

Keyuan Petrochemicals Inc. Announces Second Quarter 2013 Financial Results

Written by Australian Business

NINGBO, China, Oct. 4, 2013 /PRNewswire-FirstCall/ -- Keyuan Petrochemicals Inc. (OTCQB: KEYP), ("Keyuan" or "the Company"), an independent manufacturer and supplier of various petrochemical products in China, today announced the Company's financial results for the quarter ended June 30th, 2013.

"Although our sales volume was negatively impacted by the 40-day facilities shutdown for the thorough routine inspection and maintenance that generally occurs every two years," commented Mr. Chunfeng Tao, Chairman and Chief Executive Officer of Keyuan Petrochemicals Inc. "I believe that with our healthy backlog of sales and a clear growth strategy, Keyuan's core earnings potential will improve in the next quarter and going forward."

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Financial Summary

Q2 2013

Q2 2012

Chg.

1H 2013

1H 2012

Chg.

Sales

\$94M

\$184M

(49)%

\$304M

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\$368M

(17)%

Gross Profit

\$2.6M

\$6.4M

(59)%

\$11M

\$16M

(31)%

Net Income/(Loss) (a)

\$(0.5)M

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\$1.1M

(147)%

\$2.4M

\$2.9M

(17)%

EPS (Diluted)

\$(0.01)

\$0.02

(150)%

\$0.04

\$0.05

(20)%

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Diluted Shares O/S

57.6M

63.0M

-

63.0M

63.0M

-

(a) Net Income/(Loss) attributable to KEYP common stockholders.

Sales for the three months ended June 30, 2013 were approximately \$94 million, compared to \$184 million for the three months ended June 30, 2012, a decrease of \$90 million, or 48.9%. The substantial decrease was mainly due to the decrease in sales volume as a result of production interruptions in the quarter, which resulted in 98,000 metric tons of lost production. Production interruptions were caused by a 40-day facilities shutdown for thorough routine inspection and maintenance that generally occurs every two years. During the three months ended June 30, 2013

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, we sold 85,999 metric tons of petrochemical products at an average price of \$1,096 per metric ton, compared to 169,107 metric tons of petrochemical products at an average price of \$1,091 per metric ton in the three months ended June 30, 2012. This represents a decrease of approximately 49% in overall products sold.

Sales for the six months ended June 30, 2013 were approximately \$304 million, compared to \$368 million for the six months ended June 30, 2012, a decrease of \$64 million, or 17%. There was no significant change in the average selling prices for the six months ended June 30, 2013 (\$1,123 per ton) and the average selling prices for the six months ended June 30, 2012 (\$1,125 per ton).

Overall cost of sales was approximately \$92 million for the three months ended June 30, 2013, or 97% of sales, as compared to approximately \$178 million, or 96% of sales for the three months ended June 30, 2012. Cost of sales is primarily composed of the costs of direct raw materials (mainly heavy oil, benzene, butadiene and carbinol), labor, depreciation and amortization of manufacturing equipment and facilities, and other overhead. The increase in the percentage of cost of sales was mainly due to the routine maintenance cost that occurred during the period and also the higher unit cost of \$1,065 per ton for the three months ended June 30, 2013 as compared to unit cost of \$1,053 per ton for the three months ended

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June 30, 2012

Overall cost of sales was approximately \$292 million for the six months ended June 30, 2013, or 96% of sales, as compared to approximately \$352 million, or 96% of sales for the six months ended June 30, 2012. In the six months ended June 30, 2013, average cost of finished product was \$1,080 per metric ton, as compared to \$ 1,076 per metric ton in the six months ended June 30, 2012, a slight increase of 0.4%.

Gross profit for the three months ended June 30, 2013 was approximately \$2.6 million as compared to \$6.4 million for the comparable period in 2012, a decrease of approximately \$3.8 million, or 59.1%. The decrease was mainly due to the increased maintenance fees and fixed costs during the period as a result of production suspension.

Gross profit for the six months ended June 30, 2013 was approximately \$11 million as compared to \$16 million for the comparable period in 2012. Gross margin decreased from 4.4% for the six months ended June 30, 2012 to 3.6% for the six months ended June 30, 2013. The main reason for the decrease in the gross margin is mainly due to the lost production, increased unit cost and lower selling prices.

Operating expenses, including selling expenses, and general and administrative expenses,

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were approximately \$2.9 million, or 3% of sales for the three months ended June 30, 2013, as compared to \$3.0 million, or 1.65% of sales for the comparable period in 2012, a slight decrease of approximately \$0.19 million or 6.19%. The decrease was mainly due to overall decreases in all expenses as a result of lower sales during the shutdown period.

Operating expenses, including selling expenses and general and administrative expenses, were approximately \$6 million, or 2% of sales for the six months ended June 30, 2013, as compared to \$5.9 million, or 1.6% of sales for the comparable period in 2012, an increase of approximately \$0.1 million. The increase in the expenses was due to general increases in welfare expenses and taxes.

Net loss was approximately \$0.5 million for the three months ended June 30, 2013, as compared to net income of approximately \$1.1 million in the same period in 2012, a decrease of \$1.6 million, or 147%. This decrease was mainly due to the lower sales for the three months ended June 30, 2013, compared to the same period of 2012 and increased borrowings.

Net income was approximately \$2.4 million for the six months ended June 30, 2013, as compared to approximately \$2.9 million in the same period in 2012, a decrease of \$0.5 million, or 16.7%. This decrease was mainly due to the decrease of production and sales in 2013, compared to the same period of 2012.

Other updates

Consumption Tax Refund

The PRC government enacted a regulation that provides consumption tax exemptions for domestically purchased heavy oil which is used for the manufacture of ethylene and aromatics products. In addition, the consumption tax paid for imported heavy oil is to be refunded if the heavy oil was used for ethylene and aromatics products manufacture. Given that all heavy oils purchased by the Company are, or are to be, used for the production of ethylene and aromatics products, the Company recognizes a consumption tax refund receivable when the consumption tax has been paid and the related heavy oils have been used for production. As of June 30, 2013 and December 31, 2012, the Company recorded an estimated consumption tax refund amounting to approximately \$93.7 million and \$51.3 million, respectively.

A refund of approximately \$67.7 million was received by the Company in July 2013, and a refund of \$3.4 million is expected to be approved and received in the second half of 2013.

About Keyuan Petrochemicals, Inc.

Keyuan Petrochemicals, Inc., established in 2007, through its PRC operating subsidiaries, Ningbo Keyuan Plastics Co., Ltd, Ningbo Keyuan Petrochemicals Co., Ltd, Keyuan Synthetic Rubbers Co., Ltd and Guangxi Keyuan Co., Ltd, is engaged in the manufacture and sale of various petrochemical products in the PRC. Having commenced production in October 2010, Keyuan's operations include an annual petrochemical manufacturing design capacity of 720,000 MT for a variety of petrochemical products, with facilities for the storage and loading of raw materials and finished goods, and a technology that supports the manufacturing process with low raw material costs and high utilization and yields. Keyuan also completed the construction of a Styrene-Butadiene-Styrene (the "SBS") production facility with an annual production capacity of 70,000 MT in September 2011. One SBS production line began commercial production in December 2011 and the second line began commercial production in August 2012. In order to meet increasing market demand, Keyuan adjusted its original expansion project

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and is currently working to refine its manufacturing capacity to include an ABS production facility, an oil catalytic cracking processing facility, an increased annual design capacity of its ethylene-styrene facility from 80,000 MT to 200,000 MT, a transformer oil facility and an SSBR (Solution Polymerized Styrene Butadiene Rubber) production facility.

Cautionary Statement Regarding Forward-Looking Information

This press release may contain certain "forward-looking statements" relating to the business of Keyuan Petrochemicals, Inc., and its subsidiary companies. All statements, other than statements of historical fact included herein are "forward-looking statements" including statements regarding the impact of the proceeds from the private placement on the Company's short term business and operations, the general ability of the Company to achieve its commercial objectives, including the ability of the Company to sustain growth; the business strategy, plans and objectives of the Company and its subsidiaries; and any other statements of non-historical information. These forward looking statements are often identified by the use of forward-looking terminology such as "believes," "expects" or similar expressions, involve known and unknown risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in the Company's periodic reports that are filed with the Securities and Exchange Commission and available on its website (<http://www.sec.gov>). All forward-looking statements attributable to the Company or persons acting on its behalf months are expressly qualified in their entirety by these factors. Other than as required under the securities laws, the Company does not assume a duty to update these forward-looking statements.

For more information, please contact:

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KEYUAN PETROCHEMICALS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEET

June 30,

December 31,

2013

2012

ASSETS

(Unaudited)

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Current assets:

Cash

Pledged bank deposits

\$

2,309

\$

23,378

Bills receivable

296,407

201,252

Accounts receivable

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12,254

3,968

Inventories

10,475

14,248

Prepayments to suppliers

56,053

48,634

Consumption tax refund receivable

31,402

23,476

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Amounts due from related parties

93,674

51,334

Other current assets

295

40

Deferred income tax assets

54,395

56,320

Total current assets

1,762

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2,801

559,026

425,451

Property, plant and equipment, net

Intangible assets, net

253,033

227,603

Land use rights

855

880

VAT recoverable

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10,694

10,708

2,568

2,232

Total assets

\$

826,176

\$

666,874

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Short-term bank borrowings

Bills payable

\$

475,614

\$

295,146

Accounts payable

148,327

102,650

Advances from customers

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81,846

130,387

Accrued expenses and other payables

6,117

24,405

Income tax payable

24,895

26,833

Dividends payable

-

2,344

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Amounts due to related parties

2,382

2,382

Total liabilities, all current

-

479

739,181

584,626

Series B convertible preferred stock:

Par value:\$0.001; Authorized: 8000,000 shares issued and outstanding:

5,333,340 shares, liquidation preference \$20,250

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16,452

16,452

Commitments and contingencies

-

-

Stockholders' equity:

Common stock:

Par value: \$0.001; Authorized: 100,000,000 shares Issued and outstanding: 57,464,160 shares as at Ju

58

58

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Additional paid-in capital

51,350

50,653

Statutory reserve

4,074

4,071

Accumulated other comprehensive income

9,122

7,491

Retained earnings

5,939

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3,523

Total stockholders' equity

70,543

65,796

Total liabilities and stockholders' equity

\$

826,176

\$

666,874

KEYUAN PETROCHEMICALS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS

Three Months Ended

Six Months Ended

June 30,

June 30,

2013

2012

2013

2012

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Sales

\$

94,257

\$

184,426

\$

303,811

\$

367,750

Cost of sales

91,628

178,006

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292,360

351,857

Gross profit

2,629

6,420

11,451

15,893

Selling expenses

236

388

403

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641

General and administration expenses

2,621

2,657

5,591

5,267

Total operating expenses

2,857

3,045

5,994

5,908

(Loss) income from operations

(228)

3,375

5,457

9,985

Other income (expense):

Interest income

3,151

1,883

3,902

2,822

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Interest expense

(7,045)

(2,930)

(10,441)

(7,309)

Foreign exchange gain (loss), net

4,652

(543)

6,205

(364)

Other (expense) income, net

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(715)

147

(1,095)

(217)

Total other income (expense), net

43

(1,443)

(1,429)

(5,068)

(Loss) income before income taxes

(185)

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1,932

4,028

4,917

Income tax expense

312

870

1,607

2,010

Net (loss) income attributable to Keyuan Petrochemicals Inc. stockholders

(497)

1,062

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2,421

2,907

Dividends to Series B convertible preferred stockholders

-

-

-

-

Net (loss) income attributable to Keyuan Petrochemicals Inc. common stockholders

\$

(497)

\$

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1,062

\$

2,421

\$

2,907

Net (loss) income attributable to Keyuan Petrochemicals Inc. stockholders

\$

(497)

\$

1,062

\$

2,421

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\$

2,907

Other comprehensive income:

Foreign currency translation adjustment

1,101

131

1,632

708

Comprehensive income

\$

604

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\$

1,193

\$

4,053

\$

3,615

Earnings (loss) per share:

Attributable to common stock:

-Basic

\$

(0.01)

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\$

0.02

\$

0.04

\$

0.05

-Diluted

\$

(0.01)

\$

0.02

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\$

0.04

\$

0.05

Weighted average number of shares of common stock used in calculation:

-Basic

57,646,160

57,646,160

57,646,160

57,646,160

-Diluted

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57,646,160

62,979,500

62,979,500

62,979,500

KEYUAN PETROCHEMICALS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS

Six months ended

□ June 30,

2013

2012

Cash flows from operating activities:

Net income

\$

2,421

\$

2,907

Adjustments to reconcile net income to net cash provided by (used in) operating activities:

Depreciation

6,047

5,452

Amortization

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48

54

Land use rights amortization

234

226

Deferred income tax (benefit) expense

1,086

-

Share-based compensation expense

764

819

Changes in operating assets and liabilities:

Bills receivable

(8,116)

(1,727)

Accounts receivable

3,988

2,244

Inventories

(6,339)

(33,864)

Prepayments to suppliers

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(7,645)

(25,882)

Consumption tax refund receivable

(40,834)

(50,875)

Other current assets

3,359

(16,566)

Accounts payable

(19,970)

(18,462)

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Advances (to) from customers

(18,593)

29,342

Income taxes payable

(2,595)

880

Accrued expenses and other payables

(646)

(1,483)

Net cash used in operating activities

(86,791)

(106,935)

Cash flows from investing activities:

Purchase of property, plant and equipment

(28,318)

(21,296)

Net cash used in investing activities

(28,318)

(21,296)

Cash flow from financing activities:

Pledged bank deposits used for bank borrowings

(90,005)

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(82,489)

Proceeds from short-term bank borrowings

646,075

457,866

Repayment of short-term bank borrowings

(504,884)

(291,149)

Proceeds from bank notes

130,724

111,379

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Repayments of bank notes

(87,644)

(64,059)

Net cash provided by financing activities

94,266

131,548

Effect of foreign currency exchange rate changes on cash

(226)

(763)

Net (decrease) increase in cash

(21,069)

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2,554

Cash at beginning of period

23,378

7,325

Cash at end of period

\$

2,309

\$

9,879

Supplemental disclosure of cash flow information:

Income tax paid

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\$

3,056

\$

1,029

Interest paid, net of capitalized interest

\$

10,441

\$

589

Non cash investing and financing activities:

Payable for purchase of property, plant and equipment (net of VAT)

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\$

6,068

\$

4,434

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