

2Q20 Results Update

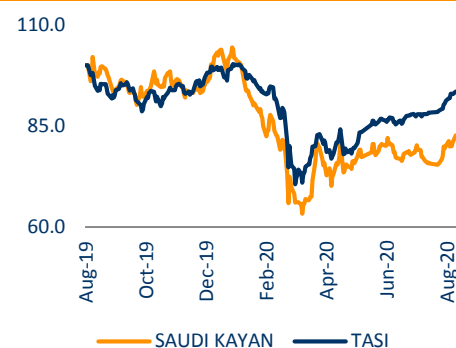
September 03, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	8.9
Target Price (SAR)	8.5
Upside/Downside (%)	(3.8%)
<i>As of August 23, 2020</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	13.3
52-Wk High (SAR)	11.3
52-Wk Low (SAR)	6.8
Total Outstanding Shares (in mn)	1,500
Free Float (%)	65.0%

SAUDI KAYAN vs. TASI (Rebased)

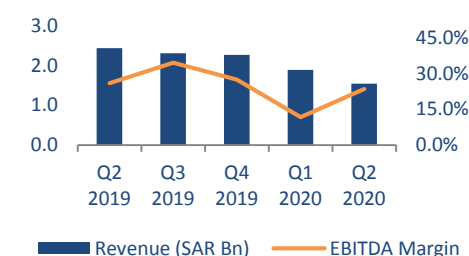


Price Performance (%)	Absolute	Relative
1m	8.2%	1.8%
6m	(4.1%)	(3.1%)
12m	(17.3%)	(10.9%)

Major Shareholders (%)

Saudi Basic Industries Co.	35.0%
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Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 23, 2020

Third consecutive quarter of net loss due to lower selling prices and sales volumes

Kayan recorded 36.7% YoY and 18.6% QoQ decline in revenue to SAR 1.5bn in 2Q20 compared with SAR 2.4bn and SAR 1.9bn in 2Q19 and 1Q20, respectively. Lower average selling prices of its products and decreased sales volumes primarily weighed on its 2Q20 revenue. Cost of sales remained low during the quarter due to a decline in the average cost of feedstock. The company reported gross loss of SAR 70.8mn in 2Q20, as the fall in cost of sales was offset by the decline in revenue. Gross loss margin for the quarter stood at (4.6%) as against (11.7%) in 1Q20. Although SG&A expenses improved during 2Q20, reduction in financial income and net other income weighed on the company's bottom line. Net loss margin for 2Q20 was (25.9%) compared with (11.2%) in 2Q19.

Kayan's woes continued in 2Q20, as the company recorded a third consecutive quarter of net loss. Although bottom line improved compared with the previous quarter on account of lower average feedstock costs and reopening of its plants post maintenance work, revenue declined for the eighth consecutive quarter in 2Q20. This was primarily due to lower demand from end markets for the company's products and prevailing economic challenges posed by the COVID-19 pandemic. Despite paring its debt in the quarter, Kayan remains heavily leveraged, with debt-to-equity ratio at ~1.3x and net debt-to-EBITDA at ~8.5x as of 2Q20. According to EIA, oil demand may improve slightly in 2H20, and prices are expected to recover gradually on entering the second half of the year. While we expect slight improvement in the company's performance in 3Q20 on account of a measured recovery in average selling prices of its products, it is still expected to book net loss during the year. Thus, in view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Kayan's revenue fell 36.7% YoY to SAR 1.5bn in 2Q20 compared with SAR 2.4bn in 2Q19 on account of decreased average selling price of its products and lower sales volume. Revenue declined 18.6% QoQ from SAR 1.9bn in 1Q20.
- The company reported gross loss of SAR 70.8mn during the quarter as against gross profit of SAR 196.7mn in 2Q19. However, on a quarterly basis, gross loss reduced by 68.0% due to a decline in feedstock costs. Gross loss margin stood at (4.6%) in 2Q20 compared with (11.7%) in 1Q20.
- Kayan's SG&A expenses narrowed 7.9% YoY to SAR 144.7mn from SAR 157.1mn in 2Q19. Despite this, the company recorded operating loss of SAR 215.4mn in 2Q20 as against operating profit of SAR 39.6mn in 2Q19. Consequently, the company's operating loss margin stood at (14.0%) compared with an operating profit margin of 1.6% in 2Q19.
- Deterioration in financial income and net other income in 2Q20 further weighed on the bottom line, as the company reported net loss of SAR 398.2mn in the quarter. Net loss margin widened to (25.9%) for 2Q20 compared with (11.2%) in 2Q19.
- Despite a reduction in total debt during 2Q20, Kayan remained highly leveraged with net debt-to-EBITDA ratio of ~8.5x and debt-to-equity ratio of 1.3x.

Valuation: We revise our target price upward to a fair value of SAR 8.5 per share in view of the company's expected performance and oil price outlook. We maintain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	1,536.9	2,429.2	(36.7%)	7,493.0	9,536.4	(21.4%)
Gross Profit (SAR mn)	(70.8)	196.7	NM	224.8	1,059.1	(78.8%)
EBITDA (SAR mn)	360.3	629.8	(42.8%)	1,834.8	2,663.4	(31.1%)
Net Profit (SAR mn)	(398.2)	(273.1)	NM	(1,136.9)	(636.8)	NM
EPS Basic (SAR)	(0.27)	(0.18)	NM	(0.76)	(0.42)	NM
Gross Margin (%)	(4.6%)	8.1%	NM	3.0%	11.1%	(8.1%)
EBITDA Margin (%)	23.4%	25.9%	(2.5%)	24.5%	27.9%	(3.4%)
Net Profit Margin (%)	(25.9%)	(11.2%)	NM	(15.2%)	(6.7%)	NM

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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