

**2Q19 Results Update**

**August 05, 2019**

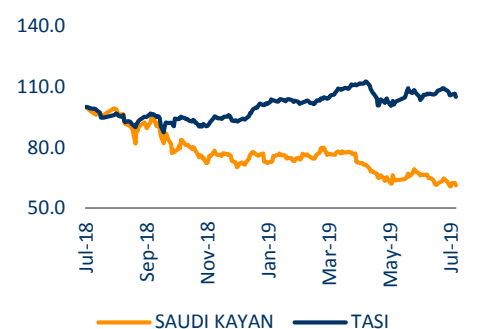
Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	11.2
Target Price (SAR)	13.0
Upside/Downside (%)	16.1%

As of August 05<sup>th</sup>, 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	16.8
52 Wk High (SAR)	18.5
52 Wk Low (SAR)	11.0
Total Outstanding shares (in mn)	1,500
Free Float (%)	65.0%

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



Price Performance (%)	Absolute	Relative
1m	(7.9%)	(7.1%)
6m	(16.2%)	(17.9%)
12m	(38.8%)	(43.9%)

**Major Shareholders (%)**

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

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 05<sup>th</sup> August 2019

**Lower selling prices lead to sharp contraction in Kayan's quarterly profit**

Saudi Kayan Petrochemicals Co. (Kayan)'s revenues declined 31.1% YoY and 4.5% QoQ to SAR 2,429mn due to reduced average selling prices. Gross profit contracted 85.2% YoY and 26.5% QoQ to SAR 193mn. Though the company managed to contain its selling, general, and administrative expenses, the factors mentioned above continued to impact the operating profit and margins. The company's woes were exacerbated by the widening financial charges that led to a net loss of SAR 273mn. The combined net loss for 1H19 stood at SAR471mn compared to a net profit of SAR 1,341mn in 1H18.

Kayan barely managed to remain profitable at the operational level in 2Q19. Despite substantial efforts by the company towards improving its production efficiency and utilization rates, the company has been majorly let down by the high feedback prices and low product prices. Kayan did manage to improve its operational expenses during the first half of the year, but the impact was not reflected in the overall results. The company's high financial charges pose another major concern. However, Kayan is focusing on lowering its debts, which we believe should have a positive effect on the bottom line in future. In addition, Kayan's ability to consistently generate positive cash flows makes it a good investment bet. We, therefore, maintain our "Overweight" rating on the stock.

- Kayan's revenue declined 31.1% YoY and 4.5% QoQ to SAR 2,429mn in 2Q19 due to the reduced average selling price and lower quantities sold.
- Owing to higher costs, gross profit dropped 85.2% YoY and 26.5% QoQ to SAR 193mn, achieving a new low since 4Q17. Consequently, its gross margins slipped to 7.9% in 2Q19 compared to 36.9% and 10.3% in 2Q18 and 1Q19, respectively.
- Operating income slumped 96.5% YoY and 59.8% QoQ to SAR 40mn in 2Q19 even though the company managed to curb the rise in operating expenses. This led to the operating margin shrinking to 1.6% in 2Q19 from 31.7% in 2Q18 and 3.9% in 1Q19, with the company barely managing to remain profitable at the operating level.
- Kayan's losses in 2Q19 widened to SAR273mn compared to SAR 197mn in 1Q19. It had recorded a net profit of SAR 879mn in 2Q18. The sharp drop in its net profit can be ascribed to the overall poor performance and high financial charges during the quarter. The company's net loss margin for 2Q19 stood at 11.2% vis-à-vis 7.8% in 1Q19, while it posted a net profit margin of 24.9% in 2Q18.

**Valuation:** We revise our target price downward to a fair value of SAR 13.0 per share, given its weak performance in 1H19. We maintain our "Overweight" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	2,429	3,524	(31.1%)	10,391	12,263	(15.3%)
Gross Profit (SAR mn)	193	1,301	(85.2%)	1,766	3,365	(47.5%)
EBITDA (SAR mn)	630	1,687	(62.7%)	3,396	4,933	(31.1%)
Net Profit (SAR mn)	(273)	879	(131.1%)	14	1,702	(99.2%)
EPS Basic (SAR)	(0.18)	0.59	(131.1%)	0.01	1.13	(99.2%)
Gross Margin (%)	7.9%	36.9%	(29.0%)	17.0%	27.4%	(10.4%)
EBITDA Margin (%)	25.9%	47.9%	(21.9%)	32.7%	40.2%	(7.5%)
Net Profit Margin (%)	(11.2%)	24.9%	(36.2%)	0.1%	13.9%	(13.7%)

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.