

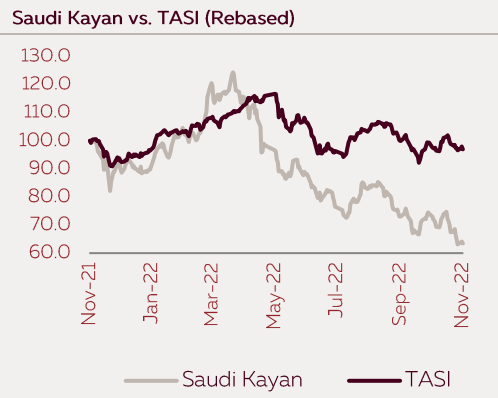
3Q22 Results Update

November 9, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	12.2
Target Price (SAR)	13.3
Upside/Downside (%)	9.5%

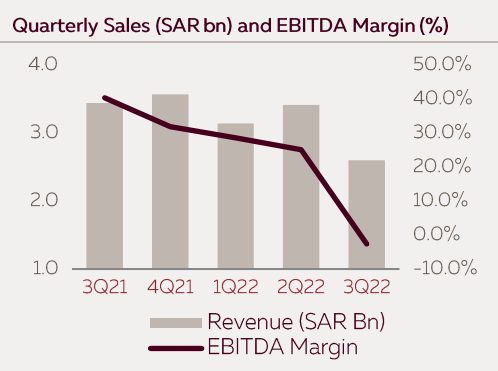
As of November 8, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	18.3
52-wk High (SAR)	24.1
52-wk Low (SAR)	12.0
Total Outstanding shares (in mn)	1.5
Free Float (%)	65.0%



Price Performance (%)	Absolute	Relative
1m	(14.2%)	(11.9%)
6m	(34.2%)	(17.3%)
12m	(36.5%)	(33.5%)

Major Shareholders (%)	
Saudi Basic Industries Co.	35.00%



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of November 8, 2022

**Saudi Kayan Petrochemical Co. reported losses on decline in selling price and increase in feedstock prices**

Saudi Kayan Petrochemical Co. (Kayan)’s top line nosedived 24.4% YoY to SAR 2.6bn in 3Q22, mainly due to decline in average selling prices of products. The decline in sales prices was slightly offset by the rise in volumetric sales. However, the cost of sales soared 25.9% YoY to SAR 3.1bn during the quarter owing to increase in average feedstock prices. Consequently, the company reported a gross loss of SAR 488.7mn compared with a gross profit of SAR 983.0mn in 3Q21. Gross margin contracted to (-)18.8% in 3Q22 compared with 28.6% during 3Q21. Despite a 3.8% YoY decline in selling, general, and administrative expenses, Kayan reported an operating loss of SAR 675.6mn in 3Q22 against an operating profit of SAR 788.8mn in 3Q21. Operating margin stood at (-)26.0%. Increase in finance cost offset the rise in financial income as the company reported net loss of SAR 812.3mn in 3Q22 against a net profit of SAR 667.4mn in 3Q21. Subsequently, the net margin stood at (-)31.3%.

Kayan reported weak earnings in 3Q22, mainly due to YoY decline in selling prices of products. Average cost of feedstock rose during the quarter and led to a 25.9% YoY surge in cost of sales. Consequently, the company’s gross margins deteriorated in 3Q22. Additionally, high interest rate environment increased finance cost of the company and resulted in a net loss of SAR 812.3mn during the quarter. Nevertheless, the company managed to lower its debt as its debt-to-equity ratio stood at 0.7x in 3Q22 and compared with 1.0x in 3Q21. However, decline in EBITDA resulted in the company’s net debt-to-EBITDA ratio to deteriorate to 3.7x in 3Q22 from 2.7x in 3Q21. According to EIA, Brent crude oil is expected to average around USD 93/b during 4Q22. Additionally, butane and crude oil prices continue to decline and are likely to support the company’s margins in near term. OPEC+ recently announced steep oil production cuts of 2mn barrels per day which would keep oil prices elevated going forward, which in turn would improve the Kayan’s selling prices. However, an increase in the SAIBOR rate owing to rate hikes by SAMA is likely to keep company’s finance cost high, impacting its bottom line. In view of these factors, we maintain our “Neutral” rating on the stock.

- Kayan’s revenue declined 24.4% YoY to SAR 2.6bn in 3Q22, owing to low average sales prices, slightly offset by increase in quantities sold.
- Cost of sales increased 25.9% YoY to SAR 3.1bn, primarily attributable to higher average feedstock prices during 3Q22. Consequently, Kayan reported gross loss of SAR 488.7mn; gross margin narrowed to (-)18.8% in 3Q22 from 28.6% in 3Q21.
- The company reported an operating loss of SAR 675.6mn in 3Q22 despite fall in selling/general/administrative expenses. Subsequently, operating margin deteriorated to (-)26.0% in 3Q22 from 23.0% in 3Q21.
- Increase in finance cost offset the fall zakat expenses and the rise in finance income as the company reported a net loss of SAR 812.3mn in 3Q22. Subsequently, net margin stood at (-)31.3% compared with 19.4% in 3Q21.
- Kayan reported loss per share of SAR 0.54 in 3Q22 against EPS of SAR 0.44 in 3Q21.

**Valuation:** We revise our target price to a fair value of SAR 13.3 per share but maintain our “Neutral” rating on the stock.

	3Q'22	3Q'21	% YoY	FY22E	FY21	% YoY
Revenues (SAR mn)	2,596.3	3,434.1	(24.4%)	11,797.1	12,656.2	(6.8%)
Gross Profit (SAR mn)	(488.7)	983.0	NM	766.8	3,557.7	(78.4%)
EBITDA (SAR mn)	(68.7)	1,387.7	NM	2,395.1	5,190.5	(53.9%)
Net Profit (SAR mn)	(812.3)	667.4	NM	(354.8)	2,392.8	NM
EPS Basic (SAR)	(0.54)	0.44	NM	(0.24)	1.60	NM
Gross Margin (%)	(18.8%)	28.6%	(47.4%)	6.5%	28.1%	(21.6%)
EBITDA Margin (%)	(2.6%)	40.4%	(43.1%)	20.3%	41.0%	(20.7%)
Net Profit Margin (%)	(31.3%)	19.4%	(50.7%)	(3.0%)	18.9%	(21.9%)

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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