

FY19 Results Update

February 12, 2020

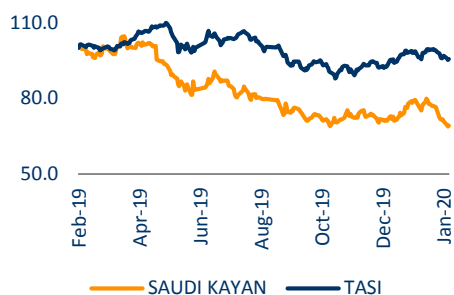
Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	9.7
Target Price (SAR)	11.3
Upside/Downside (%)	16.4%

As of February 05th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	14.6
52 Wk High (SAR)	14.9
52 Wk Low (SAR)	9.4
Total Outstanding Shares (in mn)	1,500
Free Float (%)	65.0%

SAUDI KAYAN vs. TASI (Rebased)

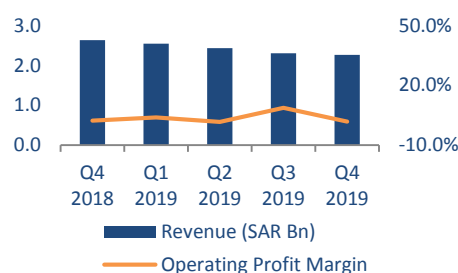


Price Performance (%)	Absolute	Relative
1m	(12.8%)	(9.7%)
6m	(13.1%)	(8.2%)
12m	(30.8%)	(26.3%)

Major Shareholders (%)

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

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 05th February 2020

Kayan swings to annual loss on account of lower average selling prices

Kayan reported a net loss of SAR 637mn in FY19 compared with an annual profit of SAR 1.7bn in FY18, primarily owing to lower average selling prices. The company's revenues declined 22.2% YoY to SAR 9.5bn in FY19, as lower selling prices offset the improvement in the quantities sold. Average cost of sales remained high, despite decline in feedstock prices. Consequently, gross profit contracted 68.5% YoY to SAR 1.1bn, leading to a slump in gross margin to 11.1% in FY19 compared with 27.4% in FY18. Annual operating income slumped 85.8% YoY to SAR 379mn, although the selling, general, and administrative expenses declined over the comparable period. Operating margin for FY19 stood at 4.0% against 21.7% in FY18.

Kayan returned to losses in 4Q19 after reporting a surprise profit in 3Q19. The company's performance throughout the year was poor due to weak product prices that offset the gains the company recorded by way of lower feedstock prices and SG&A expenses. The company's financial charges rose again after falling in 3Q19 and remained higher in FY19 than during the comparable period last year. Although Kayan's term loans were pared during this year, its net debt/Ebitda increased to 6.3x in FY19 compared with 4.3x in FY18. The high leverage is a concern, as the company's earnings continue to be inconsistent. However, we expect the company to benefit from the new financing facility and record lower financial charges in FY20. Also, an impending upturn in the petrochemical cycle gives a long-term upside potential to stock price from the current levels. Thus, we maintain our 'Overweight' rating on the stock.

- Kayan's revenue declined 22.2% YoY to SAR 9.5bn FY19 compared with SAR 12.3bn in FY18 due to the decreased average selling price of products. On a quarterly basis, revenues were down 14.3% YoY and 1.9% QoQ to SAR 2.3bn.
- Gross profit fell 68.5% YoY to SAR 1.1bn in FY19, although the average cost of feedstock declined. Consequently, gross margin shrank to 11.1% in FY19 against 27.4% in FY18. In 4Q19, gross profit slumped 16.2% YoY and 38.9% QoQ to SAR 229mn.
- Operating income fell 85.8% YoY to SAR 379mn in FY19, despite lower selling, general, and administrative expenses. As a result, the operating margin contracted to 4.0% in FY19 from 21.7% in FY18.
- EBITDA for the year fell 46.0% to SAR 2.7bn. Consequently, the EBITDA margin stood at 27.9% in FY19 compared with 40.2% in FY18.
- Kayan's net loss deteriorated to SAR 637mn compared with the net profit of SAR 1.7bn in FY18 in view of the factors mentioned above and lower equity income from the associate. On a quarterly basis, net loss stood at SAR 167mn in 4Q19. The net loss margin came in at -6.7% for FY19 vis-à-vis the net profit margin of 13.9% in FY18.
- Saudi Kayan signed a SAR 1.5bn Murabaha financing agreement with Banque Saudi Fransi (BSF). The credit aims to replace the remaining outstanding secondary loans by a new credit at lower cost and with better terms.

Valuation: We revise our target price downward to a fair value of SAR 11.3 per share. We maintain our "Overweight" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	2,260	2,636	(14.3%)	9,969	9,536	4.5%
Gross Profit (SAR mn)	229	274	(16.2%)	1,356	1,059	28.1%
EBITDA (SAR mn)	564	641	(12.0%)	3,007	2,663	12.9%
Net Profit (SAR mn)	(167)	(111)	51.0%	168	(637)	NM
EPS Basic (SAR)	(0.11)	(0.07)	51.0%	0.11	(0.42)	NM
Gross Margin (%)	10.1%	10.4%	(0.2%)	13.6%	11.1%	2.5%
EBITDA Margin (%)	25.0%	24.3%	0.7%	30.2%	27.9%	2.2%
Net Profit Margin (%)	(7.4%)	(4.2%)	(3.2%)	1.7%	(6.7%)	NM

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.