

Saudi Kayan Petrochemical Corporation (HOLD, TP: SAR 5.96, 2350.SE) 1Q26 Results Review

Saudi Kayan's losses narrow, but volume decline and butane cost pressure weigh on recovery

Saudi Kayan reported a net loss of SAR 615mn in 1Q26 (vs. loss of SAR 776mn in 1Q25 and SAR 686mn in 4Q25), with revenue declining 28% Y/Y and 26% Q/Q to SAR 1.49bn. The decline in revenue was primarily driven by lower sales volumes, which declined 24% Y/Y and 29% Q/Q, despite a 4% sequential increase in average selling prices. Net loss narrowed on both Y/Y and Q/Q basis, supported by better product prices and lower cost of revenue, although profitability remained under pressure due to weak volumes and negative gross margins.

- Revenue declined 28% Y/Y and 26% Q/Q to SAR 1.49bn, mainly on the back of lower sold quantities. Sequentially, average selling prices increased by 4% Q/Q, while sales volumes declined by 29% Q/Q. Prices of HDPE/LDPE/MEG/Ethylene Oxide changed by +8%/+10%/+1%/+7% Q/Q, respectively, reflecting some improvement in product realizations. However, the sharp decline in volumes more than offset the pricing improvement, resulting in weaker topline performance during the quarter.
- Gross loss stood at SAR 284mn in 1Q26 compared to a loss of SAR 389mn in 1Q25 and SAR 305mn in 4Q25. The improvement in gross loss was supported by better average selling prices. However, gross margin remained negative at -19.1%, reflecting continued pressure from weak operating leverage and feedstock costs. Sequentially, butane prices increased by ~13% Q/Q, limiting the benefit from higher end-product prices.
- Operating loss narrowed to SAR 462mn in 1Q26 compared to a loss of SAR 649mn in 1Q25 and SAR 525mn in 4Q25. EBITDA improved to SAR 125mn in 1Q26 compared to negative SAR 60mn in 1Q25 and SAR 37mn in 4Q25, reflecting better product realizations and lower cost of revenue. However, the improvement remained limited, as lower sales volumes continued to weigh on operating performance. EBITDA margin improved to 8.4% in 1Q26 from 1.8% in 4Q25 and -2.9% in 1Q25.
- Saudi Kayan reported positive FCF of SAR 65mn in 1Q26 compared to negative FCF of SAR 600mn in 1Q25 and negative FCF of SAR 373mn in 4Q25, reflecting improvement in cash generation during the quarter. Net cash generated from operations stood at SAR 170mn, while capex stood at SAR 105mn.
- Kayan's 1Q26 reflected some improvement in product prices, but the recovery remained weak due to lower volumes and higher butane costs. Prices of HDPE/LDPE/MEG/Ethylene Oxide increased by ~8%/~10%/~1%/~7% Q/Q, respectively, while sales volumes declined 29% Q/Q. At the same time, butane prices increased by ~13% Q/Q, which limited margin recovery given Kayan's high reliance on butane feedstock. In 2Q26-to-date, product prices have moved sharply higher, with HDPE/LDPE/MEG/Ethylene Oxide up ~36%/~40%/~27%/~38% versus 1Q26 averages; however, butane prices have also increased by ~50% over the same period to around USD 800/t during April-May, and further to USD 820/t in June. Therefore, the improvement in product prices may not fully translate into margin expansion as feedstock cost pressure persists. The key structural positive remains the additional ethane allocation of 30 MMSCFD expected from mid-2026 or earlier if available, which will increase total ethane allocation to 80 MMSCFD alongside 70,000 bpd of butane. This should improve the feedstock mix and reduce butane reliance over time. However, until the additional ethane allocation starts flowing, the sharp increase in butane prices and weak volume performance are likely to keep margins under pressure. Keeping this in check, we maintain our Hold rating on KAYAN with a target price of SAR 5.96/sh.

Rating and Risks

We are Hold rated on KAYAN and our 12-month target price is SAR 5.96. Upside risks include stronger-than-expected recovery in MEG and polymer prices, improved margins from higher ethane allocation and better operational efficiency. Downside risks include prolonged weakness in petrochemical demand, persistent oversupply in MEG markets, higher butane and feedstock prices, delay in realizing expected cost benefits from ethane allocation, higher transportation and insurance costs, and potential disruption to shipment routes.

SAR bn	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Revenues	1488	2013	2062	-26%	-28%
Cost of Goods	1772	2318	2450	-24%	-28%
Gross Profit	-284	-305	-389	-7%	-27%
Operating Expenses	178	221	260	-19%	-32%
Operating Profit	-462	-525	-649	-12%	-29%
EBITDA	125	37	-60	236%	N/A
Net Income	-615	-686	-776	-10%	-21%
EPS	-0.41	-0.46	-0.52	-11%	-21%

Margins (%)

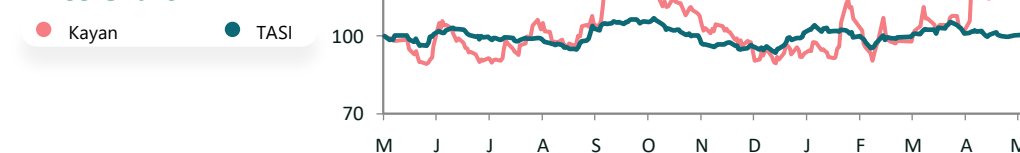
Gross Margin	-19.1	-15.1	-18.9	-397 bps	-26 bps
Operating Margin	-31.0	-26.1	-31.5	-495 bps	43 bps
Net Margin	-41.3	-34.1	-37.6	-726 bps	-369 bps

Rating Summary and Forecasts

Rating Summary

		Forecasts	12/25 A	12/26 E	12/27 E	12/28 E
Rating	Hold	Net Income (SAR bn)	-2294	-1050	-673	-655
Market Price	5.4	PER (x)	N/A	N/A	N/A	N/A
12-month Target Price	5.96	PBV (x)	0.9	1.0	1.1	1.2
Upside / Downside	10%	EPS (SAR)	-1.5	-0.7	-0.4	-0.4
Mkt Cap (SAR bn)	8,160	DPS (SAR)	0.0	0.0	0.0	0.0
52 week High/Low	6.28/4.49	RoE (%)	-22.2	-12.1	-8.6	-9.2
		Dividend Yield (%)	0.0	0.0	0.0	0.0

Price Chart



Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

Saudi Fransi Capital

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Head Office
8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia

Mailing Address
P.O. Box 23454 Riyadh 11426 | Kingdom of Saudi Arabia

Tel: +966 11 282 6828 | 800 125 9999
www.bsfcapital.sa

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