



## EVENT FLASH

## Lower than expected losses despite major shutdown

Kayan reported a better than expected set of results with a net loss of SR220mn, compared to the NCBC and consensus estimates of a loss of SR417mn and SR136mn, respectively. This is the first loss recorded since 1Q16 and compared to a net income of SR92mn in 4Q16 and SR381mn in 3Q17. We believe the main reason behind the variance is lower than expected impact of the shutdown which resulted in higher operating rates and better margins. We believe Kayan used its inventory to mitigate the production loss caused by the shutdown.

- Sales stood at SR2.3bn, declining 5.8% YoY and 14.7% QoQ. However, it was significantly higher than our estimates of SR1.5bn. Based on our estimates, we believe Kayan facilities operated at 82%, higher than our estimates of 54% and compared to 3Q17 at 107%. We believe the company used its inventory to mitigate the impact of the long shutdown.
- Kayan had a major shutdown during 4Q17. The facilities were closed between 31 days and 56 days to perform a debottleneck project. Kayan said that the impact of the shutdown is expected to reach SR425mn. This was Kayan's 3rd large shutdown in the past three years. In 1Q15, the facilities were closed for 53 days, reporting a loss of SR592mn while the second major shutdown occurred in 1Q16 for 31-47 days with a loss of SR195mn.
- Gross margins stood at 8.2% in 4Q17, lower than 21.7% in 4Q16 and 30.1% in 3Q17. This is the lowest margin since 4Q15 and compares to our estimates of a gross loss margin of 2.1%. We believe the variance is due to higher than expected operating rates which offset the negative impact of higher average feedstock prices. Gross profit stood at SR189mn vs our estimate of a loss of SR33mn.
- Operating income stood at SR12mn, higher than our estimate of a loss of SR195mn. SG&A came in at SR177.1mn vs our estimate of SR162.7mn.
- In 4Q17, PP prices increased 6.9% QoQ and 11.1% YoY to US\$1,141, while PE prices increased 10.4% QoQ and 8.3% YoY to US\$1,241. PP-Butane spread declined 11.3% QoQ and 9.6% YoY to US\$588.
- The stock is trading at a 2018E P/E of 34.0x, significantly higher than the sector average of 15.3x. Operational efficiency following the major shutdowns is expected to be a key driver in 2018E, while a highly leveraged balance sheet is a key risk.

## 4Q17 Results Summary

SR mn	4Q17A	4Q16A	% YoY	4Q17E	%Var^	% QoQ
Revenues	2,305	2,448	(5.8)	1,520	51.6	(14.7)
Gross income	189	532	(64.5)	(33)	NM	(76.8)
Gross margin (%)	8.2%	21.7%	(13.54)	(2.1)%	NM	(21.91)
Operating income	12	350	(96.7)	(195)	NM	(98.1)
Net income	(220)	92	NM	(417)	NM	NM
EPS (SR)	(0.15)	0.06	NM	(0.28)	NM	NM

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

## NEUTRAL

Target price (SR)	8.3
Current price (SR)	11.2
Upside/Downside (%)	(25.9)

## STOCK DETAILS

M52-week range H/L (SR)	12/7
Market cap (\$mn)	4,496
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.6	25.4	33.3
Rel. to market	(0.2)	18.2	24.9

Avg daily turnover (mn)	SR	US\$
3M	149.8	39.9
12M	75.8	20.2

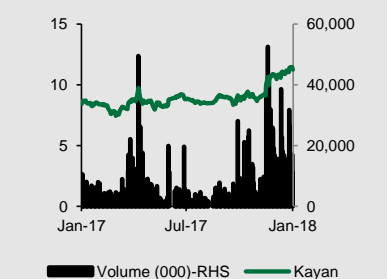
Reuters code	2350.SE
Bloomberg code	Kayan AB
	<a href="http://www.saudikayan.com.sa">www.saudikayan.com.sa</a>

## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	110.9	25.0*	34.0
P/B (x)	1.3	1.2	1.2
EV/EBITDA (x)	10.6	10.8	9.8
Div. Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates; \*Actual

## SHARE PRICE PERFORMANCE



Source: Tadawul

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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

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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

NC: Not covered. NCBC does not cover this company

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