Quarterly Review

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Boubyan Petrochemical

Higher dividend income from Equate and improved operations in core investments drove the y/y surge in Q1 24/25 EPS.

- **BPC reported Q1 24/25A net profit of KWD 7.7m. Bottom-line saw a sequential jump of 13.5%, (+144% y/y) and was well above our estimates (+34%) mainly on higher-than-expected revenues and investment income.**
- **The y/y boost in earnings was on the back of a combination of higher revenues (+48% y/y), especially from tuition fees (+94% y/y) on EPG consolidation, higher dividend income and investment income. Div from Equate is up by KWD 3.1m y/y.**
- **BPC signed a share sale agreement worth USD 7m to sell its entire stake in Bapco Gas Company B.S.C to be reflected in Q2 24/25 financial statements**
- **We maintain Buy at our SotP-based TP of KWD 0.82/share; trading at FY 24/25e P/E of 11x and offering a DY of 10%.**

Q1 24/25A net income grew by 144% y/y (+13.5% q/q, +34% vs. ACe) on higher income from EQUATE and improved profitability in the education sector. The EPS beat is mainly driven by the unanticipated massive recovery in investment income of KWD 1.8m from the previous investment loss of KWD 1.7m in Q4 23/34A and higher-than-expected revenues. BPC reported Q1 24/25A revenues of KWD 26.6m (+48% y/y, +8% q/q), and beat our estimates by 11%. Dividend income from EQUATE increased by KWD 3.1m this quarter to KWD 3.7m, which was the main catalyst for the jump in earnings, in addition to improved operating results from group companies. This was partially offset by higher SG&A costs (+18% y/y), finance costs and minority interest. BPC's finance cost rose further this quarter to KWD 3.8m, +30% y/y (+5% q/q). Sales of goods (mainly Al-Kout) is up 20% y/y (+7% q/q) to KWD 13.6m (+18% vs. ACe) largely on higher sales of Chlor Alkali, while tuition fees increased by 94% y/y to KWD 13m (+10% q/q and +5% vs. ACe). Those largely drove y/y gross profit growth as margins remained largely stable.

The robust growth in the education sector drove core investment income growth. Income from core investments rose to KWD 6.1m in Q1 24/25, up from KWD 4.3m in Q1 23/24, with the increase driven by the robust performance of the education sector, including contributions from the latest addition, EPG (consolidated in Q3 23/24, reported a net income of KWD 1.2m in Q1 24/25). It was also supported by growth in Eyas net income (+107% y/y) driven by 28% y/y rise in revenues and successful optimization of operating costs at GUST, resulting in an improved gross margin of 70%, up from 57% in the same period last year. Investment income, however, was weighed down by lower profitability at Al Borg (widening losses due to non-recurring provisions on expected credit losses) and Nafais (higher OpEx despite 7% y/y revenue growth). Non-core investment income increased to KWD 826 thousand in Q1 24/25 compared to KWD 492 thousand in Q1 23/24.

BPC signed a share sale agreement worth USD 7m to sell its entire stake in Bapco Gas Company B.S.C. Last month, BPC announced signing a share sale agreement worth USD 7m to sell its entire 12.5% share of share capital of Bapco Gas Company B.S.C. It is worth noting that the agreement is a preliminary agreement subject to approvals from the general assembly of Bapco Gas in the next EGM, which is set to take place on 26 August 2024. A profit of KWD 2.1m is expected to be reflected in Q2 24/25 financial statements.

We maintain our Buy rating, despite risks associated with MEG price outlook. MEG prices remain a key risk to BPC's stock price performance, given that Equate contributes 62% to our fair value estimate. Looking at MEG, prices slightly weakened by c.3% q/q in Q2 24 after a substantial uptick in Q1 24 (+11% q/q), driven by low plant operating rates and demand slowdown. That said, MEG is now trading close to YtD highs as prices rebounded towards the end of June on expectations of limited imports and low inventories. We maintain our Buy recommendation at KWD 0.82/share TP; trading at FY 24/25e P/E of 11x and offering a DY of 10%. The company has not formalized a new dividend policy after the previous 3-year dividend policy came to an end in FY 23/24A. Our forecasts are based on a flat DPS of KWD 60 fils/share in FY 24/25e (111% DPO).

BUY KWD 822

Petrochemicals / Kuwait

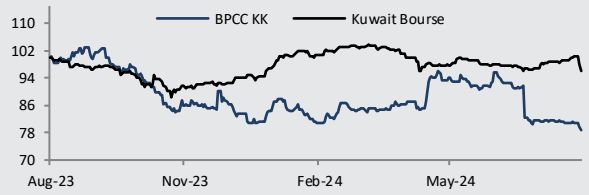
Bloomberg code	BPCC KK
Market index	Kuwait Bourse
Target Price	822.4
Upside (%)	40.3

Market data 8/11/2024

Last closing price	593
52 Week range	560.0-749.0
Market cap (KWD m)	313
Market cap (USD m)	1,023
Average Daily Traded Value (KWD m)	604.0
Average Daily Traded Value (USD m)	1,973.1
Free float (%)	73%

Year-end (local m)	2024	2025e	2026e	2027e
Revenues	82,985	94,452	93,671	94,977
EBITDA	40,104	49,052	55,244	57,534
Net income	17,675	28,144	35,616	39,796
EPS	33.90	53.97	68.30	76.32
EPS growth (%)	(49.6)	59.2	26.5	11.7
P/E (current price)	17.9	11.3	8.9	8.0
DPS	60.00	60.00	58.06	64.87
Div. yield (%)	10.1	10.1	9.8	10.9
FCF/share	(52.4)	183.7	96.2	99.2
FCF yield (%)	(8.8)	31.0	16.2	16.7
CAPEX	4,236	3,778	3,747	3,799
CAPEX/sales (%)	5.1	4.0	4.0	4.0
Net Debt/EBITDA (x)	4.9	2.9	2.4	2.1
EV/EBITDA (x)	13.0	10.7	9.5	9.1
RoAE (%)	6.5	10.7	13.5	14.7
RoIC (%)	7.5	9.5	11.7	12.4

Price Performance



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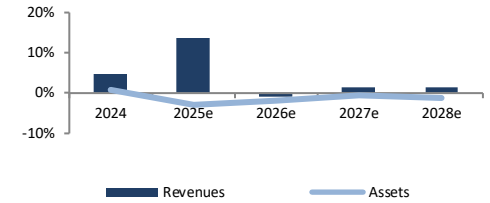
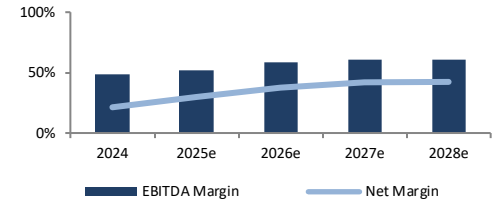
Abacus

Arqaam Capital Fundamental Data

Profitability



Growth



Boubyan Petrochemical

Year-end	2023	2024	2025e	2026e	2027e	2028e
Financial summary						
Reported EPS	67.20	33.90	53.97	68.30	76.32	78.13
Diluted EPS	65.62	33.10	52.71	66.70	74.52	76.30
DPS	60.00	60.00	60.00	58.06	64.87	66.41
BVPS	520.65	495.16	489.28	497.39	515.22	528.17
Weighted average shares	534.00	534.00	534.00	534.00	534.00	534.00
Average market cap	-	-	-	-	-	-

Year-end	2023	2024	2025e	2026e	2027e	2028e
Valuation metrics						
P/E (x) (current price)	9.0	17.9	11.3	8.9	8.0	7.8
P/E (x) (target price)	12.2	24.3	15.2	12.0	10.8	10.5
EV/EBITDA (x) (current price)	10.0	13.0	10.7	9.5	9.1	9.0
EV/EBITDA (x) (target price)	12.3	16.1	13.2	11.7	11.2	11.1
EV/FCF (x)	15.2	(18.7)	5.3	10.2	9.9	9.7
Free cash flow yield (%)	10.8	(8.8)	31.0	16.2	16.7	17.0
Dividend yield (%)	10.1	10.1	10.1	9.8	10.9	11.2

Year-end	2023	2024	2025e	2026e	2027e	2028e
Growth (%)						
Revenues	9.9	4.9	13.8	(0.8)	1.4	1.4
EBITDA	(3.4)	(23.5)	22.3	12.6	4.1	1.4
EBIT	(4.0)	(29.2)	27.5	14.7	4.6	1.5
Net income	(9.6)	(49.6)	59.2	26.5	11.7	2.4

Year-end	2023	2024	2025e	2026e	2027e	2028e
Margins (%)						
EBITDA	66.2	48.3	51.9	59.0	60.6	60.6
EBIT	58.1	39.2	44.0	50.8	52.5	52.5
Net	44.3	21.3	29.8	38.0	41.9	42.3

Year-end	2023	2024	2025e	2026e	2027e	2028e
Returns (%)						
RoAA	5.7	2.9	4.7	6.1	6.9	7.2
RoAE	12.6	6.5	10.7	13.5	14.7	14.6
RoIC	10.6	7.5	9.5	11.7	12.4	12.8
FCF margin	10.8	(8.8)	31.0	16.2	16.7	17.0

Year-end	2023	2024	2025e	2026e	2027e	2028e
Gearing (%)						
Net debt/Capital	23.7	36.6	27.5	26.3	23.7	21.7
Net debt/Equity	43.7	74.0	54.4	50.0	43.0	37.8
Interest cover (x)	5.7	2.5	3.5	5.5	8.6	9.3
Net debt/EBITDA (x)	2.3	4.9	2.9	2.4	2.1	1.8

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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 23A and 62% 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

Boubyan Petrochemical

Year-end	2023	2024	2025e	2026e	2027e	2028e
Income statement (KWD'000)						
Sales revenue	79,132	82,985	94,452	93,671	94,977	96,310
Cost of sales	(50,007)	(52,143)	(61,404)	(60,929)	(61,753)	(62,594)
Gross profit	**29,126**	**30,842**	**33,047**	**32,743**	**33,224**	**33,716**
SG&A	(13,537)	(14,278)	(14,556)	(14,374)	(14,588)	(14,806)
EBITDA	**52,394**	**40,104**	**49,052**	**55,244**	**57,534**	**58,356**
Depreciation	(6,429)	(7,548)	(7,537)	(7,612)	(7,688)	(7,765)
EBIT	**45,965**	**32,556**	**41,516**	**47,632**	**49,846**	**50,591**
Interest expense	(8,006)	(13,105)	(11,787)	(8,643)	(5,799)	(5,424)
Share of results of associates & JV	8,770	11,797	10,921	11,239	11,565	11,901
Profit before tax	42,864	23,644	34,371	43,472	48,563	49,716
Taxes	(675)	(324)	(472)	(596)	(666)	(682)
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit (group)	42,099	23,229	33,810	42,786	47,807	48,944
Minorities	7,058	5,554	5,665	7,169	8,011	8,201
Net profit (parent)	**35,041**	**17,675**	**28,144**	**35,616**	**39,796**	**40,743**
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	**35,041**	**17,675**	**28,144**	**35,616**	**39,796**	**40,743**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Balance sheet (KWD'000)						
Cash and equivalents	112,826	73,902	112,422	106,651	106,228	102,883
Receivables	35,194	84,049	31,717	30,544	30,752	30,961
Inventories	6,913	6,759	6,732	6,340	6,387	6,434
Tangible fixed assets	56,730	53,418	49,659	45,794	41,905	37,992
Other assets including goodwill	387,123	385,441	385,441	385,441	385,441	385,441
Total assets	**598,787**	**603,568**	**585,972**	**574,770**	**570,712**	**563,711**
Payables	49,782	34,963	35,922	34,821	34,991	35,165
Interest bearing debt	234,443	269,443	254,443	239,443	224,443	209,443
Other liabilities	-	-	-	-	-	-
Total liabilities	**284,225**	**304,406**	**290,365**	**274,265**	**259,434**	**244,608**
Shareholders equity	278,028	264,417	261,274	265,604	275,126	282,042
Minorities	36,534	34,745	34,332	34,901	36,152	37,061
Total liabilities & shareholders equity	**598,787**	**603,568**	**585,972**	**574,770**	**570,712**	**563,711**

Year-end	2023	2024	2025e	2026e	2027e	2028e
Cash flow (KWD'000)						
Cashflow from operations	**52,783**	**(23,739)**	**101,898**	**55,112**	**56,783**	**57,591**
Net capex	(12,520)	(4,236)	(3,778)	(3,747)	(3,799)	(3,852)
Free cash flow	**34,343**	**(27,975)**	**98,120**	**51,365**	**52,984**	**53,739**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	(31,287)	(31,287)	(31,287)	(31,287)	(30,274)	(33,827)
Net inc/(dec) in borrowings	(37,910)	35,000	(15,000)	(15,000)	(15,000)	(15,000)
Other investing/financing cash flows	(8,006)	(13,105)	(11,787)	(8,643)	(5,799)	(5,424)
Net cash flow	**21,178**	**(38,924)**	**38,520**	**(5,772)**	**(423)**	**(3,345)**
Change in working capital	1,064	(63,519)	53,317	465	(85)	(83)

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BPCC Q1 24/25 results review

Exhibit 1: BPCC Q1 24/25 results summary

KWD'000	Q1 25	ACe	Δ	Q1 24	y/y	Q4 24	q/q
Sale of goods	13,564	11,547	*17.5%*	11,321	*19.8%*	12,697	*6.8%*
Tuition fees	13,033	12,385	*5.2%*	6,714	*94.1%*	11,885	*9.7%*
Total Revenues	26,597	23,932	*11.1%*	18,035	*47.5%*	24,582	*8.2%*
Gross profit	10,225	8,955	*14.2%*	6,865	*48.9%*	9,242	*10.6%*
EBIT	13,268	10,028	*32.3%*	6,096	*117.7%*	11,403	*16.4%*
Net income	7,679	5,746	*33.7%*	3,151	*143.7%*	6,765	*13.5%*
Gross margin	38.4%	37.4%	102	38.1%	38	37.6%	85
EBIT margin	49.9%	41.9%	798	33.8%	1,608	46.4%	350
Net margin	28.9%	24.0%	486	17.5%	1,140	27.5%	135

Source: Company Data, Arqaam Capital Research

**Note EBIT includes dividend income, investment income and income from associates*

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