

Saudi KAYAN: The company reported the highest net profit since inception at SAR 462.6mn; exceeding AJC and the market consensus estimates of SAR 394mn. Net income was supported by SAR 31.8mn YoY decline in operating expenses. Gross margin increased on YoY basis to 31.5% Vs. 26.5%, highest since inception. We believe that the higher production efficiency after plant maintainance, higher Ethane based products margins and 17.2%QoQ higher margin of Butane downstream products were the keys to support overall margin expansion. The company is expected to continue to benefit from improved production efficiency and higher capacity after the positive effect of the two debottlenecking projects towards the end of 2017. Recommendation revised to "Neutral" on the stock while maintaining TP of 14.50/share.

- Saudi Kayan Petrochemical Co. (Kayan) result came above estimates, exceeding AJC and market consensus profits estimates of SAR 394mn. Saudi Kayan (KAYAN) reported the highest net profit since inception at SAR 462.60mn; (EPS; SAR 0.31); indicating an increase of 74.3%YoY turning profitable in 1Q2018 compared to loss of SAR 220.3mn in 4Q2017. The YoY strong performance is mainly attributed to i) higher average sales prices ii) higher overall margins due to improved operating efficiency and products spreads iii) lower OPEX, where the Company registered a decline of 18.5% in OPEX (SAR 31.8mn decline) to stand at SAR 140.0mn from SAR 171.8mn in 1Q2017, where it's considered as a key catalyst for future performance if the company maintains the high control over the OPEX.
- Kayan's sales in 1Q2018 stood at SAR 2,727mn, below our estimates of SAR 2,767mn, which is ascribed to lower than expected ramping-up in the plants' operating rates after maintenance during 4Q2017. The plant was running with operating rate of 96.4%, lower than our estimate of 98% and 102% in 1Q2017. We believe that the plant maintenance in 2017, positively impacted the overall performance in 1Q2018; we expect further improvement in performance in FY2018 and onward. During the quarter, Asian average prices of Kayan key products such as, HDPE, PP and MEG increased by 6.7%QoQ, 6.8%QoQ and 8.1%QoQ respectively; however, the company's 60-70% feedstock cost (Butane) declined by 11.0%QoQ, and 8.3%YoY, resulting in margin expansion.
- Gross profit stood at SAR 861.6mn, indicating an increase of 21.5%YoY. Gross margin increased to 31.5% in 1Q2018 vs. 26.5% in 1Q2017 recorded the highest margin since inception. We believe the margin improvement is due to higher production efficiency and better Butane-PE spreads, and the higher margin in Ethane based products. In 1Q2018, Butane average prices declined by 11.0%QoQ to USD 513/ton from USD 578/ton in 4Q2017, where most of polymer and other Petchem product prices increased by 1-8%. Thus, higher increase in some final product prices and better production efficiency has resulted in overall margins to expand on QoQ/YoY basis. Butane-PE spread expanded by 17.2%QoQ to USD 919/ton from USD 785/ton in 4Q2017.

AJC view: We believe that in addition to the higher than expected production efficiency, the impact of high spreads in all feedstock prices (Ethane-base/Butane) has become a supportive key for overall margins in 1Q2018. The company's plants shutdown during 4Q2017 is expected to support kayan's top line in the coming quarters, boosting its annual production capacity of ethylene to at least 93,000 tons and raising the annual production capacity of pure ethylene oxide to at least 61,000 tons. Our outlook remains optimistic in FY2018 as compared to FY2017; gross margin is expected to improve during FY2018 due to improved efficiency after 4Q2017 plants maintenance and better products spreads. Saudi Kayan Co. is expected to post SAR 1,897mn in net income (1.27 EPS) for FY2018, as compared to SAR 668mn in FY2017. The company is trading at a forward PE and P/B of 11.50x and 1.4x respectively based on our FY2018 earnings forecast. Due to increase in the stock market price; we revised our recommendation to "Neutral" on KAYAN with a PT of **SAR 14.50/share**.

Results Summary

| SARmn (unless specified) | 1Q-2017 | Q4-2017 | Q1-2018 | Change YoY | Change QoQ | Deviation from AJC Estimates |
|--------------------------|---------|---------|---------|------------|------------|------------------------------|
| Revenue | 2,667 | 2,304.9 | 2,727 | 2.25% | 18.3% | -1.4% |
| Gross Profit | 709.2 | 158.1 | 861.6 | 21.5% | 444.9% | 4.1% |
| Gross Margin | 26.5% | 6.8% | 31.5% | - | - | - |
| EBIT | 555.3 | 11.6 | 721.1 | 29.9% | 6116% | 10.8% |
| Net Profit | 265.5 | (220.3) | 462.6 | 74.3% | NM | 17.4% |
| EPS | 0.18 | (0.15) | 0.31 | - | - | - |

Source: Company reports, Aljazira Capital

| | |
|----------------------|----------------|
| Recommendation | Neutral |
| Current Price* (SAR) | 14.54 |
| Target Price (SAR) | 14.50 |
| Upside / (Downside) | -0.2% |

Source: Tadawul *prices as of 22nd of April 2018

Key Financials

| SARmn (unless specified) | FY16 | FY17 | FY18E |
|--------------------------|-------|--------|--------|
| Revenue | 8,609 | 9,984 | 11,269 |
| Growth % | 7.9% | 16.0% | 12.9% |
| Net Income | 107.8 | 668.2 | 1897.6 |
| Growth % | NM | 418.5% | 184% |
| EPS | 0.10 | 0.45 | 1.27 |

Source: Company reports, Aljazira Capital

Key Ratios

| SARmn (unless specified) | FY16 | FY17 | FY18E |
|--------------------------|--------|-------|-------|
| Gross Margin | 21.0% | 23.5% | 31.5 |
| Net Margin | 1.3% | 6.7% | 16.8% |
| P/E | 87.30x | 23.9X | 11.5X |
| P/B | 1.00x | 1.2X | 1.4X |
| EV/EBITDA (x) | 9.5x | 8.3X | 6.9X |
| Dividend Yield | - | - | - |

Source: Company reports, Aljazira Capital

Key Market Data

| | |
|-------------------------|--------|
| Market Cap (bn) | 21.81 |
| YTD % | 36.1% |
| 52 Week (High) | 14.98 |
| 52 Week (Low) | 7.95 |
| Shares Outstanding (mn) | 1500.0 |

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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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.

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