



EVENT FLASH

The highest net income since inception

Kayan reported strong 3Q17 results, with a net income of SR381mn. Net income increased +141% YoY and +57.5% QoQ, recording the highest quarterly net income since inception. This is significantly higher than the NCBC and consensus estimates of SR164mn and SR143mn, respectively. The higher than expected results are mainly attributed to higher operating rates and margins.

- Revenues came-in at SR2.7bn in 3Q17, 9.7% higher than our estimate. Sales increased +16.9% YoY and +17.1% QoQ. Based on our calculations, The facilities operated at 106% in 3Q17, higher than our estimate of 97%. This compares to 98% in 2Q17. We believe Kayan may have used its inventory to increase sales, ahead of the major shutdown in 4Q17.
- Kayan plans to conduct a major maintenance shutdown of 31-56 days at its facilities in 4Q17, to carry out the debottlenecking project. The olefins plant will be closed for 41 days while the EG/EO units will be offline for 46 days. The phenolic and polycarbonate units will be closed for 31 days and 56 days, respectively. Amines and ethoxylate plants will be closed too. The financial impact of this shutdown is not disclosed.
- Gross margins stood at 30.1% in 3Q17, higher than our estimate of 25.1% and 2Q17 of 26.8%. We believe the improvement in operating efficiency is the main factor behind the margin expansion, offsetting the negative impact of higher feedstock prices after the end of the grace period in 2Q17.
- Operating income came-in at SR624mn, significantly higher than our estimates. We believe this variance came from a higher than expected gross margin of 30.1%. SG&A expenses stood at SR190mn in 3Q17, higher than our estimates of SR172mn and 2Q17 of SR181mn.
- In 3Q17, PP prices increased +5.8% YoY and +6.0% QoQ to US\$1,061, while PE prices were down -1.3% YoY but remained flat QoQ by +0.8% to US\$1,120. PP-Butane spread was up +29.1% QoQ but declined -3.6% YoY.
- Kayan feedstock grace period ended in 2Q17. The company now receives ethane at US\$1.75 compared to US\$0.75 while butane prices are linked to Aramco prices instead of naphtha.
- The stock is trading at a 2018E P/E of 29.0x, significantly higher than the sector average of 12.9x. The impact of the shutdown is expected to put pressure on the results in 2017E, although the strong results of 3Q17 is expected to offset that impact.

3Q17 Results Summary

SR mn	3Q17A	3Q16A	% YoY	3Q17E	%Var^	% QoQ
Revenues	2,703	2,313	16.9	2,464	9.7	17.1
Gross income	814	580	40.3	617	31.9	31.4
Gross margin (%)	30.1	25.1	5.0	25.0	5.1	3.3
Operating Profit	624	386	61.8	444	40.4	42.3
Net income	381	158	141	164	132	57.5
EPS (SR)	0.25	0.11	141	0.11	132	57.5

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

NEUTRAL

Target price (SR)	8.3
Current price (SR)	8.7
Upside/Downside (%)	(5.0)

STOCK DETAILS

M52-week range H/L (SR)	10/6
Market cap (\$mn)	3,748
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.1)	2.7	43.2
Rel. to market	1.0	1.6	16.0

Avg daily turnover (mn)	SR	US\$
3M	30.8	8.2
12M	62.6	16.7

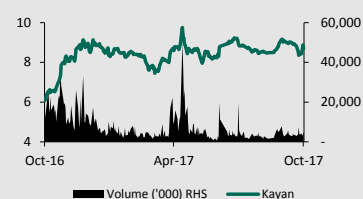
Reuters code	2350.SE
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	87.0	43.5	29.0
P/B (x)	1.0	0.9	0.9
EV/EBITDA (x)	9.6	8.0	8.7
Div. Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

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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CS: Coverage Suspended. NCBC has suspended coverage of this company

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