Saudi Kayan Petrochemical Company (KAYAN)

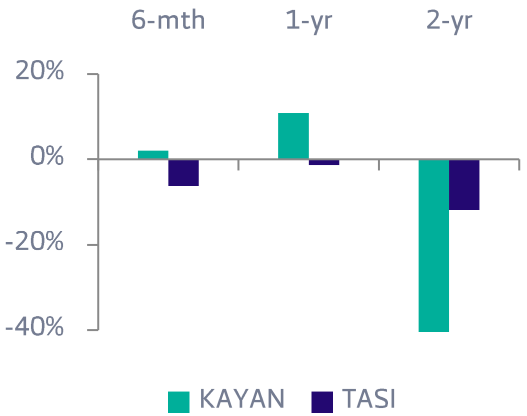
2Q2026 First Look

Payables Fund Cash Flow, Losses are Real; Sell Maintained

July 30, 2026

Upside to Target Price	(19.4%)	Rating	Sell
Expected Dividend Yield	-	Last Price	SAR 4.96
Expected Total Return	(19.4%)	12-mth target	SAR 4.00

Market Data	
52-week high/low	SAR 6.41 / 4.48
Market Cap	SAR 7,440 mln
Shares Outstanding	1,500 mln
Free-float	65.00%
12-month ADTV	7,470,756
Bloomberg Code	KAYAN AB



SAUDI KAYAN	2Q2026	2Q2025	Y/Y	1Q2026	Q/Q	RC Estimate
Sales	2,009	2,231	(10%)	1,488	35%	990
Gross Profit	(339)	(112)	(201%)	(284)	(19%)	(462)
Gross Margins	(17%)	(5%)		(19%)		(47%)
Operating Profit	(522)	(306)	(71%)	(462)	(13%)	(635)
Net Profit	(673)	(496)	(36%)	(615)	(9%)	(789)

(All figures are in SAR mln)

- Kayan sales rose +35% Q/Q (-10% Y/Y) to SAR 2.0 bln, well above our SAR 990 mln forecast, with the beat driven by prices (+51% Y/Y, per management) against sales volumes of -40% Y/Y (PR, Table 2). Our 2Q2026 Equity Preview flagged lower estimates across petrochemical producers on Hormuz shipping disruptions – measurable under our oscillation regime framework (forthcoming sector update). Separately, accumulated losses reached SAR 7,187.5 mln – 48% of share capital (Note 2, Dec-25: 43%) – and this is after a March EGA transferred SAR 620.9 mln of other equity components against losses (Note 4); without that transfer, the ratio would already exceed ~52%. With ~SAR 312 mln of headroom to the 50% statutory threshold against a 2Q26 loss of SAR (673) mln, we expect the threshold to be crossed during 3Q26 absent further capital action, requiring the Board to announce the losses and convene an EGA on remedial measures (Note 2).
- Gross margins of (17%) improved from (19%) in 1Q26 and beat our (47%) estimate; the deviation reflects our scenario's assumption of significantly lower volumes, particularly MEG. Net losses of SAR (673) mln were likewise narrower than our SAR (789) mln estimate. With volumes -32% YTD and -40% Y/Y, Hormuz remains disrupted on our framework measures: war-risk transit premiums at 5%-to-10% of hull value vs ~0.25% pre-conflict (GECF monthly report, July 2026), and 30-day rolling vessel traffic at ~13 (July 28) vs ~22 (July 12) (RC Calculations, Bloomberg Data). We maintain our cautiously negative view of the Company's logistics options.
- We maintain our Sell rating and lower our target price to SAR 4.00, anchored on book value: current BVPS of SAR 5.27, eroding at the 2Q26 run-rate of SAR (0.45) per quarter, implies ~SAR 3.50 in twelve months; our target equates to ~1.15x forward book, the premium to book reflecting recapitalization probability and SABIC support, and mindful that Hormuz-driven price spikes are currently helping the Company. Reported free cash flow of SAR 573 mln in 2Q26 (PR, p.3) was a working-capital artifact: payables stretched ~SAR 1,529 mln Q/Q (2Q26 financials, cash flow statement), including amounts due to SABIC rising to SAR 2,136 mln from SAR 1,732 mln-at year-end (Note 6.c). Excluding working-capital swings, we estimate quarterly free cash flow of ~SAR 11 mln in 1Q26 and ~SAR (437) mln in 2Q26. We view the coming threshold breach as a catalyst for corporate action rather than for value: the available remedies – capital reduction, converting SABIC balances to equity, extending asset lives to cut depreciation – reset the accumulated-loss ratio or reduce finance costs, but none restores cash generation. We would revisit our rating on a recapitalization that materially reduces finance costs or on implementation of the additional 2H26 feedstock allocation (Note 2) improving cash economics – as distinct from accounting measures that reset the ratio without changing it.

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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