Saudi Kayan Petrochemical Co

Petrochemicals – Industrial
KAYAN AB: Saudi Arabia
13 April 2011

Al Rajhi Capital
الراجحي المالية

US$7.20bn	45%	US$74.90mn
Market cap	Free float	Avg. daily volume

Target price	15.50	-13.9% over current
Consensus price	17.65	-1.9% over current
Current price	18.00	as at 12/4/2011

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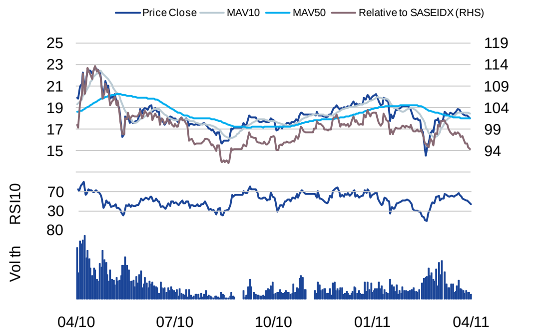
Existing rating

Underweight	Neutral	Overweight

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.

Performance



Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	-	-	11,776	13,441
Revenue Growth				14.1%
EBITDA (mn)	(14)	(18)	5,256	5,914
EBITDA Growth	-15.4%	24.7%		12.5%
EPS	(0.01)	(0.01)	1.49	1.95
EPS Growth	-13.6%	21.5%		31.5%

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.

Saudi Kayan Petrochemical Co
Zakat weighs on the bottom-line

Saudi Kayan's preliminary Q1 results came below our estimates. The company's plants are in the pre-operational stage and we do not foresee the full commercial production before 2012 despite the Company expecting the start of commercial operation in 2H 2011. We maintain our Underweight rating on the stock because of repeated cost over runs and start- up delays.

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 Q1 2012 as against Company's expectation to start the commercial production in 2H 2011. We will revisit our revenue assumptions based on any further company guidance in the detailed Q1 results report.

- **Net loss:** Saudi Kayan reported a net loss of SAR8.3mn in Q1, which is significantly higher than our estimated loss of SAR4.1mn. On a quarter-on-quarter basis, the net loss shot up by 109% while on a year-on-year basis, the net loss was up by 121% primarily due to an increase in zakat. Zakat paid for Q1 2011 was SAR4.1mn, up 2116% from last quarter.

- **Trial operations continue:** In the pre-commencement stage, Saudi Kayan has continued with its trial operations at its plants. In March 2011, the Company started the trial operations at Jubail polycarbonate plant in addition to starting trial operations at phenolics plant in December 2010, olefins plant in late July 2010, and ethylene glycol and polypropylene plants in August 2010.

- **Funding requirements due to cost escalations:** During the quarter, Kayan signed a SAR2bn murabaha facility agreement with Banque Saudi Fransi to cover the escalated construction costs. Note that the Company has raised about SAR4.5bn from National Commercial Bank in August 2010 because of similar cost over runs. The debt level as on Q1 2011 is estimated to be SAR27.3bn.

- **Conclusion:** Saudi Kayan expects to start the commercial operations in 2H2011. However, the Company has suffered multiple start-up delays and a substantial increase in project capex over the past year. Consequently, we maintain our view that investing in the company is risky and remain Underweight on the stock.

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 Q1 FY12, thus delaying the revenue stream associated with the company.

Share information

Market cap (SAR/US$)	27.00bn / 7.20bn
52-week range	14.55 - 22.75
Daily avg volume (US$)	74.90mn
Shares outstanding	1,500mn
Free float (est)	45%

Performance:	1M	3M	12M
Absolute	0.8%	-10.2%	-6.7%
Relative to index	-3.9%	-8.3%	-2.4%

Major Shareholder:	
SABIC	35%
Al Kayan	20%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	-	-	11,776	13,441
EBITDA (SARmn)	(14)	(18)	5,256	5,914
Net Profit (SARmn)	(15)	(18)	2,229	2,932
EPS (SAR)	(0.01)	(0.01)	1.49	1.95
DPS (SAR)	-	-	-	-
EPS Growth	-13.6%	21.5%	na	31.5%
EV/EBITDA (x)	na	na	9.0	7.3
P/E (x)	na	na	12.1	9.2
P/B (x)	1.7	1.7	1.5	1.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

Figure 1. Saudi Kayan: summary of Q1 2011 results

(SAR mn)	Q1 2010	Q4 2010	Q1 2011	% chg y-o-y	% chg q-o-q	ARC est
Operating profit	(3.7)	(3.9)	(3.5)	-5.7%	-11.6%	(4.1)
Net profit	(3.8)	(4.0)	(8.3)	121.1%	109.4%	(4.1)

Source: Company data, Al Rajhi Capital

Disclaimer and additional disclosures for Equity Research

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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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