



1Q 2018 Results Update

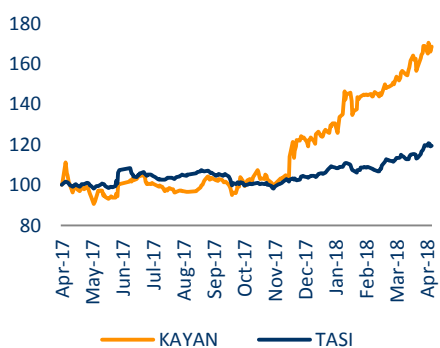
April 27, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	14.8
Target Price (SAR)	15.3
Upside/Downside (%)	5.2%
<i>As of April 26th, 2018</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	21.9
52 Wk High (SAR)	15.20
52 Wk Low (SAR)	7.95
Total Outstanding shares (in mn)	1,500.0
Free Float (%)	64.93%

KAYAN vs. TASI (Rebased)

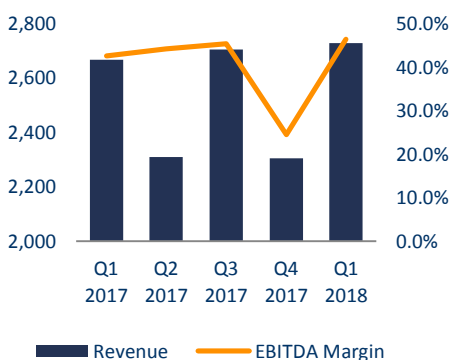


Price Performance (%)	Absolute	Relative
1m	10.0%	5.1%
6m	64.6%	45.3%
12m	68.4%	49.1%

Major Shareholders (%)

Saudi Basic Industries Co.	35.00%
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Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 26th April 2018

Kayan posts strong Q1 2018 results on higher sales prices, improved efficiency

Saudi Kayan Petrochemicals Co. (Kayan)'s quarterly revenue expanded 2.3% YoY and 18.3% QoQ to SAR 2,727mn in Q1 2018, driven by a higher average sales price and improved capacity utilization of its plants. Gross profit rose 18.6% YoY to SAR 862mn from SAR 727mn a year ago. In addition, operating income increased to SAR 721mn (+29.9% YoY), led by a decline operating expenses, despite higher feedstock prices. Consequently, Kayan's gross margin and operating margin expanded to 31.6% and 26.4%, respectively (Q1 2017: gross margin of 27.2%, operating margin of 20.8%). The net profit attributable to shareholders came in at SAR 463mn compared to a loss of SAR 220mn in Q4 2017.

Kayan posted strong results in Q1 2018, driven by higher sales prices, better operational efficiency, increased product spreads, and lower operating expenses. We believe, in 2018, the company's results will be driven by higher product spreads and improved capacity utilization. However, the increase in feedstock prices due to the removal of subsidies may affect profitability. Overall, we maintained single-digit top-line expansion for the company in 2018.

- Kayan's top line increased 2.3% YoY to SAR 2,727mn in Q1 2018, driven by an improvement in average sales prices. The increased capacity utilization of Kayan's plants after maintenance work in 2017 supported top-line expansion. The company had a few more maintenance shutdowns in Q1 2018. This is expected to boost its production capacity of ethylene and pure ethylene oxide, thereby creating a positive impact on sales.
- Gross profit edged up 18.6% YoY to SAR 862mn, driven by a 3.9% YoY decline in the cost of sales. The decline occurred despite an increase in feedstock prices on subsidy removal. Subsequently, the gross margin improved 4.3bps to 31.6% in Q1 2018.
- Kayan's operating income for Q1 2018 grew 29.9% YoY to SAR 721mn (Q1 2017: SAR 555mn), driven by an 18.2% YoY decline in operating expenses. The operating margin improved 5.6bps to 26.4% in Q1 2018. During the quarter, the company prevented margin erosion by enhancing its capacity utilization.
- Kayan's EBITDA for the quarter stood at SAR 1,265mn vis-à-vis SAR 1,133mn in Q1 2017, an 11.7% YoY increase, driven by operational efficiencies and lower costs. The EBITDA margin improved 3.9bps to 46.4% in Q1 2018.
- Net profit for the period stood at SAR 463mn (+74.3% YoY), led by higher sales and lower operating expenses and finance costs. In addition, the de-bottlenecking of its two projects strengthened the bottom line. Net profit margin, as of Q1 2018, stood at 17.0% compared to 10.0% in Q1 2017.
- Kayan's cash flow from operating activities declined 6.9% YoY to SAR 749mn in Q1 2018 (Q1 2017: SAR 804mn) due to an increase in inventories and trade receivables.
- Saudi Arabia's petrochemical sector is set to recuperate in 2018, driven by an increase in oil prices; however, the supply glut from US oil producers still remains a concern. Moreover, increased feedstock prices could pressurize margins. Considering all these factors, we maintain a "neutral" stance on Kayan.

Valuation: We revised our target price upward with a fair value of SAR 15.3 per share in line with the company's robust YoY performance and the stock price performance (+17.3% over the last three months). We have maintained our "neutral" rating for the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	2,727.3	2,667.2	2.3%	10,837.9	9,983.9	8.6%
Gross Profit (SAR mn)	861.6	726.7	18.6%	2,817.9	2,401.0	17.4%
EBITDA (SAR mn)	1,265.5	1,132.5	11.7%	4,467.0	3,942.3	13.3%
Net Profit (SAR mn)	462.6	265.5	74.3%	1,025.1	668.2	53.4%
EPS basic (SAR)	0.31	0.18	74.3%	0.68	0.45	53.4%
Gross Margin (%)	31.6%	27.2%	4.3%	26.0%	24.0%	2.0%
EBITDA Margin (%)	46.4%	42.5%	3.9%	41.2%	39.5%	1.7%
Net Profit Margin (%)	17.0%	10.0%	7.0%	9.5%	6.7%	2.8%

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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