

**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 05<sup>th</sup>, 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%
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**Revenue (SAR bn) and Operating Profit Margin (%)**



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

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**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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