



EVENT FLASH

Positive surprise on highest net income in record

Kayan reported a surprising set of 2Q16 results with a net income of SR91mn vs. the NCBC and consensus expectations of a net loss of SR178mn and SR184mn, respectively. This is the first net profit in five quarters and the highest since inception. We believe the variance is attributed to higher operating rates, a potential sale of inventories combined with lower cost of production. Based on our estimates, gross margins came in at 18.5% in 2Q16, the highest since inception.

- Kayan reported a surprising net income of SR91mn in 2Q16, the highest since inception. This compares to the NCBC and consensus estimates of a net loss of SR178mn and SR184mn, respectively. We believe the variance is attributed to 1) higher than expected operating rates 2) inventory sales and 3) lower cost of production which resulted in higher gross margins.
- Based on our calculations, gross margins came-in at 18.5% in 2Q16, significantly higher than 1Q16 and our estimate of 4.6%. We believe this is the highest gross margins on record and can be attributed to 1) higher sales quantity on improved operating rates and potential use of inventories 2) higher spreads and 3) a reduction in other production expenses following the shutdown.
- We believe Kayan facilities operated at 94% in 2Q16, higher than our estimate of 85%. This is also higher than 87% in 1Q16 and 77% in 2Q15. The improved operational performance came in despite 10-25 days shutdown in 2Q16. The company estimated a financial impact of SR96mn to be reflected over 1Q16 and 2Q16 results. We believe the recent shutdown have successfully solved operational issues, reducing production costs.
- On a YoY basis, net income was supported by 1) higher sales volumes 2) lower feedstock cost and improved efficiency 3) lower SG&A expenses due to 33% reduction in SABIC's marketing fees and 4) lower zakat expenses. This mitigated the impact of increasing financial charges on the bottom-line.
- Prices of key petrochemical products declined by 8-33% YoY but increased 2-16% QoQ. Naphtha fell 26.9% YoY but increased 18.7% QoQ. PP-Naphtha spread increased 7.8% QoQ to US\$562 in 2Q16 (down 21.2% YoY).
- Based on Yansab, SAFCO and Kayan results, we increased our net income estimates for SABIC by 5.9% to SR3.9bn.
- We remain Neutral on the stock with a PT of SR6.4. If sustained, we believe this quarter result could be the beginning of a turnaround story.

2Q16 Results Summary

SR mn	2Q16A	1Q16A	% QoQ	2Q15A	% YoY	2Q16E	% Var [^]
Gross income	398	78	412	258	54.2	80	398
Operating income	291	(24)	NM	150	93.8	(18)	NM
Net income	91	(216)	NM	(13)	NM	(178)	NM
EPS (SR)	0.06	(0.14)	NM	(0.01)	NM	(0.12)	NM

Source: Tadawul, NCBC Research, ^ % Var indicates variance from NCBC estimates

NEUTRAL

Target price	6.4
Current price (SR)	7.0

STOCK DETAILS

52-week range H/L (SR)	12/4
Market cap (\$ mn)	2,796
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	9.2	15.5	(39.2)
Rel. to market	8.5	15.3	(9.6)

Avg daily turnover (mn)	SR	US\$
3M	131.8	35.1
12M	90.8	24.2

Reuters code	2350.SE
Bloomberg code	KAYAN AB
www.saudikayan.com.sa	

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	NM	NM	NM
P/B (x)	0.8	0.9	0.9
EV/EBITDA (x)	19.7	14.4	13.5
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam

+966 12 690 7811
i.ghulam@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

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- 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

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