

## 1Q22 Results Update

June 10, 2022

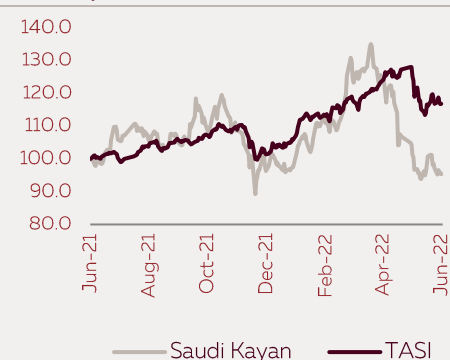
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	16.8
Target Price (SAR)	17.5
Upside/Downside (%)	4.1%

As of June 9, 2022

### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	25.2
52-wk High (SAR)	24.1
52-wk Low (SAR)	15.8
Total Outstanding shares (in mn)	1.5
Free Float (%)	65.0%

### Saudi Kayan vs. TASI (Rebased)

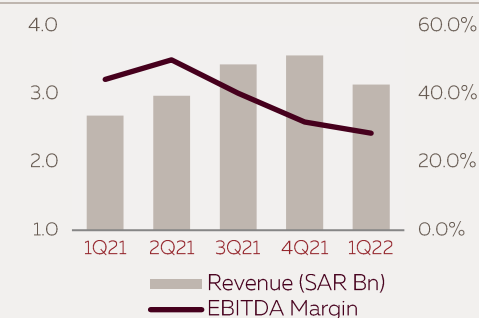


Price Performance (%)	Absolute	Relative
1m	(8.7%)	0.1%
6m	(0.9%)	(16.2%)
12m	(4.6%)	(21.4%)

### Major Shareholders (%)

Saudi Basic Industries Co.	35.00%
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### Quarterly Sales (SAR bn) and EBITDA Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;  
Data as of June 9, 2022

### Higher feedstock prices hurt margins in 1Q22

Saudi Kayan Petrochemical Co. (Kayan)'s top line surged 16.9% YoY to SAR 3.1bn in 1Q22, driven by higher volumetric sales of products which offset the lower average selling prices. However, gross profit slipped 38.1% YoY to SAR 468.8mn during the quarter, as cost of sales increased 38.6% YoY to SAR 2.7bn in 1Q22 owing to higher average cost of productions. Consequently, gross margin contracted to 14.9% in 1Q22 compared to 28.2% in 1Q21. Selling, general, and administrative expenses declined only marginally during the quarter; nonetheless, operating profit declined 48.7% YoY to SAR 304.3mn in 1Q22. Operating margin narrowed 1,241 bps to 9.7% during the quarter. Lower finance cost was offset by higher zakat expenses, as Kayan's net profit dropped 57.5% YoY to SAR 209.4mn in 1Q22. Subsequently, the net margin contracted 1,170 bps YoY to 6.7% during the quarter.

Kayan reported a weak performance in 1Q22, mainly due to lower selling prices of its products. Despite a rise in the top line, a surge in cost of sales, due to higher cost of production, weakened the company's margins during the quarter. Consequently, Kayan's bottom line slipped 57.5% YoY in 1Q22. Nevertheless, the company managed to lower its debt during the quarter and improved its leveraged position with a net debt-to-EBITDA ratio of 2.3x and a debt-to-equity ratio of 0.8x in 1Q22. Demand for petrochemical products is likely to rise in the near term following a pickup in economic activities. The company recently implemented initiatives to improve its efficiency and is well positioned to meet the rise in demand, which is expected to boost the top line and profitability. Brent prices are expected to stay high throughout the year following Russia's full-scale invasion of Ukraine, which could increase the average selling price of its products. However, higher average feedstock prices may continue to hurt the company's margins in FY22. In view of these factors, we continue to maintain our "Neutral" rating on the stock.

- Kayan's revenue climbed 16.9% YoY to SAR 3.1bn in 1Q22, driven by a rise in volumetric sales. However, the average selling prices of its products declined during the period.
- Cost of sales soared 38.6% YoY to SAR 2.7bn, primarily due to higher feedstock prices during the quarter as butane prices surged 43% YoY. Consequently, gross profit dropped 38.1% YoY to SAR 468.8mn in 1Q22; gross margin narrowed to 14.9% in 1Q22 from 28.2% in 1Q21.
- Lower gross margin offset the marginal decline in selling/general/administrative expenses as operating profit declined 48.7% YoY to SAR 304.3mn in 1Q22. Subsequently, operating margin deteriorated to 9.7% in 1Q22 from 22.1% in 1Q21.
- The company's net profit declined 57.5% YoY to SAR 209.4mn in 1Q22 owing to lower operating margins and higher zakat expenses. Subsequently, the net margin stood at 6.7% vis-à-vis 18.4% in 1Q21.
- Kayan's EPS dropped to SAR 0.14 per share in 1Q22 from SAR 0.33 per share in 1Q21.

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

	1Q'22	1Q'21	% YoY	FY22E	FY21	% YoY
Revenues (SAR mn)	3,137.9	2,683.3	16.9%	12,856.1	12,656.2	1.6%
Gross Profit (SAR mn)	468.8	757.7	(38.1%)	2,571.2	3,557.7	(27.7%)
EBITDA (SAR mn)	893.6	1,188.6	(24.8%)	4,195.6	5,190.5	(19.2%)
Net Profit (SAR mn)	209.4	492.9	(57.5%)	1,396.2	2,392.8	(41.7%)
EPS Basic (SAR)	0.14	0.33	(57.5%)	0.93	1.60	(41.7%)
Gross Margin (%)	14.9%	28.2%	(13.3%)	20.0%	28.1%	(8.1%)
EBITDA Margin (%)	28.5%	44.3%	(15.8%)	32.6%	41.0%	(8.4%)
Net Profit Margin (%)	6.7%	18.4%	(11.7%)	10.9%	18.9%	(8.0%)

Source: Company Financials, Yaqeen Capital

## Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

## Yaqeen Capital

**Contact us on the below phone numbers:**

Customer Services: 8004298888

Brokerage Services: 920004711

**Fax or Email us at the below number:**

Fax: +966 11 2032546

Email: [addingvalue@yaqeen.sa](mailto:addingvalue@yaqeen.sa)

**Mail us at the following address:**

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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