

3Q21 Results Update

November 25, 2021

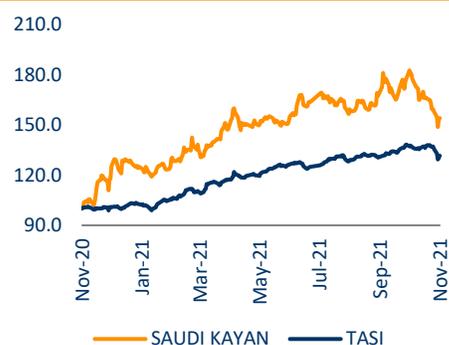
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	17.5
Target Price (SAR)	18.1
Upside/Downside (%)	1.8%

As of November 24, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	26.7
52-Wk High (SAR)	21.5
52-Wk Low (SAR)	11.4
Total Outstanding Shares (in bn)	1.5
Free Float (%)	65.0%

SAUDI KAYAN vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(15.6%)	(11.6%)
6m	2.7%	(7.5%)
12m	54.0%	22.3%

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 November 24, 2021

Higher average selling prices of products boost bottom line in 3Q21

Saudi Kayan Petrochemical Co. (Kayan)’s revenue increased by 63.1% YoY to SAR 3.4bn in 3Q21, driven by higher average selling prices (ASPs) of products. Cost of sales rose at a slower pace at 31.5% YoY to SAR 2.5bn in 3Q21, due to which the company reported gross profit of SAR 976.4mn, up 312.8% YoY; gross margin improved by 1,720bps YoY to 28.4%. Higher topline offset the rise in selling, general and administrative expenses, resulting in operating profit of SAR 782.8mn in 3Q21 as against SAR 79.7mn in 3Q20. Operating margin stood at 22.8%, up 1,901bps YoY. Lower finance cost counterbalanced the rise in other expenses, resulting in net profit of SAR 667.4mn in 3Q21, compared with net loss of SAR 28.2mn in 3Q20. Subsequently, net margin improved by 2,077bps YoY to 19.4% in 3Q21.

Kayan reported strong performance during 3Q21, with the company recording its highest revenue in the past 12 quarters and net profit for the fourth consecutive quarter. This was primarily attributed to high demand for petrochemical products, which drove prices higher during the quarter. Kayan managed to lower its debt during the recent quarters and improve its leveraged position with net-debt to EBITDA ratio of 3.3x and debt to equity ratio of 1.0x. The EIA forecasts that a pickup in economic activity and increasing rollout of vaccines worldwide may lead to the rise in global consumption of petrochemicals in FY21. This would also boost Kayan’s topline and profitability in the coming quarters. However, higher feedstock prices and OPEX during the quarter negatively impacted the margins of the company. The energy price crisis and rigid supply drove butane feedstock prices near a seven-year high, while sturdy coal prices and tight supply resulted in the hike in monoethylene glycol’s price to its highest level since 2018 at USD 870/Mt. The feedstock price hike would remain the key concern in the short term and hurt Kayan’s margin. In view of these factors, we continue to maintain our “Neutral” rating on the stock.

- Kayan’s revenue surged by 63.1% YoY to SAR 3.4bn in 3Q21 due to higher ASPs of the company’s products and strong improvement in production efficiency after olefins plant maintenance during 1H21.
- Increase in average feedstock costs resulted in cost of sales to jump by 31.5% YoY to SAR 2.5bn in 3Q21. However, higher revenue resulted in an increase in gross profit to SAR 976.4mn in 3Q21, up 312.8% YoY. Consequently, gross margin stood at 28.4% versus 11.2% in 3Q20.
- Higher topline in 3Q21 resulted in the company reporting operating profit of SAR 782.8mn in 3Q21 compared with SAR 79.7mn in 3Q20. Subsequently, operating margin improved to 22.8% in 3Q21 from 3.8% in 3Q20.
- Supported by lower financial cost and higher margins, the company reported net profit of SAR 667.4mn in 3Q21 compared with net loss of SAR 28.2mn in 3Q20. Subsequently, net margin stood at 19.4% vis-à-vis (1.3%) in 3Q20.

Valuation: We revise our target price to a fair value of SAR 18.1 per share and maintain our “Neutral” rating on the stock.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	3,434.1	2,105.5	63.1%	12,377.2	8,007.3	54.6%
Gross Profit (SAR mn)	976.4	236.5	312.8%	3,527.5	417.8	744.3%
EBITDA (SAR mn)	1,381.7	661.2	109.0%	5,205.3	2,089.0	149.2%
Net Profit (SAR mn)	667.4	(28.2)	NM	2,391.8	(784.7)	NM
EPS Basic (SAR)	0.44	(0.02)	NM	1.59	(0.52)	NM
Gross Margin (%)	28.4%	11.2%	17.2%	28.5%	5.2%	23.3%
EBITDA Margin (%)	40.2%	31.4%	8.8%	42.1%	26.1%	16.0%
Net Profit Margin (%)	19.4%	(1.3%)	20.8%	19.3%	(9.8%)	29.1%

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 $\geq 10\%$.

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 Research.

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