

Petrochemicals Sector

April 14, 2024

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E
SABIC	39,693	34,930	(12%)	15%	13%	1,688	805	(52%)	657	106	(84%)	2%	0%	0.22	0.04
SABIC AGRI-NUTRIENTS	2,760	2,437	(12%)	41%	27%	957	462	(52%)	981	512	(48%)	36%	21%	2.06	1.08
Tasnee	889	1,023	15%	13%	(7%)	161	(78)	(149%)	82	(96)	(217%)	9%	(9%)	0.12	(0.14)
Yansab	667	1,533	130%	(36%)	7%	(367)	9	(103%)	(370)	44	(112%)	(55%)	3%	(0.66)	0.08
Sipchem	2,087	2,051	(2%)	36%	21%	561	225	(60%)	470	174	(63%)	23%	8%	0.64	0.24
Advanced	627	586	(7%)	16%	14%	64	39	(39%)	42	14	(65%)	7%	2%	0.16	0.06
Saudi Kayan	1,682	1,878	12%	(20%)	(31%)	(495)	(731)	48%	(673)	(919)	36%	(40%)	(49%)	(0.45)	(0.61)
SIIG	-	-	-	-	-	(237)	25	(111%)	(242)	33	(114%)	-	-	(0.32)	0.04
Group Total	48,405	44,438	(8%)			2,334	756	(68%)	947	(132)	(114%)				

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

- Petrochemical prices experienced a slight recovery in 1Q24, as on average, many end-products had marginal growth or traded flat Q/Q; such as PP and LDPE (+1% and +5%). Despite this, we believe that 1Q24 will have muted performance, especially on gross margins, on the back of higher feedstock prices, such as Propane and Butane. Based on these developments alone, we maintain our uncertain-to-negative outlook in the short term for 1H24, moreover, 1Q24 is estimated to receive the first wave of the effects from Saudi Aramco's previously announced price hikes of Methane and Ethane. With the current geopolitical uncertainty in the Redsea, driving up shipping rates (e.g. Baltic Dry Index) in 1Q24 as well, FY2024 will experience more headwinds than potential tailwinds in 1H24. Petrochemical companies in The Kingdom will have to weather continued soft demand and potentially begin right-sizing, while awaiting greater economic recovery.
- In 1Q24, Feedstock price increases continued, with Naphtha, Propane, and Butane, all increasing Q/Q, by +4%, +3%, and +3%, respectively. We firmly believe these steady price increases of feedstock will further increase pressure on margins for major petrochemical producers. Moreover, this pressure is further compounded by the Q/Q increases in Methane and Ethane, by +40% and +43%, respectively. The only positive point of note, would be the mild increases in end-product prices, such as Polypropylene, increasing by +1% Q/Q, Ethylene prices, gaining +4% Q/Q, MEG +12% Q/Q, and LLDPE +2% Q/Q. Fertilizer prices traded lower, with Ammonia and Urea contracting, as Urea averaged at USD 357/per ton in 1Q24 (down -2% Q/Q), while Ammonia averaged USD 342/per ton (down -34% Q/Q).
- For 1Q24, we expect a decline of -8% Y/Y in top-line performance for companies under our coverage. In addition, margins will be under continued pressure, driving profitability to decline by -114% Y/Y. Hence, with improvement in Fertilizers over the last two quarters, we prefer them to Petrochemicals, mostly driven by the petrochemical sector's poor outlook for 1H24, based on margin compression, a lack of global demand pickup from India and China, and feedstock price increases.

Banking Sector

Company	Net Commission Income			Net Income			Net Advances			Deposits		
	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y
BSF	1,924	2,030	6%	1,076	1,109	3%	164,779	176,589	7%	167,414	170,710	2%
SAB	2,534	2,648	4%	1,765	1,815	3%	191,001	219,175	15%	225,983	243,350	8%
ANB	1,733	1,836	6%	1,068	1,106	4%	144,727	155,280	7%	155,247	169,179	9%
Al Rajhi	5,125	5,641	10%	4,145	4,291	4%	577,011	603,118	5%	556,197	590,294	6%
Albilad	1,037	1,042	0%	560	591	6%	95,483	106,163	11%	105,483	115,652	10%
Alinma	1,735	2,143	24%	970	1,418	46%	153,153	179,701	17%	159,948	191,659	20%
SNB	6,778	6,911	2%	5,101	5,117	0%	566,337	612,355	8%	610,791	613,653	0%
Group Total	20,866	22,251	7%	14,685	15,447	5%	1,892,491	2,052,381	8%	1,981,063	2,094,497	6%

Source: Riyadh Capital, Company Reports (SAR mln)

- The Saudi Central Bank (SAMA) key interest rates were unchanged in the first quarter. The Repurchase Agreement (Repo) rate stands at 6.0% while the Reverse Repurchase Agreement (Reverse Repo) rate is at 5.5%.
- SAIBOR 3-M was almost flat during the quarter, ending 1Q at 6.24% as compared to 6.23% at December-end.
- The Saudi Central Bank's monthly data for January and February 2024 shows a +10% Y/Y growth and a +4% sequential increase in profit before zakat and tax to SAR 13.8 bln. Our expectations for banks under our coverage shows a mid-single digit growth Y/Y in profits after zakat to SAR 15.4 bln. We expect Alinma to continue its robust growth and register a +46% Y/Y in profit after tax to SAR 1.4 bln. We expect SNB to post flat profitability for 1Q2024 at SAR 5.1 bln. Most other banks are also likely to post a mid-single digit growth in profits. We expect Alinma to have the highest increase Y/Y in-terms of net advances and deposits of +17% and +20%, respectively.

Cement Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E
Yamama	283	216	(24%)	48%	45%	117	78	(33%)	112	70	(38%)	40%	32%	0.56	0.34
Saudi	410	396	(3%)	43%	38%	124	98	(21%)	124	94	(24%)	30%	24%	0.81	0.61
Qassim	174	167	(4%)	33%	31%	49	45	(8%)	55	48	(13%)	32%	29%	0.61	0.53
Southern	300	219	(27%)	24%	26%	53	57	7%	49	54	10%	16%	25%	0.35	0.38
Yanbu	224	215	(4%)	32%	27%	56	44	(21%)	51	38	(26%)	23%	18%	0.32	0.24
Riyadh*	-	160	-	-	36%	-	50	-	-	47	-	-	29%	-	0.39
Group Total	1,391	1,212	(13%)			399	323	(19%)	391	302	(23%)				

Source: Riyad Capital, Company Reports (SAR mln, except per share data). *Riyadh Cement figures were excluded from the group total.

We anticipate a Y/Y decline in cement volumes sold for the group of companies under our coverage in 1Q2024E compared to 1Q2023. However, average selling prices (ASP) are expected to increase Q/Q, as guided by management announcements. Additionally, we have factored in the impact of higher feedstock prices effective January 2024 on COGS/Ton based on the weighted average inventory costing method. Therefore, companies with high inventories by the end of December 2023 will likely mitigate the impact on 1Q2024 gross margins. The group's total revenue and net income are anticipated to decrease Y/Y.

Health Care Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E
HMG	2,307	2,536	10%	34%	35%	511	571	12%	489	535	9%	21%	21%	1.40	1.53
Mouwasat	664	764	15%	49%	49%	193	238	23%	167	209	25%	25%	27%	1.67	2.09
Group Total	2,971	3,300	11%			704	809	15%	656	744	13%				

Source: Riyad Capital, Company Reports (SAR mln, except per share data)

The healthcare sector as well as the stocks under our coverage are expected to steadily grow both their inpatients and outpatients business while increases in capacity comes online. This will reflect positively in Y/Y comparative numbers. While 1Q is generally good seasonally, the majority of Ramadan has fallen in March this year. We expect HMG and Mouwasat to post a net income of SAR 535 mln and SAR 209 mln, respectively.

Telecom Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E
STC	18,179	19,088	5%	51%	51%	3,731	3,775	1%	3,109	3,141	1%	17%	16%	0.62	0.63
Mobily	4,051	4,296	6%	57%	57%	627	759	21%	465	509	9%	11%	12%	0.60	0.66
ZAIN KSA	2,422	2,689	11%	58%	58%	201	273	36%	563	83	(85%)	23%	3%	0.63	0.09
Group Total	24,653	26,073	6%			4,559	4,807	5%	4,136	3,733	(10%)				

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

We are expecting a 6% Y/Y increase in the Telecom sector's revenues in 1Q, helped by Ramadan and the increase in the number of subscribers. Gross margins are generally expected to remain flat on a yearly basis, while Zain enjoys the leading margin in the sector. Zain's towers deal revenues were fully recognized in 2023 (SAR 532 mln in capital gains were recognized in 1Q2023), so net income estimates for 1Q2024 are significantly lower than the corresponding quarter to return to normal levels.

Software & Services Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E
Solutions	2,676	3,069	15%	23%	23%	357	382	7%	303	333	10%	11%	11%	2.53	2.78
Elm	1,288	1,669	30%	41%	40%	320	403	26%	322	396	23%	25%	24%	4.03	4.95
Group Total	3,964	4,738	20%			677	785	16%	625	728	17%				

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

The MENA IT sector attracts consolidations, and the KSA IT sector is expected to grow by 8% in 2024, as both the government and the private sector aim for digitalization. Solutions is targeting an average growth of 10% in 2024, while Elm is targeting 17%. Solutions LEAP 2.0 strategy aims to enhance its core business by leveraging emerging technology, fostering innovation and efficiency improvements, and focusing on high-potential verticals through specialized industry offerings. Elm's 4.0 strategy is catalyzing the expansion of its product offerings into new government verticals and new B2B adjacent products. We forecast Solutions net income to increase by 10% Y/Y and Elm's by 23% Y/Y.

Food & Beverage, Retailing, Utilities, Capital Goods and Materials Sectors

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	Y/Y	1Q2023	1Q2024E	1Q2023	1Q2024E
Almarai	5,067	5,166	2%	32%	32%	803	777	(3%)	636	604	(5%)	13%	12%	0.64	0.60
Jarir	2,718	2,659	(2%)	12%	13%	264	289	9%	248	281	13%	9%	11%	0.21	0.24
SEC*	13,379	13,446	1%	13%	13%	1,724	1,588	(8%)	480	403	(16%)	4%	3%	0.12	0.10
BDH	1,381	1,521	10%	30%	33%	76	110	45%	52	96	84%	4%	6%	0.05	0.08
MARAFIQ	1,473	1,485	1%	17%	17%	234	220	(6%)	107	110	3%	7%	7%	0.43	0.44
Riyadh Cables	1,937	1,971	2%	11%	13%	155	174	12%	124	139	12%	6%	7%	0.83	0.93
MAADEN	8,045	10,498	30%	20%	35%	930	2,519	171%	471	2,086	343%	6%	20%	0.17	0.56
NAHDI	2,105	2,230	6%	42%	42%	263	260	(1%)	244	244	(0%)	12%	11%	1.88	1.88
ALDAWAA	1,408	1,469	4%	38%	38%	115	133	16%	76	122	60%	5%	8%	0.90	1.44

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

* Net Income before Mudaraba Instruments

- Almarai:** We expect a single-digit growth Y/Y in revenue to SAR 5.2 bln driven by the momentum in Poultry and Bakery, specifically on the back of higher demand due to Ramadan, as well as strategic growth in store-formats, cascading into other product categories. We also forecast a -5% Y/Y decrease in net income to SAR 604 mln.
- Jarir:** We expect a -2% Y/Y decline in top-line, coupled with higher gross margins, driven by greater marketing expenditures and campaigns, as well as product mix. Moreover, we also expect a +13% Y/Y increase in bottom-line to SAR 281 mln versus SAR 248 mln in 1Q2023 due to operating leverage.
- SEC** Revenues are forecasted to grow by a mediocre +1% Y/Y to SAR13.4 bln on the back of higher consumption. We expect a minor decline in gross margins Y/Y to 13%. We forecast a net income of SAR 403 mln before Mudaraba.
- BDH:** Continuing with an increase in top-line growth from 4Q23, we expect a +10% growth Y/Y to SAR 1.5 bln coupled with better margins, of ~33%, driven by strategic acquisitions, as oppose to organic growth. We also expect these results will translate to a superior net income of SAR 96 mln compared to SAR 52 mln in 1Q2023.
- MARAFIQ:** We forecast +1% increase in revenues for the quarter at SAR 1.5 bln but slightly lower gross margins. Net profit is expected to be up +3% Y/Y.
- Riyadh Cables:** RCGC's growth is likely to continue with revenues rising by +2% Y/Y to SAR 2.0 bln for the quarter. Bottomline is likely to increase by +12% Y/Y to SAR 139 mln.
- MAADEN:** The Company will benefit from higher product prices Y/Y, particularly Aluminium which has experienced a slight recovery in 1Q24, while increases in DAP from the previous quarter, which were maintained, will also support performance. We expect revenues to be +30% higher Y/Y and operating income to increase by +171% Y/Y.
- NAHDI:** We expect revenues to grow steadily, by +0.7% Q/Q and by +6% Y/Y. Gross margins, while slightly lower in 4Q23, are expected to remain stable Y/Y, however rebound higher Q/Q due to seasonality. Operating profit is expected to remain roughly flat or slightly decline, decreasing by -1% Y/Y to SAR 260 mln.
- ALDAWAA:** We expect minor growth of +4% Y/Y in top-line due to management's store-expansion plan, but with flat gross margins Y/Y of 38%, supported by wholesale.

■ 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
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