July 2021

Saudi KAYAN Company

Result Flash Note Q2-21

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Saudi KAYAN posted a strong set of results with net income of SAR 781mn; beating our and market estimates of SAR 689mn and SAR 726mn; respectively. The result was mainly supported by higher than expected products spreads, and an effective cost control over OPEX. Sales revenue continues to record strong utilization rate at 96.0%, despite the scheduled maintenance of olefins plant. Gross margin expanded by 706bps to 35.02% from 27.96% registered in Q1-21, recording the highest level since Q3-18. We remain positive on the company's short-term growth prospects, given its operating efficiency amid improving market dynamics. Polycarbonate product (PC-Asia) reached its highest level since 2018 at USD 4050/Mt, on tight supply. We reiterate our "Neutral" recommendation on the stock with a TP of SAR 18.70/share.

- Saudi KAYAN posted a net income of SAR 781mn in Q2-21; compared to the net profit of SAR 492.9mn posted in Q1-21 and a net loss of 398.2mn in Q2-20. The strong performance is mainly attributed to i) an increase in average sales prices for some products ii) an increase in product spreads iii) a noticeable decline in OPEX. On yearly basis, finance expense is expected to decline by SAR 67mn to SAR 72.5mn from 140mn in Q2-20 due to debt restructuring and lower SAIBOR rate.
- Kayan reported 10.8%Q/Q increase in revenue for Q2-21 to SAR 2,973.7mn, in-line with our estimate of SAR 2,909mn and above SAR 2,683mn recorded in Q1-20 due to a better realized products prices, and a strong improvement in production efficiencies after olefins plant maintenance. We assume that the sales volume increased by around 4.0%Q/Q in Q2-21 with the production ramp-up after the scheduled maintenance. During the quarter, average prices of Kayan key products MEG-SABIC increased by 11.6%Q/Q and 53.7%Y/Y, in addition to the Q/Q jump in PC of 22.7%. While HDPE and PP were flat at 0.1%Q/Q and 1.3%Q/Q, respectively.
- Gross profit stood at SAR 1041.4mn (an increase of 38.8%Q/Q); above AJC estimate of SAR 983mn owing to higher than expected product spreads. Gross margin expanded in Q2-21 to 35.02% vs. 27.96% in Q1-21, which could be a result of higher products' spreads of PC & MEG, and lower average feedstock prices. During Q2-21, Butane (feedstock) average prices declined by 10.5%Q/Q to USD 510/tonne, resulting in HDPE-Butane spreads increase to USD 675/Mt in Q2-21 from USD 628/Mt in the previous quarter.
- Operating expenses declined to SAR 146.9mn as compared to our estimate of SAR 180mn and SAR 163.5mn recorded in Q1-21, indicating an effective cost control.

AJC View: Despite the scheduled maintenance of the olefins plants, the company showed a very strong operating performance. We believe this is a continuation of a healthy recovery from the impact seen during last few quarters amid the pandemic. The short-term outlook is largely driven by coronavirus vaccines, tight global supply and bullish markets. Going forward, products prices are expected to stabilize around the current level with the pick-up in the global economic activities. We don't expect a significant improvement during 2H-21 due to expected global additional new capacities. Thus, we remain positive on the company's growth prospects, given its operating efficiency amid improving market dynamics, and strong cash flow. Kayan's key product Polycarbonate product (PC-Asia) reached its highest level since 2018 at USD 4050/Mt on tight supply. However, the supply tightness is expected to ease in the second half, which may curtail the price uptrend. On the other hand, debt repaying and restructuring strategy are expected to reduce finance cost by SAR 165mn in FY21 to SAR 288mn from SAR 453mn in FY20. We believe this will mitigate the impact on the bottom line this year, and improve company's capability to reduce debt level by SAR 1.7bn to SAR 14.8bn during FY21. The company is trading at a forward PE of 22.7x during FY22, higher than the current PE of 20.4x. We reiterated our "Neutral" recommendation on KAYAN with a TP at **SAR 18.70/share.**

Results Summary

SARmn (unless specified)	Q2-FY20	Q1-FY21	Q2-FY21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**1,536.9**	**2,683.33**	**2,973.7**	93.5%	10.8%	2.2%
Gross Profit	(70.8)	750.37	1041.4	NM	38.8%	6.0%
Gross Margin	*-*	*27.96%*	*35.02%*	-	-	-
EBIT	(215.4)	586.79	894.9	NM	52.5%	11.5%
Net Profit	**(398.2)**	**492.89**	**781.0**	NM	58.4%	13.4%
EPS	(0.27)	0.33	0.52	-	-	-

Source: Company Reports, Aljazira Capital
*NM: Not meaningful

Neutral

Target Price (SAR)	**18.70**
Upside / (Downside)*	**-4.8%**

Source: Tadawul *prices as of 26th of July 2021

Key Financials

SARmn (unless specified)	FY18	FY19	FY20	FY21E
Revenue	12,263	9,536	8,007	10,930
Growth %	22.8%	-22.2%	-16.0%	36.5%
Net Income	1,702.2	(636.8)	(784.7)	2,136
Growth %	154.8%	NM	23.2%	NM
EPS	1.13	(0.42)	(0.52)	1.42

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	27.4%	11.1%	5.2%	29.8%
EBITDA margin	41.9%	29.1%	25.5%	44.3%
Net Margin	13.9%	-6.7%	-9.8%	19.5%
P/E (x)	11.9	NEG	NEG	13.8
P/B (x)	1.3	1.01	1.55	1.83
EV/EBITDA (x)	7.0x	11.1	17.4	8.3

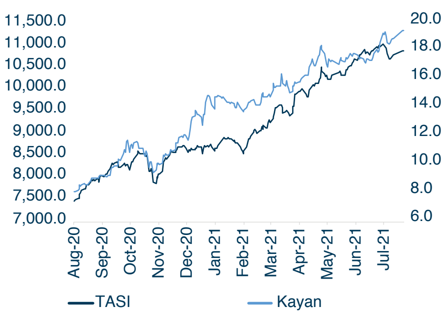
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	29.34
YTD %	36.8%
52 Week (High)/(Low)	19.55/8.10
Shares Outstanding (mn)	1500

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer