

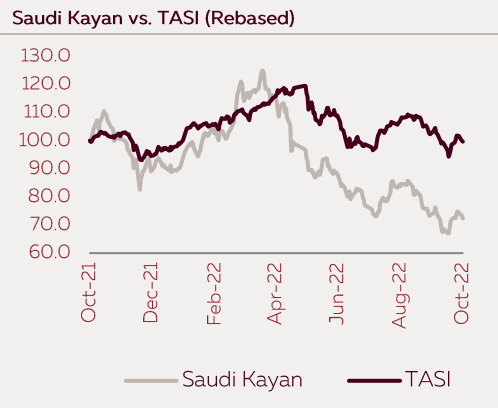
2Q22 Results Update

October 10, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	13.8
Target Price (SAR)	15.1
Upside/Downside (%)	9.4%

As of October 10, 2022

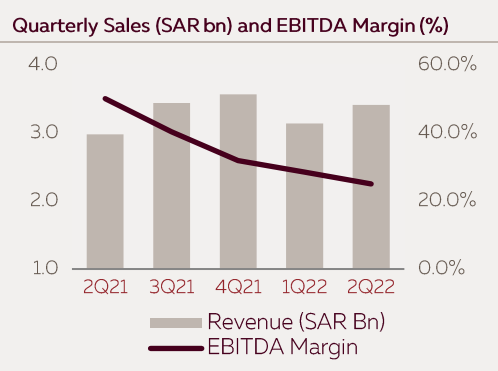
Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	20.7
52-wk High (SAR)	24.1
52-wk Low (SAR)	12.5
Total Outstanding shares (in mn)	1.5
Free Float (%)	65.0%



Price Performance (%)	Absolute	Relative
1m	(1.4%)	1.1%
6m	(37.0%)	(23.1%)
12m	(27.7%)	(27.4%)

Major Shareholders (%)

Saudi Basic Industries Co.	35.00%
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Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of October 10, 2022

Increase in feedstock prices weighed on company's bottom line in 2Q22

Saudi Kayan Petrochemical Co. (Kayan)'s top line advanced 14.6% YoY to SAR 3.4bn in 2Q22, driven by higher volumetric sales of products. The rise in sales volume countervailed the decline in average selling prices of products. However, the cost of sales surged 54.4% YoY to SAR 3.0bn during the quarter resulting in a 58.5% YoY decline in gross profit to SAR 435.4mn. Consequently, gross margin contracted to 12.8% in 2Q22 compared with 35.3% during 2Q21. Selling, general, and administrative expenses advanced 28.3% during the quarter. Subsequently, operating profit dropped 72.7% YoY to SAR 246.2mn in 2Q22. Operating margin narrowed 2,308 bps to 7.2% during the quarter. Increase in finance cost offset the rise in financial income and other income as the company's net profit slipped 80.8% YoY to SAR 150.1mn in 2Q22. Subsequently, the net margin contracted 2,186 bps YoY to 4.4% during the quarter. Kayan reported weak earnings in 2Q22, mainly due to 11% YoY drop in selling prices of its products. Volumetric sales increased 29% YoY and led to a rise in top line during the quarter. However, the company's gross margins deteriorated during the quarter, mainly attributable to increase in feedstock prices. Consequently, Kayan's bottom line decreased 80.8% YoY in 2Q22. Nevertheless, the company managed to lower its debt and improved its leveraged position with a net debt-to-EBITDA ratio of 2.5x and debt-to-equity ratio of 0.7x in 2Q22 against 3.2x and 1.0x in 2Q21, respectively. According to EIA, Brent crude oil is expected to fall to around USD 98/b during 4Q22 and to USD 97/b in 2023. Additionally, recent decline in butane and crude oil prices is likely to support the company's margins in near term. However, an increase in SAIBOR rate owing to rate hikes by SAMA is likely to keep company's finance cost elevated, impacting its bottom line. In view of these factors, we maintain our "Neutral" rating on the stock.

- Kayan's revenue increased by 14.6% YoY to SAR 3.4bn in 2Q22, driven by increase in the quantities produced and sold, slightly offset by lower average selling prices of its products.
- Cost of sales rose 54.4% YoY to SAR 3.0bn, primarily attributable to higher average feedstock prices during the quarter. Consequently, gross profit dropped 58.5% YoY to SAR 435.4mn in 2Q22; gross margin narrowed to 12.8% in 2Q22 from 35.3% in 2Q21.
- Lower gross margin coupled with rise in selling/general/administrative expenses led to a 72.7% YoY fall in operating profit to SAR 246.2mn in 2Q22. Subsequently, operating margin deteriorated to 7.2% in 2Q22 from 30.3% in 2Q21.
- The company's net profit fell 80.8% YoY to SAR 150.1mn in 2Q22 due to higher zakat and finance expenses. Subsequently, net margin stood at 4.4% against 26.3% in 2Q21.
- Kayan's EPS dropped to SAR 0.10 per share in 2Q22 from SAR 0.52 per share in 2Q21.

Valuation: We revise our target price to a fair value of SAR 15.1 per share and maintain our "Neutral" rating on the stock.

	2Q'22	2Q'21	% YoY	FY22E	FY21	% YoY
Revenues (SAR mn)	3,406.8	2,973.7	14.6%	12,582.4	12,656.2	(0.6%)
Gross Profit (SAR mn)	435.4	1,048.7	(58.5%)	2,201.9	3,557.7	(38.1%)
EBITDA (SAR mn)	850.8	1,493.0	(43.0%)	3,775.4	5,190.5	(27.3%)
Net Profit (SAR mn)	150.1	781.0	(80.8%)	977.4	2,392.8	(59.2%)
EPS Basic (SAR)	0.10	0.52	(80.8%)	0.65	1.60	(59.2%)
Gross Margin (%)	12.8%	35.3%	(22.5%)	17.5%	28.1%	(10.6%)
EBITDA Margin (%)	25.0%	50.2%	(25.2%)	29.7%	41.0%	(11.3%)
Net Profit Margin (%)	4.4%	26.3%	(21.9%)	7.8%	18.9%	(11.1%)

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.

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