



US\$8.10bn Market cap	45% Free float	US\$50.68mn Avg. daily volume
Target price	14.14	-30.2% over current
Consensus price	16.35	-19.3% over current
Current price	20.25	as at 16/1/2011

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Existing rating

Underweight	Neutral	Overweight
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Saudi Kayan Petrochemical Co

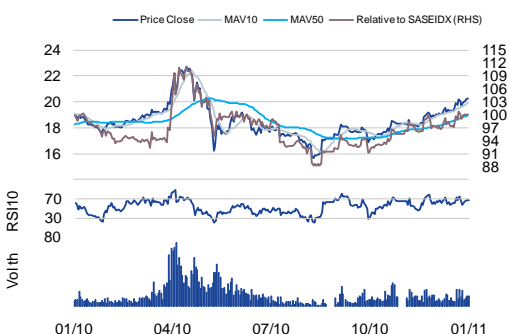
No surprises in Q4 2010

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 preliminary Q4 results are close to our estimates. We see Saudi Kayan as essentially a "project company" which has been formed to supply its parent SABIC. Despite the start of trial operations, we do not expect full commercial production before 2012. We do not expect to revise our forecasts substantially, although rolling forward our DEP model to start from 2011 may require us to review our fair value per share. Saudi Kayan's share price has rallied with the oil price and the rest of the sector over the past few months. We see the rally as overdone and expect to maintain our Underweight rating.

Performance



Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	-	-	-	12,150
Revenue Growth				
EBITDA (mn)	(17)	(17)	(28)	5,346
EBITDA Growth	-90.2%	0.2%	63.4%	
EPS	(0.01)	(0.01)	(0.02)	1.57
EPS Growth	-103.4%	1.6%	60.4%	

Source: Company data, Al Rajhi Capital

Valuation

Note. We have not provided an historical valuation chart here, because we do not expect Saudi Kayan to report revenues or profits until 2012.
 Source: Company data, Al Rajhi Capital

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

- **Zero revenues:** The units of Saudi Kayan are in the pre-operational stage and we estimate the launch of commercial production in Q2 2012. Saudi Kayan has not provided detailed guidance on the expected launch of commercial production. We will revisit our revenue assumptions based on any further company guidance in the detailed Q4 results report.
- **Insignificant net loss:** Saudi Kayan reported a net loss of SAR4.1mn in Q4, which is marginally better than our estimate of SAR6.6mn. On a quarter-on-quarter basis, the net loss fell by 19%. However, on a year-on-year basis, the net loss increased tenfold primarily due to an increase in SG&A costs. The company reported a net loss of SAR14.7mn for the full year 2010.
- **Trial operations begin:** In the pre-commencement stage, Saudi Kayan has started trial operations at its phenolics plant in December 2010, which has production units of cumene (isopropyl benzene), phenol and bisphenol A. The company's polycarbonate unit is planned for start-up in H1 2011. In Q3-2010, the Company started trial operations at its olefins plant as well as ethylene glycol and polypropylene plants.
- **Conclusion:** We do not anticipate major changes to our earnings estimates, and may need to revise up our fair value per share (which is also our target price) of SAR14.1 when we shortly roll forward our long-run discounted economic profit (DEP) model to start from 2011 rather than 2010. However, Saudi Kayan has suffered multiple start-up delays and a big increase in project capex over the past year. With no clear sign of when revenues will start to be generated, we maintain our view that investing in the company is risky. Saudi Kayan's share price has rallied alongside the crude oil price and the rest of the petrochemicals sector, rising by 20% over the past three months and outperforming the TASI by over 10%. We think this is overdone and expect to remain Underweight.



Corporate summary	Share information			Valuation					
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.	Market cap (SAR/US\$)	30.38bn / 8.10bn		Period End	12/09A	12/10E	12/11E	12/12E	
	52-week range	15.65 - 22.75		Revenue (SARmn)	-	-	-	12,150	
	Daily avg volume (US\$)	50.68mn		EBITDA (SARmn)	(17)	(17)	(28)	5,346	
	Shares outstanding	1,500mn		Net Profit (SARmn)	(17)	(17)	(28)	2,352	
	Free float (est)	45%		EPS (SAR)	(0.01)	(0.01)	(0.02)	1.57	
	Performance:	1M	3M	12M	DPS (SAR)	-	-	-	-
	Absolute	7.4%	19.8%	5.7%	EPS Growth	-103.4%	1.6%	60.4%	na
	Relative to index	2.9%	10.8%	-1.6%	EV/EBITDA (x)	na	na	na	9.2
	Major Shareholder:				P/E (x)	na	na	na	12.9
	SABIC	35%			P/B (x)	2.0	2.0	2.0	1.7
Al Kayan	20%			Dividend Yield	0.0%	0.0%	0.0%	0.0%	
Source: Bloomberg, Al Rajhi Capital				Source: Company data, Al Rajhi Capital					

Figure 1. Saudi Kayan: summary of Q4 2010 results

(SAR mn)	Q4 2009	Q3 2010	Q4 2010	% chg y-o-y	% chg q-o-q	ARC est
Operating profit	(0)	(5)	(4)	1225.5%	-18.6%	(7)
Net profit	(0)	(5)	(4)	1022.7%	-18.9%	(7)

Source: Company data, Al Rajhi Capital

Figure 2. Saudi Kayan: summary of 2010 results

(SAR mn)	2009	2010	% chg y-o-y	ARC est
Operating profit	(17)	(15)	-13.2%	(17)
Net profit	(17)	(15)	-12.9%	(17)

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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