Saudi Kayan Petrochemical Co.

Results Flash Note Q1-24

Lower OPEX helped reduce the losses Q/Q; topline impacted by decline in volumes

Saudi Kayan posted a net loss of SAR 572mn in Q1-24 compared to a net loss of SAR 622mn in the previous quarter. The net loss was in line with our estimate of a loss of SAR 598mn, while the market expected a net loss of SAR 512mn. Revenue declined 7.7% Q/Q to SAR 1,976mn, coming in line with our estimate of SAR 2,062mn. The top line was weighed down by lower sales volume, partially offset by a slight increase in average selling prices. Average prices of MEG (Asia), HDPE, LDPE and PP increased Q/Q during Q1-24, while PC prices fell. Lower OPEX aided reduction of net losses. We maintain our "Overweight" recommendation on the stock with a revised down TP of SAR 13.8/share.

- Saudi Kayan's net loss reduced to SAR 572mn Q1-24 vs. a loss of SAR 622mn in Q4-23. The net loss was in line with our estimate of SAR 598mn but was higher than market expected loss of SAR 512mn. The reduction in net loss, despite a decline in revenue, was mainly driven by lower OPEX.
- Revenue decreased 7.7% Q/Q to SAR 1,976mn (in line with AJC's estimate of SAR 2,062mn) as sales volume fell 9% Q/Q, although average selling prices were up 2% Q/Q. During the quarter, average prices of MEG (Asia) increased 12.0% Q/Q; PC prices fell 2.0% Q/Q. LDPE witnessed a gain of 5.5% Q/Q in average prices, while HDPE (+0.4% Q/Q) and PP (+1.2% Q/Q) also showed slight improvement.
- Gross loss for Q1-24 stood at SAR 275mn as against loss of SAR 271mn in Q4-23 and in line with our estimate of SAR 274mn. Cost of sales declined at a slower pace (-6.7% Q/Q) as compared to the revenue due to increase in average prices of feedstock butane by 3.0% Q/Q to USD 637/tonne. In Q1-24, Butane-MEG (Asia) spreads were positive vs. negative spreads in the previous quarter, as the prices of MEG improved. On the other hand, Butane-PC spreads declined 3.9% Q/Q with decrease in PC prices and higher butane prices. Butane-HDPE spreads fell 2.4% Q/Q and Butane-PP spreads inched down by 1.0% Q/Q, as increases in product prices were lower than feedstock price gain.
- Operating loss decreased to SAR 393mn from a loss of SAR 445mn in Q4-23, supported by 31.9% Q/Q decline in OPEX. The company recorded OPEX to sales rate of 6.0% in Q1-24 vs. 8.1% in Q4-23, lower than our estimate of 6.8%.

AJC view and valuation: Saudi Kayan's Q1-24 results came in line with our expectations. A lower OPEX level helped the company reduce losses despite lower revenue sequentially. The improvement in the prices of some products partially mitigated the impact of the increase in feedstock prices. However, the company's PC production continued to be affected by the fire incident that occurred last year at their Bisphenol plant. This impact is expected to extend till Q2-24, as per the company's initial announcement. Nevertheless, any early recovery would be a positive for the company's top line. MEG prices in Asia could benefit from declining inventories in East China and latest indicators suggesting a better economic outlook for China. Any improvement in Chinese demand will bode well for Kayan's revenue given its high exposure to Asia (43% of FY23 revenue). We expect the company to continue to reduce its losses in the next two quarters before returning to profit by the end of this year. PC production coming online and the expected decline in feedstock prices in summer season are likely to drive the improvement in performance. Driven by the anticipated improvement in performance, we forecast Kayan's FCF to improve to SAR 1.3bn in FY24E and SAR 2.6bn in FY25E from SAR 0.8bn in FY23. Additionally, the decreased leverage level (D/E 0.6x in FY23 from 0.8x in FY22) has reduced the pressure on the company's balance sheet amid high interest rates. In the long run, the potential allocation of 30mn cu. ft. ethane gas to Kayan by the government could be pathbreaking for the company, reducing its dependence on butane as feedstock and enhancing its production capacity. The company is trading at EV/EBITDA of 9.5x based on our FY24 earnings forecasts. We maintain our "**Overweight**" recommendation on the stock but revise down the TP to **SAR 13.8/share**, based on 50% weight each to DCF (WACC = 9.4% and terminal growth = 2.5%) and FY24E EV/EBITDA (10.5x).

Results Summary

SARmn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,683	2,142	1,976	17.4%	-7.7%	-4.2%
Gross Profit	-339	-271	-275	NM	NM	0.1%
Gross Margin	*-20.2%*	*-12.7%*	*-13.9%*	-	-	-
EBIT	-495	-445	-393	NM	NM	5.0%
Net Profit	**-673**	**-622**	**-572**	NM	NM	4.1%
EPS	-0.45	-0.41	-0.38	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	**Overweight**
Target Price (SAR)	13.8
Upside / (Downside)*	44.9%

Source: Tadawul *prices as of 29th of April 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E
Revenues	11,157	8,171	9,227
Growth %	-11.8%	-26.8%	12.9%
Net Income	-1,244	-2,160	-970
Growth %	NM	NM	NM
EPS	-0.83	-1.42	-0.63
DPS	0.0	0.0	0.0

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E
Gross Margin	-0.9%	-10.4%	3.2%
Net Margin	-11.1%	-26.4%	-10.5%
ROE	-7.8%	-4.2%	-5.4%
ROA	-4.1%	-1.7%	-2.3%
P/E (x)	Neg	Neg	Neg
P/B (x)	1.3	1.4	1.2
EV/EBITDA (x)	17.8	24.5	9.5
Dividend Yield	0.0%	0.0%	0.0%

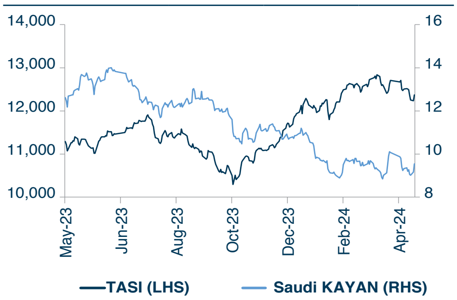
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	14.3
YTD%	-13.0%
52 week (High)/(Low)	14.08/8.77
Share Outstanding (mn)	1,500.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Company reports, Aljazira Capital

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

Disclaimer