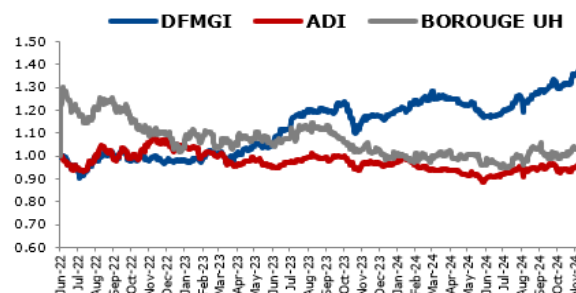


## Borouge PLC

Strong growth in sales and expansion of gross margin supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.53	AED 2.95	+17%	<b>BUY</b>

- 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 109% in 3Q24, while the OCU plant will be utilized at a higher capacity rate.
- The planned maintenance of Borouge 3 in 2Q25 is expected to impact production capacity by 320 thousand tonnes.
- The Company distributed 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.
- Borouge 4 is estimated to contribute USD 1.5 - 1.9 Bn revenue annually after full ramp-up.



### 3Q24 Net Profit higher than our estimate

Borouge Plc (Borouge/the Company) net profit rose 16.1% YOY to USD 324 Mn in 3Q24, higher than our estimate of USD 271 Mn. The increase in net profit is mainly attributable to higher sales volume and an expansion of gross profit margin coupled with a decline in net finance cost partially offset by an increase in operating expenses and higher tax expenses.

### P&L Highlights

Borouge's revenue increased 6.9% YOY to USD 1,600 Mn in 3Q24 mainly driven by an incline in total sales volume coupled with 4% growth in average selling prices. PE average selling price remained flat on YOY basis at USD 1,093 per tonne in 3Q24, whereas PP average selling prices increased 8.9% YOY to USD 1,053 per tonne in 3Q24. The Company achieved a premium over the benchmark prices of USD 198 per tonne for PE and USD 160 per tonne for PP. Borouge's sales volume rose mainly due to the contribution from infrastructure solutions which contributed 38% in 3Q24. The Company's PE sales volume rose 10.4% YOY to 809 thousand tonnes in 3Q24, however PP volume declined 5.4% YOY to 607 thousand tonnes. The Company's sales of Ethylene and other products stood at six thousand tonnes in 3Q24 compared to 20 thousand tonnes in 3Q23. Moreover, production units recorded a high utilization rate for PE and PP at 106% and 109% respectively in 3Q24. Moreover, Olefin Conversion Unit (OCU) which internally produces propylene operated at a higher capacity utilization rate in 3Q24. The Company's direct cost remained flat on YOY basis at USD 916 Mn in 3Q24 since rise in feedstock costs were offset by decline in other variable and fixed production costs. Thus, gross profit grew 17.6% YOY to USD 684 Mn in 3Q24. Borouge's G&A expenses rose 35.8% YOY to USD 56 Mn in 3Q24 due to one-off expenses realized during the quarter. Additionally, selling and distribution expenses

### Stock Information

Market Cap (AED, mn)	76,045.96
Paid Up Capital (mn)	4,809.23
52 Week High	2.61
52 Week Low	2.31
3M Avg. daily value (AED)	10,298,490

### 3Q24 Result Review (USD, mn)

Total Assets	8,617
Total Liabilities	4,470
Total Equity	4,147
EBITDA	646
Net Profit	324

### Financial Ratios

Dividend Yield (12m)	6.25
Dividend Pay-out (%)	131.13
Price-Earnings Ratio(x)	17.48
Price-to-Book Ratio (x)	5.01
Book Value (AED)	0.14
Return-on Equity (%)	28.26

### Stock Performance

5 Days	-0.78%
1 Months	4.12%
3 Months	4.98%
6 Months	2.85%
1 Year	-1.56%
Month to Date (MTD%)	-0.78%
Quarter to Date (QTD%)	2.02%
Year to Date (YTD%)	2.43%

grew 33.2% YOY to USD 127 Mn in 3Q24 due to higher shipping-related costs. Thus, the Company's adj. EBITDA rose 9.1% YOY to USD 646 Mn in 3Q24 with an improved EBITDA margin of 40.4% in 3Q24 compared to 39.6% in 3Q23. Consequently, Borouge's operating profit rose 12.7% YOY to USD 506 Mn in 3Q24. Moreover, the Company's finance cost declined 13.9% YOY to USD 50 Mn in 3Q24, while finance income remained flat on a YOY basis at USD 7 Mn in 3Q24. In addition, income tax expense grew 15.4% YOY to USD 134 Mn in 3Q24 due to the introduction of the UAE corporate tax.

### **Balance Sheet Highlights**

The Company's cash conversion marginally decreased from 95% in 2Q24 to 94% in 3Q24. However, the adjusted operating free cash flow grew 6% YOY and 4% QOQ to USD 605 Mn in 3Q24. The Company incurred a capex of USD 42 Mn in 3Q24, up from USD 33 Mn in 2Q24 and USD 20 Mn in 3Q23. Borouge's borrowings declined 4.4% YOY however, it increased 6.8% QOQ to USD 3.1 Bn in 3Q24, while net debt stood at USD 3.1 Bn. The Company also holds USD 500 Mn in revolving credit facility, out of which it has utilized USD 200 Mn during the quarter.

### **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 increased sales volume and a rise in average selling price in 3Q24. The Company recorded a healthy utilization rate of 106% for PE and 109% for PP in 3Q24. Borouge achieved premia over the benchmark of USD 198 per tonne for PE, in line with the management's through-the-cycle targets of USD 200 per tonne. Additionally, premia for PP stood at USD 160 per tonne in 3Q24, higher than the management's through-the-cycle targets of USD 140 per tonne. The Company projects the Polyolefin prices to remain stable within a narrow range owing to continued global logistics challenges resulting in pressurized Polyolefin prices in 4Q24. However, Borouge expects the potential demand growth from the Chinese market due to targeted stimulus efforts by the Chinese government. In addition, the turnaround for Borouge 3 has been rescheduled from 4Q24 to 2Q25 to optimize feedstock supply across both periods. The planned maintenance of Borouge 3 is expected to impact 320 thousand tonnes in production capacity. Furthermore, the Borouge 4 project is 80% 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 1.5 Mn tonnes per year of Ethane cracker production capacity and 75 thousand tonnes per year of Hexene-1 production and is estimated to contribute USD 1.5 - 1.9 Bn revenue annually after full ramp-up. Borouge 4 contains four plants with 700 thousand tonnes of annual capacity of PE. The project is expected to transform the Company into the world's largest single-site polyolefin complex. The Company is also working on strategic growth projects for asset revamps including EU 2 cracker to increase total ethylene production by 230 thousand tonnes p.a. and is expected to award the work by the end of FY2024. Besides, it is expected to add USD 220 - 250 Mn of revenue annually after the completion of project in 2028. Additionally, Borouge is revamping PE4 and PE5 sites to increase the total production of polyolefins by 200 thousand tonnes p.a. and is expected. 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. Moreover, Borouge anticipates a stable macroeconomic environment in its core markets for the 2H24, with expectations of strong demand. The Company distributed 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 6.3%. 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	14.71	20.71	19.93
PB	NA	4.27	4.57	5.44
EV/EBITDA	NA	8.13	9.90	8.76
Dividend yield	NA	4.7%	6.3%	6.3%

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	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Revenues	1,496	1,503	1,600	1,444	10.8%	6.9%	6.5%	5,791	6,000	3.6%
Direct Cost	-915	-873	-916	-867	5.7%	0.1%	4.9%	-3,627	-3,490	-3.8%
<b>Gross Profit</b>	<b>581</b>	<b>630</b>	<b>684</b>	<b>578</b>	<b>18.4%</b>	<b>17.6%</b>	<b>8.6%</b>	<b>2,164</b>	<b>2,509</b>	<b>16.0%</b>
Other income	4	7	5	7	-21.6%	46.8%	-17.7%	17	22	NM
G&A expense	-41	-54	-56	-54	2.8%	35.8%	3.3%	-183	-216	18.0%
Selling and dist. expenses	-95	-105	-127	-105	20.2%	33.2%	20.8%	-399	-427	7.0%
Prov. for impair. on assets	0	-1	-1	0	NM	NM	NM	-2	-2	NM
<b>EBITDA</b>	<b>592</b>	<b>612</b>	<b>646</b>	<b>563</b>	<b>14.8%</b>	<b>9.1%</b>	<b>5.6%</b>	<b>2,171</b>	<b>2,437</b>	12.2%
<b>Operating Profit</b>	<b>449</b>	<b>476</b>	<b>506</b>	<b>425</b>	<b>19.1%</b>	<b>12.7%</b>	<b>6.4%</b>	<b>1,597</b>	<b>1,886</b>	<b>18.1%</b>
Finance costs	-59	-51	-50	-49	3.5%	-13.9%	-1.5%	-221	-205	-7.1%
Finance income	7	7	7	7	6.7%	3.7%	12.2%	27	30	11.9%
FX (loss)/Gain	0	-1	-2	0	NM	NM	NM	-2	-2	NM
<b>Profit before tax</b>	<b>398</b>	<b>431</b>	<b>462</b>	<b>383</b>	<b>20.5%</b>	<b>16.0%</b>	<b>7.2%</b>	<b>1,401</b>	<b>1,708</b>	<b>21.9%</b>
Income tax expenses	-116	-123	-134	-109	22.5%	15.4%	8.9%	-400	-495	23.7%
NCI	3	3	4	3	9.8%	28.4%	7.5%	10	12	NM
<b>Net Profit</b>	<b>279</b>	<b>304</b>	<b>324</b>	<b>271</b>	<b>19.7%</b>	<b>16.1%</b>	<b>6.5%</b>	<b>991</b>	<b>1,201</b>	<b>21.1%</b>

FABS estimate & Co Data

**Borouge - Margins**

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	38.9%	41.9%	42.7%	389	86	37.4%	41.8%	446
EBITDA	39.6%	40.7%	40.4%	80	-33	37.5%	40.6%	313
Operating Profit	30.0%	31.7%	31.6%	163	-3	27.6%	31.4%	385
Net Profit	18.7%	20.3%	20.3%	161	0	17.1%	20.0%	290

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	2.68	50.0%	1.34
DDM Method	3.23	25.0%	0.81
Relative Valuation (RV)	3.21	25.0%	0.80
<b>Weighted Average Valuation (AED)</b>			<b>2.95</b>
Current market price (AED)			2.53
Upside/Downside (%)			+17%

### 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 8.3%. It is arrived after using cost of equity of 8.8% and after-tax cost of debt of 4.7% with an equity weight of 87.2% and debt of 12.8%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.92 and equity risk premium of 4.3%. 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)	2,674
Terminal value (USD, Mn)	22,163
<b>Firm Value (USD, Mn)</b>	<b>24,837</b>
Net Debt as of Sept 2024 (USD, Mn)	-2,936
<b>Equity Value to Share Holders (USD Mn)</b>	<b>21,901</b>
No. of share (Mn)	30,058
Current Market Price (AED)	2.53
<b>Fair Value per share (AED)</b>	<b>2.68</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	1,558	1,541	2,944	2,811	2,288	2,134
(-) Capex	-240	-6,680	-180	-250	-250	-250
<b>Free Cash Flow to Firm (FCFF)</b>	<b>1,318</b>	<b>-5,139</b>	<b>2,764</b>	<b>2,561</b>	<b>2,038</b>	<b>1,884</b>
Discounting Factor	0.99	0.91	0.84	0.78	0.72	0.66
<b>Discounted FCFF</b>	<b>326</b>	<b>-4,689</b>	<b>2,329</b>	<b>1,993</b>	<b>1,465</b>	<b>1,250</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)	8,623
Terminal value (USD, Mn)	17,811
<b>FV to Common shareholders (USD Mn)</b>	<b>26,435</b>
No. of share (Mn)	30,058
Current Market Price (AED)	2.53
<b>Fair Value per share (AED)</b>	<b>3.23</b>

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
<b>Dividend Paid</b>						
H1	650	612	1,244	1,153	917	848
H2	650	612	1,244	1,153	917	848
<b>Total Dividend</b>	<b>1,300</b>	<b>1,225</b>	<b>2,487</b>	<b>2,305</b>	<b>1,834</b>	<b>1,696</b>
Discounting Factor	0.99	0.91	0.83	0.77	0.70	0.65
<b>Present Value of Dividend</b>	<b>1,283</b>	<b>1,111</b>	<b>2,074</b>	<b>1,766</b>	<b>1,292</b>	<b>1,097</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 12.0x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Yanbu National Petrochemical	5,693	10.8	9.73	34.1	27.8	1.95	2.01
National Industrialization Co.	1,945	9.39	6.25	21.8	10.8	0.71	0.67
Sahara International Petrochemical	5,379	11.8	8.01	37.1	15.5	1.25	1.22
Advanced Petrochemicals Co	2,647	35	12.4	62.8	15.3	2.51	2.41
Saudi Ind Investment Group	3,743	21.3	11.8	23.2	12.8	1.36	1.36
Saudi Kayan Petrochemical Co	3,316	12.2	7.82	NA	147	0.97	1.01
<b>Average</b>		<b>16.7x</b>	<b>9.3x</b>	<b>28.4x</b>	<b>38.2x</b>	<b>1.5x</b>	<b>1.4x</b>
<b>Median</b>		<b>12.0x</b>	<b>8.9x</b>	<b>28.7x</b>	<b>15.4x</b>	<b>1.3x</b>	<b>1.3x</b>
<b>Max</b>		<b>19.0x</b>	<b>11.3x</b>	<b>36.4x</b>	<b>24.7x</b>	<b>1.8x</b>	<b>1.8x</b>
<b>Min</b>		<b>11.1x</b>	<b>7.9x</b>	<b>22.2x</b>	<b>13.4x</b>	<b>1.0x</b>	<b>1.1x</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%

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