

October 24, 2023

Losses Decline Y/Y

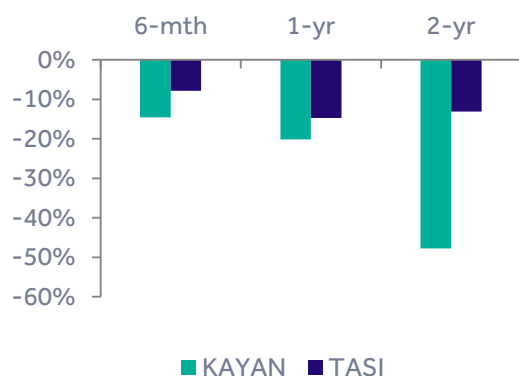
Upside to Target Price	4.4%	Rating	Neutral
Expected Dividend Yield	-	Last Price	SAR 11.02
Expected Total Return	4.4%	12-mth target	SAR 11.50

Market Data	
52-week high/low	SAR 14.34 / 10.80
Market Cap	SAR 16,530 mln
Shares Outstanding	1,500 mln
Free-float	65.00%
12-month ADTV	1,966,567
Bloomberg Code	KAYAN AB

SAUDI KAYAN	3Q2023	3Q2022	Y/Y	2Q2023	Q/Q	RC Estimate
Sales	2,137	2,596	(18%)	2,209	(3%)	1,925
Gross Profit	(121)	(489)	75%	(111)	(9%)	(39)
Gross Margins	(6%)	(19%)		(5%)		(2%)
Operating Profit	(266)	(676)	61%	(240)	(11%)	(169)
Net Profit	(449)	(812)	45%	(392)	(15%)	(321)

(All figures are in SAR mln)

- Saudi Kayan posted a decrease of -3% Q/Q and -18% Y/Y in sales, coming in at SAR 2.1 billion, topping our SAR 1.9 billion estimates. According to management, Kayan reported product sales price decreases of -10% Q/Q and -13% Y/Y, which we believe poses the greatest challenge at this time. However, we also note that Kayan reported a sequential increase in sales volumes of +7% Q/Q, while positive, this did not materially help margins.
- Gross margins came in at (6%) as compared to (5%) in the previous quarter, indicating further erosion of margins compared to 2Q23. We acknowledge our expectations were for greater improvement, given that average feedstock prices, such as Propane and Butane, trended lower in 3Q23 (-11% Q/Q), but this was not the case. According to Argaam, these prices have increased as of October 23, 2023, for both Propane and Butane, by +28% and +34%, respectively. This has lowered our optimism for the near future, as margins will further weigh on financial performance.
- Net losses were recorded at SAR (449) million for the quarter, compared to losses of SAR (392) million in the preceding quarter and SAR (812) million in 3Q22. We have previously stated that Y/Y performance from net profits to net losses is driven by higher financing costs. Given these higher costs have persisted, feedstock prices are rebounding in 4Q23, and considering the Bisphenol plant fire, we believe profitable operations will be contingent on all three of these negative impacts reversing. Therefore, we lower our target price to SAR 11.50 but maintain our Neutral rating.



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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
For any feedback on our reports, please contact research@riyadcapital.com

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