Saudi All Industries Sector

All Industries –All Sectors
Saudi Arabia
5 July 2020

الراجحي المالية
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Key themes

As Q2 ended, we present revenue and bottom-line estimates for companies under our coverage in various sectors.

Saudi Arabian Equities

Q2 2020 earnings preview

After TASI declined by 22% in Q1 2020, it has recovered 11% mainly helped by the inclusion of Saudi stocks in FTSE global indices in June. The top three companies that contributed most of TASI's rally were SABIC, Aramco, and STC. Despite a drop in oil prices and widening fiscal budget, strong consumer discretionary sales, increased telecoms consumption, improved petrochemical prices, strong mortgage sales helping both banks and the cement sector, pre-VAT purchases have all played out in Q2 . The second half of the year begins with the implementation of 15% VAT (from 5%), concerns of increasing provisions for banks, possibly weaker discretionary consumer spending, a wave of expats exodus and till now, partial opening up of multiple sectors such as gyms, malls, restaurants, etc. We expect the recovery to be gradual and believe that the theme that would play out is, the large companies getting larger at the behest of the smaller ones. In this report, we present the earnings estimates of the companies under our coverage.

Petrochemical

The global demand for oil and petchem products continued to remain weak during for first two months of Q2 2020, on account of lower economic activities amid the pandemic-induced lockdowns in most countries. However, the market sentiment has improved in June as lockdowns are being gradually lifted. Overall, average oil prices declined more than 35% q-o-q, due to twin shocks in the form of demand and supply, coupled with concerns over the rising inventory levels. Tracking oil prices, average polymer prices dropped 10-12% q-o-q, whereas the other key intermediate products (MEG, VAM) plunged 17-19% q-o-q in Q2. Consequently, lower product prices, along with weak sales volume, indicate likely pressure on the sector's top-line in Q2. On the contrary, a significant decline in oil prices also pushed feedstock prices lower, with Naphtha (highly correlated with oil) and NGLs (Propane and Butane) declining 38-44% q-o-q in Q2, providing much-needed support for petchem producers in Q2. Overall, we expect the combined earnings of the Saudi petrochemical sector to decline in Q2, on the back of weak petchem prices and lower sales volume.

Retail sector

For most of the retail companies we expect the loss of sales during lockdown to be partially compensated by pre-vat buying observed specially in the month of June. Specifically for electronic retailers the sale of consumer electronics products such as Laptops, ipads, work from home devices and e-learning devices in the month of April is expected to support the overall sales during the quarter. We expect electronic retailers and grocery supermarkets to report double digit top-line growth in Q2 2020. The overall sector is expected to report 3.5% y-o-y and 2.3% q-o-q growth while the net profit growth for the overall sector is expected to be -15% y-o-y.

Cement sector

During Q1 2020, total cement sales volume increased 33.1% y-o-y. The total volume during the first 5 months of the year grew 11.3% y-o-y. The April and May witnessed decline of 25.2% in volume due to imposed lockdown to prevent the spread of the coronavirus. We believe that FY 2020 as a whole would be positive for the sector primarily driven by rise in mortgage. Key challenges for the sector would be slower recovery after the lockdown, lower oil prices and lower government spending. During the first 5 months of 2020, 12 of the 14 listed cement companies reported y-o-y increase in sales volume, led by Hail Cement (+31% y-o-y) followed by Northern Cement (+30% y-o-y), Najran Cement (+29% y-o-y) and Qassim Cement (+26% y-o-y); whereas 2 companies witnessed decline in volume, which are Arabian Cement (-13% y-o-y) and City Cement (-6% y-o-y).

Average realized prices during Q1 2020 have remained almost flat with rising only 1% y-o-y and we expect it to remain at current levels for the coming quarters. By the end of Q1 2020, total inventory for the sector has remained at 39.6mn tonnes, representing 83% of the last twelve months sales.

Going forward, we expect Q2 sales to decline on a yearly basis, given reduced demand during the curfew and project delays during lockdown. However, overall growth is expected in 2020 resulting from opening up of the economy and expected rise in mortgage. Furthermore, headwinds such as decline in oil prices may result into lower government spending, which might further affect the demand mainly for the infrastructure projects. Based on the given scenario, we expect 4-5% upside in cement demand in FY 2020. Based on our estimates, the companies under our coverage are projected to report a 20.9% y-o-y decline in revenue in Q2, majorly driven by drop in volume compared to the same period last year along with stable cement prices.

Telecom sector

The telecom stocks have rallied as they are one of the main beneficiaries of the new environment because of the pandemic. There are both positive and negative factors to watch out for in the telecom sector in KSA. With regard to the positive factors there is expected to be pre-VAT buying as the VAT is increased to 15% from 5% beginning July. The adoption of technology for businesses is also positive. We observed strong POS data for telecoms in May report of SAMA. The Telcos with high debt will also benefit from lower interest rate as Saibor declined. On the other hand, the negative factors are weaknesses due to Ramadan, lower business activities during pandemic, higher provisions expected for post paid subscribers and most importantly significant number of expats expected to leave the Kingdom.

Food sector

In Q2 during April, Saudi consumers continued impulsive buying. Accordingly, we expect the consumer staple companies to deliver yet another strong quarter. Ramadan also occurred in Q2 which generally drives the demand for staples product. The POS transaction data for the month of June also suggests a strong pre-vat buying in F&B sector. We expect the top-line (ex-Almarai) for the sector to decline -2.2% y-o-y and -1.9% q-o-q. The net profit is expected to fall 79% y-o-y and 74% q-o-q.

Healthcare sector

The Q2 results are likely to get affected due to the decline in number of patient traffic. We believe that the top-line growth will be lower on the back of decline in overall utilization rate of the hospitals mainly because of sharp decline in patient visits in April. The total revenue for the healthcare companies under our coverage is expected to decline by 15.2% y-o-y, while the net profit is likely to decrease by 11.7% y-o-y. Meanwhile, rise in patient traffic during the end of the quarter would provide some support to the healthcare sector.

Insurance sector

In Q2, the underlying business operations of domestic insurers are likely to be supported by a significant improvement in loss ratio due to curfew in the Kingdom throughout most of the second quarter, offsetting the impact from the possible departure of expats from the market. However, investment income is likely to remain a drag for the sector, mainly due to weak portfolio mix of mainly smaller players, and lower interest rates environment. This will keep the sector's profitability under pressure in Q2. In addition, we might see lower seasonality impact during the summer, due to on-going travel ban. Nonetheless, the outlook for the sector in H2 2020 looks grim, as a sizable portion of claims (non-essential surgeries), which could have planned earlier but deferred due to lockdown, will come back in the market. As a result, we might also witness a higher premium deficiency reserve by insurers in Q2 to cover these expected claims.

Other

Elsewhere for Saudi ceramics we expect modest top-line growth driven by increasing sales for construction materials ahead of Vat levy. Sisco is expected to report a drop on top-line due to reduced throughout volume across the kingdom in Q2. For Leejam the company is expected to report a net loss due to shutdown of gym for almost major duration in Q2.

Saudi market: Q2 estimates of the companies we cover

	Revenues (SAR mn)					Net Profit (SAR mn)				
Company	**2019Q2A**	**2020Q1A**	**2020Q2E**	**YOY % chg.**	**QOQ % chg.**	**2019Q2A**	**2020Q1A**	**2020Q2E**	**YOY % chg.**	**QOQ % chg.**
Petrochemical										
SABIC	35,867	30,825	26,410	-26.4%	-14.3%	2,115	(949)	(110)	NM	88.4%
	We expect SABIC to continue incurring losses in Q2, on account of lower product prices and sales volume. We note that Q2 numbers are not exactly comparable as the company is likely to change its accounting (from consolidation to equity method) for four of its 50% JVs post Aramco's deal.									
Sipchem	1,409	1,404	1,244	-11.7%	-11.4%	211	(53)	(26)	NM	50.6%
	Sipchem's financial performance is likely to remain under pressure due to weak product prices (particularly Methanol).									
SAFCO	814	728	664	-18.4%	-8.9%	385	304	246	-36.1%	-18.9%
	Weak Urea prices and lower sales volume are likely to keep SAFCO's earnings under pressure in Q1.									
NIC	731	659	629	-14.0%	-4.6%	297	(76)	8	NM	NM
	Lower feedstock prices and likely improvement in operating efficiencies may help the company to report positive net income in Q2.									
Yansab	1,638	1,195	1,130	-31.0%	-5.4%	316	104	134	-57.6%	28.4%
	Top-line is likely to remain weak on lower product prices and sales volume, while bottom-line may improve on a sequential basis, supported by a steep decline in feedstock prices amid low oil prices.									
APCC	681	535	513	-24.7%	-4.1%	192	104	151	-21.6%	44.5%
	Higher sales volume, better product spreads and improvement in equity income will lead to higher net income on a q-o-q basis in Q2.									
Petrochemical Sector	**41,140**	**35,346**	**30,590**	**-25.6%**	**-13.5%**	**3,517**	**(566)**	**403**	**NM**	**171.2%**
Cement										
Arabian Cement	165	205	146	-11.2%	-28.6%	37	45	36	-4.0%	-20.6%
	The top-line and bottom-line are expected to drop due to significant decline in volumes in the month of April and May.									
Yamama Cement	165	290	142	-14.0%	-51.0%	53	124	38	-28.9%	-69.5%
	The COVID-19 and Ramadan impact would be seen in the financials due to drop in volumes in the first two months of Q2.									
Saudi Cement	339	450	215	-36.5%	-52.2%	92	148	57	-38.2%	-61.5%
	The cement demand in the Eastern region remained sub-dued, which would lead to decline in top and bottom-line in Q2.									
Qassim Cement	156	263	154	-1.2%	-41.5%	71	111	61	-13.9%	-45.4%
	The cement volume for the company got impacted due to the imposed lock-down and project delays. This will affect financials in Q2.									
Yanbu Cement	210	277	160	-23.4%	-42.1%	41	92	39	-5.2%	-57.8%
	The revenue and net profit are expected to get affected due to reduced expected volumes in Q2. Price expected to remain at current levels.									
Southern Cement	276	457	218	-21.0%	-52.4%	91	183	75	-17.2%	-58.9%
	The decline is expected in the financials due to ongoing pandemic as volume remained affected in Q2 due to lock-down.									
Cement Sector	**1,309**	**1,942**	**1,035**	**-20.9%**	**-46.7%**	**385**	**703**	**305**	**-20.7%**	**-56.6%**
Telecom										
STC	13,604	13,935	14,012	3.0%	0.6%	2,848	2,913	2,791	-2.0%	-4.2%
	The company is likely to be least affected by its Saudi-heavy mix of subscribers and strong business segment.									
Mobily	3,331	3,600	3,697	11.0%	2.7%	38	130	177	369.6%	36.2%
	We expect the healthy growth trend set in the recent periods to continue.									
Zain KSA	2,057	2,039	2,036	-1.0%	-0.1%	130	105	135	3.7%	28.4%
	The company is likely most exposed to expat subscribers and could see its revenue declining.									
Telecom Sector	**18,991**	**19,573**	**19,745**	**4.0%**	**0.9%**	**3,016**	**3,148**	**3,103**	**2.9%**	**-1.4%**

Saudi market: Q2 estimates of the companies we cover

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Food & Agriculture										
Savola	6,023	6,119	6,499	7.9%	6.2%	110	172	280	154.5%	62.8%
	Savola is expected to deliver a strong quarter on account of higher sales and stable margins. Grocery retailers remained resilient in Q2 2020.									
Herfy	309	297	238	-23.0%	-19.9%	39	25	11	-71.8%	-56.0%
	Top-line is expected to remain muted due to shutdown of stores and limited online delivery during April and first 15 days of May.									
Catering	555	453	0	-100.0%	-100.0%	117	19	(235)	NM	NM
	We assume no catering service in flights, trains and corporates for Q2 2020 so theortically catering is expected to report zero sales.									
Food & Agri. Sector	**6,887**	**6,869**	**6,737**	**-2.2%**	**-1.9%**	**266**	**216**	**56**	**-78.9%**	**-74.1%**
Retail										
Jarir	1,893	2,340	2,233	18.0%	-4.6%	169	252	183	8.3%	-27.4%
	For Jarir the top-line is expected to grow double digit driven by bulk laptop and other work from home devices in the month of April and pre vat buying in May and June. The increase in SG&A due to new stores is expected to impact net profit.									
Alhokair	1,732	1,085	1,154	-33.4%	6.4%	224	(912)	102	-54.5%	NM
	Alhokair is expected to deliver a poor quarter as the shops and malls were closed for major part of Q2. We expect the gross margins to fall significantly thus impacting the overall profitability.									
AlOthaim	2,171	2,379	2,432	12.0%	2.2%	59	99	91	54.2%	-8.1%
	Alothaim's top-line is expected to grow on the back of increasing demand for grocery products. Gross margins is expected to remain stable due to low promotional activities.									
Extra	1,161	1,232	1,382	19.0%	12.2%	72	35	69	-4.2%	97.1%
	Extra is expected to deliver double digit growth on the back of strong pre vat buying observed since mid May.									
Retail Sector	**6,957**	**7,036**	**7,201**	**3.5%**	**2.3%**	**524**	**(526)**	**445**	**-15.1%**	**NM**
Healthcare										
Dallah	286	315	240	-15.9%	-23.6%	15	19	14	-9.6%	-27.9%
	Financials are expected to get affected mainly due to decline in number of patient visits in April 2020.									
Mouwasat	446	494	393	-11.9%	-20.5%	91	108	82	-9.7%	-24.0%
	Decline in outpatient numbers would be seen mainly in April with no change in pricing is expected. Overall, Q2 performance would be subdued because of COVID-19.									
NMCC	170	195	143	-16.0%	-26.8%	14	33	12	-14.0%	-64.2%
	Decline in patients would affect Q2 performance along with expected rise in receivables.									
Al Hammadi	254	207	204	-19.7%	-1.4%	20	25	16	-20.8%	-36.5%
	Top and bottom-line are likely to get impacted given decline in number patients mainly in April.									
Healthcare Sector	**1,156**	**1,210**	**980**	**-15.2%**	**-19.0%**	**140**	**185**	**124**	**-11.7%**	**-33.3%**
Other										
Bupa Arabia	2,439	3,470	2,658	9.0%	-23.4%	186	100	217	16.7%	117.6%
	Top-line and bottom-line are likely to continue improve on an annual basis, backed by better pricing, STC & NCB contracts wins and better loss ratio, offsetting increased operating expenses and lower investment income.									
Leejam Sports	219	196	22	-90.0%	-88.8%	50	6	(100)	NM	NM
	Leejam opnened from 21st june, we have assumed 9 days of revenue at 40% operations for Q2 2020. Accordingly company is expected to report loss this quarter.									
Saudi Ceramics	274	393	302	10.2%	-23.2%	(16)	11	5	NM	-54.5%
	Store shutdown during the first 45 days of the quarter is expected to impact the revenue but overall we expect a diuble-digit growth in revenue driven mainly by price increase.									
Aramco	281,424	225,567	139,047	-50.6%	-38.4%	92,791	63,532	35,169	-62.1%	-44.6%
	Weak oil prices and lower sales volume amid the production cut agreement may drag earnings in Q2.									
SISCO	180	167	169	-6.1%	1.2%	21	27	7	-66.7%	-74.1%
	The decline in overall throughput is expected to impact the port revenue, however operation of northern part of JIP will support the top-line.									
SADAFCO	485	561	562	15.9%	0.2%	58	75	92	58.6%	22.7%
	We expect SADAFCO to deliver yet another strong quarter as the demand for long life dairy was high during the lockdown.									

** SADAFCO and Fawaz Alhokair follow April-Mar financial year.*

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"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 12 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 12 month time horizon.

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