

**3Q20 Results Update**

**December 02, 2020**

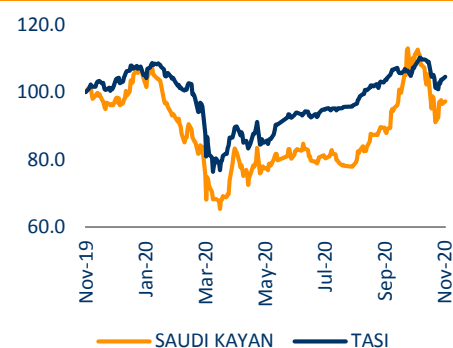
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	10.1
Target Price (SAR)	9.8
Upside/Downside (%)	(3.4%)

As of November 08, 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	15.2
52-Wk High (SAR)	12.2
52-Wk Low (SAR)	6.8
Total Outstanding Shares (in mn)	1,500
Free Float (%)	65.0%

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

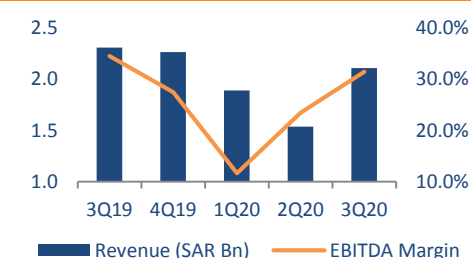


Price Performance (%)	Absolute	Relative
1m	(12.5%)	(9.5%)
6m	25.7%	2.6%
12m	(2.7%)	(7.3%)

**Major Shareholders (%)**

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

**Revenue (SAR bn) and EBITDA Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 08, 2020

**Net loss narrows in 3Q20 with reduction in operating and financial expenses**

Saudi Kayan Petrochemical Co. (Kayan) recorded an 8.6% YoY decline in revenue to SAR 2.1bn in 3Q20 due to lower average selling prices of key products. However, revenue surged by 37.0% QoQ as oil prices posted a steady recovery in 3Q20 compared with prices in 2Q20. The cost of sales dropped 2.8% YoY to SAR 1.9bn during the quarter due to a decline in the average cost of feedstock. The company reported a 60.4% plummet in operating profit to SAR 79.7mn in 3Q20 as the improvement in SG&A expenses was offset by the plunge in gross profit. Although finance charges and zakat expense improved during 3Q20, a reduction in financial income and net other income, coupled with the low top line, weighed down the company's bottom line. Net loss margin for 3Q20 stood at (1.3%) compared with the net profit margin of 0.1% in 3Q19.

Kayan continued to face challenges in 3Q20, witnessing a fourth successive quarter of net loss. The reduced demand for petrochemical products, amid the COVID-19 pandemic induced economic unrest, lowered the selling prices of key products in 3Q20 versus 3Q19. Yet, Kayan managed to record quarterly growth in revenue, after reporting a QoQ decline for the previous eight quarters. The company is likely to record a net loss in FY20, but may see improved performance in FY21, on recovery in oil demand. Kayan remains heavily leveraged, with net-debt-to-EBITDA at about 8.6x and a debt-to-equity ratio at 1.3x as of 3Q20, which remains a concern in the near term. Thus, in view of the countervailing factors mentioned, we maintain our "Neutral" rating on the stock.

- Kayan's revenue fell 8.6% YoY to SAR 2.1bn in 3Q20 compared with SAR 2.3bn in 3Q19 due to the lower average selling price of key products, amid rising sales volumes. However, revenue increased 37.0% QoQ from SAR 1.5bn in 2Q20 owing to higher sales volumes and a steady recovery in petrochemical prices than in the previous quarter.
- The company reported a 37.7% YoY decline in gross profit to SAR 236.5mn during the quarter as the fall in revenue offset the slight improvement in cost of sales. Cost of sales dipped 2.8% YoY to SAR 1.9bn due to a reduction in feedstock costs. Consequently, the gross profit margin contracted to 11.2% in 3Q20 compared with 16.5% in 3Q19.
- The decline in gross profit counterbalanced the improvement in SG&A expenses and resulted in a 60.4% YoY plunge in operating profit to SAR 79.7mn in 3Q20. Consequently, the company's operating profit margin narrowed to 3.8% as against 8.7% in 3Q19.
- Lower finance charges and zakat expense were offset by a fall in top line, which further weighed down the bottom line. Subsequently, the company reported a net loss of SAR 28.2mn in the quarter against a net profit of SAR 1.3mn in 3Q19. Net loss margin widened to (1.3%) for 3Q20 compared with a net profit margin of 0.1% in 3Q19.
- Kayan continued to be highly leveraged with a net debt-to-EBITDA ratio of about 8.6x and debt-to-equity ratio of 1.3x in 3Q20.

**Valuation:** We revise our target price to a fair value of SAR 9.8 per share. We maintain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	2105.5	2303.2	(8.6%)	7929.3	9536.4	(16.9%)
Gross Profit (SAR mn)	236.5	379.6	(37.7%)	237.9	1059.1	(77.5%)
EBITDA (SAR mn)	661.2	792.7	(16.6%)	1929.0	2663.4	(27.6%)
Net Profit (SAR mn)	(28.2)	1.3	NM	(1061.0)	(636.8)	NM
EPS Basic (SAR)	(0.02)	0.00	NM	(0.71)	(0.42)	NM
Gross Margin (%)	11.2%	16.5%	(5.2%)	3.0%	11.1%	(8.1%)
EBITDA Margin (%)	31.4%	34.4%	(3.0%)	24.3%	27.9%	(3.6%)
Net Profit Margin (%)	(1.3%)	0.1%	(1.4%)	(13.4%)	(6.7%)	(6.7%)

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.

## FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

## Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.