

Rating **Neutral**  
 12- Month Target Price **SAR 10.00**

#### Expected Total Return

Price as on Jul-17, 2017	SAR 9.12
Upside to Target Price	9.6%
Expected Dividend Yield	0.0%
Expected Total Return	9.6%

#### Market Data

52 Week H/L	SAR 9.85/5.05
Market Capitalization	SAR 13,680 mln
Enterprise Value	SAR 37,181 mln
Shares Outstanding	1,500 mln
Free Float	65.0%
12-Month ADTV (mln)	10.3
Bloomberg Code	KAYAN AB

#### 1-Year Price Performance

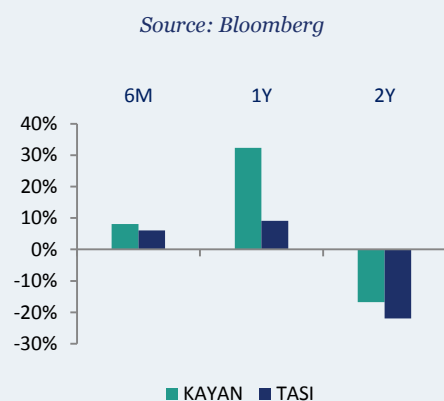


Fig in SAR mln	RC. Est	Actuals
Revenue	1,876	2,308
Gross Profit	504	619
EBIT	341	438
Net Income	168	242
EPS (SAR)	0.11	0.16

## SAUDI KAYAN PETROCHEMICAL COMPANY (KAYAN)

2Q2017 First Look

### Consecutive Beat in 2Q

Saudi Kayan Petrochemical Company (Kayan) reported its preliminary 2Q2017 results with an earnings surprise, topping our estimates over the last 2-3 quarters. EPS of SAR 0.16 reported a strong beat to our estimate of SAR 0.11 and streets SAR 0.13, similar to 1Q2017. Key factors for the robust 2Q2017 results are believed to be i) higher than expected operating rates recording strong production volumes ii) stable operating margins on a sequential basis amid its large improvement of 550 bps from 2Q2016, came in-line with our expectations iii) solid revenue beat suggests strong sales volumes and decent realization. We further revise our 2017-19 estimates keeping in view of the grace period expiry for the feedstock pricing which ends in 3Q2017. We believe the earnings surprise over the last two quarters warrants an upward revision in target price, raise to SAR 10.00 versus SAR 8.50 (earlier). However, we recommend Neutral as valuations are expensive and inconclusive with its smaller earnings track record since 2Q2016, though 2017E P/E of 15.0x at par to TASI's 14.9x. We maintain Neutral.

#### Revenue beats estimates

Revenue of SAR 2.31 billion increased by +7% Y/Y but declined by -13% Q/Q, but topped our estimates of SAR 1.88 billion and street's SAR 2.12 billion. The beat is expected to be led by higher sales volumes despite a -14% Q/Q fall in MEG(China) prices and -6% Q/Q fall in PE prices. We believe Kayan has partially capitalized on the output gap in the MEG space arising from Yansab's MEG plant shutdown for 21 days.

#### Higher operating rates pay-off

The continued focus on cost optimization through higher operating rates has led to repeated success in this quarter, topping estimates. We believe the same has led to an expansion in gross margins at 27%, increase of 840 bps from 2Q2016. However, it was stable from 1Q2017, a meager drop of 40 bps despite a fall in revenue by -13% Q/Q. Gross profit of SAR 619 million beat our SAR 504 million estimate, grew by +22% Y/Y though declined by -21% Q/Q. It enjoys a higher discount unlike peers until 3Q2017. In addition, the decline in butane prices by -10% Q/Q has helped largely.

#### Earnings tops estimate in consecutive quarters

Operating profit of SAR 438 million in 2Q2017 beat estimates, while it recorded a growth of +41% Y/Y, though declined by -21% Q/Q. Operating margins improved 550 bps to 19% in 2Q2017 recorded a decline of 200 bps Q/Q. With such improvement, trends followed suit with net margins recording an increase of 630 bps from 2Q2016 and 60 bps from 1Q2017 to 10.5% in 2Q2017. Kayan recorded straight five quarters of profit with 2Q earnings at SAR 242 million; topped our SAR 168 million estimate and street's SAR 192 million. It declined by -9% Q/Q but spiked by +149% Y/Y in 2Q2017.

#### Raising target price to SAR 10.00, but maintain Neutral

We revise our target price to SAR 10.00 from earlier SAR 8.50 due to its strong earnings performance but warrant a Neutral rating as valuations looks overridden. The stock has been one of the best outperformers in the sector with +11% in 2Q2017 versus sectors +3% and TASI's +6%. We believe current valuations have priced-in most positives, hence maintain Neutral.

#### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	8,609	10,921	11,245
EBITDA*	3,346	4,347	4,542
Net Profit	134	912	957
EPS (SAR)	0.09	0.61	0.64
DPS (SAR)	-	-	-
BVPS (SAR)	15.37	15.98	16.62

#### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	2%	5%	5%
ROAE	1%	4%	4%
P/E	102.1x	15.0x	14.3x
P/B	0.6x	0.6x	0.5x
EV/EBITDA	11.1x	8.6x	8.2x
EV/Sales	4.3x	3.4x	3.3x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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