

**2Q 2018 Results Update**
**July 30, 2018**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	18.4
Target Price (SAR)	18.8
Upside/Downside (%)	2.0%
<i>As of July 29<sup>th</sup>, 2018</i>	

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	27.6
52 Wk High (SAR)	18.5
52 Wk Low (SAR)	8.3
Total Outstanding shares (in mn)	1,500
Free Float (%)	64.9%

**SAUDI KAYAN vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	20.0%	19.3%
6m	54.2%	42.5%
12m	105.2%	89.0%

**Major Shareholders (%)**

Saudi Basic Industries Co.	35.00%
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**Revenue (SAR bn) and Operating Profit Margin (%)**


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 29<sup>th</sup> July 2018

**Saudi Kayan reports highest-ever revenue since inception**

Saudi Kayan Petrochemicals Co. (Kayan)'s quarterly revenue expanded by 52.6% Y/Y and 29.2% Q/Q in 2Q18; the key drivers of the growth were higher average selling prices, wider product spreads, and increased operational efficiencies at its plants. Additionally, operating income increased 154.4% Y/Y, notwithstanding an increase in average feedstock prices and largely contained operating costs. Consequently, Kayan's gross margin and operating margin expanded to 36.9% and 31.7%, respectively (2Q17: gross margin of 26.8%, operating margin of 19.0%). The net profit attributable to shareholders came in at SAR 879mn, beating the consensus estimates.

According to a recent BMI report, Saudi Arabia's petrochemical industry is expected to grow by 5.6% over the next four years driven by large-scale downstream projects. The Kingdom will continue to boost its capacity to meet the growing demand, to benefit from the availability of cheap feedstock as well as to reduce its economic reliance on crude oil exports. Kayan is expected to benefit from this trend. Moreover, the increased capacity utilization and improving efficiencies would have a positive impact on the company's bottom line, however, the rise in trade tensions and tariff wars may dampen positive momentum of crude oil prices. Considering the countervailing factors, we maintain the 'Neutral' stance on the stock.

- Kayan's top line increased 52.6% Y/Y to SAR 3,524mn in 2Q18, driven by increasing sales prices and improved operating performance at the plants. During 2Q18, the price of polypropylene (PP) and polyethylene (PE) was up by nearly 20% Y/Y, while the prices of MEG also increased by double digit during the same period.
- Gross profit soared 110% Y/Y to SAR 1,301mn, driven by a spectacular rise in revenue (+52.6% Y/Y). Gross margin therefore improved by 1,008bps Y/Y. The company benefitted from lower feedstock prices and increased average selling prices this quarter.
- Kayan's EBITDA for the quarter was SAR 1,687mn vis-à-vis SAR 1,020mn in 2Q17, a 65.4% Y/Y increase. This led to an EBITDA margin improvement of 37bps to 47.9%.
- Kayan's operating income for 2Q18 grew by 154.6% Y/Y to SAR 1,116mn (2Q17: SAR 439mn), while operating expenses were largely contained. The operating margin improved by 1,268bps to 31.7% in 2Q18, indicating a rise in efficiencies and higher operating capacity.
- Net profit for the period stood at SAR 879mn (+263.1% Y/Y), the highest-ever reported by the company, led by higher sales and largely contained operating expenses. Additionally, improved efficiency, following significant plant shutdown during 4Q17, also strengthened the bottom line. Net profit margin, as of 2Q18, stood at 24.9% compared with 10.5% in 2Q17.
- EPS for 2Q18 stood at SAR 0.59 as against SAR 0.16 in 2Q17.
- Kayan's cash flow from operating activities dropped significantly by 48% YoY to SAR 431mn in Q2 2018 (Q2 2017: SAR 823mn) due to an increase in trade receivables.

**Valuation:** We revise our target price upward with a fair value of SAR18.8, in line with the current share price run-up, sales price and production growth expectations. We maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	3,524	2,309	52.6%	11,712	9,984	17.3%
Gross Profit (SAR mn)	1,301	619	110.0%	3,748	2,401	56.1%
EBITDA (SAR mn)	1,687	1,020	65.4%	5,321	3,942	34.9%
Net Profit (SAR mn)	879	242	263.1%	1,750	668	161.9%
EPS basic (SAR)	0.59	0.16	263.1%	1.2	0.45	161.9%
Gross Margin (%)	36.9%	26.8%	10.1%	32.0%	24.0%	8.0%
EBITDA Margin (%)	47.9%	44.2%	3.7%	45.4%	39.5%	5.9%
Net Profit Margin (%)	24.9%	10.5%	14.4%	14.9%	6.7%	8.2%

Source: Company Financials, FALCOM Research



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FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by 10%.

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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