

1Q19 Results Update

May 06, 2019

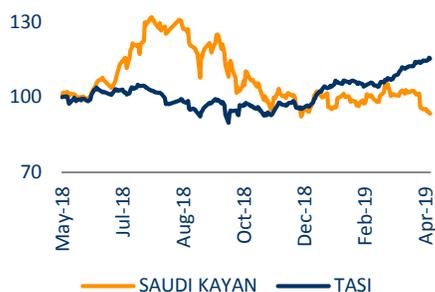
| Recommendation | Overweight |
|-------------------------|------------|
| Previous Recommendation | Overweight |
| Current Price (SAR) | 12.8 |
| Target Price (SAR) | 15.6 |
| Upside/Downside (%) | 21.7% |

As of May 5th, 2019

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 19.2 |
| 52 Wk High (SAR) | 18.5 |
| 52 Wk Low (SAR) | 12.76 |
| Total Outstanding shares (in mn) | 1,500 |
| Free Float (%) | 65.0% |

SAUDI KAYAN vs. TASI (Rebased)



| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (8.1%) | (12.5%) |
| 6m | (15.0%) | (33.5%) |
| 12m | (6.4%) | (21.7%) |

Major Shareholders (%)

| | |
|----------------------------|-------|
| Saudi Basic Industries Co. | 35.0% |
|----------------------------|-------|

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 5th May 2019

Kayan misses quarterly earnings estimates on increased cost and lower selling price

Saudi Kayan Petrochemicals Co. (Kayan) reported its second consecutive quarter of loss in 1Q19 due to a decline in selling prices and higher costs. Its revenue fell 6.7% YoY during the quarter, due to lower average selling prices that offset the rise in sales volumes. Despite a decline in feedstock prices, its 1Q19 gross profit and gross margin shrank. Operating profit declined annually owing to higher operating expenses in 1Q19. Net loss widened in 1Q19 due to the aforesaid reasons and higher financial charges.

Saudi Kayan has been improving its production efficiency and utilization rate which was evident in its improved quantities produced and sold. However, the high operating rate was offset by low selling prices despite a lower feedstock cost such as butane. Though we expect Saudi Arabia's petrochemical industry to benefit from large-scale investments in downstream projects as the kingdom continues to boost its capacity to meet growing demand; the company needs to focus more on containing its operating expenses to boost its bottom line. Kayan's ability to consistently generate positive cash flows and reducing debt level make the company a good investment bet. As such, we maintain our "Overweight" rating on the stock.

- Kayan's revenue declined 6.7% YoY and 3.5% QoQ to SAR 2,544mn during 1Q19 due to a fall in the average selling price of its products even though there was an improvement in the quantities sold and produced.
- Kayan's gross profit slipped 69.6% YoY to SAR 262mn during 1Q19, its lowest since 4Q17 due to higher cost of sales that rose 22.3% YoY. Consequently, its gross margins slipped to 10.3% in 1Q19 compared with 31.6% and 10.4% in 1Q18 and 4Q18, respectively. Despite lower feedstock costs, Kayan failed to contain its cost of sales, adding to the concern over its shrinking gross margin.
- Kayan's operating income slumped 86.3% YoY to SAR 98mn in 1Q19 as the operating expenses rose 16.2% YoY. This led to the operating margin declining to 3.9% in 1Q19 from 26.4% in 1Q18. On a quarterly basis, the company's operating profit recovered 60.1% as administrative, general, selling, and distribution expenses fell 23.0% QoQ. Its operating margin in 4Q18 stood at 2.3%.
- Kayan's losses in 1Q19 widened to SAR 197mn compared with SAR 111mn in 4Q18. It had posted a profit of SAR 463mn in 1Q18. The sharp drop in its net profit can be ascribed to the overall poor performance and high financial charges during the quarter. Its net loss margin for 1Q19 stood at 7.8%, versus 4.2% in 4Q18 and a net profit margin of 17.0% in 1Q18.

Valuation: We revise our target price slightly downward to a fair value of SAR 15.6 per share, given its weak performance in 1Q19. We maintain our 'Overweight' rating on the stock.

| | 1Q'19 | 1Q'18 | % YoY | FY19E | FY18 | % YoY |
|-----------------------|-------|-------|--------|--------|--------|--------|
| Revenues (SAR mn) | 2,544 | 2,727 | -6.7% | 11,788 | 12,263 | -3.9% |
| Gross Profit (SAR mn) | 262 | 862 | -69.6% | 2,829 | 3,365 | -15.9% |
| EBITDA (SAR mn) | 676 | 1,265 | -46.5% | 4,400 | 4,933 | -10.8% |
| Net Profit (SAR mn) | -197 | 463 | NM | 1,117 | 1,702 | -34.4% |
| EPS basic (SAR) | -0.13 | 0.31 | NM | 0.74 | 1.13 | -34.4% |
| Gross Margin (%) | 10.3% | 31.6% | -21.3% | 24.0% | 27.4% | -3.4% |
| EBITDA Margin (%) | 26.6% | 46.4% | -19.8% | 37.3% | 40.2% | -2.9% |
| Net Profit Margin (%) | -7.8% | 17.0% | -24.7% | 9.5% | 13.9% | -4.4% |

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

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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