الرياض المالية
Riyad Capital

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SAUDI ARABIAN EQUITIES
Energy Price Update

Saudi Aramco Raises Feedstock & Fuel Prices

What Changed: Methane, Ethane, HFO and Diesel prices increased

Sectors Impacted Materially: Petrochemicals, Cement, Mining & Ceramics

Sectors Impacted Minimally: Industrial, Transportation, Refining & Food

RC covered companies affected: Petrochemicals and Cement, Maaden, Almarai, Riyadh Cables, Marafiq and Bin Dawood

Expected Mitigants: Focus on efficiency, innovation and development

The new year 2024 started on a surprising note for the equity market as Saudi Aramco sent a notification to various companies informing them of an increase in feedstock and fuel prices on January 3, 2024. To be fair, there had been talk about increase in ethane and methane prices for a while now but it was mostly dismissed as something for another day. We feel the bigger and more wide-ranging surprise (not necessarily in terms of listed companies' earnings impact) was the rise in diesel prices to SAR 1.15/liter as this has a bearing across industries and consumers, mostly negative, with the exception of distributors such as Aldrees. One positive news is that the discount on propane and butane has not been changed, which would have been even worse for petchems.

This change in energy prices is the first since 2016 and takes effect from January 1, 2024, meaning 1Q2024 would be the first quarter to show the impact across industries. Taking cue from the cost of sales impact announced by petrochemical companies as well as the news emanating in the financial press, it appears that the following changes have taken effect:

- **Methane** prices have risen by USD 0.5/mmbtu, from USD 1.25/mmbtu to USD 1.75/mmbtu
- **Ethane** prices have increased by USD 0.75/mmbtu, from USD 1.75/mmbtu to USD 2.5/mmbtu
- **Diesel** fuel prices have increase by SAR 0.40/liter, from SAR 0.75/liter to SAR 1.15/liter

Tadawul Plummets, Recovers next day

While the market understandably had a severe negative reaction on the day of the announcement (Jan 3rd), falling by 194 points (1.6%), it bounced back immediately in the next trading session, rising by 217 points or 1.8%. This depicts the strength of the ongoing bull run.

However, on a fundamental level, petrochemical and cement companies' earnings would be materially affected in 2024, thereby impacting our Target Prices as well. We have analyzed this briefly below but would release a more detailed note in due course. Both these sectors have faced a tough 2023 and it appears they are not out of the woods in 2024.

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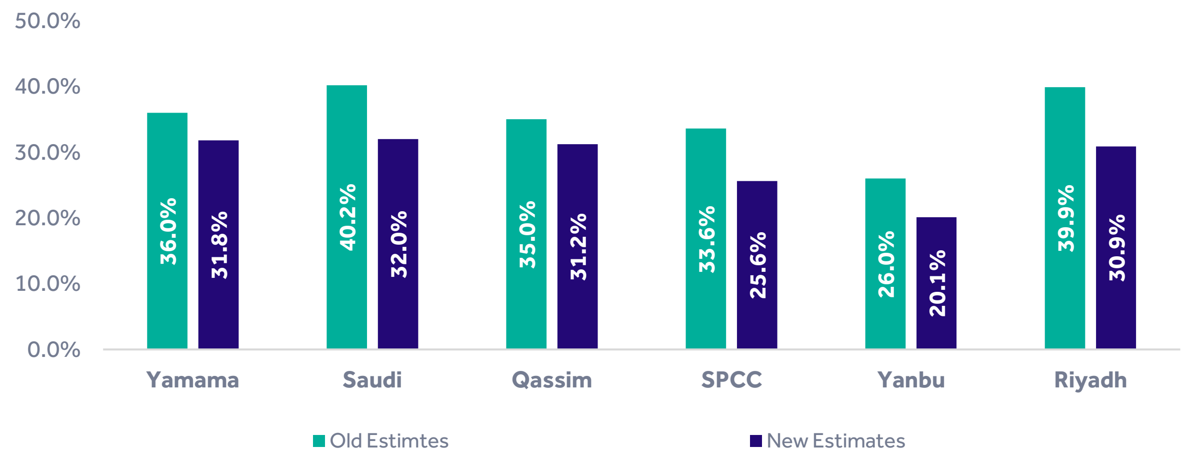
Cement Sector

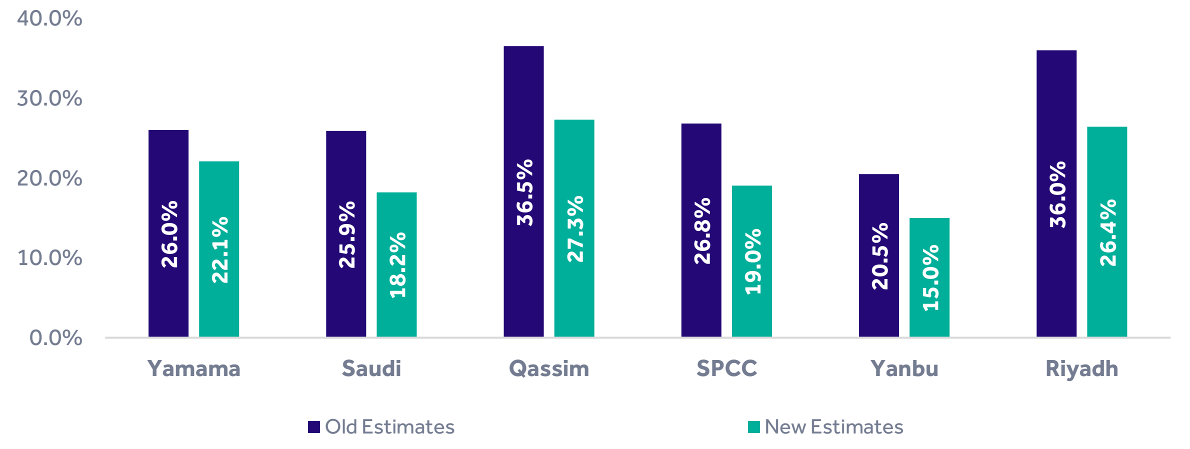
The price of fuel products used in cement production has been increased from January 1, 2024. It's worth noting that the production of cement requires significant amounts of energy. Fossil fuels like coal, oil, and natural gas are commonly used as fuel sources. These changes will affect the companies under coverage coupled with lower demand from the retail in 2024, which we already witnessed in 2023. In addition, prices have been lower on the back of higher competition. The exhibits below illustrate our estimated impact.

Exhibit 1: Expected impact on Gross Margins FY2024



Source: Riyad Capital

Exhibit 2: Expected impact on Net Margins FY2024



Source: Riyad Capital

Would the price cap be increased?

The Cement companies are already facing challenges due to lower demand and prices, which could further exacerbate due to higher energy prices. We anticipate that there is chance that the Ministry of Commerce could either raise the cap (currently at SAR 240/ton) or could even remove it altogether.

It is possible that cement companies would raise prices to pass on some of the hike and cement sales would be limited to the regions where the producers are located due to higher transportation costs.

Petrochemical Sector

A key flash point in 2023 for investors in petrochemicals, has been the cost structures of major producers. Indeed, the importance of margins will only exacerbate in its importance moving into 2024.

Higher prices for both Methane & Ethane is a material event which will have a dampening effect on margins and earnings. Overall, producers with gross margins under pressue, higher leverage, and where end-product prices have been lower will be the most affected.

The following two tables illustrate the impact based on last annual financials (as announced in Tadawaul) as well as an estimated impact on 2024 gross margins and net profit based on simplistic initial estimates. Advanced is not expected to have any impact.

Exhibit 3: Financial Impact on Petrochemical Companies 2022 (as per Tadawul announcement)

	Name	2022 COGS Change (%)	2022 COGS Change (SAR mln)	2022 Gross Margins Change (bps)	2022 Net Profit Change (%)
1-	SABIC	1.70%	2,648	-133	-16.0%
2-	Yansab	2.80%	169	-241	-40.8%
3-	Saudi Kayan	1.20%	135	-121	-10.8%
4-	SABIC AN	3.80%	296	-156	-3.0%
5-	Tasnee*	2.50%	75	-194	-11.3%
6-	Sipchem	3.18%	172	-165	-4.6%
7-	SIIG**	1.40%	NA	NA	-6.4%

Source: Riyad Capital, Tadawul
** Includes subsidiaries and JVs*
*** Cost of sales of JVs, COGS of JVs not available*

Exhibit 4: Financial Impact on Petrochemical Companies 2024E (RC Estimates)

	Name	2024 COGS Change (%)	2024 Gross Margins Change (bps)	2024 Net Profit Change (%)
1-	SABIC	1.70%	-130	-20.5%
2-	Yansab	2.80%	-211	-15.0%
3-	Saudi Kayan	1.20%	-103	-36.8%
4-	SABIC AN	3.80%	-157	-3.7%
5-	Tasnee*	2.50%	-215	-14.8%
6-	Sipchem	3.18%	-189	-7.7%
7-	SIIG**	1.40%	NA	-6.4%

Source: Riyad Capital
** Includes subsidiaries and JVs*
*** Cost of sales of JVs*

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

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