

January 24, 2018

Rating Buy
12- Month Target Price SAR 13.00

SAUDI KAYAN PETROCHEMICAL COMPANY (KAYAN)

4Q2017 First Look

Expected Total Return

Price as on Jan-23, 2018	SAR 11.04
Upside to Target Price	17.8%
Expected Dividend Yield	0.0%
Expected Total Return	17.8%

Market Data

52 Week H/L	SAR 11.62/7.40
Market Capitalization	SAR 16,560 mln
Enterprise Value	SAR 39,103 mln
Shares Outstanding	1,500 mln
Free Float	65.0%
12-Month ADTV (mln)	8.07
Bloomberg Code	KAYAN AB

1-Year Price Performance

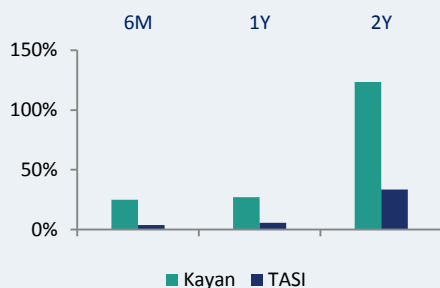
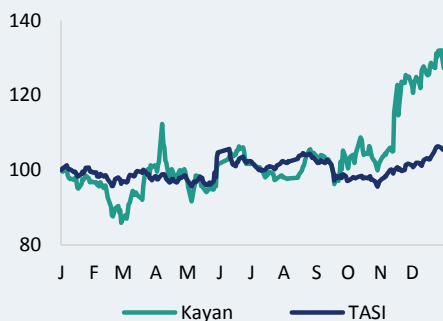


Fig in SAR mln	RC. Est	Actuals
Revenue	1,987	2,305
Gross Profit	437	189
EBIT	278	12
Net Income	109	(220)
EPS (SAR)	0.07	(0.15)

Positive for 2018 despite Shutdown Impact in 4Q

Saudi Kayan Petrochemical Company (Kayan) reported a loss in 4Q2017 following a shutdown; missing street and RC estimates; however revenue beat was a positive surprise. Losses of SAR (220) million in 4Q2017 puts a halt to its fifth earnings beat in a row, as 40+ days shutdown costs was worse than expected unlike our expectations of a strong topline covering most shutdown costs, which did not materialize. LPS of SAR (0.15) missed our SAR 0.07 EPS estimate, while consensus of SAR (0.09) also trailed; the closest estimate missed actuals by 34%.

Our views for 2018-19

We revised 2018-19 estimates in our 2018 strategy note (published on Jan-1) assuming a better growth on topline driven by expectations of a recovery in product prices, especially MEG and few ethylene derivatives. We expect Kayan to improve its operating rates in 2018 and record better margins, assuming stable spreads in MEG though PP saw a backlash on high propane costs, while butane also witnessed similar trends. We believe investors need to focus on 2018-19 as a period of gradual recovery in margins and improved utilization rates. The recovery trends were visible with its repeated earnings surprise in consecutive quarters during 2017; we opined a re-rating is due in our previous note. We simultaneously upgraded to a Buy from Neutral and raised target price to SAR 13.00 (earlier SAR 10.00). Valuations are favorable with its 2018E P/E of 13.9x, at par with TASI's 13.7x and cheaper to sectors 15.4x.

Revenue barely showed any impact of shutdown

Revenue of SAR 2.31 billion declined by -6% Y/Y and -15% Q/Q but topped our SAR 1.99 billion estimate and street's SAR 1.64 billion estimate, driven by price rally in MEG and improvement in PP, PE and PC prices. Kayan managed similar numbers in 2Q2017, while 4Q2017 turned impressive despite the shutdown at its olefins and MEG plants; assumed to be driven by efficient inventory management.

Earnings trail on high fixed costs

A sharp rally in butane prices (its key feedstock) have led to hike in cost inputs. The average prices of butane jumped +30% Q/Q and 36% Y/Y in 4Q2017 taking gross margins to 8% which is almost 7-8 quarter lows, after its 30% in 3Q2017 and 19% in 4Q2016. Kayan reported a gross profit of SAR 189 million in 4Q, trailing our estimate of SAR 437 million. Operating profit of SAR 12 million (-97% Y/Y and -98% Q/Q) in 4Q2017 was below our estimate of SAR 278 million as shutdown and feedstock costs bites-in followed by weaker utilization. This followed suit with its heavy interest obligation, which took Kayan's bottom-line to a loss of SAR (220) million in 4Q2017 versus our SAR 109 million estimate and streets SAR (136) million loss estimate.

Maintain Buy

We maintain our Buy rating and SAR 13.00 target price as we see a better outlook for 2018. The stock has been one of the best performers in 2017; rallied +27% on a 12M basis. We believe current valuations are yet to price-in the positive outcomes for 2018-19; we see a room for another +18% upside, maintain Buy.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017P	2018E
Revenue	8,609	9,983	10,873
EBITDA	3,346	4,012	4,827
Net Profit	134	668	1,189
EPS (SAR)	0.09	0.45	0.79
DPS (SAR)	0.00	0.00	0.00
BVPS (SAR)	8.63	9.07	9.87

*2017 numbers are preliminary

Key Financial Ratios

FY Dec31	2016A	2017P	2018E
ROAA	2%	6%	6%
ROAE	1%	5%	8%
P/E	123.6x	24.8x	13.9x
P/B	1.3x	1.2x	1.1x
EV/EBITDA	11.7x	9.7x	8.1x
EV/Sales	4.5x	3.9x	3.6x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

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