

## Borouge PLC

A substantial decline in direct cost boosted profitability

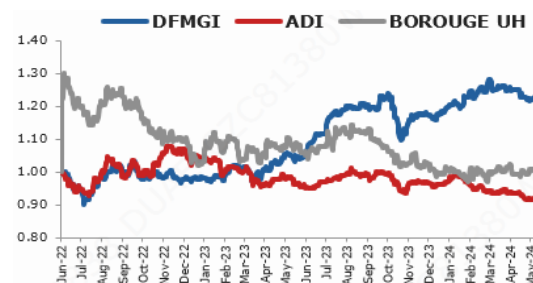
**Current Price**  
AED 2.46

**Target Price**  
AED 2.95

**Upside/Downside (%)**  
**+20%**

**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 106% and 81% in 1Q24, while the OCU plant was utilized at 101%.
- Borouge expects its PE and PP pricing in 2Q24 to stay slightly lower than 1Q24 levels.
- Borouge reiterated its commitment to pay USD 1.3 Bn in dividends for the year 2024.
- The planned turnaround of the Borouge 3 plant in 4Q24 will result in an expected total volume impact of 330 thousand tonnes (kt).



### 1Q24 Net Profit higher than our estimate

Borouge Plc (Borouge/the company) net profit rose 36.8% YOY to USD 271 Mn in 1Q24, higher than our estimate of USD 215 Mn. The increase in net profit is mainly attributable to a fall in direct costs partially offset by a decline in revenue owing to lower sales volume, an increase in operating expenses, and higher tax expenses.

### P&L Highlights

Borouge's revenue declined 5.8% YOY to USD 1,302 Mn in 1Q24 mainly driven by a decline in both average selling prices and total sales volume. PE average selling price fell 6.7% YOY to USD 1,122 per tonne in 1Q24, whereas PP average selling prices decreased 2.9% YOY to USD 1,051 per tonne in 1Q24. The Company reported a decline in premium over the benchmark prices of USD 222 per tonne for PE and increase in premia of USD 162 per tonne for PP. Borouge's sales volume declined during 1Q24 mainly due to the planned feedstock-related operational maintenance. The Company's PE sales volume rose 20.1% YOY to 688 thousand tonnes in 1Q24, while PP volume fell 8.4% YOY to 447 thousand tonnes. The Company's sale of Ethylene and other products stood nil in 1Q24 compared to 96 thousand tonnes in 1Q23. The Company's production units recorded a high utilization rate for PE and PP at 106% and 81% in 1Q24 respectively. Moreover, Olefin Conversion Unit (OCU) which internally produces propylene operated at a utilization rate of 101% in 1Q24 compared to 92% in 4Q23. The Company's direct cost declined 20.2% YOY to USD 730 Mn in 1Q24 due to lower production volume and one-off relating to positive inventory effects. Furthermore, Borouge's G&A expenses rose 11.3% YOY to USD 51 Mn in 1Q24 due to one-off items, whereas selling and distribution expenses declined 3.6% YOY to USD 96 Mn in 1Q24 owing reduction in unit cost. Thus, the Company's adj. EBITDA rose 23.2% YOY to USD 567 Mn in 1Q24

### Stock Information

Market Cap (AED, mn)	74,242.50
Paid Up Capital (mn)	4,809.23
52 Week High	2.92
52 Week Low	2.35
3M Avg. daily value(AED)	10,990,980

### 1Q24 Result Review (USD, mn)

Total Assets	9,186
Total Liabilities	5,017
Total Equity	4,168
EBITDA	567
Net Profit	271

### Financial Ratios

Dividend Yield (12m)	6.40
Dividend Pay-out (%)	131.13
Price-Earnings Ratio(x)	17.80
Price-to-Book Ratio (x)	4.86
Book Value (AED)	0.14
Return-on Equity (%)	24.87

### Stock Performance

5 Days	0.00%
1 Months	1.65%
3 Months	1.23%
6 Months	-3.89%
1 Year	-8.52%
Month to Date (MTD%)	0.82%
Quarter to Date (QTD%)	-0.80%
Year to Date (YTD%)	0.00%

with an improved EBITDA margin of 43.5% in 1Q24 compared to 33.3% in 1Q23. As a result, Borouge's operating profit rose 31.3% YOY to USD 429 Mn in 1Q24. Moreover, the Company's finance cost increased marginally 0.7% YOY to USD 53 Mn in 1Q24, while finance income declined 4.7% YOY to USD 10 Mn. In addition, income tax expense grew 34.5% YOY to USD 113 Mn in 1Q24 due to the introduction of the UAE corporate tax.

### Balance Sheet Highlights

The company's cash conversion increased from 88% in 4Q23 to 97% in 1Q24. The Company achieved robust Cash conversion fueled by its ability to deliver strong returns through the market cycles. Moreover, the adjusted operating free cash flow grew 46% YOY and 5% QOQ to USD 552 Mn in 1Q24. The Company incurred a capex of USD 15 Mn in 1Q24, down from USD 82 Mn in 1Q23. Borouge's borrowings declined 12.7% YOY and 3.2% QOQ to USD 3.0 Bn in 1Q24 due to repayments, while net debt stood at USD 2.42 Bn. The Company repaid debt of USD 99 Mn during 1Q24.

### Target Price and Rating

We maintain our BUY rating on Borouge with an unchanged target price of AED 2.95. The Company's profitability is mainly driven by a decline in direct cost owing to lower production volume and one-off relating to positive inventory effects. Borouge's cost per tonne declined 27% YOY and 6% QOQ in 1Q24. The Company's revenue declined due to a fall in both production volume and average selling prices. However, product optimization and differentiation led to a healthy premium over the benchmark prices of USD 222 per tonne for PE and USD 162 per tonne for PP. On the other hand, production remained robust as all units continued to operate at high utilization rates and the Company further aims to operate OCU unit at a higher utilization rate to produce low-cost propylene. The polyolefin market improved marginally in 1Q24 owing to the tight supply driven by a decline in supply from North America and the Middle East, higher freight costs, and escalating geopolitical concerns. On the other hand, China's economy has still not achieved a sustainable recovery. As a result, the Company expects PE and PP prices in 2Q24 to stay marginally lower than 1Q24 levels, whereas Borouge expects its production volumes to normalize in 2Q24. In addition, the planned turnaround of the Borouge 3 plant in 4Q24 will result in an expected total volume impact of 330 thousand tonnes (kt). Furthermore, completion of the Borouge 4 project in 2025 will 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. Borouge further plans asset optimization and de-bottling of the second ethylene unit, EU2 to expand the total production of olefins and polyolefins by 230 thousand tonnes and it is expected to add USD 220 - 250 Mn of revenue annually after the project completion in 2028. The Company's 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. In addition, the long-term supply and pricing agreement will limit the potential rise in ethane cost, the primary feedstock to produce PE benefiting the cost base. The board reiterated its commitment to pay USD 1.3 Bn dividend for the year 2024. The Company trades at an attractive 2024 dividend yield of 6.5%. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

### Borouge - Relative valuation

(at CMP)	2021	2022	2023	2024F
PE	NA	14.30	20.13	22.40
PB	NA	4.14	4.43	5.54
EV/EBITDA	NA	7.91	9.63	10.00
Dividend yield	NA	4.8%	6.5%	5.4%

*FABS Estimates & Co Data*

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

#### Borouge – P&L

USD mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenues	1,382	1,497	1,302	1,497	-13.0%	-5.8%	-13.0%	5,791	5,817	0.4%
Direct Cost	-914	-899	-730	-1,018	-28.3%	-20.2%	-18.8%	-3,627	-3,615	-0.3%
<b>Gross Profit</b>	<b>467</b>	<b>598</b>	<b>572</b>	<b>479</b>	<b>19.5%</b>	<b>22.5%</b>	<b>-4.3%</b>	<b>2,164</b>	<b>2,202</b>	<b>1.7%</b>
Other income	5	3	4	11	-60.5%	-20.0%	23.2%	17	39	NM
G&A expense	-46	-47	-51	-48	7.8%	11.3%	8.9%	-183	-186	1.5%
Selling and dist. expenses	-100	-100	-96	-105	-8.8%	-3.6%	-4.2%	-399	-403	1.0%
<b>EBITDA</b>	<b>460</b>	<b>600</b>	<b>567</b>	<b>443</b>	<b>27.9%</b>	<b>23.2%</b>	<b>-5.5%</b>	<b>2,171</b>	<b>2,077</b>	<b>-4.3%</b>
<b>Operating Profit</b>	<b>327</b>	<b>452</b>	<b>429</b>	<b>337</b>	<b>27.5%</b>	<b>31.3%</b>	<b>-5.1%</b>	<b>1,597</b>	<b>1,651</b>	<b>3.4%</b>
Finance costs	-53	-57	-53	-43	25.3%	0.7%	-6.2%	-221	-171	-22.7%
Finance income	10	6	10	5	114.8%	-4.7%	71.4%	27	18	-32.9%
FX (loss)/Gain	-1	0	0	0	NM	NM	NM	-2	0	NM
<b>Profit before tax</b>	<b>283</b>	<b>401</b>	<b>385</b>	<b>299</b>	<b>29.0%</b>	<b>36.1%</b>	<b>-3.8%</b>	<b>1,401</b>	<b>1,498</b>	<b>6.9%</b>
Income tax expenses	-84	-112	-113	-84	34.6%	34.5%	0.1%	-400	-419	4.8%
<b>Net Profit</b>	<b>198</b>	<b>285</b>	<b>271</b>	<b>215</b>	<b>25.9%</b>	<b>36.8%</b>	<b>-5.2%</b>	<b>991</b>	<b>1,079</b>	<b>8.8%</b>

FABS estimate & Co Data

#### Borouge - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross margin	33.8%	39.9%	44.0%	1,013	401	37.4%	37.8%	48
EBITDA margin	33.3%	40.1%	43.5%	1,024	347	37.5%	35.7%	-178
Operating margin	23.7%	30.2%	33.0%	931	275	27.6%	28.4%	80
Net profit margin	14.3%	19.1%	20.8%	647	172	17.1%	18.5%	143

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	2.78	50.0%	1.39
DDM Method	3.17	25.0%	0.79
Relative Valuation (RV)	3.05	25.0%	0.76
<b>Weighted Average Valuation (AED)</b>			<b>2.95</b>
Current market price (AED)			2.46
Upside/Downside (%)			+20%

### 1) DCF Method:

Borouge is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 8.3%. It is arrived after using cost of equity of 8.9% and after tax cost of debt of 4.7% 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 5.3%, 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 6.2% is adjusted for a tax rate of 24.8% to arrive at after tax cost of debt of 4.7%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (USD, Mn)	3,349
Terminal value (USD, Mn)	21,669
<b>FV to Common shareholders (USD, Mn)</b>	<b>22,763</b>
No. of share (Mn)	30,058
Current Market Price (AED)	2.46
<b>Fair Value per share (AED)</b>	<b>2.78</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	1,275	1,863	2,922	2,980	2,339	2,193
(-) Capex	-240	-6,680	-180	-250	-250	-250
<b>Free Cash Flow to Firm (FCFF)</b>	<b>673</b>	<b>-4,817</b>	<b>2,742</b>	<b>2,730</b>	<b>2,089</b>	<b>1,943</b>
Discounting Factor	0.95	0.88	0.81	0.75	0.69	0.64
<b>Discounted FCFF</b>	<b>639</b>	<b>-4,220</b>	<b>2,218</b>	<b>2,038</b>	<b>1,439</b>	<b>1,235</b>

Source: FAB Securities

## 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 8.9%.

Sum of PV (USD, Mn)	8,660
Terminal value (USD, Mn)	17,299
<b>FV to Common shareholders (USD, Mn)</b>	<b>25,959</b>
No. of share (Mn)	30,058
Current Market Price (AED)	2.46
<b>Fair Value per share (AED)</b>	<b>3.17</b>

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
<b>Dividend Paid</b>						
H1	650	758	1,234	1,229	940	874
H2	650	758	1,234	1,229	940	874
<b>Total Dividend</b>	<b>1,300</b>	<b>1,515</b>	<b>2,468</b>	<b>2,457</b>	<b>1,880</b>	<b>1,749</b>
Discounting Factor	0.95	0.87	0.80	0.73	0.67	0.62
<b>Present Value of Dividend</b>	<b>1,230</b>	<b>1,316</b>	<b>1,969</b>	<b>1,800</b>	<b>1,265</b>	<b>1,080</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 EV/EBITDA multiple of 13.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Yanbu National Petrochemical	5,730	12.4	8.8	40.8	23.2	1.9	2.0
National Industrialization Co.	2,440	10.2	6.6	21.5	13.2	0.9	0.9
Sahara International Petrochemical	6,550	10.0	7.9	17.9	11.9	1.6	1.5
Advanced Petrochemicals Co	2,900	31.1	11.5	45.8	15.1	3.0	2.7
Saudi Ind Investment Group	17,300	26.7	14.0	28.4	15.3	1.7	1.7
Saudi Kayan Petrochemical Co	3,690	13.8	7.0	NA	29.6	1.1	1.1
<b>Average</b>		<b>17.4x</b>	<b>9.3x</b>	<b>30.9x</b>	<b>18.1x</b>	<b>1.7x</b>	<b>1.6x</b>
<b>Median</b>		<b>13.1x</b>	<b>8.3x</b>	<b>28.4x</b>	<b>15.2x</b>	<b>1.7x</b>	<b>1.6x</b>
<b>Max</b>		<b>23.5x</b>	<b>10.8x</b>	<b>40.8x</b>	<b>21.2x</b>	<b>1.9x</b>	<b>1.9x</b>
<b>Min</b>		<b>10.8x</b>	<b>7.2x</b>	<b>21.5x</b>	<b>13.7x</b>	<b>1.2x</b>	<b>1.2x</b>

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%

## FAB Securities Contacts:

### Research Analyst

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

### Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link  
+971-2-6161777

Institutional Desk +971-4-4245765

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