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# Saudi companies' results preview

## Q4: Petchem sector to weigh on earnings

*Q4 earnings for the companies under our coverage (excluding Mobily) is estimated to decline ~2% y-o-y mainly weighed down by the Petrochemical sector. The export-oriented Petrochemical sector is expected to report a 9% decline in earnings on account of a drop in product prices and sluggish demand. On the other hand, the Retail and Food sectors will benefit from the Hajj season as well as new store additions and capacity expansions. The Cement sector, which is showing early signs of recovery, is expected to post higher sales volumes, compared to the low base of Q4 2013. Excluding Mobily, which is expected to restate its Q4 2013 financials, the Telecom sector will see a mediocre top-line growth, led by STC. Healthcare companies are expected to report a strong top-line growth but low bottom line growth because of higher expenses related to expansions. The TASI witnessed a sharp decline of 23.2% in Q4 as the Petrochemical sector lost one-third of its market value, weighed down by the steep decline in crude prices. With sentiments remaining negative, investors will keenly focus on the Q4 earnings for any positive news. Any further decline in oil prices is likely to impact the TASI.*

**Petrochemicals:** Product prices have declined in the range of 15-20% in Q4 on account of a fall in crude prices (average Brent prices in Q4 dipped by 25% q-o-q) and sluggish demand, which we believe will impact the performance of Saudi companies. We expect SABIC and Yansab to report a drop in profits due to a sharp fall in prices of key products. NIC's earnings will be hit (y-o-y) by the drop in petrochemical and $TiO_2$ prices; however, the newly-commenced Acrylic Acid plant will offer some relief. Sipchem's performance will be affected by the shutdown at its methanol plant and lower prices. On the other hand, we expect SAFCO to report healthy earnings growth (y-o-y and q-o-q) on the back of higher urea and ammonia prices. Also, we expect SPC to report strong earnings growth (q-o-q) as Al Waha had faced a shutdown in Q3, while on a y-o-y basis, the newly-commenced Acrylic Acid and SAMAPCO plants will lead to higher income from affiliates resulting in a better performance. Meanwhile, APC reported robust Q4 numbers, which were driven by additional propylene supply from SATORP (which commenced on October 1) and a steeper decline in feedstock prices compared to the end product. We remain Overweight on SABIC and SAFCO, while maintaining our Neutral rating on the remaining petrochemical stocks.

**Retail:** The fourth quarter is a comparatively stronger one for the retail sector due to the Hajj season and new products being rolled out ahead of the western holiday season. Jarir has already reported a strong set of results, driven by new product launches like the iPhone 6 and Samsung Galaxy Note 4 as well as the four new stores opened in 2014. Extra, which also announced its results on Wednesday, witnessed a drastic drop in its bottom-line after the government shut down a number of stores due to violation of rules. We expect Al Othaim to witness double-digit growth in Q4 2014 due to new store openings and healthy same-store sales growth. Alhokair will continue to witness strong top-line growth due to the acquisitions carried out earlier this year (Blanco and 42 stores in KSA). We have assigned an Overweight rating to Al Othaim, while we are Neutral on the other three companies under our coverage.

**Food & Agriculture:** Herfy opened more than 30 new restaurants by the end of the first week of Q4 2014. The rapid expansion program as well as the Hajj season in the beginning of the quarter augurs well for the company in Q4. However, Herfy's margins are likely to come under pressure as expenses are expected to increase sharply due to the expansion spree. Almarai's Dairy

### Q4 2014 Preview

With Q4 coming to an end, we present our revenues and earnings estimates for companies under our coverage in various sectors.

### ARC Research Coverage

| Sector | Rating | Price Target |
|---|---|---|
| SABIC | Overweight | SAR106.1 |
| SAFCO | Overweight | SAR169.7 |
| Sipchem | Neutral | SAR28.8 |
| NIC | Neutral | SAR28.3 |
| Yansab | Neutral | SAR52.6 |
| APC | Neutral | SAR47.1 |
| SPC | Neutral | SAR17.2 |
| | | |
| STC | Overweight | SAR80 |
| Mobily | Neutral | SAR51 |
| Zain KSA | Under Review | Under Review |
| | | |
| Yanbu Cement | Overweight | SAR 83.3 |
| Yamama Cement | Overweight | SAR 59.4 |
| Saudi Cement | Overweight | SAR 117.0 |
| Southern Province | Neutral | SAR 120.0 |
| Arabian Cement | Neutral | SAR 81.0 |
| Qassim Cement | Neutral | SAR 96.2 |
| | | |
| Almarai | Neutral | SAR79.9 |
| Savola | Neutral | SAR81.3 |
| Herfy | Overweight | SAR120.7 |
| Catering | Neutral | SAR194.0 |
| Jarir | Neutral | SAR195.5 |
| Alhokair | Neutral | SAR106.6 |
| Alothaim | Overweight | SAR125.2 |
| Extra | Neutral | SAR92.5 |
| | | |
| Ma'aden | Overweight | SAR41.1 |
| Ceramics | Neutral | SAR120.0 |
| Shaker | Overweight | SAR91.0 |
| Astra | Neutral | SAR34.4 |
| | | |
| Dallah | Under Review | Under Review |
| Mouwasat | Neutral | SAR142 |
| NMCC | Overweight | SAR68 |
| Al Hammadi | Neutral | SAR86 |

segment is expected to continue its healthy growth, while the Bakery segment may witness lower sales, after a fire broke out at one of its plants. The Poultry segment will remain the company's weakness in Q4. Saudi Airlines Catering will see strong growth on the back of the rising fleet size for Saudia and new contracts won earlier this year. Savola's retail segment will be its main growth driver. The company will also benefit from the new sugar refining plant commissioned earlier this year. Savola has maintained its guidance of reaching a net profit of SAR1.8bn (before capital gains) in 2014, which we expect it to achieve easily. In the food sector, we are Overweight on Herfy and have assigned Neutral ratings to Almarai, Catering and Savola.

**Cement:** The Cement sector is expected to continue its recovery from the labor crisis in the Q4. Construction activity appears to be picking up in the Kingdom as the government works toward resolving the labor shortage situation. Cement sales volumes have improved during the first two months of Q4 2014, +16.3% y-o-y, suggesting a gradual recovery in construction activity. The current high level of inventories (21mn tons at the end of November 2014) will help cater to any unexpected increase in demand. However, fuel supply concerns, declining oil prices and labor shortage will remain an overhang on the sector over the near-term. Arabian Cement is the only company to report a consistent increase in sales and is expected to continue benefiting from the high demand in the Western region. Yamama Cement is also likely to witness higher sales from the revival in construction activity in the central region. Saudi and Qassim Cement are expected to witness only nominal growth due to the already high utilization levels. We are Overweight on Yamama, Yanbu and Saudi Cement. We maintain our Neutral rating on Qassim Cement, Southern Province Cement and Arabian Cement.

**Telecom:** The diverging performance in the sector is likely to continue in Q4 as well. We expect STC to continue with its good performance helped by its cost cutting program while on the other hand we expect Mobily to report weak numbers. Q4 will be important for Mobily as it is likely to report its restated financials for Q4 2013 which will confirm our expectations of a new normal in earnings for the company. Along with the restatements, any increase in provisions, details on arbitration with Zain KSA, operating cash flows and change in accounts receivables will be keenly watched in Q4 2014. We believe STC will announce a DPS of SAR1 for Q4 2014 vs 0.75 in Q4 2013. Zain KSA is expected to report a mediocre growth for Q4 2014. Of late, Zain KSA has launched a number of aggressive promotions which is likely to reflect on its financials. Overall, we are Overweight on STC, Neutral on Mobily and Under Review on Zain KSA.

**Healthcare:** Healthcare sector will continue to see high topline growth rate in Q4 and the coming quarters as well. We expect non-operating costs to remain uneven (y-o-y basis) because of new healthcare supplies coming online. This could lead to some volatility in margins. For Q4 2014 we expect only a low bottom line growth overall mainly because of higher expenses at Dallah. Among the four companies, Hammadi and Mouwasat opened new hospitals in Riyadh this quarter and will reflect on its earnings. NMCC will however report the highest revenue growth rate for Q4 2014 among the listed players benefiting from its recently expanded National Hospital in Riyadh. Overall, the core growth theme for the healthcare sector looks intact with supply yet to catch up with demand.

**Summary:** We expect the Q4 earnings for the companies under our coverage (excluding Mobily) to decrease by 2% y-o-y, and 10.7% q-o-q. The banking sector (not covered) is likely to post high single digit growth in profits this quarter, based on the monthly statistics published by SAMA. The banking sector's (including unlisted banks) cumulative profits for the first two months (Oct and Nov) of Q4 were reported at ~SAR6.5bn, compared to ~SAR6bn during the same period last year, implying a ~9% y-o-y improvement.

Key things to watch in Q4 2014 will be the impact of falling crude on earnings, especially the Petrochemical sector, trend in provisions in the Banking sector, restatement of Mobily's financials and recovery in cement volumes among others. Overall, despite the high countercyclical budget announced recently, falling oil prices have hurt investor sentiments. Any further decline in oil prices is likely to impact the TASI. On the other hand, the opening of the Saudi equity market to foreign investors, expected in the second quarter of 2015 is likely to bring back optimism among investors.

**Saudi market: Q4 estimates of the companies we cover**

| | Revenues (SAR mn) | | | | | Net Profit (SAR mn) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Company | 2013Q4A | 2014Q3A | 2014Q4E | YOY % chg. | QOQ % chg. | 2013Q4A | 2014Q3A | 2014Q4E | YOY % chg. | QOQ % chg. |
| **Petrochemical** | | | | | | | | | | |
| SABIC | 48,486 | 48,071 | 45,406 | -6.4% | -5.5% | 6,157 | 6,179 | 5,359 | -13.0% | -13.3% |
| | A double-digit decline in the product prices (y-o-y) and along with a sluggish demand in Q4 should weigh on SABIC's performance. | | | | | | | | | |
| Sipchem | 1,237 | 1,002 | 919 | -25.7% | -8.2% | 197 | 161 | 105 | -46.8% | -34.8% |
| | A three-week maintenance shutdown at its methanol plant coupled with sharply lower methanol prices y-o-y to impact Sipchem's top and bottom-line. | | | | | | | | | |
| SAFCO | 1,008 | 1,249 | 1,289 | 27.9% | 3.2% | 802 | 913 | 924 | 15.2% | 1.1% |
| | A rise in urea and ammonia prices (y-o-y and q-o-q) along with the ongoing winter agriculture season in Asia should positively impact SAFCO's performance. | | | | | | | | | |
| NIC | 4,524 | 5,613 | 4,556 | 0.7% | -18.8% | 300 | 244 | 247 | -17.6% | 1.4% |
| | Lower petrochemical and TiO2 prices should pull down NIC's revenues and earnings y-o-y. | | | | | | | | | |
| Yansab | 2,084 | 2,494 | 2,162 | 3.8% | -13.3% | 442 | 691 | 506 | 14.4% | -26.8% |
| | Revenues and net profit to increase y-o-y as Yansab had a shutdown in Q4 2013. However, on a q-o-q basis, the company will suffer due to lower product prices. | | | | | | | | | |
| APC* | 764 | 820 | 799 | 4.5% | -2.6% | 161 | 229 | 200 | 24.0% | -12.6% |
| | Commencement of additional propylene supply from SATORP (in Q4 2014) resulting in higher sales volumes. Further, a steeper decline in the feedstock prices compared to the end product boosted APC's earnings performance y-o-y. | | | | | | | | | |
| SPC | 666 | 460 | 569 | -14.6% | 23.7% | 178 | 17 | 181 | 1.5% | 957.7% |
| | Lower product prices (y-o-y) will weigh on SPC's top-line performance (y-o-y), however, a steeper decline in the feedstock prices compared to the end product coupled with the commence of operations at its affiliates to boost earnings (y-o-y). | | | | | | | | | |
| **Petrochemical Sector** | **58,769** | **59,708** | **55,700** | **-5.2%** | **-6.7%** | **8,238** | **8,434** | **7,521** | **-8.7%** | **-10.8%** |
| **Cement** | | | | | | | | | | |
| Arabian Cement | 375 | 386 | 431 | 15.1% | 11.6% | -109 | 134 | 151 | NM | 13.0% |
| | Will continue to witness higher sales volume on the back of strong demand in the western region. Qatrana Cement's improving performance will also support earnings. | | | | | | | | | |
| Yamama Cement | 310 | 277 | 338 | 9.1% | 22.0% | 181 | 137 | 173 | -4.1% | 26.3% |
| | Gradual revival in construction activities and metro works in the central region to support topline growth. | | | | | | | | | |
| Saudi Cement | 493 | 426 | 529 | 7.3% | 24.3% | 256 | 232 | 279 | 9.0% | 20.4% |
| | Profits are expected to rise backed by healthy sales during the first two months. High inventories for the company remain a worry if demand remains sluggish. | | | | | | | | | |
| Qassim Cement | 241 | 190 | 256 | 6.4% | 35.0% | 136 | 109 | 149 | 9.8% | 36.7% |
| | Topline expected to grow from the low base of Q4 2013 as sales volumes recover. | | | | | | | | | |
| Yanbu Cement | 359 | 296 | 376 | 4.7% | 27.1% | 160 | 163 | 183 | 14.2% | 12.4% |
| | Yanbu should report better profits as the company is focusing more on increasing its market share in the western region. | | | | | | | | | |
| Southern Cement | 411 | 378 | 469 | 14.0% | 24.2% | 254 | 285 | 247 | -2.6% | -13.3% |
| | Southern revenues might increase on new small capacity additions, but earnings will be pretty flat on y-o-y basis. | | | | | | | | | |
| **Cement Sector** | **2,189** | **1,953** | **2,400** | **9.6%** | **22.9%** | **877** | **1,060** | **1,183** | **34.8%** | **11.6%** |

| Company | Revenues (SAR mn) 2013Q4A | 2014Q3A | 2014Q4E | YOY % chg. | QOQ % chg. | Net Profit (SAR mn) 2013Q4A | 2014Q3A | 2014Q4E | YOY % chg. | QOQ % chg. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Telecom** | | | | | | | | | | |
| STC | 11,270 | 11,755 | 11,786 | 4.6% | 0.3% | 3,533 | 3,372 | 2,988 | -15.4% | -11.4% |
| | We expect STC to report a steady topline growth of 4.6% y-o-y in Q4 2014. We expect dividends of SAR1 per share to be announced for Q4 2014 (vs SAR0.75 in Q4 2013). | | | | | | | | | |
| Mobily | 10,698 | 4,159 | 4,230 | -60.5% | 1.7% | 2,051 | 472 | 827 | -59.7% | 75.2% |
| | 4Q numbers will be quite important for Mobily after it restated its financials in Q3 2014. This will confirm our expectations of a new normal for Mobily's earnings. We expect the company to report SAR4.2bn for revenues, a modest 1.7% q-o-q growth. | | | | | | | | | |
| Zain | 1,524 | 1,553 | 1,567 | 2.9% | 0.9% | -462 | -316 | -314 | NM | NM |
| | We expect top line growth of 2.9% q-o-q mainly led by data business. Any sustainable signs of recovery in its financials would be closely watched for in Q4 2014. | | | | | | | | | |
| **Telecom Sector** | **23,492** | **17,466** | **17,583** | **-25.2%** | **0.7%** | **5,121** | **3,528** | **3,501** | **-31.6%** | **-0.8%** |
| **Food & Agriculture** | | | | | | | | | | |
| Almarai | 3,008 | 3,269 | 3,298 | 9.6% | 0.9% | 373 | 539 | 419 | 12.2% | -22.4% |
| | Dairy business will continue on its growth trajectory. The Bakery business is likely to witness some slowdown due to the fire at its factory during the quarter. The poultry segment will continue to post losses, but is expected to see some improvement. | | | | | | | | | |
| Savola | 6,132 | 6,442 | 6,410 | 4.5% | -0.5% | 564 | 701 | 497 | -12.0% | -29.2% |
| | Retail business will drive growth on aggressive store additions. Food segment will benefit from the new sugar refining plant commissioned in Q1 2014. | | | | | | | | | |
| Herfy | 219 | 225 | 246 | 12.4% | 9.3% | 51 | 57 | 54 | 5.1% | -4.9% |
| | New restaurant openings will drive the topline growth for Herfy. The company will also benefit from the Hajj season in Q4. | | | | | | | | | |
| Catering | 480 | 553 | 568 | 18.2% | 2.7% | 127 | 155 | 150 | 18.1% | -3.1% |
| | Airline business will benefit from the Hajj season and Saudia's growing fleet. The non-airline business is also expected to witness healthy growth. | | | | | | | | | |
| **Food Sector** | **9,839** | **10,489** | **10,521** | **6.9%** | **0.3%** | **1,116** | **1,453** | **1,119** | **0.3%** | **-22.9%** |
| **Retail** | | | | | | | | | | |
| Jarir* | 1,320 | 1,426 | 1,584 | 20.0% | 11.1% | 160 | 203 | 201 | 25.5% | -1.1% |
| | Revenues grew at a strong rate in Q4 2014 on the back of new product launches (eg. iPhone 6, Samsung Note 4) and four new stores opened in 2014. All product segments witnessed an increase in sales. | | | | | | | | | |
| Alhokair[#] | 1,297 | 2,072 | 1,745 | 34.5% | -15.8% | 134 | 304 | 160 | 19.8% | -47.3% |
| | Acquisition of Blanco and 40+ stores in the Kingdom will drive top and bottomline. | | | | | | | | | |
| Alothaim | 1,159 | 1,209 | 1,296 | 11.8% | 7.3% | 70 | 42 | 75 | 7.6% | 78.1% |
| | Healthy growth will be maintained on the back of new stores and higher same store sales. | | | | | | | | | |
| Extra* | 914 | 809 | 1,089 | 19.1% | 34.6% | 58 | 30 | 8 | -85.6% | -71.8% |
| | Topline growth was stagnant due to the closure of stores during the mega sale event. The company made a provision of SAR14mn for the high level of inventory, which hit the bottom line. | | | | | | | | | |
| **Retail Sector** | **4,691** | **5,516** | **5,714** | **21.8%** | **3.6%** | **422** | **579** | **445** | **5.4%** | **-23.2%** |

| | Revenues (SAR mn) | | | | | Net Profit (SAR mn) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **2013Q4A** | **2014Q3A** | **2014Q4E** | **YOY % chg.** | **QOQ % chg.** | **2013Q4A** | **2014Q3A** | **2014Q4E** | **YOY % chg.** | **QOQ % chg.** |
| **Healthcare** | | | | | | | | | | |
| Dallah | 211 | 199 | 241 | 14.3% | 21.4% | 50 | 22 | 43 | -14.0% | 97.5% |
| | We expect strong top line growth of 14% y-o-y for 4Q, slightly lower than 9M 2014 y-o-y growth. This is because of high base in 4Q as Dallah's pediatric expansions opened late last year. We expect lower operating margins vs 4Q 2013 because of higher marketing expenses. | | | | | | | | | |
| Mouwasat | 243 | 230 | 268 | 10.4% | 16.3% | 50 | 72 | 54 | 6.5% | -25.4% |
| | We expect a relatively moderate top line growth of 10% y-o-y. Mouwasat's Riyadh hospital opened only in late 2014 and we expect to see its contribution only partially in 4Q 2014. The q-o-q decline is attributed to one-off gains owing to land sale in Q3 2014. | | | | | | | | | |
| NMCC | 164 | 177 | 203 | 23.5% | 14.2% | 20 | 20 | 23 | 11.7% | 11.5% |
| | We expect NMCC to report the highest top line y-o-y growth among the four listed healthcare players owing to expansion of its National hospital. | | | | | | | | | |
| Al Hammadi | 124 | 109 | 145 | 16.8% | 33.2% | 33 | 25 | 38 | 14.4% | 49.8% |
| | We expect a strong growth for topline and net income for Al Hammadi owing to opening of its new hospital in Al-Suweidhi. | | | | | | | | | |
| **Healthcare Sector** | **742** | **715** | **857** | **15.5%** | **19.8%** | **154** | **140** | **158** | **2.2%** | **13.0%** |
| **Other** | | | | | | | | | | |
| Ma'aden | 1,851 | 3,152 | 2,962 | 60.0% | -6.0% | -29 | 485 | 497 | NM | 2.4% |
| | Higher utilization rates at the DAP and Aluminum units coupled with improved DAP prices to boost earnings performance y-o-y. The newly commenced SAMAPCO plant will further benefit the bottom-line. | | | | | | | | | |
| Saudi Ceramic | 382 | 387 | 398 | 4.3% | 3.0% | 73 | 79 | 67 | -8.8% | -15.3% |
| | Gradual revival in construction activity should support the company's top line growth. | | | | | | | | | |
| Shaker | 319 | 408 | 363 | 13.8% | -10.9% | -31 | 44 | 17 | NM | -61.5% |
| | Sales from non-LG segment to fall after the company stopped selling non-LG ACs. However, revenue will rise from the low base of Q4 2013. | | | | | | | | | |
| Astra | 510 | 469 | 487 | -4.5% | 3.8% | 73 | 18 | 21 | -71.2% | 17.9% |
| | The drop in global commodity prices and the continued violence in Iraq will hit the company's earnings in Q4 2014. | | | | | | | | | |

APC Q4 revenues are our estimates as the company is yet to report actual numbers. Net profit as reported by the company
* Actual figures as these companies have already reported Q4 results
# shows FY15 PE as the company follows an April to March financial year

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### 1. Explanation of Al Rajhi Capital's rating system

**Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:**

"Overweight"**: Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

"Neutral"**: We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.**

"Underweight"**: Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

### 2. Definitions

"Time horizon": **Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.**

"Fair value": **We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.**

"Target price": **This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.**

**Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.**

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