

Borouge PLC

Solid growth in sales volumes and production drove growth in profitability

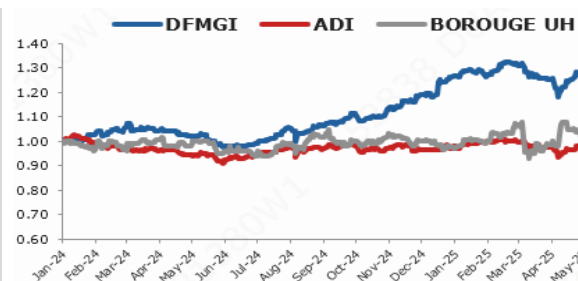
Current Price
AED 2.57

Target Price
AED 2.95

Upside/Downside (%)
+15%

Rating
BUY

- PE sales volume rose 8% YOY to 740 thousand tonnes, and PP sales volume surged 13% YOY to 506 thousand tonnes in 1Q25.
- The Company exhibited a utilization rate of 101% for PE and 98% for PP in 1Q25.
- Capital expenditure fell from USD 78 Mn in 4Q24 to USD 41 Mn in 1Q25.
- Increased full-year 2025 dividend guidance to 16.2 fils per share.
- Successfully executed a share buyback and purchased 64 Mn shares, reflecting its confidence in the future prospects.



1Q25 Net Profit lower than our estimate

Borouge Plc (Borouge/the Company) net profit rose 3.0% YOY to USD 279 Mn in 1Q25, lower than our estimate of USD 293 Mn. The increase in net profit is mainly attributable to a rise in revenue due to growth in sales volume and production, coupled with a decline in selling & distribution and finance costs, partially offset by an increase in direct cost and G&A expenses.

P&L Highlights

Borouge's revenue grew 9.0% YOY to USD 1,420 Mn in 1Q25, mainly driven by an increase in total sales volume and production, partially offset by a decline in average selling prices. Polyethylene (PE) average selling price decreased 4% YOY to USD 1,079 per tonne in 1Q25, whereas Polypropylene (PP) average selling price remained flat on YOY basis at USD 1,050 per tonne in 1Q25. The Company achieved premia over the benchmark prices of USD 224 per tonne for PE and USD 154 per tonne for PP in 1Q25. PE sales volume increased 8% YOY to 740 thousand tons in 1Q25, while PP sales volume surged 13% YOY to 506 thousand tons in 1Q25. The Company's sale of Ethylene & others stood at 7 thousand tonnes in 1Q25 compared to nil in 1Q24. Sales volume growth is primarily driven by a solid demand across the core Asia Pacific and Middle East markets and a 7% YOY growth in production volumes. Furthermore, production units recorded a solid utilization rate for PE and PP at 101% and 98%, respectively, in 1Q25, while the Olefin Conversion Unit (OCU) was also operated at a high-capacity utilization rate. The Company's direct cost increased 15.9% YOY to USD 846 Mn in 1Q25. Borouge's gross profit increased marginally 0.3% YOY to USD 574 Mn in 1Q25. Other income increased 45.6% YOY to USD 6 Mn in 1Q25. G&A expenses increased 19.4% YOY to USD 61 Mn in 1Q25 due to a one-off adjustment. Selling & distribution expenses declined 6.3% YOY to USD 90 Mn in 1Q25.

Stock Information

Market Cap (AED, Mn)	77,248.27
Paid Up Capital (Mn)	4,809.23
52 Week High	2.74
52 Week Low	2.28
3M Avg. daily value (AED)	48,557,360

1Q25 Result Review (USD, Mn)

Total Assets	9,023
Total Liabilities	4,272
Total Equity	4,730
EBITDA	564
Net Profit	279

Financial Ratios

Dividend Yield (12M)	6.15
Dividend Pay-out (%)	106.07
Price-Earnings Ratio(x)	17.05
Price-to-Book Ratio (x)	4.44
Book Value (AED)	0.16
Return-on Equity (%)	27.75

Stock Performance

5 Days	0.00%
1 Months	6.20%
3 Months	0.78%
6 Months	1.98%
1 Year	4.05%
Month to Date (MTD%)	-0.39%
Quarter to Date (QTD%)	5.33%
Year to Date (YTD%)	7.08%

Meanwhile, the Company's EBITDA declined marginally 0.5% YOY to USD 564 Mn in 1Q25, with a 382 bps YOY decline in EBITDA margin to 39.8%. Borouge's operating profit remained flat on a YOY basis at USD 430 Mn in 1Q25, whereas operating profit margin fell 271 bps YOY to 30.3%. The Company's finance costs declined 20.3% YOY to USD 43 Mn in 1Q25, while finance income decreased 18.3% YOY to USD 8 Mn. Furthermore, income tax expenses remained unchanged at USD 113 Mn in 1Q25 compared to 1Q24.

Balance Sheet Highlights

Borouge's cash conversion increased from 88% in 4Q24 to 93% in 1Q25, and on the other hand, the adjusted operating free cash flow fell 5% YOY and 9% QOQ to USD 523 Mn in 1Q25. However, the Company's capital expenditure fell from USD 78 Mn in 4Q24 to USD 41 Mn in 1Q25. Furthermore, Borouge's net debt reduced from USD 2,691 Mn in 4Q24 to USD 2,348 Mn in 1Q25.

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 production in 1Q25. Borouge witnessed strong customer retention and a stable demand for its differentiated solutions in 1Q25. It recorded a healthy utilization rate of 101% for PE and 98% for PP in 1Q25. Additionally, the Company experienced premia over the benchmark prices of USD 224 per tonne for PE and USD 154 per tonne for PP in 1Q25. Borouge 3 is scheduled for a planned turnaround in 2Q25, which is expected to impact production capacity by 320 thousand tonnes. Borouge is expected to have a limited impact from US tariffs due to the minimal quantity of sales in the US. Furthermore, the company closely monitors development on a daily and hourly basis in China. Tariff impact on shipments from the US to China will create an opportunity for Borouge to benefit from it. Consequently, the Company increased full-year 2025 dividend guidance to 16.2 fils per share and intends to offer a minimum dividend of 16.2 fils per share annually until 2030. The company executed a share buyback and purchased 64 Mn shares, reflecting its confidence in the future prospects. ADNOC and OMV signed an agreement to merge Borouge and Borealis to create a new organization, "Borouge Group International" (BGI). ADNOC and OMV will own the new entity, each owning a 46.94% stake after OMV injecting c. EUR 1.6 Bn in BGI to equalize its stake, while the remaining 6.12% will be held as free float. The newly formed company is then proposed to acquire Nova Chemicals, a major polyethylene producer in North America, for USD 13.4 Bn, including its debt. The proposed transactions are expected to close by 1Q26, subject to regulatory approvals. Additionally, ADNOC will transfer the ownership of the Borouge 4 plant to BGI at a cost of USD 7.5 Bn. BGI, after acquiring Nova Chemicals, will hold a combined polyolefin capacity of 13.6 mtpa. Thus, considering the above-mentioned factors, we assign our BUY rating on the stock.

Borouge - Relative valuation

(at CMP)	2021	2022	2023	2024	2025F
PE	NA	15.17	21.36	19.50	0.89
PB	NA	4.41	4.72	5.41	0.25
EV/EBITDA	NA	8.37	10.21	8.88	10.61
DPS	NA	0.12	0.16	0.16	0.16
Dividend yield	NA	4.6%	6.1%	6.1%	6.2%

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	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Revenues	1,302	1,621	1,420	1,515	-6.3%	9.0%	-12.4%	6,026	6,112	1.4%
Direct Cost	-730	-972	-846	-916	-7.7%	15.9%	-13.0%	-3,491	-3,653	4.7%
Gross Profit	572	649	574	598	-4.1%	0.3%	-11.6%	2,535	2,459	-3.0%
Other income	4	38	6	13	-55.1%	45.6%	-83.9%	54	54	0.0%
G&A expense	-51	-32	-61	-52	16.3%	19.4%	87.0%	-193	-196	1.5%
Selling and dist. expenses	-96	-145	-90	-110	-18.6%	-6.3%	-37.8%	-472	-496	5.0%
Prov. for impair. on assets	-1	0	0	0	NM	NM	NM	-3	0	NM
EBITDA	567	650	564	578	-2.3%	-0.5%	-13.2%	2,477	2,334	-5.8%
Operating Profit	429	510	430	449	-4.4%	0.1%	-15.7%	1,921	1,821	-5.2%
Finance costs	-53	-47	-43	-44	-4.2%	-20.3%	-9.2%	-202	-178	-12.0%
Finance income	10	5	8	5	57.9%	-18.3%	58.3%	29	20	-30.0%
FX (loss)/Gain	0	0	-1	0	NM	NM	NM	-2	0	NM
Profit before tax	385	468	394	410	-3.8%	2.3%	-15.7%	1,745	1,663	-4.7%
Income tax expenses	-113	-137	-113	-115	-1.5%	0.5%	-17.5%	-506	-466	-8.0%
NCI	2	5	2	3	-8.6%	7.6%	-50.6%	14	10	-26.9%
Net Profit	271	326	279	293	-4.7%	3.0%	-14.5%	1,225	1,188	-3.1%

FABS estimate & Co Data

Borouge - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	44.0%	40.0%	40.4%	-352	39	42.1%	40.2%	-184
EBITDA	43.6%	40.1%	39.8%	-382	-36	41.1%	38.2%	-292
Operating Profit	33.0%	31.4%	30.3%	-271	-117	31.9%	29.8%	-208
Net Profit	20.8%	20.1%	19.6%	-114	-48	20.3%	19.4%	-90

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	2.76	50.0%	1.38
DDM Method	3.12	25.0%	0.78
Relative Valuation (RV)	3.17	25.0%	0.79
Weighted Average Valuation (AED)			2.95
Current market price (AED)			2.57
Upside/Downside (%)			+15%

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 8.9% and after-tax cost of debt of 3.8% with an equity weight of 87.8% and debt of 12.2%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, 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 5.3% is adjusted for a tax rate of 28.6% 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)	3,272
Terminal value (USD, Mn)	21,486
Firm Value (USD, Mn)	24,757
Net Debt as of Mar 2025 (USD, Mn)	-2,182
Equity Value to Share Holders (USD Mn)	22,576
No. of share (Mn)	30,058
Current Market Price (AED)	2.57
Fair Value per share (AED)	2.76

DCF Method						
(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Cash flow from operating activities	1,339	2,748	2,696	2,354	2,173	2,143
(-) Capex	-6,680	-180	-250	-250	-250	-250
Free Cash Flow to Firm (FCFF)	-5,341	2,568	2,446	2,104	1,923	1,893
Discounting Factor	0.95	0.88	0.81	0.75	0.69	0.64
Discounted FCFF	-5,067	2,251	1,980	1,573	1,328	1,208

Source: FAB Securities

2) DDM Method:

Borouge will distribute a healthy dividend in 2025 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 8.9%.

Sum of PV (USD, Mn)	8,621
Terminal value (USD, Mn)	16,905
FV to Common shareholders (USD Mn)	25,526
No. of share (Mn)	30,058
Current Market Price (AED)	2.61
Fair Value per share (AED)	3.12

(All Figures in USD Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Dividend Paid						
H1	665	1,156	1,101	947	865	852
H2	665	1,156	1,101	947	865	852
Total Dividend	1,330	2,312	2,202	1,893	1,730	1,704
Discounting Factor	0.95	0.87	0.80	0.73	0.67	0.62
Present Value of Dividend	1,257	2,006	1,755	1,386	1,164	1,052

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 2025 EV/EBITDA multiple of 12.1x.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F	2025F	2026F
Yanbu National Petrochemical	4,762	10.8	8.3	59.9	26.3	1.7	1.8
National Industrialization Co.	2,043	NA	NA	12.8	15.9	1.4	1.4
Sahara International Petrochemical	3,630	10.2	8.1	28.1	17.8	0.9	0.9
Advanced Petrochemicals Co	2,068	19.6	10.9	48.8	15.0	2.6	2.2
Saudi Ind Investment Group	2,999	16.1	12.3	21.3	15.8	1.2	1.2
Saudi Kayan Petrochemical Co	2,308	10.8	7.4	NM	NM	0.9	1.0
Saudi Aramco Base Oil Co	4,441	13.3	10.0	17.9	12.8	3.7	3.4
Average		13.5x	9.5x	31.5x	17.3x	1.8x	1.7x
Median		12.1x	9.1x	24.7x	15.8x	1.4x	1.4x
Max		15.4x	10.7x	43.6x	17.4x	2.1x	2.0x
Min		10.8x	8.2x	18.8x	15.2x	1.0x	1.1x

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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