



US\$7.10bn Market cap	45% Free float	US\$27.20mn Avg. daily volume
Target price	14.40	-19.3% over current
Consensus price	16.15	-9.5% over current
Current price	17.85	as at 12/10/2010

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Existing rating

Underweight Neutral Overweight

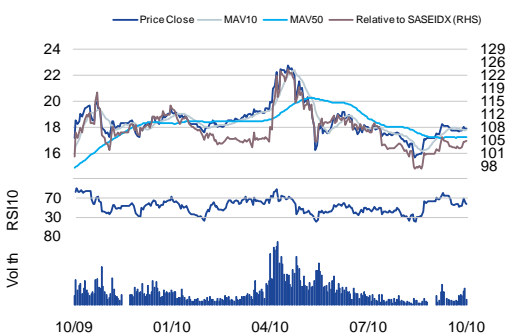
Saudi Kayan Q3 earnings in line, no surprises

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Saudi Kayan's reported Q3 results are in line with our estimates. We do not expect the company to record any revenue for nearly two years, despite the commencement of trial operations in Q3. We retain our view that it is risky to invest in a "project company" in view of possible start-up delays. Saudi Kayan's share price is little changed from the time of our initiation of coverage on the petrochemicals sector (4th August), and our target price implies 19.3% downside from the current level. We do not expect any major positive triggers for the stock in the near term and reaffirm our Underweight rating.

Performance



Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

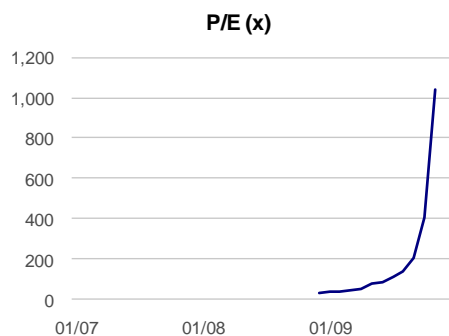
Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	-	-	-	11,756
Revenue Growth				
EBITDA (SARmn)	(17)	(17)	(17)	4,526
EBITDA Growth	-90.2%	0.0%	0.0%	
EPS	(0.01)	(0.01)	(0.01)	1.69
EPS Growth	-103.4%	-0.4%	0.0%	

Source: Company data, Al Rajhi Capital

- **Revenues:** The units of Saudi Kayan are in the pre-operational stage. The company started trial operations at its olefins plant at the end of July and at its ethylene glycol and polypropylene plants in August. Currently we estimate the launch of commercial production in Q2 2012. We will revisit our revenue assumptions based on possible further company guidance.
- **Net profit:** Saudi Kayan reported net a loss of SAR5.1mn, in line with our estimate of a loss of SAR5.4mn. The net loss increased by 36% compared to a net loss of SAR3.7mn for the comparable quarter of 2009. On a quarter-on-quarter basis the net loss increased by 182% from SAR1.8mn. The net loss increased due to ongoing operational costs and foreign currency exchange rate fluctuations.
- **Funding requirements due to cost escalations:** In August 2010, Saudi Kayan received a SAR4.5bn loan from National Commercial Bank to part-finance the expected cost escalation of its Jubail petrochemicals plant. The cost over-run is estimated at around SAR9bn. The Company also raised debt of around SAR1.0bn in Q3 to finance working capital requirements.
- **Conclusion:** Saudi Kayan has not provided any additional guidance on the expected launch of commercial production. We retain our view that it is risky to invest in a "project company" like Saudi Kayan in view of possible start-up delays. We estimate fair value per share for Saudi Kayan at SAR14.4 and remain Underweight on the stock.

Valuation



Source: Company data, Al Rajhi Capital



Corporate summary

Saudi Kayan, coming on board at Jubail will be one of the largest petrochemical plants in the world. SABIC has a 35% stake in the company with the rest being split between the Al Kayan Company (20%) and the general public (45%) after an IPO for the company in 2008. Saudi Kayan, has however, faced delays with its startup. From an initial expected startup date in FY09 which further got pushed to Q2FY10, the project now faces a potential delay till Q2 FY12, thus delaying the revenue stream associated with the company.

Share information

Market cap (SAR/US\$) 26.80bn / 7.10bn
52-week range 15.65 - 22.75
Daily avg volume (US\$) 27.20mn
Shares outstanding 1,500mn
Free float (est) 45%

Performance:	1M	3M	12M
Absolute	4.1%	-0.6%	2.9%
Relative to index	3.5%	-2.6%	3.8%

Major Shareholder:

SABIC	35%
Al Kayan	20%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	-	-	-	11,756
EBITDA (SARmn)	(17)	(17)	(17)	4,526
Net Profit (SARmn)	(17)	(17)	(17)	2,528
EPS (SAR)	(0.01)	(0.01)	(0.01)	1.69
DPS (SAR)	-	-	-	-
EPS Growth	-103.4%	-0.4%	0.0%	na
EV/EBITDA (x)	NA	NA	NA	8.3
P/E (x)	NA	NA	NA	10.6
P/B (x)	1.7	1.7	1.7	1.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"**Overweight**": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"**Neutral**": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"**Time horizon**": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"**Fair value**": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"**Target price**": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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