

## Boubyan Petrochemical

Q1 net income beats estimates by 15% on strong performance from Al-Kout

- BPCC reported Q1 22/23 net income of KWD 10.1m (3.6x y/y, -67% q/q), 15% above our estimates (ACe: KWD 8.8m).
- The y/y net income increase is driven by higher operating profits from subsidiaries (mainly Al Kout) and KWD 6.3m interim dividend by Equate. Q/q profit decline was a function of seasonality (BPCC recorded full dividend from Equate in Q4 last year).
- Core investments (ex-Equate) continue to improve for BPCC as Al Kout delivered strong results in the quarter (NI: +165% y/y and +75% q/q) and EDU net income increased by 7% y/y and 20% q/q.
- The stock trades at 12.7x FY 23e P/E and provides a minimum DY of 6.4% till FY24e. Maintain Buy but highlight near term pressure on Equate's earnings on MEG price downtick.

**Strong results at Al-Kout and interim dividend from Equate lifts Q1 earnings.** BPCC reported Q1 22/23A revenues of KWD 22.2m (+16% q/q and +27% y/y), 16% above our estimates, as sales of goods (mainly Al-Kout) rose 33% y/y to KWD 15.7m (+39% q/q and +26% vs. ACe) while tuition fees declined by 12% y/y to KWD 6.5m (+6% q/q and -4% vs. ACe). Al Kout (BPC stake at 54%) recorded 35% y/y increase in revenues in the quarter (+39% q/q) to KWD 10.8m on higher sales volumes and prices of Chlor Alkali products, and 165% y/y surge in net income to KWD 3.6m. EDU also delivered improved results as net income increased by 7% y/y and 20% q/q to KWD 2m. Moreover, BPC's net profit in the quarter was supported by interim dividend of KWD 6.3m from Equate for Q1 (announced in May 22). We note that till last year, Equate's full dividend was recorded only in Q4 for BPC, however, from this year, company will witness lower seasonality in quarterly earnings given proposal of interim dividends by Equate. Overall, BPC net profit came at KWD 10.1m, KWD 7.3m above last year on improved performance at subsidiaries and KWD 6.3m dividend from Equate.

**Gross debt declines significantly after GBK stake disposal.** BPC's gross debt declined by KWD 94m to KWD 178m as company sold its GBK stake for KWD 51.2m and early settled KWD 70m of loans. Net debt declined by KWD 28m to KWD 152m as company also paid KWD 31m of dividends in this quarter (DPS of KWD 60 fils for FY 22A).

**Equate to witness earnings pressure in H2 as MEG prices continue to decline.** Equate has a 65% revenue exposure to MEG, 20% to PE and 10% to PET. Spot MEG prices at USD 520/t are 23% below FY 21A average and 18% below last quarter. Equate witnessed a decent Q1 as sales volumes were up 5% y/y and prices remained stable (MEG: +5% y/y, PE: +11% y/y), however, global growth slowdown and recession concerns have muted sector outlook for the near term.

**6.4% dividend yield is attractive; 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 6.4%. 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 continues to improve, we expect company to resume its M&A activity. We maintain our Buy recommendation; however, we highlight MEG prices continue to decline and will pressure Equate's earnings. This 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

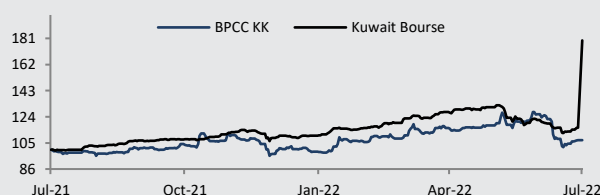
Bloomberg code	BPCC KK
Market index	Kuwait Bourse
Target Price (fils)	1,202
Upside (%)	27.6

### Market data 8/18/2022

Last closing price	925.0
52 Week range	825.0-1125.0
Market cap (KWD m)	482
Market cap (USD m)	1,572
Average Daily Traded Value (KWD m)	0.5
Average Daily Traded Value (USD m)	1.8
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)	12.5	12.7	12.3	11.7
DPS	60.00	60.00	60.00	63.83
Div. yield (%)	6.4	6.4	6.4	6.8
FCF/share	98.6	97.9	99.9	102.2
FCF yield (%)	10.6	10.5	10.7	11.0
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)	12.3	12.4	12.0	11.6
RoAE (%)	15.0	13.6	13.7	13.9
RoIC (%)	10.5	10.6	11.8	12.4

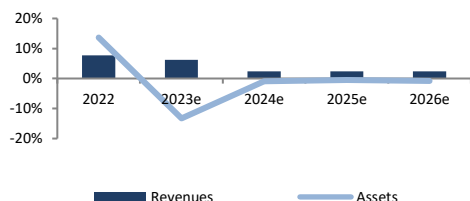
### Price Performance



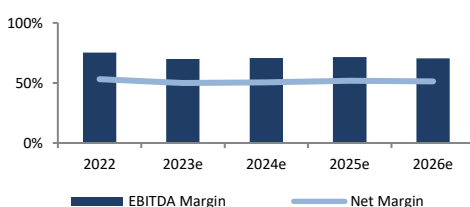
## Abacus

### Arqaam Capital Fundamental Data

#### Profitability



#### Growth



#### Gearing



## Boubyan Petrochemical

Year-end	2021	2022	2023e	2024e	2025e	2026e
<b>Financial summary</b>						
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
<b>Valuation metrics</b>						
P/E (x) (current price)	26.2	12.5	12.7	12.3	11.7	11.5
P/E (x) (target price)	32.7	16.1	16.3	15.8	15.0	14.8
EV/EBITDA (x) (current price)	20.4	12.3	12.4	12.0	11.6	11.5
EV/EBITDA (x) (target price)	24.7	14.9	15.1	14.6	14.1	13.9
EV/FCF (x)	14.3	13.0	13.1	12.8	12.5	12.4
Free cash flow yield (%)	9.6	10.6	10.5	10.7	11.0	11.1
Dividend yield (%)	5.9	6.4	6.4	6.4	6.8	7.0

Year-end	2021	2022	2023e	2024e	2025e	2026e
<b>Growth (%)</b>						
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
<b>Margins (%)</b>						
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
<b>Returns (%)</b>						
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	9.6	10.6	10.5	10.7	11.0	11.1

Year-end	2021	2022	2023e	2024e	2025e	2026e
<b>Gearing (%)</b>						
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
<b>Income statement (KWD'000)</b>						
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)
<b>Gross profit</b>	<b>22,460</b>	<b>23,689</b>	<b>24,531</b>	<b>25,288</b>	<b>25,915</b>	<b>26,526</b>
SG&A	(12,959)	(13,349)	(13,772)	(14,015)	(14,344)	(14,655)
<b>EBITDA</b>	<b>32,610</b>	<b>54,263</b>	<b>53,526</b>	<b>55,362</b>	<b>57,321</b>	<b>57,908</b>
Depreciation	(7,182)	(6,389)	(6,618)	(6,972)	(7,142)	(7,372)
<b>EBIT</b>	<b>25,428</b>	<b>47,873</b>	<b>46,908</b>	<b>48,389</b>	<b>50,180</b>	<b>50,536</b>
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)
<b>Other post-tax income/(expense)</b>	-	-	-	-	-	-
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
<b>Net profit (parent)</b>	<b>18,526</b>	<b>38,761</b>	<b>38,197</b>	<b>39,591</b>	<b>41,486</b>	<b>42,155</b>
Arqaam adjustments (including dilution)	(198)	500	-	-	-	-
<b>Arqaam Net profit</b>	<b>18,724</b>	<b>38,261</b>	<b>38,197</b>	<b>39,591</b>	<b>41,486</b>	<b>42,155</b>

Year-end	2021	2022	2023e	2024e	2025e	2026e
<b>Balance sheet (KWD'000)</b>						
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
<b>Total assets</b>	<b>5,50,459</b>	<b>6,25,551</b>	<b>5,42,457</b>	<b>5,37,297</b>	<b>5,34,386</b>	<b>5,30,016</b>
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	-	-	-	-	-	-
<b>Total liabilities</b>	<b>2,83,890</b>	<b>3,17,335</b>	<b>2,26,462</b>	<b>2,11,972</b>	<b>1,97,626</b>	<b>1,83,289</b>
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
<b>Total liabilities &amp; shareholders equity</b>	<b>5,50,459</b>	<b>6,25,551</b>	<b>5,42,457</b>	<b>5,37,297</b>	<b>5,34,386</b>	<b>5,30,016</b>

Year-end	2021	2022	2023e	2024e	2025e	2026e
<b>Cash flow (KWD'000)</b>						
<b>Cashflow from operations</b>	<b>41,892</b>	<b>56,760</b>	<b>53,279</b>	<b>54,392</b>	<b>56,435</b>	<b>57,019</b>
Net capex	242	(5,697)	(2,294)	(2,350)	(3,207)	(3,283)
<b>Free cash flow</b>	<b>46,694</b>	<b>51,373</b>	<b>50,985</b>	<b>52,043</b>	<b>53,228</b>	<b>53,736</b>
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)
<b>Change in working capital</b>	<b>9,711</b>	<b>3,803</b>	<b>1,039</b>	<b>364</b>	<b>511</b>	<b>530</b>

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## BPCC Q1 22/23A earnings review

### Exhibit 1: BPCC Q1 22/23A earnings review

KWD'000	Q1 23A	ACe	Δ	Q1 22A	y/y	Q4 22A	q/q
Sale of goods	15,724	12,465	26.2%	11,787	33.4%	11,331	38.8%
Tuition fees	6,519	6,781	-3.9%	7,374	-11.6%	6,165	5.7%
<b>Total Revenues</b>	<b>22,243</b>	<b>19,246</b>	<b>15.6%</b>	<b>19,161</b>	<b>16.1%</b>	<b>17,496</b>	<b>27.1%</b>
<b>Gross profit</b>	<b>9,259</b>	<b>6,826</b>	<b>35.7%</b>	<b>6,740</b>	<b>37.4%</b>	<b>5,583</b>	<b>65.8%</b>
<b>EBIT</b>	<b>13,539</b>	<b>11,783</b>	<b>14.9%</b>	<b>5,492</b>	<b>146.5%</b>	<b>34,006</b>	<b>-60.2%</b>
<b>Net income</b>	<b>10,144</b>	<b>8,821</b>	<b>15.0%</b>	<b>2,809</b>	<b>261.2%</b>	<b>30,603</b>	<b>-66.9%</b>
<b>Gross margin</b>	<b>41.6%</b>	<b>35.5%</b>	<b>616</b>	<b>35.2%</b>	<b>645</b>	<b>31.9%</b>	<b>972</b>
<b>EBIT margin</b>	<b>60.9%</b>	<b>61.2%</b>	<b>(35)</b>	<b>28.7%</b>	<b>3,221</b>	<b>194.4%</b>	<b>(13,349)</b>
<b>Net margin</b>	<b>45.6%</b>	<b>45.8%</b>	<b>(22)</b>	<b>14.7%</b>	<b>3,095</b>	<b>174.9%</b>	<b>(12,930)</b>

Source: Company Data, Arqaam Capital Research

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