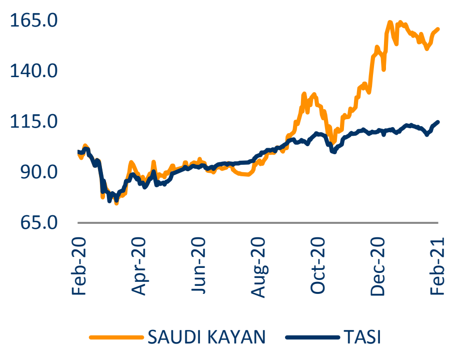
FY20 Results Update — **February 15, 2020**

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	14.7
Target Price (SAR)	13.8
Upside/Downside (%)	(5.9%)

As of February 14, 2020

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	22.0
52-Wk High (SAR)	15.4
52-Wk Low (SAR)	6.8
Total Outstanding Shares (in mn)	1,500
Free Float (%)	65.0%

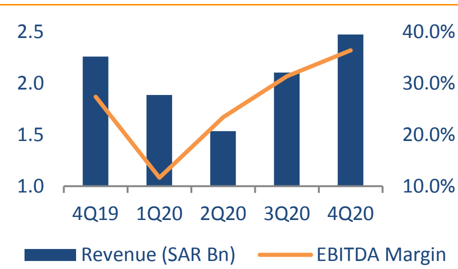
SAUDI KAYAN vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	0.0%	(1.5%)
6m	70.3%	53.0%
12m	60.7%	46.0%

Major Shareholders (%)	
Saudi Basic Industries Co.	35.00%

Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of February 14, 2020

Kayan records net loss in FY20, but turns profitable in 4Q20 on improving selling prices of products

Saudi Kayan Petrochemical Co. (Kayan) recorded a 16.0% YoY decline in revenue to SAR 8.0bn in FY20 due to lower average selling prices of products. However, revenue surged 9.6% YoY to SAR 2.5bn in 4Q20 as petrochemical prices retreated slightly upward in the quarter. Gross profit plummeted 61.0% YoY to SAR 417.8mn, whereas gross margin slipped 603bps to 5.2%. The company recorded an operating loss of SAR 192.6mn in FY20 as compared to an operating profit of SAR 379.0mn in FY19. Although finance charges reduced significantly in FY20, an increase in zakat expense, coupled with the low top line, led the company to report a net loss of SAR 784.7mn.

Kayan's performance improved considerably in 4Q20. The company recorded a net profit after four consecutive quarters of net loss. Growing demand for petrochemical products in the quarter on account of gradual recovery in economic activities led to a rise in the prices of petrochemicals. According to EIA, demand for oil and petrochemicals is set to improve further in FY21, as vaccine rollout gains traction and global economic activity sees steady revival. Moreover, the recent approval received by Kayan from the Ministry of Energy to increase ethane allocation by 30 million standard cubic feet per day (mmscfd) could lead to significant reduction in feedstock costs and lead to higher profitability and margins in the long term. However, Kayan remains heavily leveraged, with net-debt-to-EBITDA at about 7.3x and a debt-to-equity ratio at 1.2x in FY20, which remains a concern in the near term. Furthermore, scheduled shutdowns for maintenance in 1H21 may impact production and sales volume and hurt the bottom line. Thus, we maintain our "Neutral" rating on the stock.

- Kayan's revenue fell 16.0% YoY to SAR 8.0bn in FY20 from SAR 9.5bn in FY19 due to the reduced average selling price of key products. Lower production and sales volume during the year mainly due to scheduled shutdowns also impacted the FY20 top line. However, revenue was up 9.6% YoY and 17.6% QoQ to SAR 2.5bn in 4Q20 owing to a steady recovery in petrochemical prices compared to the previous quarters.
- Cost of sales decreased 10.3% YoY to SAR 7.6bn in FY20 due to a drop in feedstock costs. However, gross profit plummeted 61.0% YoY to SAR 417.8mn during the year as the decline in the top line offset the rise in cost of sales. Consequently, gross profit margin shrank to 5.2% in FY20 compared with 11.2% in FY19.
- This dip in gross profit counterbalanced the reduction in SG&A expense and translated into an operating loss of SAR 192.6mn in FY20 as against an operating profit of SAR 379.0mn in FY19. As a result, operating margin contracted to (2.4%) as against 4.0% in FY19.
- Lower top line combined with higher zakat expense offset the sharp reduction in financial costs and led to a net loss of SAR 784.7mn in the year against a net loss of SAR 636.8mn in FY19. Net loss margin widened to (9.8%) from (6.7%) in FY19.
- On December 24, Kayan announced shut down its olefins plant for maintenance works for a duration of 36 days beginning March 11. The company expects the shutdown to result in a decline of 231,000 tons in production volume and impact its financials by SAR 162mn in 1H21.
- On January 4, Kayan announced that it received approval from the Ministry of Energy to increase its ethane allocation by 30mmscfd. This addition of feedstock is expected have a positive impact on Kayan's financials in the long term.

Valuation: We revise our target price upward to a fair value of SAR 13.8 per share and maintain our "Neutral" rating on the stock.

	4Q20	**4Q19**	**% YoY**	**FY21E**	**FY20**	**% YoY**
Revenues (SAR mn)	2476.9	2259.7	9.6%	9746.4	8007.3	21.7%
Gross Profit (SAR mn)	472.8	229.9	105.6%	1559.4	417.8	273.2%
EBITDA (SAR mn)	902.6	618.6	45.9%	3158.3	2089.0	51.2%
Net Profit (SAR mn)	158.4	(167.4)	NM	362.5	(784.7)	NM
EPS Basic (SAR)	0.11	(0.11)	NM	0.24	(0.52)	NM
Gross Margin (%)	19.1%	10.2%	8.9%	16.0%	5.2%	10.8%
EBITDA Margin (%)	36.4%	27.4%	9.1%	32.4%	26.1%	6.3%
Net Profit Margin (%)	6.4%	(7.4%)	13.8%	3.7%	(9.8%)	13.5%

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 ≥ 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 ≥ 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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