

## Borouge PLC

Strong growth in sales and production volume supported profitability

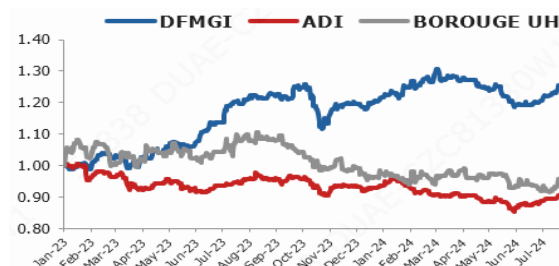
**Current Price**  
AED 2.41

**Target Price**  
AED 2.95

**Upside/Downside (%)**  
+22%

**Rating**  
BUY

- Management expects its premium over the benchmark prices to stay c. USD 200 per tonne for PE and c. USD 140 per tonne for PP in the upcoming period.
- Utilization of PE and PP stood at 114% and 103% in 2Q24, while the OCU plant will be utilized at a higher capacity rate
- Turnaround for Borouge 3 has been rescheduled from 4Q24 to 2Q25 to more effectively optimize feedstock supply across both periods.
- The Company is anticipated to declare an interim dividend of USD 650 Mn in September 2024, aligning with management's commitment to a total dividend of USD 1.3 Bn for 2024.



### Stock Information

Market Cap (AED, mm)	72,439.04
Paid Up Capital (mm)	4,809.23
52 Week High	2.82
52 Week Low	2.31
3M Avg. daily value (AED)	6,937,707

### 2Q24 Result Review (USD, mm)

Total Assets	8,772
Total Liabilities	4,295
Total Equity	4,477
EBITDA	612
Net Profit	304

### Financial Ratios

Dividend Yield (12m)	6.7
Dividend Pay-out (%)	131.13
Price-Earnings Ratio(x)	17.31
Price-to-Book Ratio (x)	4.42
Book Value (AED)	0.15
Return-on Equity (%)	25.08

### Stock Performance

5 Days	-1.23%
1 Months	3.43%
3 Months	-2.03%
6 Months	0.00%
1 Year	-11.07%
Month to Date (MTD%)	-1.23%
Quarter to Date (QTD%)	3.43%
Year to Date (YTD%)	-2.43%

### 2Q24 Net Profit in line with our estimate

Borouge Plc (Borouge/the Company) net profit rose 33.0% YOY to USD 304 Mn in 2Q24, in line with our estimate of USD 299 Mn. The increase in net profit is mainly attributable to higher sales volume and a decline in direct costs partially offset by an increase in operating expenses and higher tax expenses.

### P&L Highlights

Borouge's revenue increased 6.1% YOY to USD 1,503 Mn in 2Q24 mainly driven by an incline in total sales volume partially offset by 2% decline in average selling prices. PE average selling price fell 4.5% YOY to USD 1,113 per tonne in 2Q24, whereas PP average selling prices increased 2.0% YOY to USD 1,062 per tonne in 2Q24. The Company achieved a premium over the benchmark prices of USD 198 per tonne for PE and USD 138 per tonne for PP. Borouge's sales volume rose mainly due to the contribution of Infrastructure solution, which contributed 41% in 2Q24. The Company's PE sales volume rose 14.1% YOY to 752 thousand tonnes in 2Q24, while PP volume also grew 2.2% YOY to 559 thousand tonnes. The Company's sales of Ethylene and other products stood nil in 2Q24 compared to 96 thousand tonnes in 1Q23. The Company's production units recorded a high utilization rate for PE and PP at 114% and 103% respectively in 2Q24. Moreover, Olefin Conversion Unit (OCU) which internally produces propylene operated at a higher capacity utilization rate in 2Q24. The Company's direct cost declined 2.9% YOY to USD 873 Mn in 2Q24 and remained broadly stable. Thus, gross profit grew 21.8% YOY to USD 630 Mn in 2Q24. Furthermore, Borouge's G&A expenses rose 11.5% YOY to USD 54 Mn in 2Q24 due to one-off items, whereas selling and distribution remained stable YOY to USD 105 Mn in 2Q24. Thus, the Company's adj. EBITDA rose 18.3% YOY to USD 613 Mn in 2Q24 with an improved EBITDA margin of 40.8% in 2Q24 compared to 36.6% in

2Q23. As a result, Borouge's operating profit rose 29.1% YOY to USD 476 Mn in 2Q24. Moreover, the Company's finance cost decreased marginally 1.9% YOY to USD 51 Mn in 2Q24, while finance income drastically increased 66.1% YOY to USD 7 Mn in 2Q24. In addition, income tax expense grew 39.1% YOY to USD 123 Mn in 2Q24 due to the introduction of the UAE corporate tax.

### Balance Sheet Highlights

The company's cash conversion decreased from 97% in 1Q24 to 95% in 2Q24. Moreover, the adjusted operating free cash flow grew 17% YOY and 5% QOQ to USD 581 Mn in 2Q24. The Company incurred a capex of USD 33 Mn in 2Q24, up from USD 22 Mn in 2Q23. Borouge's borrowings declined 10.4% YOY and 3.3% QOQ to USD 2.9 Bn in 2Q24 due to repayments, while net debt stood at USD 2.6 Bn.

### Target Price and Rating

We maintain our BUY rating on Borouge with a target price of AED 2.95. The Company's profitability is mainly driven by increased sales volume, partially offset by a decline in average selling price in 2Q24. Borouge's revenue grew mainly due to an increase in sales volume. The Company recorded the highest utilization rate of 114% for PE and 103% for PP in 2Q24. Borouge achieved a premia over the benchmark of USD 198 per tonne for PE and USD 138 per tonne for PP, in-line with the management's through-the-cycle targets of USD 200 per tonne for PE and USD 140 per tonne for PP. The Company projects the Polyolefin prices to remain stable within a narrow range owing to continued global logistics challenges and elevated feedstock costs. In addition, the turnaround for Borouge 3 has been rescheduled from 4Q24 to 2Q25 to more effectively optimize feedstock supply across both periods. Furthermore, the Borouge 4 project is 70% complete and remains within the estimated USD 6.5 Bn budget. Mechanical completion is anticipated to be completed by 4Q25, with commercial operations likely starting in early 2026. Upon completion, Borouge 4 is anticipated to add 1.4 Mn tonnes of production capacity and is estimated to contribute USD 1.5 - 1.9 Bn revenue annually after full ramp-up. Recently, the Company also signed a partnership agreement to build a facility in China that will produce 1.6 Mn tonnes of specialty polyethylene each year. Borouge remains committed to investing in China owing to the country's significant demand for polyolefins. The Company further plans to revamp its second ethylene unit, EU2, to expand the total production of olefins and polyolefins by 230 thousand tonnes. It is expected to add USD 220 - 250 Mn of revenue annually after the project completion in 2028. Moreover, Borouge anticipates a stable macroeconomic environment in its core markets for the 2H24, with expectations of increased Chinese demand driven by recent stimulus efforts. The Company is anticipated to declare an interim dividend of USD 650 Mn in September 2024, aligning with management's commitment to a total dividend of USD 1.3 Bn for 2024. The Company also trades at an attractive 2024 dividend yield of 6.7%. Thus, considering the above-mentioned factors, we maintain our BUY rating on the stock.

### Borouge - Relative valuation

(at CMP)	2021	2022	2023	2024F
PE	NA	13.83	19.48	20.62
PB	NA	4.02	4.30	4.67
EV/EBITDA	NA	7.66	9.33	9.94
Dividend yield	NA	5.0%	6.7%	6.7%

*FABS Estimates & Co Data*

Note - Borouge listed on ADX in June 2022. Thus, the financial multiple for the prior period is unavailable

**Borouge – P&L**

USD mm	2Q23	1Q24	2Q24	2Q24F	Var.	YoY Ch	QoQ Ch	2023	2024F	Change
Revenues	1,416	1,302	1,503	1,380	8.9%	6.1%	15.4%	5,791	5,817	0.4%
Direct Cost	-899	-730	-873	-759	15.1%	-2.9%	19.7%	-3,627	-3,741	3.1%
<b>Gross Profit</b>	<b>517</b>	<b>572</b>	<b>630</b>	<b>621</b>	<b>1.4%</b>	<b>21.8%</b>	<b>10.0%</b>	<b>2,164</b>	<b>2,076</b>	<b>-4.1%</b>
Other income	5	4	7	3	144.0%	32.4%	60.7%	17	19	NM
G&A expense	-49	-51	-54	-55	-1.5%	11.5%	5.4%	-183	-209	14.0%
Selling and dist. expenses	-105	-96	-105	-106	-1.4%	0.0%	9.2%	-399	-403	1.0%
<b>EBITDA</b>	<b>518</b>	<b>567</b>	<b>613</b>	<b>600</b>	<b>2.2%</b>	<b>18.3%</b>	<b>8.1%</b>	<b>2,171</b>	<b>2,034</b>	<b>-6.3%</b>
<b>Operating Profit</b>	<b>369</b>	<b>429</b>	<b>476</b>	<b>463</b>	<b>2.9%</b>	<b>29.1%</b>	<b>10.8%</b>	<b>1,597</b>	<b>1,483</b>	<b>-7.1%</b>
Finance costs	-52	-53	-51	-50	3.3%	-1.9%	-4.3%	-221	-202	-8.5%
Finance income	4	10	7	6	9.2%	66.1%	-32.2%	27	32	19.3%
FX (loss)/Gain	-1	0	-1	0	NM	NM	NM	-2	0	NM
<b>Profit before tax</b>	<b>320</b>	<b>385</b>	<b>431</b>	<b>419</b>	<b>2.8%</b>	<b>34.7%</b>	<b>11.8%</b>	<b>1,401</b>	<b>1,313</b>	<b>-6.3%</b>
Income tax expenses	-88	-113	-123	-117	4.7%	39.1%	9.2%	-400	-368	-8.2%
<b>Net Profit</b>	<b>229</b>	<b>271</b>	<b>304</b>	<b>299</b>	<b>1.7%</b>	<b>33.0%</b>	<b>12.5%</b>	<b>991</b>	<b>935</b>	<b>-5.6%</b>

FABS estimate & Co Data

**Borouge - Margins**

	2Q23	1Q24	2Q24	YoY Ch	QoQ Ch	2023	2024F	Change
Gross Profit	36.5%	44.0%	41.9%	538	-207	37.4%	35.7%	-167
EBITDA	36.6%	43.5%	40.8%	421	-276	37.5%	35.0%	-251
Operating Profit	26.0%	33.0%	31.7%	563	-131	27.6%	25.5%	-208
Net Profit	16.2%	20.8%	20.3%	409	-52	17.1%	16.1%	-103

FABS estimate & Co Data

## 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	2.75	50.0%	1.38
DDM Method	3.14	25.0%	0.78
Relative Valuation (RV)	3.14	25.0%	0.78
<b>Weighted Average Valuation (AED)</b>			<b>2.95</b>
Current market price (AED)			2.41
Upside/Downside (%)			+22%

### 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 8.2%. It is arrived after using cost of equity of 8.8% and after-tax cost of debt of 4.5% with an equity weight of 86.9% and debt of 13.1%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 0.90 and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Cost of debt of 6.2% is adjusted for a tax rate of 28.0% to arrive at after tax cost of debt of 4.5%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (USD, Mn)	3,084
Terminal value (USD, Mn)	22,097
<b>FV to Common shareholders (USD, Mn)</b>	<b>22,537</b>
No. of share (Mn)	30,058
Current Market Price (AED)	2.41
<b>Fair Value per share (AED)</b>	<b>2.75</b>

### DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Cash flow from operating activities	1,244	1,828	2,866	2,928	2,287	2,140
(-) Capex	-240	-6,680	-180	-250	-250	-250
<b>Free Cash Flow to Firm (FCFF)</b>	<b>1,004</b>	<b>-4,852</b>	<b>2,686</b>	<b>2,678</b>	<b>2,037</b>	<b>1,890</b>
Discounting Factor	0.97	0.90	0.83	0.76	0.71	0.65
<b>Discounted FCFF</b>	<b>486<sup>1</sup></b>	<b>-4,343</b>	<b>2,222</b>	<b>2,046</b>	<b>1,439</b>	<b>1,233</b>

Source: FAB Securities, <sup>1</sup>FCFF adjusted for partial year

## 2) DDM Method:

Borouge distributed a healthy dividend in 2023 and further aims to pay a dividend of USD 1.3 Bn in 2024. 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 8.8%.

Sum of PV (USD, Mn)	8,075
Terminal value (USD, Mn)	17,590
<b>FV to Common shareholders (USD, Mn)</b>	<b>25,664</b>
No. of share (Mn)	30,058
Current Market Price (AED)	2.41
<b>Fair Value per share (AED)</b>	<b>3.14</b>

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
<b>Dividend Paid</b>						
H1	650	741	1,209	1,205	917	851
H2	650	741	1,209	1,205	917	851
<b>Total Dividend</b>	<b>1,300</b>	<b>1,483</b>	<b>2,418</b>	<b>2,410</b>	<b>1,833</b>	<b>1,701</b>
Discounting Factor	0.97	0.89	0.82	0.75	0.69	0.63
<b>Present Value of Dividend</b>	<b>628</b>	<b>1,318</b>	<b>1,975</b>	<b>1,809</b>	<b>1,265</b>	<b>1,079</b>

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 2024 EV/EBITDA multiple of 13.9x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Yanbu National Petrochemical	5,693	12.0	8.8	49.2	23.2	1.9	1.9
National Industrialization Co.	1,945	11.3	7.4	23.9	13.2	0.7	0.7
Sahara International Petrochemical	5,379	9.2	7.3	21.9	11.9	1.3	1.3
Advanced Petrochemicals Co	2,647	36.5	11.3	105.1	15.1	2.8	2.5
Saudi Ind Investment Group	3,743	32.3	11.3	15.9	15.3	1.5	1.4
Saudi Kayan Petrochemical Co	3,316	15.9	6.8	6.7	29.6	1.0	1.0
<b>Average</b>		<b>19.5x</b>	<b>8.8x</b>	<b>37.1x</b>	<b>16.4x</b>	<b>1.5x</b>	<b>1.5x</b>
<b>Median</b>		<b>13.9x</b>	<b>8.1x</b>	<b>22.9x</b>	<b>13.7x</b>	<b>1.4x</b>	<b>1.3x</b>
<b>Max</b>		<b>28.2x</b>	<b>10.7x</b>	<b>42.9x</b>	<b>22.6x</b>	<b>1.8x</b>	<b>1.8x</b>
<b>Min</b>		<b>11.5x</b>	<b>7.3x</b>	<b>17.4x</b>	<b>10.8x</b>	<b>1.1x</b>	<b>1.1x</b>

Source: FAB Securities

### Research Rating Methodology:

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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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