

Boubyan Petrochemical

Q2 net income misses estimates by 22% on margin pressure

- BPCC reported Q2 22/23 net income of KWD 6.6m (2.3x y/y, -35% q/q), 22% below our estimates (ACe: KWD 8.4m).
- The q/q net income decline was driven by sequential decline in operating profits from subsidiaries (Al Kout and EDU). Y/y profit increase was supported by KWD 5.6m interim dividend by Equate.
- Equate is expected to witness significant pressure in H2e earning given -25% h/h MEG prices (USD 460/t) and this will impact dividends and earnings for BPCC in the next two quarters.
- The stock trades at 15.4x FY 23e P/E and provides a minimum DY of 7.3% till FY 24e. Maintain Buy as our SotP based TP of KWD 1/share provides 22% upside despite a 17% cut, as we reduce Equate's FVe by 15% on MEG price downtick.

Q2 results miss estimates on margin pressure. BPC reported Q2 22/23A revenues of KWD 18.7m (-16% q/q but +14% y/y), in-line with our estimates. Sales of goods (mainly Al-Kout) declined by 5% q/q to KWD 14.5m (+27% y/y and +12% vs. ACe) while tuition fees fell sharply by 44% q/q to KWD 3.7m (-18% y/y and -30% vs. ACe). Al Kout (BPC stake at 54%) recorded 10% y/y decline in revenues in the quarter to KWD 9.7m on decline in prices of Chlor Alkali products, leading to lower margins and 31% q/q decline in net income to KWD 2.5m. EDU also delivered poor results as net income declined by 43% q/q to KWD 1.16m. BPC's net profit in the quarter was supported by interim dividend of KWD 5.6m from Equate for Q2 (vs. KWD 6.3m for Q1). We note that till last year, Equate's full dividend was recorded only in Q4 for BPC, however, company will witness lower seasonality in earnings this year given quarterly dividends by Equate. Overall, BPC net profit came at KWD 6.6m, -35% q/q but 2.3x y/y (no dividend from Equate in Q2 last year) and missed our estimate by 22% (ACe: KWD 8.4m).

Equate to witness earnings pressure in H2e 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 460/t are 32% below FY 21A average and average prices are 25% lower h/h vs. H1. Equate witnessed a flat H1 y/y as sales volumes were up 4% y/y and prices remained stable (MEG: flat y/y, PE: +9% y/y), however, zero COVID policy in China has led to significant price pressure across the petchem sector and we expect H2e earnings for Equate to decline by 55% h/h.

Net debt declines further in Q2 after significant decline in Q1 on GBK stake disposal. BPC's gross debt has declined by KWD 87m this year to KWD 185m as company sold its GBK stake for KWD 51.2m (in Q1) and early settled KWD 70m of loans. Net debt has declined by KWD 38m YtD to KWD 143m (KWD 29m reduction in Q1 and KWD 9m reduction in Q2) despite a payment of KWD 31m of dividends (DPS of KWD 60 fils for FY 22A).

We cut our TP by 17% on earnings pressure in Equate; 7.3% DY is attractive. BPC 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 7.3%. We forecast a FCF yield of c.10% during the forecast period and this will support the dividend payments, in our view. BPC 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 lower our TP by 17% to KWD 1/share on continued decline in MEG prices pressuring Equate's earnings (15% cut to FVe). MEG price remains a key risk to BPC's stock price performance, in our view, given Equate contributes 70% to fair value.

BUY

KWD 1.0↓

Petrochemicals / Kuwait

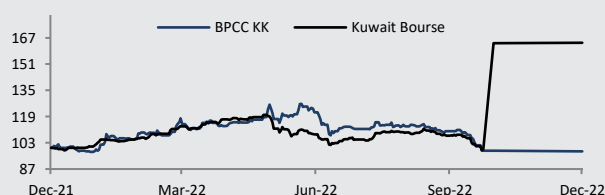
Bloomberg code	BPCC KK
Market index	Kuwait Bourse
Target Price (fils)	1,000
Upside (%)	22.5

Market data 11/22/2022

Last closing price	816.0
52 Week range	769.0-1125.0
Market cap (KWD m)	426
Market cap (USD m)	1,381
Average Daily Traded Value (KWD m)	.29
Average Daily Traded Value (USD m)	.95
Free float (%)	71%

Year-end (local m)	2022	2023e	2024e	2025e
Revenues	72,019	80,346	78,696	76,487
EBITDA	54,263	43,599	46,664	51,142
Net income	38,761	27,627	32,305	36,142
EPS	74.55	52.98	61.95	69.31
EPS growth (%)	103.0	(28.9)	16.9	11.9
P/E (current price)	11.0	15.4	13.2	11.8
DPS	60.00	60.00	60.00	55.45
Div. yield (%)	7.3	7.3	7.3	6.8
FCF/share	98.6	83.0	80.9	89.5
FCF yield (%)	12.0	10.1	9.9	10.9
CAPEX	5,697	2,410	2,361	3,059
CAPEX/sales (%)	7.9	3.0	3.0	4.0
Net Debt/EBITDA (x)	3.3	2.9	2.6	2.2
EV/EBITDA (x)	10.5	13.1	12.2	11.1
RoAE (%)	15.0	10.0	11.8	13.0
RoIC (%)	10.5	8.4	9.7	10.9

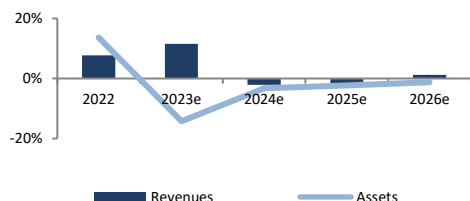
Price Performance



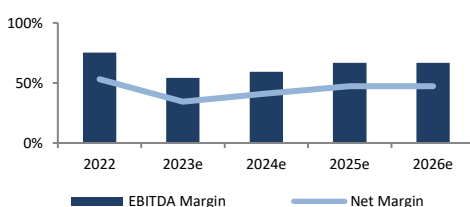
Abacus

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	52.98	61.95	69.31	70.33
Diluted EPS	35.56	74.40	53.03	62.01	69.37	70.39
DPS	55.00	60.00	60.00	60.00	55.45	56.27
BVPS	449.73	532.23	525.20	527.16	536.48	551.37

Year-end	2021	2022	2023e	2024e	2025e	2026e
Valuation metrics						
P/E (x) (current price)	23.0	11.0	15.4	13.2	11.8	11.6
P/E (x) (target price)	27.2	13.4	18.9	16.1	14.4	14.2
EV/EBITDA (x) (current price)	17.5	10.5	13.1	12.2	11.1	11.0
EV/EBITDA (x) (target price)	20.4	12.2	15.2	14.2	13.0	12.9
EV/FCF (x)	12.2	11.1	13.2	13.5	12.2	12.0
Free cash flow yield (%)	10.9	12.0	10.1	9.9	10.9	11.2
Dividend yield (%)	6.7	7.3	7.3	7.3	6.8	6.9

Year-end	2021	2022	2023e	2024e	2025e	2026e
Growth (%)						
Revenues	(11.4)	7.7	11.6	(2.1)	(2.8)	1.2
EBITDA	(29.9)	66.4	(19.7)	7.0	9.6	0.9
EBIT	(34.8)	88.3	(22.8)	7.3	10.9	0.5
Net income	(30.6)	104.3	(27.8)	16.9	11.9	1.5

Year-end	2021	2022	2023e	2024e	2025e	2026e
Margins (%)						
EBITDA	48.8	75.3	54.3	59.3	66.9	66.6
EBIT	38.0	66.5	46.0	50.4	57.5	57.1
Net	28.0	53.1	34.4	41.1	47.3	47.4

Year-end	2021	2022	2023e	2024e	2025e	2026e
Returns (%)						
RoAA	3.4	6.5	4.8	6.1	7.0	7.3
RoAE	8.2	15.0	10.0	11.8	13.0	12.9
RoIC	5.7	10.5	8.4	9.7	10.9	11.0
FCF margin	10.9	12.0	10.1	9.9	10.9	11.2

Year-end	2021	2022	2023e	2024e	2025e	2026e
Gearing (%)						
Net debt/Capital	42.1	32.9	27.4	27.2	25.7	23.1
Net debt/Equity	84.7	65.2	46.2	44.3	40.2	34.5
Interest cover (x)	4.9	10.0	5.7	8.8	10.7	11.8
Net debt/EBITDA (x)	6.1	3.3	2.9	2.6	2.2	1.9

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	80,346	78,696	76,487	77,417
Cost of sales	(44,408)	(48,331)	(56,852)	(54,180)	(52,419)	(53,091)
Gross profit	22,460	23,689	23,494	24,516	24,068	24,325
SG&A	(12,959)	(13,349)	(14,624)	(14,094)	(13,529)	(13,632)
EBITDA	32,610	54,263	43,599	46,664	51,142	51,592
Depreciation	(7,182)	(6,389)	(6,618)	(6,981)	(7,151)	(7,371)
EBIT	25,428	47,873	36,981	39,683	43,992	44,221
Interest expense	(5,172)	(4,809)	(6,436)	(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	33,400	37,858	42,343	42,965
Taxes	(430)	(1,306)	(960)	(1,089)	(1,218)	(1,235)
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	22,183	44,009	32,350	36,680	41,036	41,640
Minorities	3,657	5,248	4,723	4,374	4,894	4,966
Net profit (parent)	18,526	38,761	27,627	32,305	36,142	36,674
Arqaam adjustments (including dilution)	(198)	500	-	-	-	-
Arqaam Net profit	18,724	38,261	27,627	32,305	36,142	36,674

Year-end	2021	2022	2023e	2024e	2025e	2026e
Balance sheet (KWD'000)						
Cash and equivalents	38,732	91,648	60,964	50,636	44,902	43,225
Receivables	35,293	30,711	26,392	24,807	23,412	23,292
Inventories	8,569	7,660	9,019	8,223	7,439	7,302
Tangible fixed assets	51,331	50,639	46,432	41,812	37,720	33,446
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	5,36,545	5,19,218	5,07,213	5,01,005
Payables	46,669	44,981	45,044	41,585	39,183	39,349
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	2,32,398	2,13,939	1,96,536	1,81,703
Shareholders equity	2,34,309	2,77,290	2,73,630	2,74,649	2,79,504	2,87,265
Minorities	32,260	30,925	30,517	30,631	31,172	32,038
Total liabilities & shareholders equity	5,50,459	6,25,551	5,36,545	5,19,218	5,07,213	5,01,005

Year-end	2021	2022	2023e	2024e	2025e	2026e
Cash flow (KWD'000)						
Cashflow from operations	41,892	56,760	45,662	44,496	49,702	50,780
Net capex	242	(5,697)	(2,410)	(2,361)	(3,059)	(3,097)
Free cash flow	46,694	51,373	43,251	42,135	46,642	47,684
Dividends paid	(17,653)	(28,598)	(31,287)	(31,287)	(31,287)	(28,914)
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)	(6,436)	(4,496)	(4,121)	(3,746)
Net cash flow	(8,248)	52,917	(30,685)	(10,327)	(5,735)	(1,676)
Change in working capital	9,711	3,803	3,023	(1,079)	(223)	423

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BPCC Q2 22/23A earnings review

Exhibit 1: BPCC Q2 22/23A earnings review

KWD'000	Q2 23A	ACe	Δ	Q2 22A	y/y change	Q1 23A	q/q change
Sale of goods	14,997	13,365	12.2%	11,841	26.7%	15,724	-4.6%
Tuition fees	3,683	5,240	-29.7%	4,493	-18.0%	6,519	-43.5%
Total Revenues	18,680	18,606	0.4%	16,334	14.4%	22,243	-16.0%
Gross profit	5,785	7,481	-22.7%	5,396	7.2%	9,259	-37.5%
EBIT	9,095	11,301	-19.5%	3,695	146.2%	13,539	-32.8%
Net income	6,549	8,387	-21.9%	2,825	131.8%	10,144	-35.4%
Gross margin	31.0%	40.2%	(924)	33.0%	(207)	41.6%	(1,066)
EBIT margin	48.7%	60.7%	(1,205)	22.6%	2,607	60.9%	(1,219)
Net margin	35.1%	45.1%	(1,002)	17.3%	1,776	45.6%	(1,055)

Source: Company Data, Arqaam Capital Research

Valuation – TP of KWD 1.0/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							980		70%
Equate	9.0%	DCF	6,899	5,670	621	510	980	15	70%
Education & healthcare							271		19%
EDU	83.1%	DCF	108	92	89	76	146	12	11%
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	99	130	20	27	51	11	4%
Industrials							98		7%
Al Kout	54.1%	DCF	100	95	54	51	98	9	7%
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		1%
Kuwait Foundry	23.0%	MCap	n/a	25	n/a	6	11	n/a	1%
Subtotal for core units						725	1,392		100%
Subtotal for non-core units		1x P/BV				31	60		
Total						756	1,452		
Cash		Q2 23A				42	81		
Debt		Q2 23A				185	(356)		
Net debt						143	(275)		
BPC SoTP						613	1,177		
Conglomerate discount*							15%		
BPC SoTP target price						521	1,000		

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

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