Equity Research report
Kayan AB Equity
4 May 2025

Target Price: SAR6.0/share
Market price: SAR5.77/share
Upside: +4.0%
Rating: Neutral

Saudi Kayan Petrochemical Co. - Kayan

1Q25 earnings miss; TP set at SAR6.0/sh. on revised outlook

Stock data	
TASI ticker	2350
Mcap (SARmn)	8,655
Avg. Trd. Val (SARmn)	17.4
Free Float	65.0%
QFI Holding	9.1%
TASI FF weight	0.26%

Source: Bloomberg

Prices indexed to 100

Source: Bloomberg

- 1Q25 net losses widened on lower product prices, higher operating expenses, and one-off refinancing costs.
- Kayan's key products' market fundamentals remain weak, due to lower demand in the end markets, trade conflict, and excess supply.
- We cut our TP to SAR6.0/sh. (SAR11.5/sh. earlier) based on DCF valuation to reflect the revised market outlook and change our rating to Neutral on the stock.

1Q25 earnings miss: Top-line declined by 8.2% q/q at SAR2,062mn, missing our estimate of SAR2,275mn (consensus: SAR2,177mn), largely due to lower-than-expected product prices (-7% q/q drop) and slightly weaker sales volume (-1% y/y). Lower product prices, higher feedstock prices, and high fixed-cost structure costs resulted in a gross loss of SAR389mn, much higher than expected. Further, OPEX rose significantly from SAR132mn in 4Q24 to SAR260mn in 1Q25, likely due to higher operating expenses and reorganization of non-recurring cost of refinancing Islamic Murabaha loans (signed a refinance deal worth SAR8.1bn in March 2025), further dragging operating loss to SAR649mn. Consequently, the company reported a net loss of SAR776mn, much higher than our estimated net loss of SAR481mn (consensus: SAR477mn loss).

Challenging market dynamics ahead: The market dynamics of Kayan's key products, MEG and PC (together accounting for ~35% of sales volume), remain weak, primarily due to weak demand in the end markets, particularly in China's housing sector, trade conflicts, geopolitical concerns, and persistent oversupply. The recent data indicates that the PC import in China (a leading PC importer in Asia) has been declining (Figure 3), paired with rising exports amid increasing domestic production, which has put pressure on PC prices in recent years. Accordingly, average PC prices in 2Q25 reached the lowest levels since 3Q20, with YTD average prices implying a 3% y/y decline (43% drop over 2021). Meanwhile, MEG inventory in China, after reaching the lowest level in years in early Jan 2025, has started rising again (+69% from early Jan 2025; Figure 4), indicating slowing demand and thereby keeping product prices (more than an 8% drop QTD) under check.

Figure 1: Key financial metrics

SARmn	2023a	2024a	2025e	2026e
Revenue	8,171	8,726	8,863	9,347
Revenue growth	*-27%*	*7%*	*2%*	*5%*
Gross Profit	(846)	(642)	(724)	(243)
Gross Profit margin	*-10%*	*-7%*	*-8%*	*-3%*
EBITDA	1,014	1,317	848	1,391
Op. income	(1,446)	(1,134)	(1,529)	(964)
Net profit	(2,136)	(1,804)	(2,069)	(1,475)
Net profit margin	*-26%*	*-21%*	*-23%*	*-16%*
EPS (SAR)	(1.4)	(1.2)	(1.4)	(1.0)
P/E	NM	NM	NM	NM

Source: Company data, GIB Capital.

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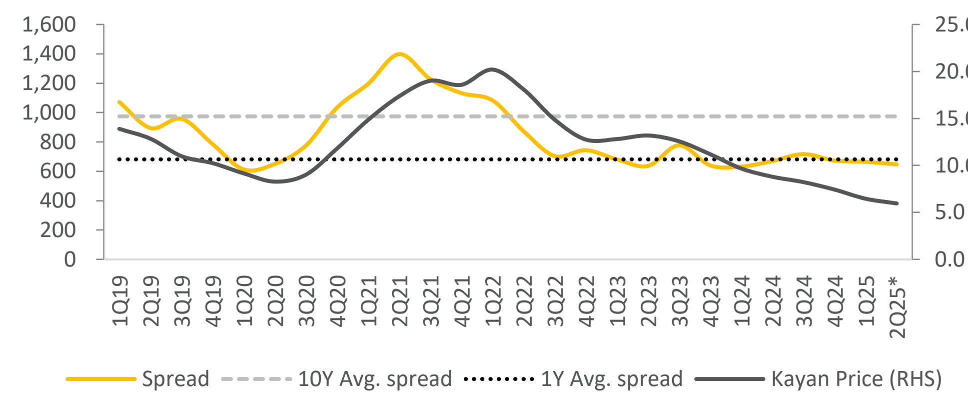
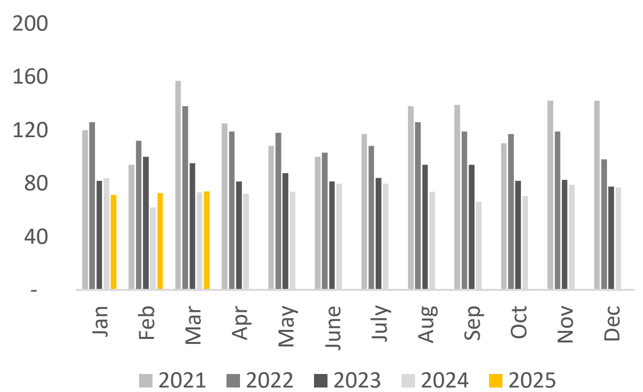
Further, we expect Polymer prices (-2% to +2% QTD) to remain stable to soft on cautious buying amid a weak market sentiment driven by trade war concerns and increased availability of Chinese cargos. Further, average Butane prices are down by ~2% q/q (QTD) in 2Q25, but remain ~3% higher than the 2Q24 level. This, along with increased Ethane/Methane prices by Aramco earlier this year, is expected to keep spreads lower than the historical level.

Figure 2: Weighted average Kayan's spreads (US$/t) vs. average stock price (SAR)



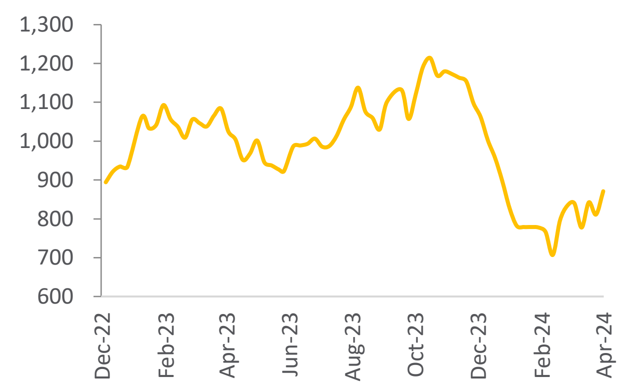
*Source: Company data, Bloomberg, GIB Capital. * QTD*

Figure 3: China's PC imports trend ('000 tonnes)



Source: ICIS, GIB Capital

Figure 4: East China MEG inventories ('000 tonnes)



Source: ICIS, GIB Capital

The recent refinancing deal to boost the liquidity, however, further deleveraging seems difficult without the parent's support. In March 2025, Kayan secured a SAR8.1bn Murabaha refinancing deal with local banks, including SNB, BSF, and Alinma Bank. This agreement replaces existing debt under an extended term—from 8 years (until December 2027) to 10 years (until December 2034)—with a 10-year tenor and a grace period until the end of 2025. Notably, the debt repayment schedule begins with low principal payments that gradually increase to 13% of the principal by 2028 and continue through 2034. This will help the company improve liquidity (SAR3.4bn earlier due for repayment in 2025) and reduce the debt burden (likely reduction in 1Q25, although the numbers are not disclosed in the earnings release). We await the detailed financials to analyze the quantum of positive impact of this refinancing deal.

Further, we note that Kayan has successfully repaid more than SAR10bn debt over the past 5 years, bringing down the total debt by over 50% to SAR8.4bn as of Dec 2024. However, we expect the further deleveraging unlikely to continue, given the weaker cash flows, and unless there is further support from its parent company, SABIC (by deferring payment to SABIC as evidenced by the rising accounts payable level – from ~SAR1bn in 2022 to over SAR3bn in 2024).

Valuation and risks: Given the weak market dynamics for Kayan's key products and trade war concerns, we cut our total sales volume and average products price forecasts by ~3-4% and ~7%, respectively, for 2025-26e, resulting in a 10-11% downward revision in our top-line estimate. This, coupled with increased feedstock prices by Aramco and relatively higher fixed cost structure, is expected to continue to impact performance, with the company continuing to incur operating losses (although likely to improve) in the coming years. Nonetheless, the company's efforts in deleveraging the balance sheet and refinancing the existing debt with better terms may help the company in limiting the impact on the bottom line. Accordingly, we revise our TP to SAR6.0/sh. (SAR11.5/sh. earlier) based on DCF valuation (9.6% WACC; unchanged). The stock price has corrected ~18% YTD, reflecting the ongoing challenges in the market. Hence, we revise our rating to Neutral on the stock. Economic slowdown, lower-than-expected product spreads, the unexpected change in subsidized feedstock prices, unplanned shutdown, and persistently high interest rates act as downside risks to our valuation.

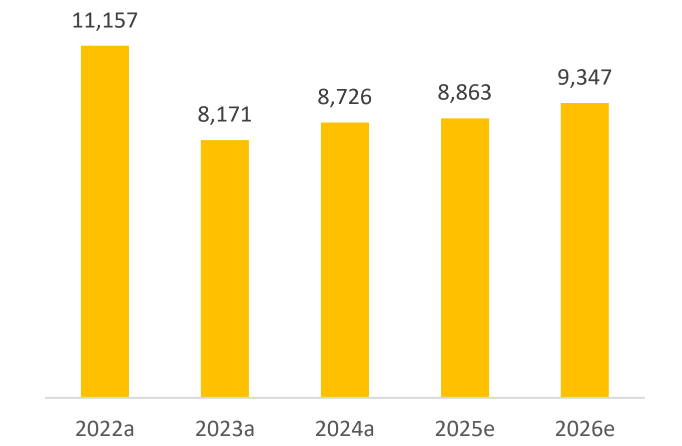
Figure 5: 1Q25 results summary

SARmn	1Q25	1Q24	y/y %	4Q24	q/q %	GIBC est.	Variance %
Revenues	**2,062**	**1,976**	**4.4%**	**2,245**	**-8.2%**	**2,275**	**-9.4%**
Cost of sales	2,450	2,251	8.9%	2,636	-7.0%	2,435	0.7%
Gross loss	**(389)**	**(275)**	**41.4%**	**(390)**	**-0.4%**	**(159)**	**143.8%**
Opex	260	119	119.5%	132	96.5%	166	56.7%
Operating loss	**(649)**	**(393)**	**65.0%**	**(523)**	**24.2%**	**(325)**	**99.4%**
Net loss	**(776)**	**(572)**	**35.7%**	**(686)**	**13.2%**	**(481)**	**61.3%**
Gross margin	-18.9%	-13.9%		-17.4%		-7.0%	
Operating margin	-31.5%	-19.9%		-23.3%		-14.3%	
Net margin	-37.6%	-28.9%		-30.5%		-21.1%	

Source: Company data, GIB Capital

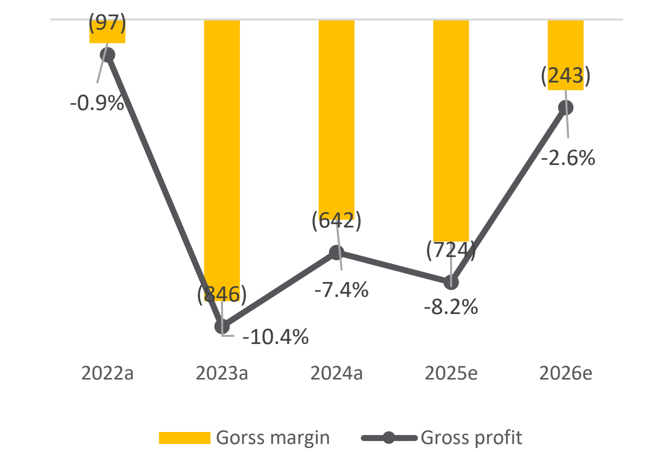
Financial analysis in chart

Figure 6: Revenue trend (SARmn)



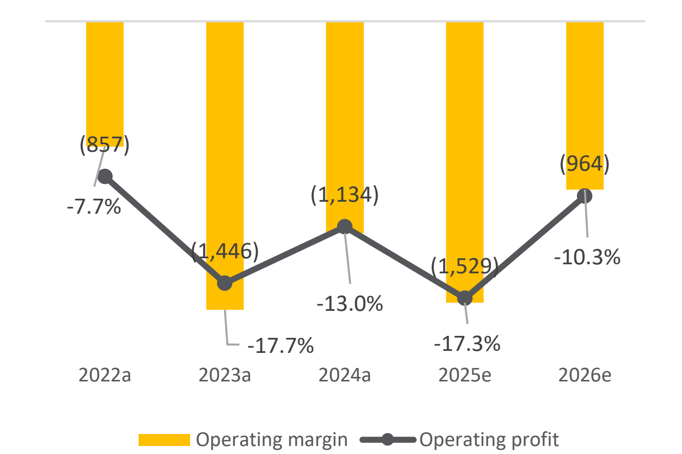
Source: Company data, GIB Capital

Figure 7: Gross profit and gross margin trend (SARmn)



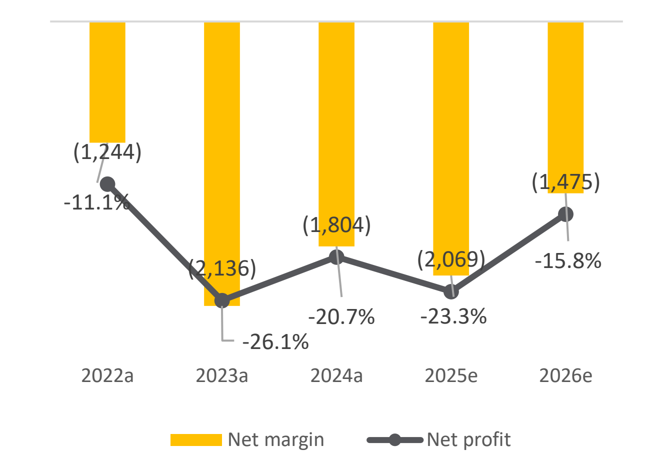
Source: Company data, GIB Capital

Figure 8: Operating profit and operating margin trend (SARmn)



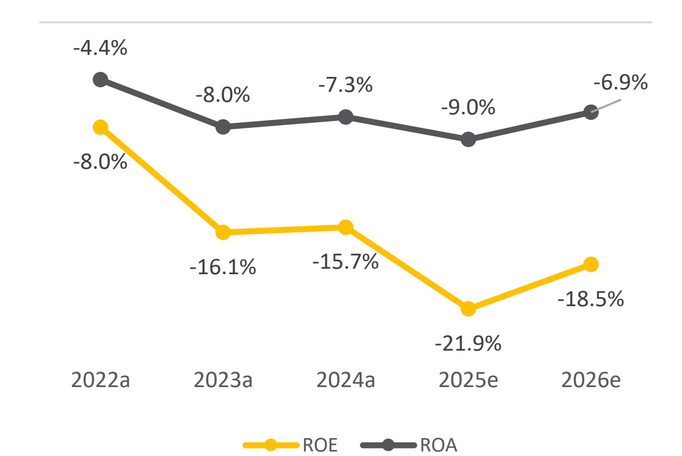
Source: Company data, GIB Capital

Figure 9: Net profit and net margin trend (SARmn)



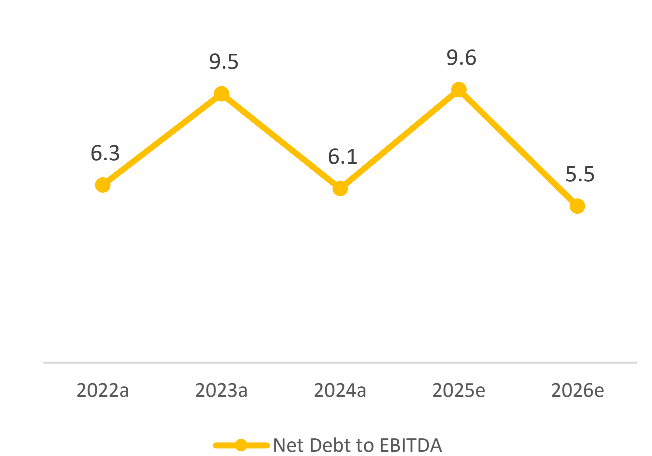
Source: Company data, GIB Capital

Figure 10: ROE & ROA



Source: Company data, GIB Capital

Figure 11: Net Debt to EBITDA



Source: Company data, GIB Capital

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GIB CAPITAL

Financials

Figure 12: Financial statement

Income statement	2023a	2024a	2025e	2026e
Revenue	**8,171**	**8,726**	**8,863**	**9,347**
revenue y/y	*-27%*	*7%*	*2%*	*5%*
COGS	(9,017)	(9,368)	(9,587)	(9,590)
Gross Profit	**(846)**	**(642)**	**(724)**	**(243)**
Gross Profit margin	*-10%*	*-7%*	*-8%*	*-3%*
Operating expenses	(599)	(491)	(805)	(722)
Operating profit	**(1,446)**	**(1,134)**	**(1,529)**	**(964)**
Operating margin	*-18%*	*-13%*	*-17%*	*-10%*
Finance costs	(684)	(673)	(505)	(475)
Net income	**(2,136)**	**(1,804)**	**(2,069)**	**(1,475)**
Net margin	*-26%*	*-21%*	*-23%*	*-16%*
y/y	*72%*	*-16%*	*15%*	*-29%*
EPS	**(1.4)**	**(1.2)**	**(1.4)**	**(1.0)**
DPS	0.0	0.0	0.0	0.0
Payout	0%	0%	0%	0%
EBITDA	**1,014**	**1,317**	**848**	**1,391**
Net debt	9,616	8,083	8,161	7,677

Balance Sheet	2023a	2024a	2025e	2026e
Inventories	1,226	1,363	1,406	1,483
Trade Receivables	2,305	2,317	2,391	2,521
Prepayments and Other Assets	471	515	515	515
Cash and Equivalents	555	296	369	448
Total Current Assets	**4,555**	**4,492**	**4,681**	**4,967**
Intangible Assets	190	168	145	126
Property, Plant & Equipment	21,595	19,918	18,004	16,121
Total Non-Current Assets	**22,125**	**20,378**	**18,399**	**16,464**
Total Assets	**26,681**	**24,869**	**23,080**	**21,431**
Current Liabilities	6,322	7,613	4,791	5,265
Non-current Liabilities	7,075	5,753	8,856	8,208
Equity	13,284	11,503	9,433	7,958
Total Equity and Liabilities	**26,681**	**24,869**	**23,080**	**21,431**
BVPS	8.9	7.7	6.3	5.3

Cashflow	2023a	2024a	2025e	2026e
Cashflow from Operations	885	2,111	321	905
Cashflow from Investing	-788	-609	-399	-421
Cashflow from Financing	43	-1,760	150	-405
Total Cashflows	**140**	**-258**	**72**	**79**

Source: Company, GIB Capital

Figure 13: Key ratios

Key ratios	2023a	2024a	2025e	2026e
Profitability ratios				
RoA	-8%	-7%	-9%	-7%
RoE	-16%	-16%	-22%	-19%
RoIC	-6%	-6%	-9%	-6%
Sales/Assets	31%	35%	38%	44%
Net margin	-26.1%	-20.7%	-23.3%	-15.8%
Liquidity ratios				
Current Assets/ Current Liabilities	0.7	0.6	1.0	0.9
Debt to Total Equity	77%	73%	90%	102%
Receivable Days	103	97	98	98
Inventory Days	-50	-53	-54	-56
Payable days	-64	-119	-120	-127
Debt ratios				
Net Debt/EBITDA	9.5	6.1	9.6	5.5
Debt/Assets	0.4	0.3	0.4	0.4
Valuation ratios				
P/E	-4.1	-4.8	-4.2	-5.9
P/B	0.7	0.8	0.9	1.1
EV/EBITDA	17.3	13.3	20.6	12.6
Div. Yield	0.0%	0.0%	0.0%	0.0%

Source: Company, GIB Capital

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