

FY18 Results Update

January 31, 2019

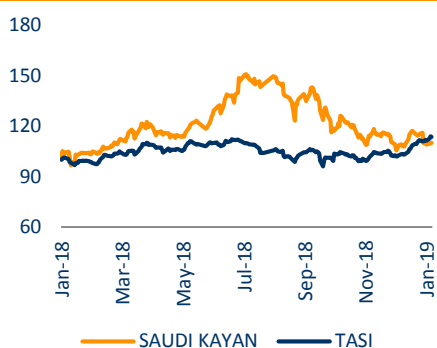
Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	13.9
Target Price (SAR)	16.1
Upside/Downside (%)	15.4%

As of January 30th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	20.9
52 Wk High (SAR)	18.5
52 Wk Low (SAR)	11.7
Total Outstanding shares (in mn)	1,500
Free Float (%)	65.0%

SAUDI KAYAN vs. TASI (Rebased)

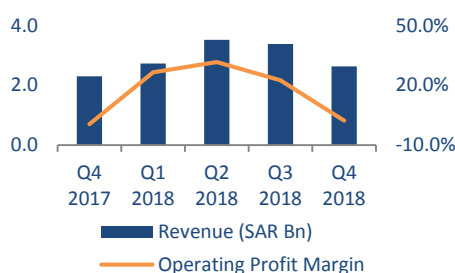


Price Performance (%)	Absolute	Relative
1m	1.5%	(9.2%)
6m	(27.0%)	(30.3%)
12m	10.0%	(3.4%)

Major Shareholders (%)

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 30th January 2019

Improved operating efficiencies raise annual profit for Kayan

Saudi Kayan Petrochemicals Co. (Kayan) revenue rose 22.8% YoY during the year, driven by higher average selling prices and increase in sales volumes. The scheduled turnaround of plants in last year for debottlenecking projects and periodic maintenance supported higher production and selling volumes during the year. In spite of an increase in feedstock prices and operating expenses, operating profit came in higher for FY18 and 4Q18. Net profit expanded in FY18, while net loss for the quarter decreased, supported by higher net non-operating income. Earnings for the quarter, however, missed the consensus estimate by a wide margin (consensus: net profit of SAR 335.5mn).

Saudi Kayan continues to improve production efficiency and utilization rate, which would have a positive impact on the company's bottom line in upcoming quarters. Saudi Arabia's petrochemical industry is expected to benefit from large-scale investments in downstream projects. The Kingdom will continue to boost its capacity to meet the growing demand, to benefit from the availability of cheap feedstock as well as to reduce its economic reliance on crude oil exports. Kayan is expected to benefit from this trend.

- Kayan's revenue for FY18 grew 22.8% Y/Y to SAR 12,263mn, driven by increasing average sales prices and improved operating performance at plants, resulting in higher selling volumes. Revenue expanded 14.3% Y/Y in 4Q18, in spite of lower petrochemical prices, which were more than offset by higher selling volumes.
- Gross profit came in at SAR 3,365mn (+51.0% Y/Y) during the year and SAR 274mn (+75.8% Y/Y) in 4Q18, in line with revenue growth. Gross margins improved 512 bps and 363 bps in FY18 and 4Q18, respectively, in spite of an increase in cost of goods sold. Higher feedstock cost for the quarter curtailed gains in margins, even as operating performance improved. We expect the gross margin to remain pressurized in the next quarter due to oil price volatility and Kayan's high dependency on butane (feedstock).
- Operating income surged 63.2% Y/Y to SAR 2,661mn in FY18 and 429.5% Y/Y to SAR 62mn in 4Q18, even as operating cost increased during this period. Administrative, general, selling, and distribution expenses increased 17.9% and 47.3% on an annual basis for FY18 and 4Q18, respectively. The operating margin jumped 536 bps and 183 bps on a Y/Y basis for FY18 and 4Q18, respectively, in line with revenues.
- Net profit for the period advanced 154.8% Y/Y to SAR 1,702mn, driven by strong top-line performance, aided by improved operating efficiencies. Additionally, higher non-operating income more than offset an increase in financial charges to strengthen the bottom line. Net loss halved during the quarter to SAR 110.9mn from SAR 220.3mn in the same quarter last year. Net profit margins for FY18 stood at 13.9%, vis-à-vis 6.7% in FY17.
- Kayan recently signed a MoU with Clariant Technologies to evaluate the formation of a JV for constructing a manufacturing plant for alkoxyates, a downstream product of ethylene oxide. Alkoxyates are used in a wide range of specialty applications in Clariant's home care, personal care, and industrial applications segments.

Valuation: We have revised our target price slightly upward, with a fair value of SAR 16.1 per share, considering strong performance in FY2018. We revised our rating on the stock to 'Overweight' from 'Neutral' in effect of the recent share price decline.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	2,636	2,305	14.3%	11,787	12,263	-3.88%
Gross Profit (SAR mn)	274	156	75.8%	3,359	3,365	-0.18%
EBITDA (SAR mn)	641	562	14.0%	4,978	4,933	0.91%
Net Profit (SAR mn)	-111	-221	-49.7%	1,831	1,702	7.58%
EPS basic (SAR)	-0.07	-0.15	-49.7%	1.22	1.13	7.58%
Gross Margin (%)	10.4%	6.8%	3.6%	28.5%	27.4%	1.1%
EBITDA Margin (%)	24.3%	24.4%	-0.1%	42.2%	40.2%	2.0%
Net Profit Margin (%)	-4.2%	-9.6%	5.4%	15.5%	13.9%	1.7%

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.

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