

Boubyan Petrochemical

Q3 net income rises 58% y/y to KWD 4m (-39% q/q);
in-line with estimates

- BPC reported Q3 22/23A net income of KWD 4m (+58% y/y, -39% q/q), in-line with our estimates.
- The q/q net income decline was driven by lower dividends from Equate (-71% q/q). Y/y profit increase was supported by a 700bps improvement in gross margin, despite flat revenues.
- BPC's FY 22/23e net income is expected to decline by 28% y/y on a 45% y/y decline in dividends from Equate (Equate FY 22 net income at USD 611m, -45% y/y).
- The stock trades at 12x FY 24e P/E and provides a minimum DY of 7.7% till FY 24e. Maintain Buy at SotP based TP of KWD 1/share.

Q3 results in-line with expectations; sequential decline in net income on lower dividends from Equate. BPC reported Q3 22/23A revenues of KWD 19.3m (+1% y/y, -1% q/q), broadly in-line with our estimates. Sales of goods (mainly Al-Kout) increased by 2% y/y (-12% q/q) to KWD 13.2m (-4% vs. ACE) while tuition fees was flat y/y at KWD 6m (+64% q/q and +5% vs. ACE). AlKout (BPC stake at 54%) net profits increased by 200% y/y to KWD 1.8m, but still declined by 23% q/q. EDU delivered a 9% y/y increase in net profits to KWD 2m. BPC received KWD 1.63m dividend from Equate in the quarter, 71% below q/q. We attribute this decline to a sharp fall in MEG prices in Q3 (-17% q/q). We note that till last year, Equate's full dividend was recorded in Q4 for BPC, however, this year, Equate is distributing dividends quarterly. Overall, BPC net profit came at KWD 4m in the quarter, +58% y/y but -39% q/q, in-line with our estimates.

BPC FY 22/23e net income to decline by 28% y/y. Equate recorded USD 611m net profits in FY22A, -45% y/y. Equate has a 63% revenue exposure to MEG (80% volume exposure), 21% to PE, and 12% to PET. Realised MEG prices declined by 15% y/y in FY 22 at USD 586/t while PE prices declined by 4% y/y. Equate witnessed a flat H1 22 y/y as sales volumes were up 4% y/y and prices remained stable, however, zero COVID policy in China led to significant price pressure across the petchem sector in H2 and earnings declined by 87% y/y. MEG price has recovered by c. 10% q/q in this quarter, supported by China reopening, but at USD 515/t, it still remains below FY 22 average. MEG also faces significant new supply this year, mainly in China which is expected to limit price improvement even post demand improvement. 45% y/y lower dividend from Equate implies KWD 3.3m of dividend income in Q4 22/23e for BPC and an overall net income decline of 28% y/y in FY 22/23e, on our estimates.

EDU merger transaction to be completed this month; BPC acquires 51% stake in Yaleen Steel in KSA. BPC entered into a merger transaction with EDU by way of amalgamation through a share swap transaction in Apr'22 and the merger will be executed this month post all the approvals. BPC has also acquired a 51% stake in Yaleen Steel Company, a producer of steel abrasive materials in KSA. BPC's net debt has declined by KWD 36m to KWD 145m this year, despite a payment of KWD 31m of dividends (DPS of KWD 60 fils for FY 22A), supported by GBK share stake sale for KWD 51m in Q1 22/23A.

7.7% DY is attractive, however, Equate performance to limit upside in the near term. Minimum DPS guidance of KWD 60 fils/share in FY 22-24e implies a strong yield of 7.7%. We forecast an FCF yield of >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 has slowed down the M&A activity in the MT, in our view. Having said that, if the core investments (ex-Equate) performance continues to improve, this will support inorganic growth. We maintain our Buy recommendation as our SotP TP provides a 28% upside, however, pressured Equate's earnings remain a key risk to BPC's stock price performance, given Equate contributes 70% to our fair value estimate.

BUY

KWD 1.0

Petrochemicals / Kuwait

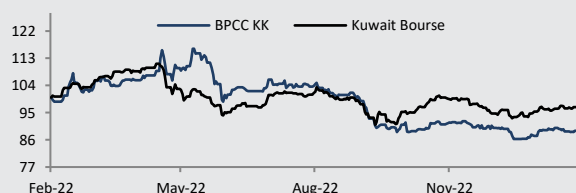
Bloomberg code	BPCC KK
Market index	Kuwait Bourse
Target Price (fils)	1000.0
Upside (%)	28.2

Market data 3/9/2023

Last closing price	780.0
52 Week range	750.0-1125.0
Market cap (KWD m)	415
Market cap (USD m)	1,351
Average Daily Traded Value (KWD m)	0.23
Average Daily Traded Value (USD m)	0.74
Free float (%)	71%

Year-end (local m)	2022	2023e	2024e	2025e
Revenues	72,019	80,346	78,696	76,487
EBITDA	54,263	46,365	47,516	52,220
Net income	38,761	27,981	33,034	37,064
EPS	74.55	53.66	63.35	71.08
EPS growth (%)	103.0	(28.0)	18.1	12.2
P/E (current price)	10.5	14.5	12.3	11.0
DPS	60.00	60.00	60.00	56.86
Div. yield (%)	7.7	7.7	7.7	7.3
FCF/share	98.6	80.3	90.4	91.5
FCF yield (%)	12.6	10.3	11.6	11.7
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	2.8	2.5	2.1
EV/EBITDA (x)	10.2	11.9	11.6	10.6
RoAE (%)	15.0	8.2	12.0	13.3
RoIC (%)	10.5	9.0	9.9	11.1

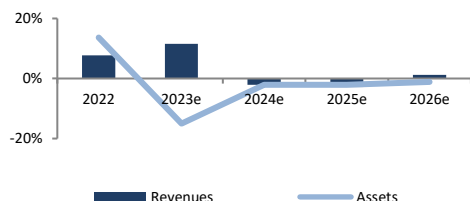
Price Performance



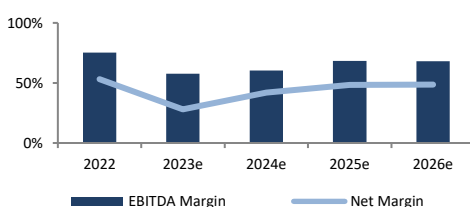
Abacus

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	53.66	63.35	71.08	72.09
Diluted EPS	35.56	74.40	53.71	63.41	71.14	72.16
DPS	55.00	60.00	60.00	60.00	56.86	57.68
BVPS	449.73	532.23	525.88	529.24	540.33	555.57

Year-end	2021	2022	2023e	2024e	2025e	2026e
Valuation metrics						
P/E (x) (current price)	22.0	10.5	14.5	12.3	11.0	10.8
P/E (x) (target price)	27.2	13.4	18.6	15.8	14.1	13.9
EV/EBITDA (x) (current price)	16.9	10.2	11.9	11.6	10.6	10.5
EV/EBITDA (x) (target price)	20.6	12.4	14.5	14.1	12.8	12.7
EV/FCF (x)	11.8	10.7	13.2	11.7	11.6	11.3
Free cash flow yield (%)	11.5	12.6	10.3	11.6	11.7	12.0
Dividend yield (%)	7.0	7.7	7.7	7.7	7.3	7.4

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	(14.6)	2.5	9.9	0.9
EBIT	(34.8)	88.3	(17.0)	2.0	11.2	0.5
Net income	(30.6)	104.3	(41.1)	46.7	12.2	1.4

Year-end	2021	2022	2023e	2024e	2025e	2026e
Margins (%)						
EBITDA	48.8	75.3	57.7	60.4	68.3	68.0
EBIT	38.0	66.5	49.5	51.5	58.9	58.5
Net	28.0	53.1	28.0	42.0	48.5	48.6

Year-end	2021	2022	2023e	2024e	2025e	2026e
Returns (%)						
RoAA	3.4	6.5	3.9	6.3	7.2	7.4
RoAE	8.2	15.0	8.2	12.0	13.3	13.2
RoIC	5.7	10.5	9.0	9.9	11.1	11.3
FCF margin	11.5	12.6	10.3	11.6	11.7	12.0

Year-end	2021	2022	2023e	2024e	2025e	2026e
Gearing (%)						
Net debt/Capital	42.1	32.9	28.2	26.9	25.1	22.4
Net debt/Equity	84.7	65.2	47.5	43.7	39.2	33.4
Interest cover (x)	4.9	10.0	5.6	9.0	10.9	12.1
Net debt/EBITDA (x)	6.1	3.3	2.8	2.5	2.1	1.8

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 71% 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)	(51,509)	(54,180)	(52,419)	(53,091)
Gross profit	22,460	23,689	28,837	24,516	24,068	24,325
SG&A	(12,959)	(13,349)	(17,034)	(14,094)	(13,529)	(13,632)
EBITDA	32,610	54,263	46,365	47,516	52,220	52,667
Depreciation	(7,182)	(6,389)	(6,618)	(6,981)	(7,151)	(7,371)
EBIT	25,428	47,873	39,747	40,535	45,070	45,296
Interest expense	(5,172)	(4,809)	(7,125)	(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	35,541	38,710	43,421	44,040
Taxes	(430)	(1,306)	(1,022)	(1,113)	(1,249)	(1,266)
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	22,183	44,009	34,429	37,507	42,083	42,684
Minorities	3,657	5,248	6,448	4,473	5,018	5,090
Net profit (parent)	18,526	38,761	27,981	33,034	37,064	37,594
Arqaam adjustments (including dilution)	(198)	500	5,461	-	-	-
Arqaam Net profit	18,724	38,261	22,520	33,034	37,064	37,594

Year-end	2021	2022	2023e	2024e	2025e	2026e
Balance sheet (KWD'000)						
Cash and equivalents	38,732	91,648	57,233	51,840	47,131	45,656
Receivables	35,293	30,711	26,392	24,807	23,412	23,292
Inventories	8,569	7,660	7,818	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	5,31,614	5,20,422	5,09,442	5,03,436
Payables	46,669	44,981	39,719	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	2,27,073	2,13,939	1,96,536	1,81,703
Shareholders equity	2,34,309	2,77,290	2,73,984	2,75,732	2,81,509	2,89,451
Minorities	32,260	30,925	30,557	30,752	31,396	32,282
Total liabilities & shareholders equity	5,50,459	6,25,551	5,31,614	5,20,422	5,09,442	5,03,436

Year-end	2021	2022	2023e	2024e	2025e	2026e
Cash flow (KWD'000)						
Cashflow from operations	41,892	56,760	44,241	49,448	50,749	51,824
Net capex	242	(5,697)	(2,410)	(2,361)	(3,059)	(3,097)
Free cash flow	46,694	51,373	41,831	47,087	47,689	48,727
Dividends paid	(17,653)	(28,598)	(31,287)	(31,287)	(31,287)	(29,652)
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)	(7,125)	(4,496)	(4,121)	(3,746)
Net cash flow	(8,248)	52,917	(34,415)	(5,392)	(4,710)	(1,475)
Change in working capital	9,711	3,803	(1,102)	3,045	(223)	423

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BPCC Q3 22/23A earnings review

Exhibit 1: BPCC Q3 22/23A results summary

KWD'000	Q3 23A	ACe	Δ	Q3 22A	y/y change	Q2 23A	q/q change
Sale of goods	13,248	13,797	-4.0%	12,981	2.1%	14,997	-11.7%
Tuition fees	6,055	5,745	5.4%	6,048	0.1%	3,683	64.4%
Total Revenues	19,304	19,542	-1.2%	19,029	1.4%	18,680	3.3%
Gross profit	7,343	5,965	23.1%	5,969	23.0%	5,785	26.9%
EBIT	6,856	6,022	13.9%	4,681	46.5%	9,095	-24.6%
Net income	3,997	3,957	1.0%	2,524	58.3%	6,549	-39.0%
Gross margin	38.0%	30.5%	751	31.4%	667	31.0%	707
EBIT margin	35.5%	30.8%	470	24.6%	1,092	48.7%	(1,317)
Net margin	20.7%	20.3%	46	13.3%	744	35.1%	(1,435)

Source: Company Data, Arqaam Capital Research

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