



EVENT FLASH

Broadly in-line results, supported by lower non-opex

Kayan reported a net income of SR242mn in 2Q17, increasing from SR97mn in 2Q16 and SR256mn in 1Q17. This is broadly in-line with the NCBC estimates of SR227mn but significantly higher than the consensus estimates of SR192mn. The YoY improvement is mainly driven by higher operating rates and improved efficiency. Although the net income was broadly in-line with our estimates, we believe lower than expected operating rates were offset by lower interest expenses and higher investment income.

- Kayan reported a broadly in-line set of 2Q17 results, with a net income of SR242mn. However, this is 26% higher than the consensus. We believe lower than expected sales were mitigated by lower non-operating expenses.
- Revenues stood at SR2.3bn, down -13.4% QoQ (+7.2% YoY). This is 7.1% lower than our estimate. Based on our calculations, Kayan facilities operated at 98% in 2Q17, lower than 1Q17 levels and our estimates of 105%. We believe this is due to the preparation for the major shutdown in 2H17.
- Gross profit stood at SR619mn in 2Q17, in-line with our estimates. Gross margin came-in at 26.8% in 2Q17, higher than our estimate of 25.3% and 23.6% in 2Q16. We believe higher operational efficiency mitigated the impact of lower operating rates. We believe the lower than expected EBIT was offset by higher other income and a decline in finance charges, thereby supporting the company's net income.
- In 2Q17, PP prices declined 4.5% QoQ (+2.9% YoY) to US\$1,002, while HDPE prices fell 4.0% QoQ to US\$1,110. PP-naphtha spreads remained flat YoY and QoQ at US\$556.
- Kayan's feedstock grace period ended in 2Q17. Feedstock prices will be revised to US\$1.75 for ethane while butane will be at a 20% discount to the market price. According to management, this will increase the total production cost by 1% in 2017 and 3% in 2018E. We believe higher feedstock costs and normalizing PP-propane spreads will put pressure on the company's margins and profitability in the coming quarters.
- Kayan will conduct a major shutdown of 31-56 days in 2H17 for its debottlenecking project. We believe this shutdown will negatively impact the operating rates and earnings in 2H17.
- We remain Neutral on Kayan with a PT of SR8.3. Major shutdowns in 2H17 and a highly leveraged balance sheet are the stock's key risk.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Revenues	2,309	2,155	7.2	2,486	(7.1)	(13.4)
Gross income	619	508	21.9	628	(1.4)	(20.5)
Gross margin (%)	26.8%	23.6%	3.2	25.3%	1.6	(2.4)
Operating Profit	439	311	40.8	464	(5.5)	(21.1)
Net income	242	97	148.7	227	6.7	(8.8)
EPS (SR)	0.16	0.06	148.7	0.15	6.7	(8.8)

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

NEUTRAL

Target price (SR)	8.3
Current price (SR)	9.1
Upside/Downside (%)	(9.0)

STOCK DETAILS

M52-week range H/L (SR)	10/5
Market cap (\$mn)	3,648
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	10.7	4.7	31.2
Rel. to market	3.8	0.8	22.1

Avg daily turnover (mn)	SR	US\$
3M	68.9	18.4
12M	78.3	20.9

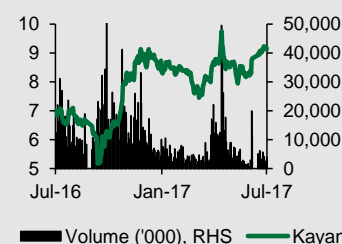
Reuters code	2350.SE
Bloomberg code	Kayan AB
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	NM	NM	NM
P/B (x)	1.0	1.0	1.0
EV/EBITDA (x)	10.0	9.9	9.0
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

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