to a 35% y/y reduction in net debt to KWD 117m (adding 120 fils/share to equity value) in FY 23e. BPCC has also early settled KWD 70m of loans.
- Core investments (ex-Equate) continue to improve, supported by reopening. But, Equate's profit is under pressure from lower MEG prices.
- We upgrade to Buy at KWD 1.2/share (revised by +26%). The stock trades at 14x FY 23e P/E and provides a minimum DY of 5.8% FY22-24e.

BPCC's FY earnings growth was driven by a 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, supporting profit growth at BPCC. BPCC has a 9% stake in Equate which distributes 100% of its earnings as dividends. This together with a 13% y/y increase in income from core investments (KWD 13.4m vs. KWD 11.9m last year), and a strong performance at EDU and Al Kout, BPCC recorded a more than doubling in net profit to KWD 38.8m in FY 22A.

Net debt to fall significantly after the GBK stake disposal. Net debt is expected to decline by 35% in FY 23e to KWD 117m, as BPCC sold a GBK stake for KWD 51.2m and early settled KWD 70m of loans. This follows a net debt reduction of 10% in FY 22 to KWD 180m.

5.8% dividend yield is compelling; FCF to support payout. 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 a yield of 5.8%. We forecast a FCF yield of >9% during the forecast period and this will support the dividend payments, in our view. BPCC has prioritized diversifying away from Equate's petrochemical business in the last three years, but the higher DPS will likely slow down the M&A activity in the MT, in our view. Having said that, if the core investments (ex-Equate) performance improves, we expect BPCC to resume its M&A activity.

EDU holding to merge with the company. BPC currently holds 83.1% of Educational Holding Group (EDU) and has entered a merger transaction by way of amalgamation, to merge EDU with itself. The company is yet to make the announcements related to the timeline. We think the merger will justify a lower HoldCo discount.

Upgrade to Buy at KWD 1.2/share; MEG price pressure key downside risk. We increase our TP by 26% to KWD 1.2/share on i) net debt reduction and ii) reducing HoldCo discount (to 15% from 20%). BPC's stock is up 22% YtD backed by Equate's strong dividends and together with the expectation of a gradual recovery in the Education portfolio as COVID-19 restrictions wane. However, MEG prices remain muted (at USD 635/t, -8% vs. Q1) and higher supply this year may limit any price growth and is a key risk to BPC's stock price performance, in our view, given Equate contributes 74% to fair value.

BUY↑

KWD 1.2↑

Petrochemicals / Kuwait

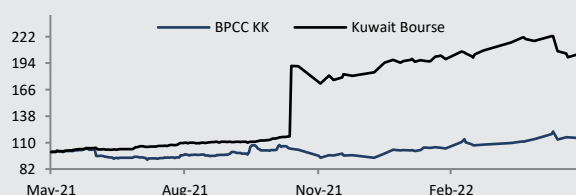
Bloomberg code	BPCC KK
Market index	Kuwait Bourse
Target Price (fils)	1,202
Upside (%)	15.6

Market data 6/12/2022

Last closing price	1,056
52 Week range	820.0-1125.0
Market cap (KWD m)	551
Market cap (USD m)	1,797
Average Daily Traded Value (KWD m)	614.0
Average Daily Traded Value (USD m)	2,004.4
Free float (%)	71%

Year-end (local m)	2022	2023e	2024e	2025e
Revenues	72,019	76,473	78,322	80,172
EBITDA	54,263	53,526	55,362	57,321
Net income	38,761	38,197	39,591	41,486
EPS	74.55	73.46	76.14	79.79
EPS growth (%)	103.0	(1.5)	3.7	4.8
P/E (current price)	14.0	14.2	13.7	13.1
DPS	60.00	60.00	60.00	63.83
Div. yield (%)	5.8	5.8	5.8	6.1
FCF/share	98.6	97.9	99.9	102.2
FCF yield (%)	9.5	9.4	9.6	9.8
CAPEX	5,697	2,294	2,350	3,207
CAPEX/sales (%)	7.9	3.0	3.0	4.0
Net Debt/EBITDA (x)	3.3	2.2	1.8	1.5
EV/EBITDA (x)	13.3	13.5	13.1	12.6
RoAE (%)	15.0	13.6	13.7	13.9
RoIC (%)	10.5	10.6	11.8	12.4

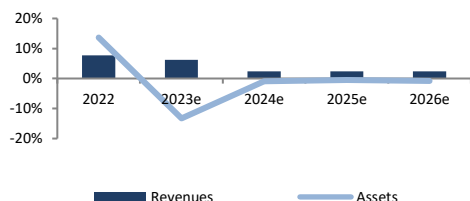
Price Performance



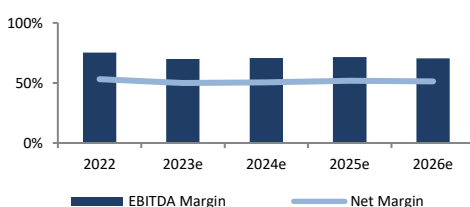
Abacus

Arqaam Capital Fundamental Data

Profitability



Growth



Gearing



Boubyan Petrochemical

Year-end	2021	2022	2023e	2024e	2025e	2026e
Financial summary						
Reported EPS	36.73	74.55	73.46	76.14	79.79	81.07
Diluted EPS	35.56	74.40	73.31	75.99	79.63	80.91
DPS	55.00	60.00	60.00	60.00	63.83	64.86
BVPS	449.73	532.23	545.66	561.77	581.52	598.73

Year-end	2021	2022	2023e	2024e	2025e	2026e
Valuation metrics						
P/E (x) (current price)	29.2	14.0	14.2	13.7	13.1	12.9
P/E (x) (target price)	32.7	16.1	16.4	15.8	15.1	14.8
EV/EBITDA (x) (current price)	22.2	13.3	13.5	13.1	12.6	12.5
EV/EBITDA (x) (target price)	24.7	14.9	15.1	14.6	14.1	13.9
EV/FCF (x)	15.5	14.1	14.2	13.9	13.6	13.4
Free cash flow yield (%)	8.6	9.5	9.4	9.6	9.8	9.9
Dividend yield (%)	5.3	5.8	5.8	5.8	6.1	6.2

Year-end	2021	2022	2023e	2024e	2025e	2026e
Growth (%)						
Revenues	(11.4)	7.7	6.2	2.4	2.4	2.4
EBITDA	(29.9)	66.4	(1.4)	3.4	3.5	1.0
EBIT	(34.8)	88.3	(2.0)	3.2	3.7	0.7
Net income	(30.6)	104.3	(0.2)	3.7	4.8	1.6

Year-end	2021	2022	2023e	2024e	2025e	2026e
Margins (%)						
EBITDA	48.8	75.3	70.0	70.7	71.5	70.6
EBIT	38.0	66.5	61.3	61.8	62.6	61.6
Net	28.0	53.1	49.9	50.5	51.7	51.4

Year-end	2021	2022	2023e	2024e	2025e	2026e
Returns (%)						
RoAA	3.4	6.5	6.5	7.3	7.7	7.9
RoAE	8.2	15.0	13.6	13.7	13.9	13.7
RoIC	5.7	10.5	10.6	11.8	12.4	12.7
FCF margin	8.6	9.5	9.4	9.6	9.8	9.9

Year-end	2021	2022	2023e	2024e	2025e	2026e
Gearing (%)						
Net debt/Capital	42.1	32.9	24.7	22.0	18.7	15.8
Net debt/Equity	84.7	65.2	40.9	34.9	28.5	23.0
Interest cover (x)	4.9	10.0	10.2	10.8	12.2	13.5
Net debt/EBITDA (x)	6.1	3.3	2.2	1.8	1.5	1.2

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 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 on 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 and net income in FY 22A and 74% 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

Boubyan Petrochemical

Year-end	2021	2022	2023e	2024e	2025e	2026e
Income statement (KWD'000)						
Sales revenue	66,869	72,019	76,473	78,322	80,172	82,069
Cost of sales	(44,408)	(48,331)	(51,942)	(53,033)	(54,258)	(55,542)
Gross profit	22,460	23,689	24,531	25,288	25,915	26,526
SG&A	(12,959)	(13,349)	(13,772)	(14,015)	(14,344)	(14,655)
EBITDA	32,610	54,263	53,526	55,362	57,321	57,908
Depreciation	(7,182)	(6,389)	(6,618)	(6,972)	(7,142)	(7,372)
EBIT	25,428	47,873	46,908	48,389	50,180	50,536
Interest expense	(5,172)	(4,809)	(4,597)	(4,496)	(4,121)	(3,746)
Share of results of associates & JV	7,513	7,714	8,047	8,278	8,516	8,761
Profit before tax	22,703	45,405	44,745	46,375	48,591	49,372
Taxes	(430)	(1,306)	(1,287)	(1,334)	(1,397)	(1,420)
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	22,183	44,009	43,368	44,952	47,103	47,863
Minorities	3,657	5,248	5,172	5,361	5,617	5,708
Net profit (parent)	18,526	38,761	38,197	39,591	41,486	42,155
Arqaam adjustments (including dilution)	(198)	500	-	-	-	-
Arqaam Net profit	18,724	38,261	38,197	39,591	41,486	42,155

Year-end	2021	2022	2023e	2024e	2025e	2026e
Balance sheet (KWD'000)						
Cash and equivalents	38,732	91,648	70,944	70,260	71,142	70,728
Receivables	35,293	30,711	23,758	23,942	24,123	24,300
Inventories	8,569	7,660	7,701	7,663	7,624	7,580
Tangible fixed assets	51,331	50,639	46,315	41,693	37,758	33,668
Other assets including goodwill	4,16,534	4,44,892	3,93,739	3,93,739	3,93,739	3,93,739
Total assets	5,50,459	6,25,551	5,42,457	5,37,297	5,34,386	5,30,016
Payables	46,669	44,981	39,108	39,619	40,272	40,936
Interest bearing debt	2,37,220	2,72,354	1,87,354	1,72,354	1,57,354	1,42,354
Other liabilities	-	-	-	-	-	-
Total liabilities	2,83,890	3,17,335	2,26,462	2,11,972	1,97,626	1,83,289
Shareholders equity	2,34,309	2,77,290	2,84,289	2,92,683	3,02,971	3,11,937
Minorities	32,260	30,925	31,706	32,642	33,790	34,789
Total liabilities & shareholders equity	5,50,459	6,25,551	5,42,457	5,37,297	5,34,386	5,30,016

Year-end	2021	2022	2023e	2024e	2025e	2026e
Cash flow (KWD'000)						
Cashflow from operations	41,892	56,760	53,279	54,392	56,435	57,019
Net capex	242	(5,697)	(2,294)	(2,350)	(3,207)	(3,283)
Free cash flow	46,694	51,373	50,985	52,043	53,228	53,736
Dividends paid	(17,653)	(28,598)	(31,198)	(31,198)	(31,198)	(33,189)
Net inc/(dec) in borrowings	(27,828)	35,133	(85,000)	(15,000)	(15,000)	(15,000)
Other investing/financing cash flows	(5,172)	(4,809)	(4,597)	(4,496)	(4,121)	(3,746)
Net cash flow	(8,248)	52,917	(20,704)	(684)	882	(414)
Change in working capital	9,711	3,803	1,039	364	511	530

Sidharth Saboo

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BPCC Q4/FY 22A earnings recap

Exhibit 1: BPCC Q4/FY 22 results summary

KWD'000	Q4 22A	Q4 21A	y/y	Q1 22A	q/q	FY 22A	FY 21A	y/y
Sale of goods	11,331	10,395	9.0%	12,981	-12.7%	47,940	42,588	12.6%
Tuition fees	6,165	7,147	-13.7%	6,048	1.9%	24,079	24,281	-0.8%
Total Revenues	17,496	17,542	-0.3%	19,029	-8.1%	72,019	66,869	7.7%
Gross profit	5,583	6,513	-14.3%	5,969	-6.5%	23,689	22,460	5.5%
EBIT	34,006	16,489	106.2%	4,681	626.5%	47,873	25,428	88.3%
Net income	30,603	11,119	175.2%	2,524	1112.3%	38,761	18,526	109.2%
Gross margin	31.9%	37.1%	(521)	31.4%	54	32.9%	33.6%	(70)
EBIT margin	194.4%	94.0%	10,036	24.6%	16,976	66.5%	38.0%	2,845
Net margin	174.9%	63.4%	11,153	13.3%	16,165	53.8%	27.7%	2,612

Source: Company Data, Arqaam Capital Research. Note: EBIT includes div. income, investment income from associates.

Valuation – Upgrade to Buy with a TP of KWD 1.2/share on our SotP/DCF.

Exhibit 2: BPCC SoTP valuation summary

KWDm	% ownership	Valuation methodology	Total EV	Equity	Proportionate EV	Equity	TP KWD fils/share	Impl. EV/EBITDA FY 23e (x)	% of TP
Petrochemicals							1,121		74%
Equate	9.0%	DCF	7,678	6,489	691	584	1,121	14	74%
Education & healthcare							258		17%
EDU	83.1%	DCF	95	79	79	66	127	11	8%
Nafais	21.1%	DCF	122	119	26	25	48	8	3%
Al Borg	25.1%	DCF	52	52	13	13	25	7	2%
EYAS* (direct stake)	20.6%	DCF	116	147	24	30	58	11	4%
Industrials							87		6%
Al Kout	54.1%	DCF	89	84	48	45	87	9	6%
Manufacturing							33		2%
Awazel	20.8%	DCF	36	50	7	10	20	9	1%
Muna Noor	100.0%	1x P/BV	n/a	7	n/a	7	13	n/a	1%
Other							11		101%
Kuwait Foundry	23.0%	MCap	n/a	25	n/a	6	11	n/a	1%
Subtotal for core units						786	1,510		100%
Subtotal for non-core units		1x P/BV				80	154		
Total						866	1,663		
Cash		FY 22A				92	176		
Debt		FY 22A				272	(523)		
Net debt						181	(347)		
Cash from GBK stake sale						51	98		
BPC SoTP						737	1,414		
Conglomerate discount*							15%		
BPC SoTP target price						626	1,202		

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

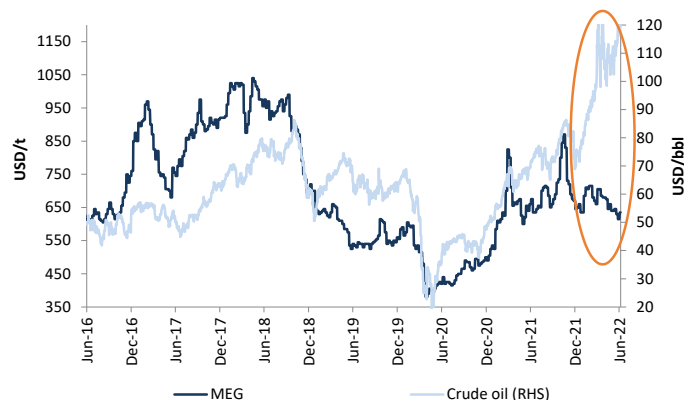
Exhibit 3: Equate DCF valuation

USDm	2022e	2023e	2024e	2025e	2026e	2027e
EBIT	1,343	1,362	1,414	1,408	1,396	1,396
COPAT	1,634	1,662	1,716	1,716	1,716	1,716
Working capital changes	181	169	(8)	----	----	----
Net operating cash flow	1,816	1,831	1,708	1,716	1,716	1,716
CapEx	(478)	(300)	(133)	(395)	(406)	(406)
Free cash flow	1,338	1,531	1,575	1,321	1,310	1,310
Enterprise Value	24,767					
Net Debt (FY 21A)	3,836					
Equity Value	20,931					
USD to KWD	0.31					
Equity Value (KWDm)	6,489					
% Stake of BPC	9%					
Equity Value for BPC (KWDm)	584					
NoSH of BPC (m)	521					
Per Share (KWD fil)	1,121					

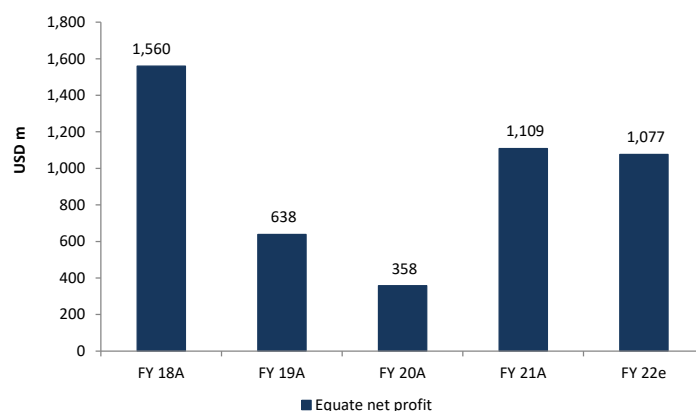
DCF Assumptions

Risk Free Rate	3.5%					
Premium	7.0%					
Beta	1.0					
Weight of Equity	34%	34%	34%	34%	36%	36%
Weight of Debt	66%	66%	66%	66%	64%	64%
Ke	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%
WACC	6.2%	6.2%	6.2%	6.2%	6.3%	6.3%
Terminal growth Rate	1.0%					

Source: Arqaam Capital Research

Exhibit 4: MEG prices remain under pressure on higher supply and muted demand


Source: Bloomberg, Arqaam Capital Research

Exhibit 5: Equate FY 22e net profit expected to be below FY 21A


Source: Company data, Arqaam Capital Research

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