

1Q21 Results Update

June 1, 2021

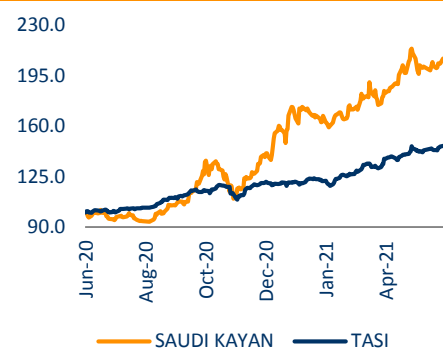
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	17.8
Target Price (SAR)	17.5
Upside/Downside (%)	(1.5%)

As of June 1, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	26.6
52-Wk High (SAR)	18.8
52-Wk Low (SAR)	8.1
Total Outstanding Shares (in bn)	1.5
Free Float (%)	65.0%

SAUDI KAYAN vs. TASI (Rebased)

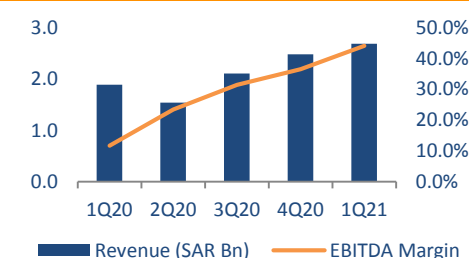


Price Performance (%)	Absolute	Relative
1m	(2.4%)	(4.1%)
6m	45.6%	24.4%
12m	105.3%	58.4%

Major Shareholders (%)

Saudi Basic Industries Co.	35.00%
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Revenue (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of June 1, 2021

Kayan swings to profit in 1Q21 on higher average selling prices of products and lower finance cost

Saudi Kayan Petrochemical Co. (Kayan)'s revenue surged 42.1% YoY to SAR 2.7bn in 1Q21, driven by increased average selling prices of products. Cost of sales fell 8.3% YoY to SAR 1.9bn, resulting in gross profit of SAR 750.4mn in 1Q21 vis-à-vis gross loss of SAR 220.8mn in 1Q20; gross margin improved 3,966 bps YoY to 28.0%. The company recorded an operating profit of SAR 586.8mn in 1Q21 as against an operating loss of SAR 350.9mn in 1Q20; operating margin stood at 21.9%, up by 4,046 bps YoY. Lower finance cost led the company to report a net profit of SAR 492.9mn in the quarter against a net loss of SAR 516.8mn in 1Q20. Subsequently, net margin improved 4,574 bps YoY to 18.4% in 1Q21. Kayan reported a sharp improvement in performance in 1Q21. The company recorded the highest revenue in the past 10 quarters, alongside reporting a net profit for the second quarter consecutively in 1Q21. This was largely aided by improving demand for petrochemical products which pushed product prices higher during the quarter. We expect petrochemical prices to stabilize around current levels in the coming quarters, considering the expected increase in supply globally. Kayan recently received approval from the Ministry of Energy to increase ethane allocation by 30 million standard cubic feet per day (mmscf). This could help the company significantly reduce its feedstock costs and result in higher profitability and margins. However, Kayan's highly leveraged position (net-debt-to-EBITDA at 4.8x and debt-to-equity ratio at 1.2x), despite reducing its debt in the recent quarters, remains a concern. Moreover, anti-dumping duties imposed by the European Commission on monoethylene glycol imports from KSA and plant shutdowns for maintenance could hurt Kayan's bottom line. Thus, we maintain our "Neutral" rating on the stock.

- Kayan's revenue soared 42.1% YoY to SAR 2.7bn in 1Q21 from SAR 1.9bn in 1Q20 due to higher average selling price of the company's products. Production and sales volume dipped during the quarter due to temporary shutdown of olefins plant for maintenance work.
- Cost of sales decreased 8.3% YoY to SAR 1.9bn in 1Q21, despite an increase in average feedstock costs. This resulted in a gross profit of SAR 750.4mn in 1Q21 as against a gross loss of SAR 220.8mn in 1Q20. Consequently, gross margin stood at 28.0% vis-à-vis (11.7%) in 1Q20.
- The rise in gross profit offset the increase in total SG&A expense and resulted in an operating profit of SAR 586.8mn in 1Q21 as against an operating loss of SAR 350.9mn in 1Q20. Subsequently, operating margin improved to 21.9% in 1Q21 from (18.6%) in 1Q20.
- Reduced financial costs, coupled with higher profit share from associates, offset the increase in zakat expense and led to a net profit of SAR 492.9mn in the quarter against a net loss of SAR 516.8mn in 1Q20. Subsequently, net margin stood at 18.4% compared with (27.4%) in 1Q20.
- On April 18, Kayan announced the resumption of operations at its olefins plant from April 15, following a temporary shutdown for maintenance 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.

Valuation: We revise our target price upward to a fair value of SAR 17.5 per share and maintain our "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	2,683.3	1,887.9	42.1%	11,001.3	8,007.3	37.4%
Gross Profit (SAR mn)	750.4	(220.8)	NM	2,777.8	417.8	564.9%
EBITDA (SAR mn)	1,182.3	220.4	436.5%	4,394.8	2,089.0	110.4%
Net Profit (SAR mn)	492.9	(516.8)	NM	1,560.3	(784.7)	NM
EPS Basic (SAR)	0.33	(0.34)	NM	1.04	(0.52)	NM
Gross Margin (%)	28.0%	(11.7%)	39.7%	25.3%	5.2%	20.0%
EBITDA Margin (%)	44.1%	11.7%	32.4%	39.9%	26.1%	13.9%
Net Profit Margin (%)	18.4%	(27.4%)	45.7%	14.2%	(9.8%)	24.0%

Source: Company Financials, FALCOM Research

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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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