

Main Market (TASI): Quarterly Results

July 09, 2023

Petrochemicals Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E
SABIC	55,976	38,026	(32%)	30%	19%	9,317	2,453	(74%)	7,926	1,224	(85%)	14%	3%	2.64	0.41
SABIC AGRI-NUTRIENTS	5,700	2,146	(62%)	61%	39%	3,120	679	(78%)	3,025	707	(77%)	53%	33%	6.35	1.49
Tasnee	1,077	829	(23%)	24%	22%	563	237	(58%)	297	125	(58%)	28%	15%	0.44	0.19
Yansab	2,062	1,372	(33%)	19%	15%	277	90	(67%)	288	79	(73%)	14%	6%	0.51	0.14
Sipchem	3,193	1,618	(49%)	53%	35%	1,370	377	(72%)	1,263	321	(75%)	40%	20%	1.72	0.44
Advanced	814	587	(28%)	21%	24%	132	109	(17%)	110	74	(33%)	13%	13%	0.42	0.28
Saudi Kayan	3,407	1,657	(51%)	13%	2%	246	(138)	(156%)	150	(297)	(298%)	4%	(18%)	0.10	(0.20)
SIIG	-	-	-	-	-	335	87	(74%)	284	81	(71%)	-	-	0.38	0.11
Group Total	72,229	46,235	(36%)			15,360	3,894	(75%)	13,343	2,313	(83%)				

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

- Whilst 1Q2023 global GDP growth was strong, petrochemical volumes were weak with most of the companies under our coverage expected to witness negative volume growth on both Y/Y and Q/Q, despite the bounce in the Chinese economy. However, we expect 2Q2023 to improve Q/Q on the back of enhanced volumes and lower feedstock prices, which we believe will expand margins despite the decline in products prices. In general, the outlook for the third/fourth quarter of 2023 remains cloudy, hence we remain cautious for the sector.
- In 2Q2023, Naphtha declined by -11% Q/Q whereas Propane and Butane went down significantly by -24% Q/Q and -26% Q/Q, respectively. We believe that this decline will positively affect margins. Polypropylene and Polyethylene prices declined by -6% Q/Q and -3% Q/Q respectively. Urea and Methanol prices were the most negative as Urea averaged at USD 307/per ton in 2Q2023 (down -18% Q/Q) while Methanol averaged USD 270/per ton (down -15% Q/Q). Also, EVA and VAM witnessed a decline of -8% Q/Q and -9% Q/Q, respectively.
- For 2Q2023, we expect a decline of -36%Y/Y in top line for companies under our coverage. In addition, profitability is likely to witness a decline of -83% Y/Y. Hence, we still prefer Petrochemicals to Fertilizers based on earnings momentum and valuation. We may see a bottom in Fertilizers at some point in the third quarter. We expect SABIC Agri to post a significant decline in net income for the second consecutive quarter to SAR 707 mln while Yansab is likely to return to modest profit of SAR 79 mln for the quarter on the back of restarting factories. Sipchem is anticipated to post a decline by -75% Y/Y in net income due to maintenance shutdowns.

Research Team

research@riyadcapital.com

+966-11-203-6805

Banking Sector

Company	Net Commission Income			Net Income			Net Advances			Deposits		
	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y
BSF	1,449	1,960	35%	837	1,132	35%	159,625	172,545	8%	157,919	170,762	8%
SAB	1,718	2,656	55%	1,082	1,858	72%	176,214	192,366	9%	207,451	235,023	13%
ANB	1,310	1,826	39%	707	1,096	55%	143,055	145,806	2%	146,791	155,599	6%
Al Rajhi	5,567	5,522	(1%)	4,258	4,107	(4%)	519,701	621,630	20%	552,957	597,193	8%
Albilad	957	1,049	10%	511	567	11%	91,206	99,298	9%	89,108	106,930	20%
Alinma	1,413	1,834	30%	925	1,048	13%	131,193	154,807	18%	130,376	160,362	23%
SNB	6,806	7,187	6%	4,611	4,992	8%	536,189	583,327	9%	593,011	616,899	4%
Group Total	19,220	22,034	15%	12,931	14,800	14%	1,757,182	1,969,779	12%	1,877,614	2,042,768	9%

Source: Riyadh Capital, Company Reports (SAR mln)

- For 2Q2023, the Saudi Central Bank (SAMA) raised its key interest rates once (for the tenth time in a row) by +25 bps in May. This translated to an increase in the rate of Repurchase Agreement (Repo) to 5.75% and the rate of Reverse Repurchase Agreement (Reverse Repo) to 5.25%. SAMA left rates unchanged in June.
- SAIBOR 3-M rallied to a high during the quarter to reach 5.96% on June 16 before closing 1H2023 at 5.95% compared to 5.69% on March 30, 2023, up +301 bps Y/Y and +26 bps Q/Q.
- The Saudi Central Bank's monthly data for May and June 2023 showed a +9% Y/Y and +4% Q/Q profit before zakat and tax increase to SAR 12.1 bln. Total deposits and total loans increased by low double-digit Y/Y. Our expectations for banks under our coverage shows +14% Y/Y profit after zakat growth to SAR 14.8 bln. We are expecting Al Rajhi and Alinma to post the highest increase in net advances Y/Y while we expect Alinma and Albilad to report the highest Y/Y growth in deposits by +23% and +20%, respectively.

Cement Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E
Yamama	209	246	18%	48%	47%	81	96	19%	91	86	(5%)	43%	35%	0.45	0.42
Saudi	349	387	11%	42%	41%	103	109	6%	103	103	1%	29%	27%	0.67	0.67
Qassim	152	123	(19%)	30%	32%	37	31	(15%)	29	33	15%	19%	27%	0.32	0.37
Southern	234	244	4%	24%	22%	43	42	(3%)	61	36	(40%)	26%	15%	0.43	0.26
Yanbu	238	176	(26%)	27%	34%	51	50	(2%)	48	47	(2%)	20%	27%	0.31	0.30
Group Total	1,183	1,177	(1%)			315	328	4%	331	305	(8%)				

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

- The sector was hit by seasonality in 2Q2023 with lower constructions activities on the back of higher interest rates and decline in volumes despite demand from Giga projects. However, prices remained healthy Y/Y and Q/Q. We expect a -1% decline Y/Y in top-line for the companies under coverage due to lower volumes. At the same time, we expect margins to be under pressure. Hence, we expect a -8% Y/Y decline in bottom-line to SAR 305 mln.

Health Care Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E
HMG	2,014	2,356	17%	33%	34%	415	524	26%	403	504	25%	20%	21%	1.15	1.44
Mouwasat	558	645	16%	46%	49%	155	185	19%	141	160	13%	25%	25%	1.41	1.60

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

- Overall, we are optimistic about the sector growth prospects and on the ability of companies under our coverage to avert challenges with regards to high receivables and leverage position. For 2Q2023, healthcare sector continues to expand its capacity in order to service the increasing patient inflow driven by regulatory channelling into the private sector. We expect HMG and Mouwasat to post a net income of SAR 504 mln and SAR 160 mln, respectively.

Telecom Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E
STC	16,939	18,294	8%	54%	51%	3,720	3,684	(1%)	2,837	3,320	17%	17%	18%	0.57	0.66
Mobily	3,899	4,211	8%	60%	56%	512	648	27%	360	478	33%	9%	11%	0.47	0.62
ZAIN KSA	2,206	2,503	13%	57%	58%	262	280	7%	134	291	118%	6%	12%	0.15	0.32
Group Total	23,044	25,008	9%			4,494	4,613	3%	3,331	4,090	23%				

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

- For the quarter, we expect the sector to benefit from Ramadan and Hajj seasons, with sector revenues growing by +9% Y/Y. We expect Zain to record the highest growth rate among the three companies at +13% Y/Y to SAR 2.5 bln. Zain's gross margin are expected to expand on a yearly basis but contract slightly on a quarterly basis in light of an increase in prepaid subscribers. We expect the company to report a bottom-line of SAR 291 mln, which will be aided by the realization of capital gains from sale of the towers. For STC, we anticipate a topline growth of +8% Y/Y on the back of an increasing demand for data. We expect STC's bottom line to grow by +17% Y/Y, driven by higher financing income generated by the substantial cash the company has on hand. With regards to Mobily, we expect revenue growth of +8% Y/Y driven by revenues related to the Hajj season but we expect this to be affected by a decrease in gross margin from 60% to 56% for the quarter.

Software & Services Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E
SOLUTIONS	2,085	2,920	40%	24%	23%	293	371	26%	273	335	23%	13%	12%	2.28	2.79
Elm	1,039	1,267	22%	40%	40%	212	273	29%	195	285	46%	19%	22%	2.44	3.56

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

- We anticipate continued significant Y/Y growth from both companies with SOLUTIONS revenue increasing by +40% Y/Y primarily due to the inclusion of CCC figures in SOLUTIONS financial statements as of 2Q2023. We anticipate SOLUTIONS' net income to increase by +23% Y/Y and Elm's net income to increase by +46% Y/Y as both companies will gain from the strong cash position, which will be reflected in increased finance income.

Food & Beverage, Retailing, Utilities and Capital Goods Sectors

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	Y/Y	2Q2022	2Q2023E	2Q2022	2Q2023E
Almarai	4,610	5,239	14%	32%	31%	646	745	15%	526	586	11%	11%	11%	0.52	0.59
Jarir	2,010	2,161	7%	12%	12%	192	204	7%	177	189	7%	9%	9%	0.15	0.16
SEC*	19,402	19,508	1%	34%	34%	5,861	6,577	12%	5,502	5,016	(9%)	28%	26%	1.32	1.20
BDH	1,221	1,423	17%	31%	30%	65	82	27%	42	57	34%	3%	4%	0.04	0.05
MARAFIQ	1,656	1,724	4%	17%	18%	342	352	3%	262	205	(22%)	16%	12%	1.05	0.82
Riyadh Cables**	NA	2,034	NA	NA	11%	NA	178	NA	NA	142	NA	NA	7%	NA	0.95

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

* Net Income before Mudaraba Instruments ** 2Q2022 numbers not available

- Almarai:** Continuing with the momentum in all product categories, mainly Dairy and Poultry due to Ramadan and Al-Hajj season, we expect a double-digit growth Y/Y in top-line to SAR 5.2 bln. We expect bottom-line to increase by +11% Y/Y to SAR 586 mln.
- Jarir:** We expect a growth of +7% Y/Y in top-line to SAR 2.2 bln due to higher sales helped by Smartphones and other electronics devices such as smart TVs. On the other hand, we expect bottom-line to grow by +7% Y/Y.
- SEC:** We expect revenues to grow by +46% Q/Q and by +1% Y/Y. Gross margins are expected to be stable on a yearly basis but expand from 13% in the previous quarter to 34% in the current quarter on the back of seasonality in margins. We expect further pressure from financing costs on net income with net income declining by -9%.
- BDH:** Continuing with an increase in footfall in the Haramain stores as a result of higher pilgrims during the Hajj and Umrah season, we expect a +17% Y/Y growth in top-line to SAR 1.4 bln which will translate to a +34% Y/Y increase in net income to SAR 57 mln.
- MARAFIQ:** Due to seasonality, we expect revenues to increase by +17% on a quarterly basis and by +4% on an annual basis to reach SAR 1.7 bln. We expect bottom line to decline by -22% Y/Y as we expect higher financing cost to negatively impact net income for the quarter.
- Riyadh Cables:** On the back of improved hedging and product mix, we expect RCGC topline to continue to grow by +5% Q/Q to reach SAR 2.0 bln for the quarter. Bottomline is expected to follow a similar trend as it is anticipated to incline by +14% Q/Q to SAR 142 mln with margins improving Q/Q as the backlog remain strong.

Nomu Market: Semi-Annual Results

Materials, Consumer Services and Retailing

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	1H2022	1H2023E	Y/Y	1H2022	1H2023E	1H2022	1H2023E	Y/Y	1H2022	1H2023E	Y/Y	1H2022	1H2023E	1H2022	1H2023E
Riyadh Cement	259	360	39%	41%	38%	91	125	38%	85	119	39%	33%	33%	0.71	0.99
BURGERIZZR	121	149	23%	26%	27%	4.7	2.1	(56%)	3.0	0.9	(69%)	2.5%	0.6%	0.09	0.03
Alhasoob	99	109	10%	11%	8%	4.1	2.9	(29%)	3.4	2.7	(22%)	3.4%	2.4%	1.22	0.95

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

- Riyadh Cement:** On back of the higher prices Y/Y in black cement along with our expectation of higher white cement sales, we expect Riyadh Cement to reported a top-line of SAR 360 mln or +39% higher compared to 1H2022 and we expect a +39% Y/Y growth in bottom-line to SAR 119.
- BURGERIZZR:** Due to an increase in the number of branches along with addition of new items to the menu, we expect a positive top-line impact of +23% Y/Y. We expect the bottom-line to decline by -69% Y/Y due to higher expenses on the back of higher delivery fees due to increased contribution of online-channels.
- Alhasoob:** We expect revenues for the half year to increase by +10% Y/Y but to decline by -10% compared to the second half of 2022. We expect margins to be under pressure during the quarter due to market pressures and contract from 11% in the first half of 2022 to 8%. Thus, we expect net income to decrease by -22% on an annual basis, to reach SAR 2.7 mln.

■ 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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