

In-line losses; the lowest losses since Q3-22

Saudi Kayan continued to report losses in Q2-23, reporting a net loss of SAR 392mn, compared to a net loss of SAR 673mn in Q1-23. As compared to our and consensus estimates of a net loss of SAR 386mn and SAR 367mn, respectively. The net loss was significantly reduced Q/Q due to higher revenues and lower OPEX. Revenues stood at SAR 2,209mn (down 35.2% Y/Y and up 31.3% Q/Q), and 3.6% higher than our estimate of SAR 2,132mn. The Q/Q improvement in revenue was due to higher volumes following the scheduled periodic maintenance in Q1-23. Gross loss margin improved to 5.0% in Q2-23 as compared to a loss margin of 20.2% in Q1-23 driven by higher revenues and lower feedstock costs. Feedstock butane's average prices decreased 27.9% Q/Q to USD 513/ton in Q2-23. We maintain our TP of SAR 14.5/share and "Neutral" recommendation on the stock.

- Saudi Kayan posted net losses of SAR 392mn in Q2-23 vs. a net loss of SAR 673mn in Q1-23 and our estimated loss of SAR 386mn. These are the lowest losses recorded since Q3-22 since the company started reporting losses again. The net loss significantly reduced Q/Q mainly due to higher revenues (+31.3% Q/Q) and lower OPEX (-16.8% Q/Q). The loss was broadly in-line with our estimate. We believe the higher revenues was partly offset by higher gross loss and operating loss. However, we believe lower financing costs over the quarter have lowered the deviation at net level.
- Revenue decreased 35.2% Y/Y but was up 31.3% Q/Q to SAR 2,209mn in Q2-23, and 3.6% above our estimate of SAR 2,132mn. The Q/Q improvement in revenue was on account of an increase in volumetric sales following the scheduled periodic maintenance at some plants in Q1-23. During the quarter, average prices of Polycarbonate tumbled 7.5%, while MEG (Asia) decreased 4.4% Q/Q. LDPE and HDPE also declined 10.5% Q/Q and 3.5% Q/Q, respectively. PP (Asia) was also down 7.4% Q/Q.
- Gross loss for Q2-23 stood at SAR 111mn as against a gross loss of SAR 339mn in Q1-23 and our estimated gross loss of SAR 40mn. The Q/Q decline in gross loss was driven by higher revenues, and lower feedstock costs which supported the margins. Gross loss margin improved to 5.0% in Q2-23 compared to a loss margin of 20.2% in Q1-23. Average prices of butane, a major feedstock for the company, decreased 27.9% Q/Q to USD 513/ton in Q2-23. Butane-PC spreads remained flat Q/Q, while Butane-PP spreads was up 23.0% Q/Q and Butane-HDPE spreads jumped 29.0% Q/Q. Butane-MEG (Asia)'s spreads turned positive during the quarter to USD 80.4/MT.
- In Q2-23, operating loss was SAR 240mn compared to operating loss of SAR 495mn in Q1-23 and our estimate of an operating loss of SAR 209mn. The company recorded an OPEX of SAR 129mn in Q2-23 compared to SAR 155mn in Q1-23 and our estimate of SAR 168mn. This reflects an OPEX to sales rate of 5.8% in Q2-23 vs our estimate of 7.9% and 9.2% in Q1-23

AJC view and valuation: Saudi Kayan's Q2-23 losses were in line-with our estimated loss. We believe higher-than-expected revenues were partly offset by higher gross loss and operating loss. However, we believe lower financing costs over the quarter would have lowered the deviation at net-profit level. The outlook for the company's key products remains weak. The near-term outlook for PC looks muted due to no recovery expected in short-term demand amid ample supplies available. MEG demand in Asia is expected to remain sluggish in H2-23 while supply continues to strengthen during the same period. Additionally, global demand concerns due to an economic slowdown and high inflationary environment may affect the company's other products as well. Saudi Kayan, being one of the heavily leveraged petrochemical companies in the Kingdom, is expected to get impacted by rising interest rates. From the longer-term perspective, the allocation of 30mn cu. ft. of ethane gas to Saudi Kayan by the government is likely to help the company reduce its dependence on Butane as feedstock. We maintain our TP of SAR 14.5/share and "Neutral" recommendation on the stock.

Results Summary

SARmn	Q2-22	Q1-23	Q2-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	3,407	1,682	2,209	-35.2%	31.3%	3.6%
Gross Profit	435	-339	-111	NM	NM	NM
Gross Margin	12.8%	-20.2%	-5.0%	-	-	-
EBIT	247	-495	-240	NM	NM	-15.4%
Net Profit	150	-673	-392	NM	NM	-1.7%
EPS	0.10	-0.45	-0.26	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	14.5
Upside / (Downside)*	16.9%

Source: Tadawul *prices as of 30th of July 2023

Key Financials

SARmn (unless specified)	FY20	FY21	FY22	FY23E
Revenue	8,007	12,656	11,157	8,490
Growth %	-16.0%	58.1%	-11.8%	-23.9%
Net Income	-784.7	2,391	-1,244	-1,387
Growth %	NM	NM	NM	NM
EPS	-0.52	1.59	-0.83	-0.92

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22	FY23E
Gross Margin	5.6%	28.1%	-0.9%	0.5%
Net Margin	-9.8%	18.9%	-11.1%	-16.3%
P/E (x)	NEG	10.7	NEG	NEG
P/B (x)	1.5	1.6	1.3	1.3
EV/EBITDA (x)	17.4	7.7	17.8	16.1
Dividend Yield	0.0%	0.0%	0.0%	0.0%

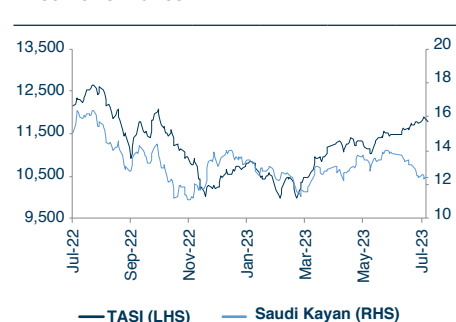
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	18.6
YTD %	-9.2%
52 Week (High)/(Low)	16.6/10.8
Shares Outstanding (mn)	1,500.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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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