



Saudi KAYAN posted disappointing set of result, in Q1-20, with a loss of SAR 516.8mn; above AJC and market consensus loss estimates of SAR 342.9mn and SAR 353.3mn, respectively. The result was mainly impacted by an increase in feedstock cost, weak volumetric sales and additional expenses related to the plant maintainance during Q1-20. Revenue came broadly in-line with our estimates, recording a decline of 16.5%Y/Y as a result of weak demand and supply chain issues due to the spread of COVID-19. However, the company's weak gross margin is not likely to continue in Q2-20 due to expected lower feedstock prices. We revised our recommendation to **"Neutral"** on the stock with a TP of **SAR 9.20/share**.

- Saudi KAYAN posted net losses of SAR 516.8mn in Q1-20; missing AJC and the market consensus losses estimates of SAR -342.9mn and SAR -353.3mn, respectively. Overall weak performance is mainly attributed to i) decline in average sales prices for most of the products ii) weak volumetric sales and demand due to COVID19 pandemic iii) an increase in production's inputs average cost iv) additional expenses related to plants maintainance during Q1-20, despite a decrease in financing costs. Finance expense declined by SAR 140.2mn to SAR 147.1mn from 287.3mn in Q1-19 due to debt restructuring and lower SAIBOR rate.
- Kayan's revenue in Q1-20 stood at SAR 1,887.9mn depicting a decline of 16.5%Q/Q and 25.8%Y/Y. Revenue came broadly in-line with our estimates of SAR 1,976.2mn. This we believe could be partially attributed to weak demand due to the spread of COVID19 and supply chain issues. We assume that the sales volume declined by around 13.5%Q/Q in Q1-20. During the quarter, Asian average prices of Kayan key products MEG-Asia declined by -4.9%Q/Q and -15.1%Y/Y, in addition to the decline in HDPE and PP by -2.1%Q/Q and -7.1%Q/Q, respectively.
- Kayan recorded gross losses for the first time since 2016 at SAR -220.8mn, compared to our gross losses estimate of SAR -22.5mn and a gross profit of SAR 229.3mn in Q4-19. This we believe was a result of lower products' spreads and incurring additional expenses related to the plants maintenance for 21 days in Q1-20. During Q1-20, Butane (feedstock) average prices increased by 21%Q/Q to USD 538/tonne. MEG-Butane spreads declined to USD 99/Mt in Q1-20 from USD 201/Mt in the previous quarter.
- Operating losses stood at SAR -350.9mn, above our losses estimates of SAR -158.2mn, where the company witnessed a decline of 20.2%Y/Y in OPEX (SG & A) to record SAR 130.1mn as compared to our estimate of SAR 134mn and SAR 189.6mn in Q4-19.

AJC view: We expect, the weak volumetric sale during Q1-20 is likely to continue in the next few quarters, impacted by global slowdown in demand due to COVID-19, and slow recovery is expected by end of FY20. Thus, short-term outlook remains under concern on the company due to an increase in COGS, weak demand and product prices. Kayan key product monoethylene glycol product (MEG) reached its lowest level since 2009 at USD 370/Mt, on expectations of further oversupply and weak demand. However, The company's weak gross margin is not likely to continue in Q2-20 due to expected lower feedstock prices and higher product spreads. Repaying and debt restructuring strategy are expected to reduce finance cost by SAR 380mn in FY20 to SAR 665mn from actual SAR 1,045mn in FY19. This we believe will mitigate the impact on the bottom line, improving the company's capability to reduce debt level to SAR 16.5bn (Down SAR 1.5bn) during FY20. Saudi Kayan Co. is expected to post losses of SAR -747.2mn for FY20, as compared to losses of SAR -636.8mn in FY19. We revised our recommendation to **"Neutral"** on KAYAN with a TP at **SAR 9.20/share**.

SARmn	Q1-FY19	Q4-FY19	Q1-FY20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,544.3	2,259.7	1,887.9	-25.8%	-16.5%	-4.4%
Gross Profit	265.9	229.3	(220.8)	NM	NM	-
Gross Margin	10.45%	10.14%	(11.69%)	-	-	-
EBIT	98.5	39.7	(350.9)	NM	NM	-
Net Profit	(197.5)	(167.4)	(516.8)	-161.7%	-208.7%	-56%
EPS	(0.13)	(0.11)	(0.34)	-	-	-

Source: Company reports, Aljazira Capital

Neutral

Target Price (SAR) 9.20

Upside / (Downside)* 9.8%

Source: Tadawul *prices as of 18th May 2020

Key Financials

SARmn (unless specified)	FY17	FY18	FY19	FY20E
Revenue	9,984	12,263	9,536	8,226
Growth %	16.0%	22.8%	-22.2%	-13.7%
Net Income	668.2	1,702.2	(636.8)	(747.2)
Growth %	418.5%	154.8%	NM	-17.3%
EPS	0.45	1.13	(0.42)	(0.50)

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19	FY20E
Gross Margin	23.5%	27.4%	11.1%	6.2%
Net Margin	6.7%	13.9%	-6.7%	-9.1%
P/E	23.9x	11.9x	-	-
P/B	1.2x	1.3x	1.01x	0.88x
EV/EBITDA (x)	8.3x	7.0x	11.1x	11.9x

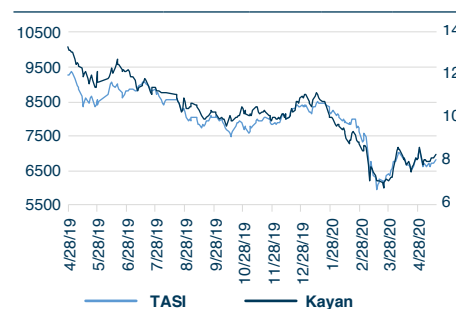
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	12.49
YTD %	-24.9%
52 Week (High)/(Low)	12.90/6.77
Shares Outstanding (mn)	1500

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Senior Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa



RESEARCH DIVISION

AGM-Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

Analyst
Faisal Alsuwelimy
+966 11 2256115
F.alsuweilmy@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions
Ahmad Salman, CFA
+966 11 2256201
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region
Investment Centers
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
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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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068