

## Feedstock allocation to boost profitability with SAR 343mn cost savings in FY27E and support recovery amid operational and financial challenge; recommend "Overweight" with a revised TP

Saudi Kayan's outlook is increasingly defined by the upcoming ethane allocation of 30 MMSCFD, set to begin by mid-2026. This shift will optimize the feedstock composition to 80 MMSCFD of ethane and 70,000 bpd of butane, which we project will deliver substantial cost-of-sales savings of SAR 157mn in H2-26E and SAR 343mn in FY27E. These efficiencies are expected to drive ~340 bps improvement in gross margin by FY27E, helping the company transition toward an operating break-even point in the same year with a projected operating margin of 3.8%. While near-term performance remains pressured by soft product realizations—with MEG and Polycarbonate prices trading ~15% and ~35% below their 10-year averages, respectively—we anticipate a 4% revenue growth in FY26E as global demand stabilizes. Furthermore, Kayan is currently trading at a ~50% discount to its replacement value. These compressed valuations suggest that stock prices could jump rapidly once the market confirms a demand pivot, especially given that many downside risks are already factored into the current price. We revise our target price to SAR 7.70/share and recommend "Overweight" rating, as we see a significant upside potential from current valuation.

**Ethane allocation to deliver costs of sales savings of SAR 157mn in H2-26E and SAR 343mn in FY27E; implying SAR 1.5/share value creation:** Saudi Kayan announced that the company will start receiving additional ethane allocation of 30 MMSCFD from mid-2026 or earlier if ethane is available. The additional allocation of ethane will lead to a feedstock composition of 80 MMSCFD of ethane and 70,000 bpd of butane. We estimate the increase in cost efficient ethane feedstock to lower cost of sales by SAR 157mn in H2-26E and by SAR 343mn in FY27E, reflecting ~5% savings in cost of sales and ~340 bps improvement in gross margin. Total bottom line impacted is estimated at SAR 161mn / 353mn in H2-26E / FY27E. Although the cost savings are comparatively lower after increase in ethane prices over the past few years from USD 1.75/mmbtu to USD 3.0/mmbtu, we see limited room for further increase in ethane prices. The increased feedstock allocation would also support higher productivity but as of now we assume minimal impact on production volumes and revenue. It is noteworthy that cost associated with fulfilling the Ministry of Energy requirements is estimated at SAR 608mn (USD 162mn). Nevertheless, the increased ethane allocation will deliver long-term operating efficiencies. Additionally, the positive impact could potentially be even higher due to more fixed feedstock (ethane/butane contribution will be 30/70 vs. 20/80 earlier), in case of rebound in product prices. Overall, we estimate operating efficiencies from increase ethane allocation to be value accretive to the shareholder at around SAR 1.5 per share.

### Estimated impact of ethane feedstock allocation in financials

| SAR mn           | H2-26E |        |            | FY27E  |        |            |
|------------------|--------|--------|------------|--------|--------|------------|
|                  | Before | After  | Difference | Before | After  | Difference |
| Revenue          | 4,488  | 4,488  | 0          | 9,860  | 9,860  | 0          |
| Cost of sales*   | -3,153 | -2,996 | 157        | -6,753 | -6,411 | 343        |
| Gross profit     | 172    | 321    | 149        | 812    | 1,137  | 325        |
| Gross margin     | 3.8%   | 7.1%   | 344 bps    | 8.2%   | 11.5%  | 342 bps    |
| Operating Profit | -206   | -57    | 149        | 50     | 376    | 325        |
| Net Profit       | -518   | -351   | 167        | -519   | -178   | 341        |

\*excluding depreciation

**Soft near-term conditions for key products, moderate recovery potential beyond FY26:** Saudi Kayan's near-term outlook remains challenged by weak product realizations, with key products such as monoethylene glycol (MEG) and polycarbonate still trading well below historical averages. MEG prices (average of MEG-SABIC and MEG-Asia) are projected to edge up from USD 578/ton in Q4-25, and average around USD 605/ton in FY26E, supported by modest demand recovery and slower capacity additions in China. Currently, MEG prices are over 15% below their 10-year historical average, reflecting continued oversupply and sluggish polyester demand in major consumer regions. Polycarbonate prices are also more than 35% below the decade average due to subdued demand from construction, automobile and electronics sectors. In the near term, elevated inventories and uneven downstream recovery are likely to cap price gains and keep spreads under pressure with prices expected to improve modestly from USD 1,524/ton in Q4-25, averaging USD 1,558/ton in FY26E. However, we expect a gradually normalization of prices, with an anticipated improved global utilization rate and a more balanced supply-demand environment.

**Recommendation** **Overweight**

**Target Price (SAR)** **7.70**

**Upside / (Downside)\*** **46.1%**

Source: Tadawul \*prices as of 12<sup>th</sup> of February 2026

### Key Financials

| SARmn (unless specified) | FY23   | FY24   | FY25E  | FY26E  |
|--------------------------|--------|--------|--------|--------|
| Revenue                  | 8,171  | 8,726  | 8,472  | 8,806  |
| Growth %                 | -26.8% | 6.8%   | -2.9%  | 4.0%   |
| Gross Profit             | -846   | -642   | -711   | 230    |
| EBITDA                   | 968    | 1,281  | 960    | 1,825  |
| Net Income               | -2,136 | -1,804 | -2,080 | -1,133 |
| Growth %                 | NM     | NM     | NM     | NM     |
| EPS                      | -1.42  | -1.20  | -1.39  | -0.76  |
| DPS                      | 0.00   | 0.00   | 0.00   | 0.00   |

Source: Company reports, Aljazira Capital Research

### Key Ratios

|                | FY23   | FY24   | FY25E  | FY26E  |
|----------------|--------|--------|--------|--------|
| Gross Margin   | -10.4% | -7.4%  | -8.4%  | 2.6%   |
| EBITDA Margin  | 11.8%  | 14.7%  | 11.3%  | 20.7%  |
| Net Margin     | -26.1% | -20.7% | -24.6% | -12.9% |
| ROE            | -16.1% | -15.7% | -22.1% | -13.7% |
| ROA            | -8.0%  | -7.3%  | -8.8%  | -5.2%  |
| P/E            | -8.6x  | -5.7x  | -3.4x  | -7.0x  |
| P/B            | 1.4x   | 0.9x   | 0.8x   | 1.0x   |
| EV/EBITDA (x)  | 28.5x  | 14.2x  | 15.8x  | 8.6x   |
| Dividend Yield | 0.0%   | 0.0%   | 0.0%   | 0.0%   |

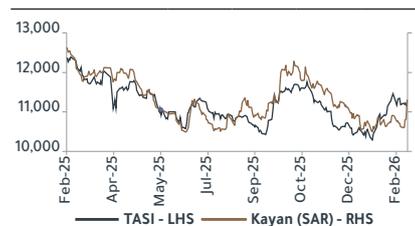
Source: Company reports, Aljazira Capita Research

### Key Market Data

|                        |           |
|------------------------|-----------|
| Market Cap(bn)         | 8.0       |
| YTD%                   | 12.0%     |
| 52 week (High)/(Low)   | 6.66/4.46 |
| Share Outstanding (mn) | 1,500.0   |

Source: Company reports, Aljazira Capital Research

### Price Performance



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### Revenue growth of 4% in FY26E supported by gradual product price recovery and better operating rates:

Saudi Kayan's revenue is expected to show improvement during FY26E with 4.0% increase to SAR 8.8bn from SAR 8.5bn in FY25E. The topline is likely to receive support from gradual recovery in prices of key products and better operating rates (assuming no scheduled plant shutdowns next year). While it is noteworthy that the near-term pricing environment remains subdued amid weak global demand and ongoing oversupply in select downstream products. However, we believe the recovery will be more evident by end-FY26 and start of FY27 with the normalization of the market with more balance supply and demand. Thus, we expect revenue to reach SAR 9.9bn in FY27E (+12.0% Y/Y).

### Profitability poised for gradual recovery with operating break-even by FY27E; potential increase in useful life of assets might further support profitability:

Saudi Kayan's profitability is expected to follow a steady recovery trajectory, reflecting improving product spreads and operational leverage as revenue growth materializes. Moreover, cost saving from ethane feedstock allocation will accelerate the recovery in profitability. We project the company to reach operating profitability by FY27E, with an operating margin turning positive at 3.8%, driven by higher MEG and polycarbonate realizations along with expected recovery in other products (PP, HDPE and LDPE) as well. Gross margins are likely to improve in tandem, rising from -7.4% in FY24 to 11.5% in FY27E. Net profitability, however, will lag due to the impact of elevated finance costs. Based on our projections, Saudi Kayan is expected to reach breakeven point at the net profit level only by FY28E (SAR 110mn from losses of SAR 2.1bn in FY25E). Separately, Kayan capitalizes its assets at useful life of ~20 years, which is very low compared to peers. If the company increases useful life of its assets to lower the capitalization charges, that will support reaching operating profitability earlier. However, as of now we do not model for any change in life of assets in our projections.

### Strong free cash flow (FCF) supports gradual deleveraging despite costs related to feedstock allocation:

Saudi Kayan's FCF is expected to improve significantly over the next two years to SAR 2.0bn by FY27E (FCF/share: SAR 1.33) from SAR 391mn in FY25E (FCF/share: SAR 0.26). Thus, we believe the company will be able to deleverage the balance sheet gradually despite SAR 608mn costs associated with feedstock allocation. Thus, debt-to-equity ratio is expected to decrease from 1.0x in FY25E to 0.8x in FY27E. Consequently, financial charges are expected to moderate from SAR 651mn in FY25E to SAR 557mn in FY27E, also benefiting from lower interest rate environment.

### AJBC view and valuation:

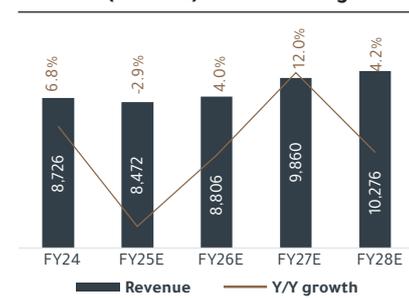
Saudi Kayan announced expected mid-2026 ethane allocation, which we project will unlock SAR 343mn in annual cost savings and expand gross margins to 11.5% by FY27E. While suppressed product pricing and leverage remain near-term hurdles, the transition toward operating break-even by FY27E is well-supported. Trading at a steep ~50% discount to replacement value, Kayan's valuation is significantly compressed; we expect a rapid price correction once the market confirms a demand pivot, as current levels already reflect the bulk of known downside risks. We valued KAYAN with 50% weightage to DCF (WACC=10.1%, terminal growth rate=1.0%) and 50% weight to FY26E EV/EBITDA (8.0x) to arrive at a TP of **SAR 7.7/share**, implying 46.1% upside potential. Hence, we recommend "Overweight" rating on the stock. Key **upside risks** for Kayan include 1) earlier than expected ethane allocation; 2) quicker recovery in MEG and polycarbonate prices 3) sooner-than-expected profitability improvement supported by higher operating efficiency and lower interest rates. Conversely, the main **downside risks** are 1) prolonged weak pricing and demand for key products, 2) delay in breakeven, 3) delays in ethane allocation beyond mid-FY26, and 4) operational or macroeconomic headwinds hindering recovery.

### Blended valuation summary

| Blended Valuation      | TP (SAR) | Weight | Weighted TP  |
|------------------------|----------|--------|--------------|
| DCF                    | 11.4     | 50%    | 5.7          |
| EV/EBITDA (FY26E)      | 4.1      | 50%    | 2.0          |
| <b>Blended TP</b>      |          |        | <b>7.7</b>   |
| <b>Up/Downside (%)</b> |          |        | <b>46.1%</b> |

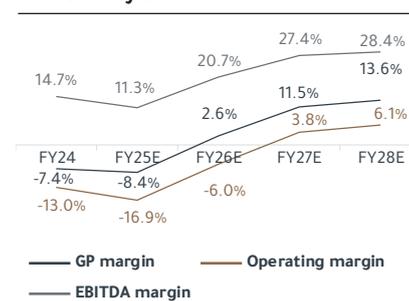
Source: Aljazira Capital research, prices as of 12<sup>th</sup> of February 2026

### Revenue (SAR mn) and Y/Y change



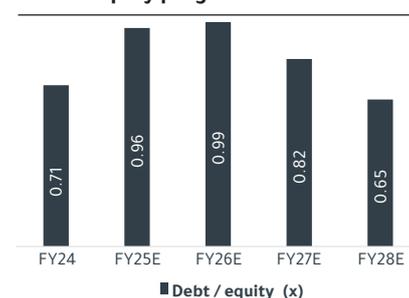
Source: Company reports, Aljazira Capital Research

### Profitability trend



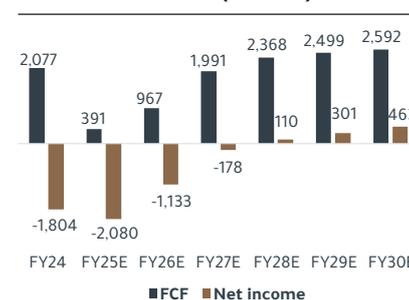
Source: Company reports, Aljazira Capital Research

### Debt-to-equity progression



Source: Company reports, Aljazira Capital Research

### FCF and net income (SAR mn)



Source: Company reports, Aljazira Capital Research

## Key Financial Data

| Amount in SARmn, unless otherwise specified | FY22           | FY23           | FY24           | FY25E          | FY26E          | FY27E         | FY28E         | FY29E         | FY30E         |
|---|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|
| <b>Income statement</b>                     |                |                |                |                |                |               |               |               |               |
| Revenues                                    | 11,157         | 8,171          | 8,726          | 8,472          | 8,806          | 9,860         | 10,276        | 10,582        | 10,802        |
| Y/Y   | -11.8%         | -26.8%         | 6.8%           | -2.9%          | 4.0%           | 12.0%         | 4.2%          | 3.0%          | 2.1%          |
| Cost  | (11,254)       | (9,017)        | (9,368)        | (9,183)        | (8,577)        | (8,723)       | (8,875)       | (9,031)       | (9,129)       |
| <b>Gross profit</b>                         | <b>(97)</b>    | <b>(846)</b>   | <b>(642)</b>   | <b>(711)</b>   | <b>230</b>     | <b>1,137</b>  | <b>1,400</b>  | <b>1,552</b>  | <b>1,673</b>  |
| <b>Gross margin</b>                         | <b>-0.9%</b>   | <b>-10.4%</b>  | <b>-7.4%</b>   | <b>-8.4%</b>   | <b>2.6%</b>    | <b>11.5%</b>  | <b>13.6%</b>  | <b>14.7%</b>  | <b>15.5%</b>  |
| Selling & general expenses                  | (739)          | (599)          | (732)          | (665)          | (758)          | (761)         | (778)         | (785)         | (786)         |
| <b>Operating profit</b>                     | <b>(857)</b>   | <b>(1,446)</b> | <b>(1,134)</b> | <b>(1,430)</b> | <b>(528)</b>   | <b>376</b>    | <b>622</b>    | <b>766</b>    | <b>888</b>    |
| <b>Operating margin</b>                     | <b>-7.7%</b>   | <b>-17.7%</b>  | <b>-13.0%</b>  | <b>-16.9%</b>  | <b>-6.0%</b>   | <b>3.8%</b>   | <b>6.1%</b>   | <b>7.2%</b>   | <b>8.2%</b>   |
| Y/Y   | NM             | NM             | NM             | NM             | NM             | NM            | 65.7%         | 23.1%         | 15.9%         |
| <b>EBITDA</b>                               | <b>1,491</b>   | <b>968</b>     | <b>1,281</b>   | <b>960</b>     | <b>1,825</b>   | <b>2,699</b>  | <b>2,915</b>  | <b>3,028</b>  | <b>3,118</b>  |
| <b>EBITDA margin</b>                        | <b>13.4%</b>   | <b>11.8%</b>   | <b>14.7%</b>   | <b>11.3%</b>   | <b>20.7%</b>   | <b>27.4%</b>  | <b>28.4%</b>  | <b>28.6%</b>  | <b>28.9%</b>  |
| Pre-operating & other expenses, net         | 23             | 23             | 27             | 11             | 11             | 11            | 12            | 12            | 13            |
| Financial charges                           | (383)          | (707)          | (701)          | (651)          | (605)          | (557)         | (512)         | (461)         | (415)         |
| <b>Income before zakat</b>                  | <b>(1,218)</b> | <b>(2,130)</b> | <b>(1,807)</b> | <b>(2,071)</b> | <b>(1,122)</b> | <b>(170)</b>  | <b>122</b>    | <b>317</b>    | <b>486</b>    |
| Zakat                                       | (26)           | (7)            | 3              | (10)           | (11)           | (9)           | (12)          | (17)          | (23)          |
| <b>Net income</b>                           | <b>(1,244)</b> | <b>(2,136)</b> | <b>(1,804)</b> | <b>(2,080)</b> | <b>(1,133)</b> | <b>(178)</b>  | <b>110</b>    | <b>301</b>    | <b>463</b>    |
| Y/Y   | NM             | NM             | NM             | NM             | NM             | NM            | NM            | 174.3%        | 53.8%         |
| <b>Net margin</b>                           | <b>-11.1%</b>  | <b>-26.1%</b>  | <b>-20.7%</b>  | <b>-24.6%</b>  | <b>-12.9%</b>  | <b>-1.8%</b>  | <b>1.1%</b>   | <b>2.8%</b>   | <b>4.3%</b>   |
| <b>EPS (SAR)</b>                            | <b>(0.83)</b>  | <b>(1.42)</b>  | <b>(1.20)</b>  | <b>(1.39)</b>  | <b>(0.76)</b>  | <b>(0.12)</b> | <b>0.07</b>   | <b>0.20</b>   | <b>0.31</b>   |
| <b>DPS (SAR)</b>                            | <b>0.00</b>    | <b>0.00</b>    | <b>0.00</b>    | <b>0.00</b>    | <b>0.00</b>    | <b>0.00</b>   | <b>0.00</b>   | <b>0.00</b>   | <b>0.00</b>   |
| <b>Balance sheet</b>                        |                |                |                |                |                |               |               |               |               |
| <b>Assets</b>                               |                |                |                |                |                |               |               |               |               |
| Cash & equivalent                           | 415            | 555            | 296            | 937            | 506            | 470           | 1,050         | 1,856         | 3,118         |
| Accounts receivables                        | 2,241          | 2,305          | 2,317          | 2,250          | 2,338          | 2,618         | 2,729         | 2,810         | 2,868         |
| Inventories                                 | 1,381          | 1,226          | 1,363          | 1,404          | 1,446          | 1,489         | 1,534         | 1,580         | 1,627         |
| Total current assets                        | 4,421          | 4,555          | 4,492          | 5,110          | 4,816          | 5,109         | 5,849         | 6,787         | 8,161         |
| Property plant & equipment                  | 23,304         | 21,595         | 19,918         | 18,028         | 16,389         | 14,538        | 12,725        | 10,950        | 9,213         |
| Other non-current assets                    | 548            | 530            | 459            | 463            | 466            | 470           | 473           | 477           | 481           |
| <b>Total assets</b>                         | <b>28,273</b>  | <b>26,681</b>  | <b>24,869</b>  | <b>23,601</b>  | <b>21,671</b>  | <b>20,117</b> | <b>19,047</b> | <b>18,214</b> | <b>17,855</b> |
| <b>Liabilities &amp; owners' equity</b>     |                |                |                |                |                |               |               |               |               |
| Current portion of L.T debts                | 2,304          | 3,800          | 3,358          | 1,185          | 1,126          | 1,013         | 811           | 649           | 519           |
| Accounts payables                           | 1,029          | 1,581          | 3,061          | 3,138          | 3,216          | 3,297         | 3,379         | 3,464         | 3,550         |
| Long term borrowing                         | 7,461          | 6,091          | 4,785          | 7,840          | 7,056          | 5,645         | 4,516         | 3,387         | 2,540         |
| Total non-current liabilities               | 8,492          | 7,075          | 5,753          | 8,817          | 8,074          | 6,706         | 5,622         | 4,540         | 3,743         |
| Paid-up capital                             | 15,000         | 15,000         | 15,000         | 15,000         | 15,000         | 15,000        | 15,000        | 15,000        | 15,000        |
| Retained earnings                           | (575)          | (2,712)        | (4,516)        | (6,596)        | (7,729)        | (7,908)       | (7,798)       | (7,497)       | (7,034)       |
| Total owners' equity                        | 15,477         | 13,284         | 11,503         | 9,423          | 8,289          | 8,111         | 8,220         | 8,521         | 8,984         |
| <b>Total equity &amp; liabilities</b>       | <b>28,273</b>  | <b>26,681</b>  | <b>24,869</b>  | <b>23,601</b>  | <b>21,671</b>  | <b>20,117</b> | <b>19,047</b> | <b>18,214</b> | <b>17,855</b> |
| <b>Cashflow statement</b>                   |                |                |                |                |                |               |               |               |               |
| Operating activities                        | 3,241          | 1,466          | 2,766          | 883            | 1,672          | 2,454         | 2,837         | 2,976         | 3,075         |
| Investing activities                        | (279)          | (663)          | (705)          | (492)          | (705)          | (464)         | (470)         | (477)         | (484)         |
| Financing activities                        | (3,524)        | (698)          | (2,421)        | 242            | (1,438)        | (2,069)       | (1,832)       | (1,740)       | (1,379)       |
| Change in cash                              | (563)          | 105            | (360)          | 632            | (471)          | (79)          | 535           | 759           | 1,213         |
| <b>Ending cash balance</b>                  | <b>415</b>     | <b>555</b>     | <b>296</b>     | <b>937</b>     | <b>506</b>     | <b>470</b>    | <b>1,050</b>  | <b>1,856</b>  | <b>3,118</b>  |
| <b>Key fundamental ratios</b>               |                |                |                |                |                |               |               |               |               |
| <b>Liquidity ratios</b>                     |                |                |                |                |                |               |               |               |               |
| Current ratio (x)                           | 1.0            | 0.7            | 0.6            | 1.0            | 0.9            | 1.0           | 1.1           | 1.3           | 1.6           |
| <b>Profitability ratios</b>                 |                |                |                |                |                |               |               |               |               |
| Gross profit margin                         | -0.9%          | -10.4%         | -7.4%          | -8.4%          | 2.6%           | 11.5%         | 13.6%         | 14.7%         | 15.5%         |
| Operating margin                            | -7.7%          | -17.7%         | -13.0%         | -16.9%         | -6.0%          | 3.8%          | 6.1%          | 7.2%          | 8.2%          |
| EBITDA margin                               | 13.4%          | 11.8%          | 14.7%          | 11.3%          | 20.7%          | 27.4%         | 28.4%         | 28.6%         | 28.9%         |
| Net profit margin                           | -11.1%         | -26.1%         | -20.7%         | -24.6%         | -12.9%         | -1.8%         | 1.1%          | 2.8%          | 4.3%          |
| Return on assets                            | -4.4%          | -8.0%          | -7.3%          | -8.8%          | -5.2%          | -0.9%         | 0.6%          | 1.7%          | 2.6%          |
| Return on equity                            | -8.0%          | -16.1%         | -15.7%         | -22.1%         | -13.7%         | -2.2%         | 1.3%          | 3.5%          | 5.2%          |
| <b>Leverage ratio</b>                       |                |                |                |                |                |               |               |               |               |
| Interest coverage (x)                       | -2.2           | -2.0           | -1.6           | -2.2           | -0.9           | 0.7           | 1.2           | 1.7           | 2.1           |
| Debt / equity (x)                           | 0.6            | 0.7            | 0.7            | 1.0            | 1.0            | 0.8           | 0.6           | 0.5           | 0.3           |
| <b>Market/valuation ratios</b>              |                |                |                |                |                |               |               |               |               |
| EV/sales (x)                                | 2.6            | 3.4            | 2.1            | 1.8            | 1.8            | 1.4           | 1.2           | 1.0           | 0.7           |
| EV/EBITDA (x)                               | 19.4           | 28.5           | 14.2           | 15.8           | 8.6            | 5.2           | 4.2           | 3.3           | 2.5           |
| EPS (SAR)                                   | (0.83)         | (1.42)         | (1.20)         | (1.39)         | (0.76)         | (0.12)        | 0.07          | 0.20          | 0.31          |
| BVPS (SAR)                                  | 10.3           | 8.9            | 7.7            | 6.3            | 5.5            | 5.4           | 5.5           | 5.7           | 6.0           |
| DPS (SAR)                                   | 0.00           | 0.00           | 0.00           | 0.00           | 0.00           | 0.00          | 0.00          | 0.00          | 0.00          |
| Market price (SAR)*                         | 13.0           | 12.2           | 6.9            | 4.7            | 5.3            | 5.3           | 5.3           | 5.3           | 5.3           |
| Market-Cap (SAR mn)                         | 19,560         | 18,270         | 10,350         | 7,095          | 7,950          | 7,950         | 7,950         | 7,950         | 7,950         |
| P/E ratio (x)                               | (15.7)         | (8.6)          | (5.7)          | (3.4)          | (7.0)          | (44.6)        | 72.5          | 26.4          | 17.2          |
| P/BV ratio (x)                              | 1.3            | 1.4            | 0.9            | 0.8            | 1.0            | 1.0           | 1.0           | 0.9           | 0.9           |
| Dividend yield                              | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%          | 0.0%          | 0.0%          | 0.0%          |

Source: Company reports, Aljazira Capital Research, \* market price as of February 12, 2026

Head of Sell-Side Research - Director

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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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