

SAUDI KAYAN

OVERWEIGHT
CURRENT PRICE SAR15.0

UPSIDE +26.3%
TARGET PRICE SAR19.0

EVENT FLASH

High operating rates support earnings

Kayan reported a net income of SAR472mn in Q3 18, growing 23.8% yoy (-46.3% qoq). This is higher than the NCBC estimates of SAR431mn but significantly lower than the consensus estimates of SAR591mn. We believe the variance from our estimates is mainly due to higher than expected operating rates of 119% vs Q2 18 of 115% and our estimates of 105%. This mitigated the impact of lower product prices and margins. The company has finally covered its accumulated losses, eight years after starting operations.

- Revenues stood at SAR3.38bn, increasing 24.9% yoy (-4.2% qoq) and is 13.3% higher than our estimates. Based on our calculations, Kayan facilities operated at 119% in Q3 18, higher than our estimate of 105% and compared to 115% in Q2 18. We believe that Kayan's ability to sustain and improve operating rates is a key highlight of the results.
- Gross margin came in at 27.5%, in-line with our estimates but lower than Q2 18 margins of 36.9%. We believe the qoq contraction in margins is mainly due to lower spreads and products prices.
- Other expenses stood at SAR290mn in Q3 18, increasing from SAR243mn in Q3 17 and our estimates of SAR252mn. We believe this increase is due to higher interest expenses which we believe stood at SAR272.6mn compared to SAR240.3mn in Q2 18 and SAR217.7mn in Q3 17. Kayan reduced its debt level by SAR792mn in H1 18, to SAR20.9bn which reflects debt/equity of 1.1x.
- In Q3 18, HDPE prices decreased 3.8% qoq (+15.8% yoy) to US\$1,302, while PP prices were up 0.4% qoq and 16.1% yoy to US\$1,240. Polycarbonates prices declined 10.8% qoq and (+17.8% yoy) to US\$3,299. PP-butane spreads declined 12.0% qoq but remained flat yoy to US\$665.
- In our Q3 18 update, published in September 2018, we upgraded Kayan to Overweight with a PT of SAR19.0. The sustainable recovery in operations after a major debottleneck project and deleveraging of the balance sheet are the stock's key strengths. The stock is trading at a 2019f PE of 11.9x, higher than the regional peers average of 11.6x.

Q3 18 Results Summary

SARmn	Q3 18	Q3 17	% yoy	Q3 18f	%var [^]	% qoq
Revenues	3,376	2,703	24.9	2,979	13.3	(4.2)
Gross income	929	781	19.0	838	10.9	(28.5)
Gross margin (%)	27.5%	28.9%	(1.36)	28.1 %	(0.60)	(9.37)
EBIT	762	624	22.0	683	11.5	(31.8)
EBIT Margin (%)	22.6%	23.1 %	(0.5)	22.9 %	(1.6)	(9.1)
Net income	472	381	23.8	431	9.5	(46.3)
Net margin (%)	14.0%	14.1 %	(0.1)	14.5 %	(3.3)	0.4
EPS (SAR)	0.31	0.25	23.8	0.29	9.5	(46.3)

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

الأهلي كابيتال
NCB Capital



STOCK DETAILS

M52-week range H/L (SAR)	19/9
Market cap (\$mn)	6,016
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	(9.6)	(11.2)	64.7
Rel. to market	(8.2)	(1.9)	55.5

Avg daily turnover (mn)	SAR	US\$
3m	198.8	53.0
12m	160.3	42.8

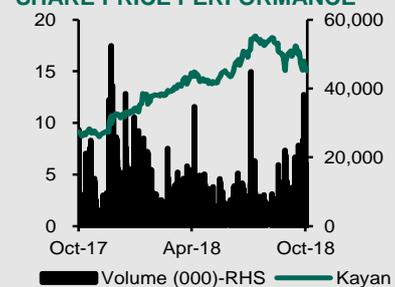
Reuters code	2350.SE
Bloomberg code	KAYAN AB
	www.saudikayan.com.sa

VALUATION MULTIPLES

	17	18f	19f
PE (x)	33.8	11.5	11.9
PB (x)	1.6	1.4	1.3
EV/EBITDA (x)	10.2	7.5	7.6
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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