# Saudi Kayan Petrochemical Co.

Materials | Saudi Kayan | 2350

**2Q21 Results Update**

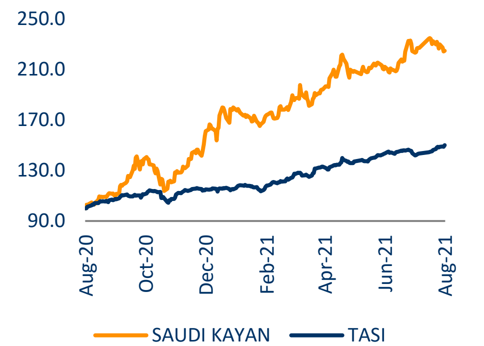
**August 11, 2021**

| **Recommendation** | **Neutral** |
|---|---|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 18.7 |
| Target Price (SAR) | 20.0 |
| Upside/Downside (%) | 6.8% |

*As of August 10, 2021*

| **Key Data (Source: Bloomberg)** | |
|---|---|
| Market Cap (SAR bn) | 28.1 |
| 52-Wk High (SAR) | 20.0 |
| 52-Wk Low (SAR) | 9.01 |
| Total Outstanding Shares (in bn) | 1.5 |
| Free Float (%) | 65.0% |

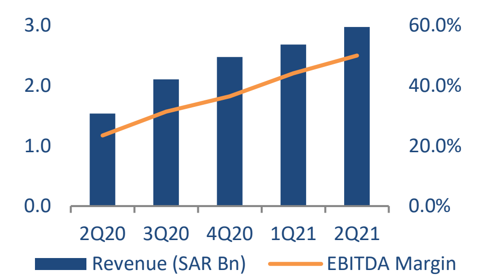
**SAUDI KAYAN vs. TASI (Rebased)**




| **Price Performance (%)** | **Absolute** | **Relative** |
|---|---|---|
| 1m | 0.1% | (4.3%) |
| 6m | 29.1% | 2.0% |
| 12m | 124.7% | 74.7% |

| **Major Shareholders (%)** | |
|---|---|
| Saudi Basic Industries Co. | 35.00% |

**Revenue (SAR bn) and EBITDA Margin (%)**




*Source: Bloomberg, Company Financials, FALCOM Research; Data as of August 10, 2021*

## Bottom line rises in 2Q21 on higher average selling prices of products

Saudi Kayan Petrochemical Co. (Kayan)'s revenue surged 93.5% YoY to SAR 3.0bn in 2Q21, driven by higher average selling prices of products. Cost of sales rose 20.2% YoY to SAR 1.9bn but was offset by a higher top line, resulting in gross profit of SAR 1.0bn in 2Q21 vis-à-vis gross loss of SAR 70.8mn in 2Q20; gross margin improved 3,962 bps YoY to 35.0%. The company recorded an operating profit of SAR 894.9mn in 2Q21 as against an operating loss of SAR 215.4mn in 2Q20; operating margin stood at 30.1%, up by 4,411 bps YoY. Lower finance cost and other expense led the company to report a net profit of SAR 781.0mn in the quarter as compared to a net loss of SAR 398.2mn in 2Q20. Subsequently, net margin improved 5,217 bps YoY to 26.3% in 2Q21.

Kayan reported consistent improvement in performance during 2Q21; the company recorded the highest revenue in the past 11 quarters and a net profit for the third quarter consecutively in 2Q21. This was primarily due to high demand for petrochemical products which drove prices higher during the quarter. Kayan has managed to pare down its debt during the recent quarters; this eased its leveraged position (net-debt-to-EBITDA ratio: 3.3x and debt-to-equity ratio: 1.0x). The Ministry of Energy has permitted Kayan to increase ethane allocation by 30 million standard cubic feet per day (mmscfd). This could aid the company in significantly reducing its feedstock costs and achieving higher profitability and margins. Moreover, the EIA forecasts that a pickup in economic activity and increasing rollout of vaccine worldwide may lead to a rise in global consumption of petrochemicals in FY21. This could also boost Kayan's top line and profitability in the coming quarters. However, the EIA also expects rising production by the OPEC+ alliance and acceleration in tight oil inventories by the US to outpace global oil consumption in FY22 and contribute to a decline in oil prices. Furthermore, 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 93.5% YoY to SAR 3.0bn in 2Q21 due to higher average selling price of the company's products. Production and sales volume slumped during the quarter due to periodic shutdown of the olefins plant for maintenance work.
- Cost of sales increased 20.2% YoY to SAR 1.9bn in 2Q21, due to an increase in average feedstock costs. This resulted in a gross profit of SAR 1.0bn in 2Q21 compared to a gross loss of SAR 70.8mn in 2Q20. Consequently, gross margin stood at 35.0% vis-à-vis (4.6%) in 2Q20.
- The sharp improvement in gross profit in 2Q21 resulted in an operating profit of SAR 894.9mn in 2Q21 compared to an operating loss of SAR 215.4mn in 2Q20. Subsequently, operating margin improved to 30.1% in 2Q21 from (14.0%) in 2Q20.
- Reduced financial cost and other expense offset the increase in zakat charge and led to a net profit of SAR 781.0mn in the quarter compared to a net loss of SAR 398.2mn in 2Q20. Subsequently, net margin stood at 26.3% vis-à-vis (25.9%) in 2Q20.

**Valuation:** We revise our target price upward to a fair value of SAR 20.0 per share and maintain our "Neutral" rating on the stock.

| | **2Q21** | **2Q20** | **% YoY** | **FY21E** | **FY20** | **% YoY** |
|---|---|---|---|---|---|---|
| Revenues (SAR mn) | 2,973.7 | 1,536.9 | 93.5% | 11,593.8 | 8,007.3 | 44.8% |
| Gross Profit (SAR mn) | 1,041.4 | (70.8) | NM | 3,478.1 | 417.8 | 732.5% |
| EBITDA (SAR mn) | 1,486.7 | 360.3 | 312.6% | 5,115.7 | 2,089.0 | 144.9% |
| Net Profit (SAR mn) | 781.0 | (398.2) | NM | 2,355.0 | (784.7) | NM |
| EPS Basic (SAR) | 0.52 | (0.27) | NM | 1.57 | (0.52) | NM |
| Gross Margin (%) | 35.0% | (4.6%) | 39.6% | 30.0% | 5.2% | 24.8% |
| EBITDA Margin (%) | 50.0% | 23.4% | 26.6% | 44.1% | 26.1% | 18.0% |
| Net Profit Margin (%) | 26.3% | (25.9%) | 52.2% | 20.3% | (9.8%) | 30.1% |

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.

## FALCOM Financial Services

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