SAUDI KAYAN

الأهلي كابيتال NCB Capital

EVENT FLASH

Highest net income on record

Kayan reported a strong 1Q17 results with a net income of SR265mn, higher than 4Q16 income of SR92mn and compared to a loss of SR195mn in 1Q16. The results are higher than the NCBC and consensus estimates of SR121mn and SR118mn, respectively. We believe higher than expected operating rates and gross margin expansion were the key reason behind the variance. Gross margins stood at 27.2% in 1Q17, the highest on record.

- Kayan reported a surprising 1Q17 results with a net income of SR265mn, significantly higher than the NCBC estimate of SR121mn and consensus of SR118mn. This is the highest net income since inception. We believe the variance is due to higher than expected operating rates and gross margin.
- Revenues stood at SR2,667mn, 6.9% higher than our estimate and the highest since 3Q14. This is an increase of 57.6% YoY and 8.9% QoQ. We believe higher than expected operating rates led to the variance in sales. Based on our calculations, Kayan's facilities operated at 105% in 1Q17, higher than our estimate of 98%. This is in-line with 105% in 4Q16 but higher than 85% in 1Q16 which was impacted by shutdowns.
- Gross margin came in at 27.2%, higher than our estimate of 18.6%. This is also higher than 10.9% in 1Q16 and 21.7% in 4Q16. This is the highest gross margin on record. We believe higher than expected operating rates and operational efficiency mitigated the impact of lower PP-naphtha spread (up 5.7% YoY) on gross margin in 1Q17. We believe the company efficiency increased following the major 48-56 days shutdown in 1H16.
- Opex came in at SR172mn in 1Q17, higher than our estimate of SR107mn. This represents 6.4% of sales in 1Q17, higher than estimated 4.3%. We believe the variance is due to expenses reclassification to SG&A.
- Following to IFRS implementation, Kayan restated its financials for 1Q16 and 4Q16. Net loss for 1Q16 was restated to SR195mn (vs. a loss of SR216mn earlier), while net profit for 4Q16 revised down by 11.7% to SR91.6mn.
- In 1Q17, PP increased +2.2% QoQ and +20.8% YoY to US$1,049, while PE increased +5.0% YoY (flat QoQ) to US$1,157. Naphtha gained 10.8% QoQ and 43.6% YoY. PP-naphtha spread declined 4.5% QoQ to US$551.
- Although operational improvement at Kayan is a key positive, a major 31-56 days shutdown at the facilities in 2H17 is a key risk to the stock.

1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var^	% QoQ
Revenues	2,667	1,693	57.6	2,495	6.9	8.9
Gross income	727	185	292.4	463	56.9	36.6
Gross margin (%)	*27.2%*	*10.9%*	*16.31*	*18.6%*	*8.69*	*5.52*
Operating income	555	12	NM	356	56.0	58.3
Net income	265	(195)	NM	121	119.3	189.9
EPS (SR)	0.18	(0.13)	NM	0.08	119.3	189.9

Source: Company, NCBC Research , ^ % Var indicates variance from NCBC forecasts

NEUTRAL

Target price (SR)	6.7*
Current price (SR)	8.9

*TP last updated in October 2016

STOCK DETAILS

M52-week range H/L (SR)	9/5
Market cap ($mn)	3,552
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	17.6	2.5	26.5
Rel. to market	16.2	5.2	24.7

Avg daily turnover (mn)	SR	US$
3M	46.2	12.3
12M	89.3	23.8

Reuters code	2350.SE
Bloomberg code	KAYAN AB

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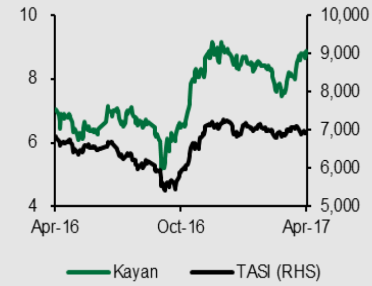
VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	NM	27.3
P/B (x)	1.0	1.0	1.0
EV/EBITDA (x)	10.3	12.2	11.7
Div. Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT: Target price represents an increase in the share price in excess of 15% in the next 12 months

NEUTRAL: Target price represents a change in the share price between -10% and +15% in the next 12 months

UNDERWEIGHT: Target price represents a fall in share price exceeding 10% in the next 12 months

PRICE TARGET: Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company