

Petrochemicals Sector

October 05, 2022

Company	Revenue			EBIT		EBIT Margins		Net Income			Net Margins		EPS (SAR)	
	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E
SABIC	43,698	47,580	9%	7,703	8,306	18%	18%	7,233	6,018	(17%)	17%	13%	1.86	2.01
SABIC AGRI-NUTRIENTS	2,207	5,073	130%	1,369	2,623	62%	52%	1,206	2,516	109%	55%	50%	2.53	6.04
Tasnee	1,004	870	(13%)	526	425	52%	49%	333	221	(34%)	33%	25%	0.50	0.33
Yansab	1,780	1,662	(7%)	215	210	12%	13%	180	213	19%	10%	13%	0.32	0.38
Sipchem	2,506	2,446	(2%)	1,139	1,039	45%	42%	1,030	1,008	(2%)	41%	41%	1.40	1.37
Advanced	805	651	(19%)	231	109	29%	17%	218	81	(63%)	27%	12%	0.84	0.31
Saudi Kayan	3,434	2,896	(16%)	783	203	23%	7%	667	106	(84%)	19%	4%	0.44	0.07
SIIG	-	-	-	339	266	-	-	204	245	20%	-	-	0.45	0.32
Group Total	55,434	61,178	10%	12,306	13,181			11,071	10,407	(6%)				

- Petrochemical prices have witnessed a downtrend which commenced in the third quarter with a particularly steep decline across the board on a quarterly and yearly basis. However, feedstock Propane, Butane and Naphtha prices were down -20%, -22% and -18% respectively on a quarterly basis as well. Major petrochemicals products such as Polypropylene and LDPE have declined by -15% and -21% respectively for the quarter while Urea and Ammonia declined by -17%, -5% Q/Q respectively.
- In general, the slight decline in feedstock prices are allied with the fall in average selling prices, which might pressure margins. However, we expect lower feedstock prices and higher financing costs in 3Q2022, which may also have a negative impact from the decline in product prices. Therefore, we expect improvements in sales volumes but weakness in selling prices on a quarterly basis.
- We expect a growth of +10% Y/Y in revenues for our coverage companies. Profitability is likely to witness a decline by -6% Y/Y, with many companies going downward, including Sabic. Therefore, we expect most companies to face a drop in net profit with Sabic to post SAR 6.0 bln for the quarter, while Sabic Agri Nutrients is likely to post a SAR 2.5 bln bottom-line.

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Banking Sector

Company	Net Commission Income			Net Income			Net Advances			Deposits		
	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	Y/Y
BSF	1,424	1,536	8%	907	954	5%	144,393	165,214	14%	143,322	161,954	13%
SABB	1,409	1,694	20%	886	1,131	28%	163,500	178,310	9%	180,248	200,075	11%
ANB	1,252	1,371	9%	665	775	17%	120,016	147,991	23%	129,395	150,098	16%
Al Rajhi	5,215	5,747	10%	3,794	4,472	18%	420,954	549,213	30%	478,331	573,997	20%
Albilad	887	993	12%	450	543	21%	81,799	94,300	15%	82,346	91,404	11%
Alinma	1,393	1,500	8%	738	946	28%	121,318	133,295	10%	116,652	132,983	14%
SNB	6,082	6,888	13%	3,823	4,819	26%	503,696	549,593	9%	589,190	598,942	2%
Group Total	17,661	19,730	12%	11,262	13,639	21%	1,555,675	1,817,915	17%	1,719,483	1,909,452	11%

Source: Riyad Capital, Company Reports (SAR mln)

- After similar actions by the Federal Reserve, the Saudi Central Bank (SAMA) raised its key interest rates twice during 3Q2022, by +75 bps each time. This resulted in an increase in the rate of Repurchase Agreement (Repo) to 3.75%, and the rate of Reverse Repurchase Agreement (Reverse Repo) to 3.25% (the fifth interest rate change during this year).
- Therefore, 3M SAIBOR witnessed a further hike in 3Q2022, rising by +118 bps Q/Q and +331 bps Y/Y to end the quarter at 4.12%. It is worth noting that 3M SAIBOR continued to rise during the period to exceed the 4% level for the first time in more than 14 years.
- The Saudi banks reported the highest profit before zakat in history reaching SAR 6.6 bln (+22% Y/Y). Consequently, our estimates call for a similar trend by +21%Y/Y in terms of profit after zakat for banks under our coverage.

Cement Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E
Yamama	171	255	49%	32%	35%	40	68	70%	40	75	88%	23%	29%	0.20	0.37
Saudi	305	330	8%	36%	42%	63	96	52%	59	94	59%	19%	28%	0.38	0.61
Qassim	170	159	(6%)	41%	24%	60	30	(50%)	60	32	(47%)	35%	20%	0.67	0.35
Southern	284	350	23%	38%	29%	86	81	(6%)	83	79	(5%)	29%	23%	0.6	0.57
Yanbu	208	246	18%	24%	27%	37	54	46%	35	55	57%	19%	22%	0.23	0.35
Group Total	1,138	1,340	18%			286	329	15%	277	335	21%				

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

- Since the beginning of 3Q2022, volumes showed a significant growth, which we expect to reflect positively in top-line for the companies under coverage. We expect a +18% growth Y/Y due to higher construction activity. At the same time, we expect the margins to come under pressure Y/Y for Qassim Cement Co. coupled with lower prices due to competition in the Central region.

Telecom Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E
STC	15,735	16,997	8%	53%	54%	3,192	3,730	17%	2,924	2,929	0%	19%	17%	0.58	0.59
Mobily	3,606	3,963	10%	61%	60%	423	548	30%	281	368	31%	8%	9%	0.37	0.48
Zain	1,984	2,256	14%	63%	57%	188	276	47%	60	138	130%	3%	6%	0.07	0.15
Group Total	21,325	23,216	9%			3,803	4,554	20%	3,265	3,435	5%				

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

- The government decided to increase the number of pilgrims to 1 million in April 2022 as well as an increase the roaming-related services in the summer season. We expect revenue for the three telecom operators to reach SAR 23.2 bln. We expect gross margin to contract for Mobily and Zain on the back of an increase in roaming services and prepaid packages while the decrease in sales of devices could offset the decline in margins. STC's net income is expected to grow slightly to SAR 2,929 mln supported by its subsidiaries while we expect ZAIN to continue benefiting from lower depreciation expenses as it is still capitalizing its towers assets under held for sales assets which would translate positively in net income, growing by +130%. On other hand, Zain and Mobily will likely be negatively affected by higher SAIBOR rate.

Food & Beverage, Retailing, Utilities and Health Care Sectors

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	Y/Y	3Q2021	3Q2022E	3Q2021	3Q2022E
Almarai	3,942	4,418	12%	32%	31%	519	615	18%	409	497	22%	10%	11%	0.41	0.50
Jarir	2,224	2,377	7%	16%	15%	293	297	1%	272	280	3%	12%	12%	2.27	2.34
SEC*	22,037	23,036	5%	40%	39%	7,990	8,166	2%	7,380	7,469	1%	33%	32%	1.31	1.33
HMG	1,836	2,093	14%	32%	34%	381	439	15%	350	422	21%	19%	20%	1.00	1.21
BDH	1,078	1,234	14%	37%	30%	95	60	(37%)	70	38	(46%)	7%	3%	0.61	0.34
SOLUTIONS	1,951	2,193	12%	24%	22%	276	279	1%	257	253	(2%)	13%	12%	2.14	2.10

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

* Net Profit for SEC after Mudaraba Instruments is SAR 5,538 mln.

- Almarai:** We expect a double-digit growth Y/Y in revenue to SAR 4.4 bln supported by the momentum in all product categories on the back of higher demand due to back-to-school season as well as Hajj. Hence, we expect an increase in bottom-line to reach SAR 497 mln.
- Jarir:** We expect a +7% Y/Y increase in top-line due to back-to-school season as well as new smartphones, which were launched during the quarter. We expect a +3% Y/Y increase in bottom-line due to higher costs related to international shipping and campaigns as well.
- SEC:** Due to the the seasonality, we assumed a higher electricity sale during 3Q2022, therefore operating revenues will increase by +5% Y/Y and +19% Q/Q to reach SAR 23.0 bln. Yet, we expect the bottom line to rise at slower pace by +1% Y/Y, due to higher operating expenses and financing cost to reach SAR 7.5 bln (before deducting the Mudaraba Instruments).
- HMG:** The steady growth in both inpatient and outpatient numbers continues. We forecast revenues to grow by +14% Y/Y and net income to increase by +21% Y/Y. New projects coming online in the future presents an upside.
- BDH:** We expect top-line to grow by +14% Y/Y as a result of the return of pilgrims, compared with the similar quarter last year, while we expect bottom-line to decline by -46% Y/Y due to the promotional season and loyalty program campaigns along with a delay to opening 4-5 stores.
- SOLUTIONS:** We expect SOLUTIONS revenues to come at SAR 2,192 mln in 3Q. On the quarterly basis, revenue will decrease by -3% due to lower at the point in time revenues compared with the previous quarter, while on the yearly basis, it is expected to increase by +12% supported by the growth among its segments.

■ 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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