

3Q 2018 Results Update

October 30, 2018

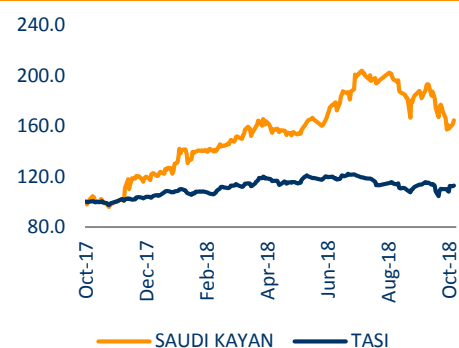
| Recommendation | Neutral |
|-------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 14.9 |
| Target Price (SAR) | 16.0 |
| Upside/Downside (%) | 7.7% |

As of October 29th, 2018

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 22.3 |
| 52 Wk High (SAR) | 18.5 |
| 52 Wk Low (SAR) | 8.6 |
| Total Outstanding shares (in mn) | 1,500 |
| Free Float (%) | 65.0% |

SAUDI KAYAN vs. TASI (Rebased)

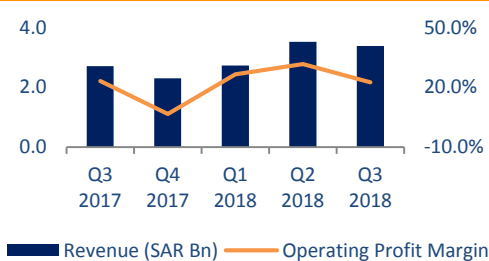


| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | (9.7%) | (9.1%) |
| 6m | 2.1% | 6.7% |
| 12m | 64.4% | 51.6% |

Major Shareholders (%)

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

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 29th October 2018

Kayan's revenue grew due to higher product sales and improved operating efficiencies

Saudi Kayan Petrochemicals Co. (Kayan)'s revenue grew 24.9% YoY, driven by higher product sales and increased operational efficiencies. On quarterly basis, however, revenues fell 4.2% due to subdued growth in product prices. Feedstock prices continued rising, which pressurized margins. Consequently, Kayan's gross margin and operating margin contracted to 27.5% and 22.6%, respectively, during the quarter; both lower on an annual and quarterly basis. Net profit came in at SAR 472mn, which missed consensus estimates by a wide margin (consensus: SAR 590.8mn).

Going forward, we expect feedstock prices to continue to rise, as the ethylene market is likely to face supply pressures stemming from shutdown activities for maintenance amid rising demand from China. According to S&P Global Platts, supplies of 765,250 mt of ethylene production are estimated to be disrupted in the second half of 2018 compared with supplies of 709,950 mt in first half of 2018. The propylene market is expected to exhibit a similar trend. Propylene prices are expected to rise in H2 2018, as plant shutdowns would disrupt supplies. We believe the company's results in FY2018 will be driven by higher average sales prices and improved capacity utilization. In addition, rising demand from China for MEG is likely to benefit the company.

- Kayan's top line increased 24.9% YoY to SAR 3,376mn in 3Q18, driven by increasing sales prices and improved operating performance at the plants, which resulted in higher selling volumes. The revenue, however, declined 4.2% on sequential basis, as a rise in product sales prices remained softer vis-à-vis the previous quarter.
- Gross profit came in at SAR 929mn (+19.0% YoY) in line with the revenue growth. Sequentially, however, profits were down 28.5% compared to 2Q18 attributed to weaker selling prices and higher feedstock prices, which hurt margins. Feedstock costs increased 27.3% YoY and 10.0% QoQ to compress margins by 136bps YoY and 937bps QoQ.
- Operating income for the quarter was SAR 762mn, reflecting a 22.0% YoY increase, even as operating costs surged 7.0% from 3Q17. Operating income declined 31.8% QoQ burdened by a depressed top line and higher feedstock costs. The operating margin declined on YoY and QoQ basis by 52.8bps and 912bps, respectively.
- Kayan's EBITDA for the quarter grew 9.2% YoY to SAR 1,340mn vis-à-vis SAR 1,226mn in 3Q17. On quarterly basis, EBITDA fell 20.6%. The margins remained pressurized, declining 570bps annually and 819bps on quarterly basis.
- Net profit for the period advanced 23.8% YoY to SAR 472mn, driven by a strong top-line performance, aided by improved operating efficiencies. In addition, a higher share in net results of associates and non-operating income offset an increase in financial charges to strengthen the bottom line. Profits, however, fell 46.3% vis-à-vis 3Q17 (SAR 879mn), hurt by lower sales and higher feedstock costs. Net profit margins, as of 3Q18, stood at 14.0% compared with 14.1% in 3Q17 and 24.9% in 2Q18.

Valuation: We revised our target price downwards with a fair value of SAR 16.0 per share in effect of the recent share price decline. We have maintained our "Neutral" rating for the stock.

| | 3Q'18 | 3Q'17 | % YoY | FY18E | FY17 | % YoY |
|-----------------------|-------|-------|--------|--------|-------|--------|
| Revenues (SAR mn) | 3,376 | 2,703 | 24.9% | 12,560 | 9,984 | 25.8% |
| Gross Profit (SAR mn) | 929 | 781 | 19.0% | 3,900 | 2,401 | 62.4% |
| EBITDA (SAR mn) | 1,340 | 1,226 | 9.2% | 5,598 | 3,942 | 42.0% |
| Net Profit (SAR mn) | 472 | 381 | 23.8% | 1,980 | 668 | 196.4% |
| EPS basic (SAR) | 0.31 | 0.25 | 23.8% | 1.32 | 0.45 | 196.4% |
| Gross Margin (%) | 27.5% | 28.9% | (1.4%) | 31.0% | 24.0% | 7.0% |
| EBITDA Margin (%) | 39.7% | 45.4% | (5.7%) | 44.6% | 39.5% | 5.1% |
| Net Profit Margin (%) | 14.0% | 14.1% | (0.1%) | 15.8% | 6.7% | 9.1% |

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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