FAB أبوظبي الأول للأوراق المالية SECURITIES

First Look Note | 2Q26

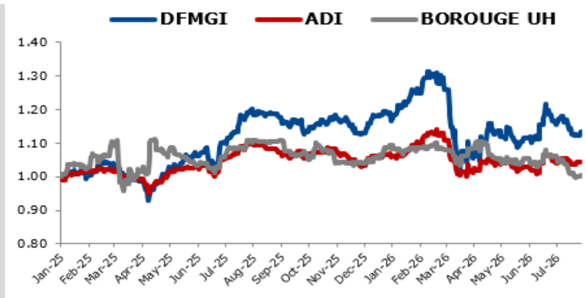
UAE Equity Research Sector: Basic Material Market: ADX

Borouge PLC

Higher freight costs and lower sales volume impacted profits

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.40	AED 2.95	+22.9%	BUY

- Polyethylene (PE) premia over benchmark increased 75.9% YOY to USD 438 per tonne in 2Q26, while Polypropylene (PP) premia over benchmark price doubled YOY to USD 282 per tonne in 2Q26.
- Capital expenditure rose from USD 48 Mn in 1Q26 to USD 114 Mn in 2Q26, reflecting capitalised repair and restoration costs at the Ruwais complex.
- Continued its capital returns programme in 1H26, utilising USD 59 Mn on its ongoing share buyback plan alongside USD 665 Mn in aggregate dividends paid.
- Cash conversion stood stable at 71% in 2Q26, unchanged from 71% in 2Q25 but down from 86% in 1Q26.



Stock Information	
Market Cap (AED, Mn)	72,138.46
Paid Up Capital (Mn)	4,809.23
52 Week High	2.68
52 Week Low	2.38
3M Avg. daily value (AED)	34,911,520

2Q26 Result Review (USD, Mn)	
Total Assets	8,596
Total Liabilities	4,848
Total Equity	3,748
EBITDA	401
Net Profit	190

Financial Ratios	
Dividend Yield (12M)	6.75
Dividend Pay-out (%)	120.18
Price-Earnings Ratio(x)	5.17
Price-to-Book Ratio (x)	5.27
Book Value (AED)	0.12
Return-on Equity (%)	24.32

Stock Performance	
5 Days	-0.41%
1 Months	-4.76%
3 Months	-4.00%
6 Months	-8.05%
1 Year	-9.77%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-5.88%
Year to Date (YTD%)	-8.75%

2Q26 Net Profit higher than our estimate

Borouge Plc (Borouge/the Company) net profit decreased 1.1% YOY to USD 190 Mn in 2Q26, higher than our estimate of USD 143 Mn. The decrease in net profit is mainly attributable to higher G&A expenses, S&D expenses and finance costs, coupled with lower finance income, partially offset by higher revenue with rise in average selling prices for both PE and PP, other income, and lower tax expenses.

P&L Highlights

Borouge's revenue increased 7.7% YOY to USD 1,406 Mn in 2Q26, mainly driven by an increase in average selling price, partially offset by a decline in sales volume. Polyethylene (PE) average selling price increased 46.4% YOY to USD 1,582 per tonne in 2Q26, while Polypropylene (PP) average selling price increased 44.8% YOY to USD 1,484 per tonne. Polyethylene (PE) premia over benchmark increased 75.9% YOY to USD 438 per tonne in 2Q26, while Polypropylene (PP) premia over benchmark price doubled YOY to USD 282 per tonne in 2Q26. PE sales volume declined 27.4% YOY to 454 thousand tonnes in 2Q26 and PP sales volume declined 17.4% YOY to 419 thousand tonnes. The Company's sale of Ethylene & others stood at nil in 2Q26 compared to 6 thousand tonnes in 2Q25. Furthermore, Borouge's production declined sharply to 721 thousand tonnes of PE and PP in 2Q26, following the 5 April 2026 Ruwais security incident and Strait of Hormuz-related disruption, with utilization rates falling to 48% for PE and 71% for PP, a marked reversal from the record utilization rates of 119% and 114% achieved in 4Q25. The Company's direct cost marginally decreased 0.1% YOY to USD 865 Mn in 2Q26, as higher feedstock costs were largely offset by a decline in other variable and fixed production expenses. Borouge's gross profit increased 23.1% YOY to USD 541 Mn in 2Q26. Gross profit margin expanded from 33.7%

in 2Q25 to 38.5% in 2Q26. Other income increased significantly from USD 6 Mn in 2Q25 to USD 31 Mn in 2Q26, supported by the recognition of insurance claims proceeds. G&A expenses increased 19.2% YOY to USD 50 Mn in 2Q26. Selling and Distribution expenses increased significantly from USD 101 Mn in 2Q25 to USD 222 Mn in 2Q26, reflecting higher freight and logistics costs from the use of alternative shipping routes. Meanwhile, the Company's Adjusted EBITDA declined 9.3% YOY to USD 401 Mn in 2Q26. EBITDA margin contracted from 33.8% in 2Q25 to 28.5% in 2Q26. Borouge's operating profit declined 2.9% YOY to USD 293 Mn in 2Q26, while the operating profit margin fell 228 bps YOY to 20.9% in 2Q26. The Company's finance costs increased 5.6% YOY to USD 46 Mn in 2Q26, while finance income declined from USD 9 Mn in 2Q25 to USD 5 Mn in 2Q26. Furthermore, income tax expenses declined 14.3% YOY to USD 62 Mn in 2Q26. Profit share to NCI remained stable at USD 1 Mn in 2Q26, unchanged from 2Q25.

Balance Sheet Highlights

Borouge's cash conversion stood stable at 71% in 2Q26, unchanged from 71% in 2Q25 but down from 86% in 1Q26. The adjusted operating free cash flow fell 8% YOY and 3% QOQ to USD 287 Mn in 2Q26. Moreover, the Company's capital expenditure increased significantly from USD 48 Mn in 1Q26 to USD 114 Mn in 2Q26, reflecting the capitalisation of repair and restoration costs at the Ruwais complex following the April 2026 incident. Furthermore, Borouge's net debt stood at USD 3,275 Mn as at 30 June 2026, up from USD 2,582 Mn as at 1Q26.

Target Price and Rating

We revise our rating on Borouge from ACCUMULATE to BUY with an unchanged target price of AED 2.95. Borouge's profitability was resilient in 2Q26 despite a highly challenging operating environment, mainly driven by significantly higher average selling prices and record product premia, partially offset by a decline in sales volumes following the April 2026 security incident and Strait of Hormuz-related disruption. Total sales volumes declined 23% YOY in 2Q26 to 873 thousand tonnes, with Consumer Solutions accounting for 63% of quarterly volumes up from 58% in 1Q26, reflecting a temporary pause in some infrastructure project activity amid regional uncertainty, while Infrastructure Solutions declined to 34% of volumes compared to 39% in 1Q26. Asia Pacific remained the largest market at 49% of sales, followed by the Middle East and Africa at 41%, with the latter's share rising QOQ as the Company redirected volumes toward markets reachable via land freight following the closure of the Strait of Hormuz. Following the April 2026 incident. Borouge's quarterly production fell sharply to 721 kt in 2Q26, with utilisation rates of just 48% for PE and 71% for PP, a marked reversal from the record utilisation of 119% and 114%, respectively, achieved in 4Q25. Company full production availability was restored by the end of June 2026 following an accelerated repair programme, with only a limited impact expected on 2026 maintenance capex, guided to remain below USD 300 Mn. The Borouge 4 growth project continued to advance, with commercial operations at the XLPE 2 unit commencing following successful performance testing, and initial shipments to regional customers completed during 2Q26, the remaining Borouge 4 units remain on schedule for commissioning through 2026 and 2027, with the project still expected to add 1.4 Mtpa of new capacity on completion. Depreciation and amortisation expense continued to decline, down 27% YOY to USD 101 Mn in 2Q26, consistent with the extended asset useful lives applied following the 3Q25 reassessment. The Company's premium guidance remains unchanged at USD 200 per tonne for PE and USD 140 per tonne for PP, despite realising record premia of USD 438 per tonne and USD 282 per tonne, respectively in 2Q26, which Company characterised as a temporary function of acute supply tightness rather than a structural shift. Borouge reiterated that global polyolefin demand in its core markets remains structurally stable, with long-term growth expected to continue outpacing GDP. Borouge continued its capital returns programme in 1H26, utilising USD 59 Mn on its ongoing share buyback and paying aggregate dividends of USD 665 Mn during 1H26. The Company confirmed its intention to pay a minimum 2026 dividend of 16.2 fils per share, consistent with its commitment to maintain this minimum through at least 2030, paid semi-annually at 8.1 fils per half. Thus, considering the above factors, we revise our rating to BUY on the stock.

Borouge - Relative valuation

(at CMP)	2022	2023	2024	2025	2026F
PE	15.23	21.44	19.50	19.52	14.97
PB	4.45	4.75	5.44	5.28	5.53
EV/EBITDA	8.40	10.24	8.94	10.20	8.20
BVPS (AED)	0.592	0.553	0.545	0.496	0.534
EPS (AED)	0.172	0.122	0.151	0.134	0.197
DPS (AED)	0.119	0.159	0.159	0.162	0.162
Dividend yield	5.0%	6.6%	6.6%	6.8%	6.8%

FABS Estimates & Co Data, Borouge listed on ADX in June 2022. Thus, the financial multiple for the prior period is unavailable

Borouge – P&L

USD Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Revenues	1,305	1,175	1,406	1,134	24.0%	7.7%	19.6%	5,848	6,115	4.6%
Direct Cost	-866	-766	-865	-759	13.9%	-0.1%	12.9%	-3,566	-3,677	3.1%
Gross Profit	**439**	**409**	**541**	**374**	**44.5%**	**23.1%**	**32.3%**	**2,282**	**2,438**	**6.8%**
Other income	6	6	31	6	NM	NM	NM	26	49	85.0%
G&A expense	-42	-46	-50	-43	17.4%	19.2%	8.5%	-197	-195	-1.0%
Selling and dist. expenses	-101	-125	-222	-103	NM	NM	78.0%	-416	-646	55.2%
EBITDA	**442**	**343**	**401**	**356**	**12.6%**	**-9.3%**	**16.7%**	**2,172**	**2,126**	**-2.1%**
Operating Profit	**302**	**244**	**293**	**234**	**25.2%**	**-2.9%**	**20.1%**	**1,694**	**1,640**	**-3.2%**
Finance costs	-43	-41	-46	-39	17.1%	5.6%	11.9%	-176	-156	-11.1%
Finance income	9	6	5	8	-39.0%	-47.3%	-26.7%	24	30	26.5%
Foreign. Exh. Gain/(Loss)	-1	0	1	0	NM	NM	NM	-2	1	NM
Profit before tax	**266**	**209**	**253**	**203**	**25.0%**	**-4.7%**	**21.1%**	**1,540**	**1,514**	**-1.7%**
Income tax expenses	-73	-54	-62	-57	9.9%	-14.3%	16.2%	-441	-424	-3.8%
NCI	1	1	1	3	-51.6%	NM	NM	10	5	-49.8%
Net Profit	**192**	**155**	**190**	**143**	**32.6%**	**-1.1%**	**22.5%**	**1,089**	**1,085**	**-0.4%**

FABS estimate & Co Data

Borouge - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross Profit	33.7%	34.8%	38.5%	480	368	39.0%	39.9%	84
EBITDA	33.8%	29.2%	28.5%	-534	-71	37.1%	34.8%	-237
Operating Profit	23.1%	20.8%	20.9%	-228	7	29.0%	26.8%	-216
Net Profit	14.7%	13.2%	13.5%	-121	31	18.6%	17.7%	-88

FABS estimate & Co Data

Key Developments:

- **7 January 2026:** Borouge successfully completed a proof of concept for AI-powered autonomous operations at its Ruwais facility, demonstrating the potential to improve efficiency, reduce downtime and operating costs, and advance the industry's first AI-driven control room.
- **10 February 2026:** Borouge and Borealis, together with local partners, launched a strategic initiative to establish Indonesia’s first fully integrated circular waste management and polyolefin recycling ecosystem, supporting the development of high-quality recycled polyolefins through a feasibility study.
- **6 May 2026:** Borouge announced the start of production at its new XLPE plant under the Borouge 4 project, doubling XLPE capacity to 200,000 tonnes per year and strengthening its ability to supply premium materials for power grid infrastructure and energy projects.
- **7 May 2026:** Borouge signed strategic logistics partnerships with Gulftainer and Etihad Rail to expand multi-gateway export access, strengthen supply chain resilience, and enhance operational flexibility through integrated sea and rail connectivity.
- **19 May 2026:** Borouge and AD Ports Group signed a strategic partnership to explore establishing an alternative export hub on the UAE's East Coast, enhancing export resilience, supply chain flexibility, and continuity.

Valuation:

We use Discounted Free Cash Flow (DCF), Discount Dividend Method (DDM), and Relative Valuation (RV) to value Borouge. We have assigned 50% weight to DCF and 25% each to DDM and RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.05	50.0%	1.53
DDM Method	2.55	25.0%	0.64
Relative Valuation (RV)	3.16	25.0%	0.79
Weighted Average Valuation (AED)			**2.95**
Current market price (AED)			2.40
Upside/Downside (%)			+22.9%

1) DCF Method:

Borouge is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 7.9%. It is arrived after using cost of equity of 8.5% and after-tax cost of debt of 3.8% with an equity weight of 85.6% and debt of 14.4%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.90 and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 5.3% is adjusted for a tax rate of 28.0% to arrive at after tax cost of debt of 3.8%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (USD, Mn)	8,067
Terminal value (USD, Mn)	19,850
Firm Value (USD, Mn)	**27,917**
Net Debt as of June 2026 (USD, Mn)	-3,166
Equity Value to Share Holders (USD Mn)	**24,751**
No. of share (Mn)	29,800
Current Market Price (AED)	2.40
Fair Value per share (AED)	**3.05**

DCF Method

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Cash flow from operating activities	1,581	3,807	2,649	1,918	1,731
(-) Capex	-335	-260	-270	-280	-290
Free Cash Flow to Firm (FCFF)	**1,246**	**3,547**	**2,379**	**1,638**	**1,441**
Discounting Factor	0.97	0.90	0.83	0.77	0.72
Discounted FCFF	**604**	**3,186**	**1,981**	**1,265**	**1,031**

Source: FAB Securities

2) DDM Method:

Borouge will distribute a healthy dividend in 2026 and aims to pay a minimum dividend of 16.2 fils per share until 2030. It further expects this dividend payment will be sustained even in the forecasted period due to strong cash flow generation. The dividend is discounted at the cost of equity of 8.5%.

Sum of PV (USD, Mn)	4,848
Terminal value (USD, Mn)	14,548
FV to Common shareholders (USD Mn)	**20,655**
No. of share (Mn)	29,800
Current Market Price (AED)	2.40
Fair Value per share (AED)	**2.55**

(All Figures in USD Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Dividend Paid					
H1	665	665	665	665	665
H2	665	665	665	665	665
Total Dividend	**1,329**	**1,330**	**1,330**	**1,330**	**1,330**
Discounting Factor	*0.97*	*0.89*	*0.82*	*0.76*	*0.70*
Present Value of Dividend	**642**	**1,184**	**1,091**	**1,005**	**926**

Source: FAB Securities

3) Relative Valuation:

We have used local peers to value Borouge, and it is valued using the EV/EBITDA multiple. It is valued at a 2026 EV/EBITDA multiple of 13.6x.

Company	Market Cap	EV/EBITDA (x)		P/E (x)		P/B (x)	
	(USD Mn)	2026F	2027F	2026F	2027F	2026F	2027F
Yanbu National Petrochemical	4,599	10.8	10.0	35.3	32.7	1.7	1.8
National Industrialization Co.	1,503	32.1	18.5	NM	37.2	0.7	0.7
Sahara International Petrochemical	2,457	28.6	7.6	NM	20.0	0.8	0.7
Advanced Petrochemicals Co	1,514	14.0	10.8	61.8	16.7	1.8	1.6
Saudi Ind Investment Group	2,127	9.3	16.8	9.7	18.7	0.9	1.0
Saudi Kayan Petrochemical Co	1,997	13.6	7.3	NM	NM	1.0	1.2
Saudi Aramco Base Oil Co	5,677	7.9	10.4	9.2	12.1	3.9	3.7
Average		**16.6x**	**11.6x**	**29.0x**	**22.9x**	**1.6x**	**1.5x**
Median		**13.6x**	**10.4x**	**22.5x**	**19.3x**	**1.0x**	**1.2x**
Max		**21.3x**	**13.8x**	**41.9x**	**29.5x**	**1.8x**	**1.7x**
Min		**10.0x**	**8.8x**	**9.6x**	**17.2x**	**0.8x**	**0.9x**

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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