الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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Forecasts Report
Saudi Stock Market | Q3-2021

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Forecasts Q3-21 – Banking and Petchem sectors to drive another quarter of strong earnings performance

We present our forecast of 44 companies in multiple sectors for Q3-21. A combined result of these companies is expected to result in net income of SAR 22.2bn, as compared to SAR 10.6bn in Q3-20, representing a surge of 109.3% Y/Y, driven by a 450.3% Y/Y growth in the petrochemical sector. Majority of the contribution is expected to come from the Petchem sector with SAR 10.4bn vs. SAR 1.9bn in Q3-20. Shariah banks (excluding BJAZ) in Saudi Arabia are expected to post strong earnings growth of 30.7%Y/Y, driven by 38.5% rise in Al Rajhi's earnings due to improving lending activity despite lower NIMs. The telecom sector is likely to post earnings growth of 5.7% Y/Y on the back of strong performance from STC and Mobily. However; the cement sector is likely to witness a drop of 14.2% Y/Y due to expected decline in volumetric sales and selling prices. On Q/Q basis, the combined result is estimated to fall by 2.8% due to 12.8% decline in petrochemical sector, impacted by lower average product prices and gross margins.

Q3-21 was marked by the easing of COVID-19 restrictions. The Kingdom resumed Umrah pilgrims for foreign and domestic visitors in August at limited capacity, which is expected to increase gradually. Moreover, travel bans on some countries were lifted during the quarter. Starting September 01, domestic flights were allowed to operate at 100% capacity. Furthermore, educational institutes were allowed to conduct in-person classes for students of a certain age group. These factors are expected to support positive earnings growth for most of the companies.

Crude oil prices fell in the first half of the quarter, with Brent oil reaching the lowest of USD 65.18 on August 20. However, prices recovered in the second half, reaching USD 79.53 as of September 27, up 5.9% QTD and 87.4% Y/Y. KSA's oil exports went up 6% M/M or 10% Y/Y to 6.33 mbpd in July, with total oil output rising to 9.47 mbpd, the highest level since April 2020. In value terms, oil exports surged 112% Y/Y to SAR 71.0bn in July. As per the agreement by OPEC+ to increase output by 400,000 mpd per month from August to December, the Kingdom's oil output rose further to 9.63 mbpd in August.

In Q2-21, KSA's GDP grew 1.8% Y/Y, driven by 8.4% Y/Y growth in non-oil GDP. While oil GDP contracted 6.9% Y/Y, the private sector recorded strong growth of 11.1%. Money supply decreased marginally by 0.5% M/M, while it was up 7.9% Y/Y in August 2021. Purchasing Managers' Index (PMI) fell for the second consecutive month in August to 54.1 from 55.8 in July. Consumer spending rose in August, with the value of POS transactions increasing 31.5% Y/Y. On M/M basis, POS value edged up by 5.5%. Inflation moderated during the quarter, with CPI rising 0.4% Y/Y and 0.3% Y/Y in July and August, respectively, as the impact of the VAT increase in July last year moderated. The Saudi stock market grew 3.5% during the quarter due to improved earnings and a better economic outlook.

We expect the economy to deliver improved performance across sectors in Q3-21. Higher output levels, coupled with strong recovery in oil prices in September, would boost the oil sector's performance in the quarter. Similarly, the non-oil sector would benefit from the relaxing of COVID-19 restrictions and the subsequent increase in economic activities. Moreover, the increasing vaccination rate and falling number of new cases would further accelerate the recovery.

Banking sector: Growth likely to continue, but at a lower rate

The banking sector has witnessed tremendous growth in the past few quarters, with most banks posting record growth in deposits and loans. While the growth is likely to continue, the rate of the growth is expected to decline. On a Q/Q basis, earnings are expected to increase 1.4%, driven by 2.1% rise in Al Rajhi's earnings. The Shariah banks in Saudi Arabia are expected to post strong earnings growth on Y/Y basis due to improving lending activity despite lower NIMs. Earnings of the sector are likely to increase by 30.7% Y/Y in Q3-21 driven by a 17.5% Y/Y rise in net financing and investment income revenue, partially offset by a 27.7% Y/Y jump in impairment charges. Advances and deposits are expected to increase by 31.9% and 29.3% Y/Y, respectively led mainly by Al Rajhi. **Al Rajhi** is expected to post net income growth of 38.5% Y/Y driven by a 24.1% increase in net income from financing and investment income on the back of 40.0% growth in advances. **Albilad's** net income is anticipated to increase by 6.9% Y/Y driven by lower impairment charges. **Alinma's** net profit is likely to rise by 12.3% Y/Y led by increase in net income from financing and investment income.

Saudi Petrochemical Sector: Earnings momentum to continue, margins under pressure sequentially

Saudi Petrochemical sector is likely to show significant growth in net income (+450.3% Y/Y) in Q3-21, driven by improved product prices as well as margins. On Q/Q basis, the sector's earning is expected to fall 12.8% due to pressure on margins from higher feedstock prices. Prices of feedstock such as Naphtha average price increased 11.2%Q/Q to USD 674/ tonne, and average prices of LPG feedstock Propane and Butane increased by 22.7%Q/Q and 26.8%Q/Q, respectively. Further, expected lower volumetric sales, amid ethane feedstock disruptions in early August due to a power outage, are likely to impact results for the sector when compared to previous quarter.

Crude oil (Brent) prices were up 5.9% QTD and 87.4% Y/Y, reaching USD 79.53 per barrel as of September 27. Manufacturing activity continued to expand in the US and Europe, recording manufacturing PMI at 59.9 and 61.4, respectively, in August. China, due to implementation restrictions to curb rising COVID-19 cases, saw first contraction in manufacturing activity since April 2020 (August manufacturing PMI: 49.2). A spike in US natural gas prices to a seven-year high, impacted by shutdowns forced by hurricane Ida in the US Gulf Coast, resulting in a significant increase in some product prices. Ammonia (+23.7% Q/Q) and Urea (+21.3% Q/Q) witnessed highest growth in average prices during the quarter led by record high prices feedstock natural gas. Acetic acid prices declined the most during the quarter, falling 14.0% Q/Q, as prices moderated after strong rally for past few months due to improving supply and inventory rebuild. VAM prices declined 12.4% Q/Q in Q3-21 due to lower prices of feedstock acetic acid. On quarterly bases, Polycarbonate, PP-Asia and MEG (SABIC) prices declined by 7.5%, 9.3% and 9.2% respectively, while Methanol and MEG-Asia increased by 5% each during the quarter.

SABIC is expected to post net profit of SAR 6,281.2mn in Q3-21, significantly higher than SAR 1,088.5mn in Q3-20, but 17.8% below the net profit for the previous quarter. **SABIC Agri-Nutrients** is likely to post strong results with estimated earnings growth of 185.8% Y/Y and 35.9% Q/Q, driven by higher prices of Urea and Ammonia. **Sipchem's** net profit is expected at SAR 792.3mn, a sharp increase compared to SAR 10.0mn in Q3-20, but marginally below SAR 829.9 in the last quarter. Net profit for **YANSAB** would drop 11.9% Q/Q to SAR 526.1mn due to a technical failure and a temporary shutdown for 14 days. **KAYAN** is expected post a net profit of SAR 619.0mn in Q3-21, down 20.7% Q/Q due to expected 484 bps decline in GP Margin.

Telecom Sector: Robust revenue growth, but margins to be under pressure

The telecom sector in Saudi Arabia is likely to record mid-single-digit Y/Y earnings growth in Q3-21. The growth is expected to be driven by an increase in top line due to higher data demand, rising FTTH subscriptions, and a momentum in the B2B business. On the other hand, margins in the sector are likely to be under pressure due to a shift in revenue mix towards low margin businesses. The GP margin for the sector is expected to contract by more than 500bps Y/Y. **STC** and **Mobily** are expected to post a Y/Y increase in revenue and a net income despite lower margins. **Zain KSA's** revenue is estimated to fall marginally due to the continued impact of COVID-19 on its consumer business. However, a gradual resumption of Umrah pilgrimage in the second half of the quarter is likely to provide a support to the company's revenue. Zain KSA's net income would likely witness a sharp decline Y/Y, primarily due to a one-off gain of SAR 136mn recorded in the same quarter last year, partly offset by significantly lower finance charges expected in Q3-21.

Cement Sector: headwinds in the short term, may not last long

Cement and clinker dispatches for the first two months of Q3-21, stood at 8.71mn tons (including exports), compared to 9.69mn tons in the first two months of Q3-20, recording a decline of 10.1%Y/Y. The decline in cement dispatches is due to the revised building code, which has resulted in a longer time for approving the commencement construction, labor shortage in the market, and growth slowdown in retail mortgage loans. Mortgage value declined by 35.2%Q/Q in Q2-21 to reach SAR 30.3bn. We are witnessing some short-term pressure on cement dispatches; however, we believe that the pressure is temporary and dispatches will pick-up within 2-3 quarters driven by solid housing demand backed by mortgage loans growth and government-initiated Giga-projects. Furthermore, an increase in cement demand can push price higher than its previous levels . On Y/Y basis, the earnings are estimated to decline 14.2% due to drop in earnings of most companies. **Eastern Cement** is expected to post a net income of SAR 53.7mn to record an increase of 25.9%Y/Y, backed by an increase in dispatches and precast concrete by 14.1%Y/Y and 78.6%Y/Y, respectively in Q3-21. **Yanbu Cement** is expected to register a net income of SAR 44.3mn in Q3-21, decline of 46.3%Y/Y, driven by a decline in realization per tonne by 10.2%Y/Y to SAR 184.0/tonne, compared to SAR 204.8/tonne in Q3-20.

Retail Sector: Getting back on track gradually

Several companies in the retail sector were adversely impacted by the pandemic last year. With the relaxation of restrictions and opening of the economy, most companies in the retail sector are gradually treading closer to the pre-COVID levels. Point of Sale transactions (PoS) sales rose by 31.5% Y/Y in Aug-21, while the number of PoS transactions increased by 73.5% Y/Y. Consumer loans jumped by 17.4% Y/Y, while credit card loans declined by 9.4% Y/Y in Q2-21. Earnings of the retail sector is expected to double in Q3-21 on a Y/Y basis, driven mainly by a high-single digit increase in top-line growth and a 340 bps expansion in GP Margin. **Leejam** is expected to post 98.4% Y/Y increase in earnings on the back of 13.8% growth in sales and 750 bps improvements in GP Margin. **Jarir Marketing** opened four new showrooms in the past one year, resulting in increased sales and earnings growth of 11.7% and 14.0% Y/Y, respectively. **Al Othaim** is expected to post a 17.7% Y/Y decline in bottom line due to a 250 bps decline in GP Margin.

Healthcare Sector: Elevated earnings growth likely to taper down

Most companies in the healthcare sector benefited from the pandemic with increased earnings growth in the recent quarters. As the impact of the pandemic eases, the earnings growth is likely to decline; however, it will still remain in the positive territory compared with that last year. The Saudi healthcare sector would see a 9.5% Y/Y increase in earnings in Q3-21, driven by a 9.8% Y/Y rise in revenue and a 240bps improvement in operating margins. With operations returning to the pre-COVID levels, the occupancy is expected to improve compared with that in the previous year. Revenue is expected to rise by 9.8% Y/Y, mainly driven by capacity additions at Dallah following the acquisitions of Care Shield Holdings (Kingdom Hospital). On Q/Q basis, earnings are estimated to increase by 10.8%, driven by 11.6% earnings growth for Sulaiman Al Habib. **Dallah** is expected to post revenue growth of 42.0% Y/Y due to the acquisitions. **Mouwasat's** revenue is expected to decrease 4.8% Y/Y, as the company's revenues was boosted by the pandemic last year. The net profit of **Care** is expected to rise by 94.0% Y/Y, driven by the cost-control measures undertaken by the company. The net profit of **Saudi German** is likely to decline by 16.8% Y/Y due to lower GP Margin.

Education Sector: Recovery underway as offline education resumes partially

The education sector was severely impacted during FY21 due to the impact of COVID-19 and distance learning, which resulted in a drop in number of students and heavy discounts being provided on school tuitions up to 50%. However, as of FY22 (Q3-21 for Alkhaleej Training), school tuitions returned to normalcy, with partial rollback in number of students. **Ataa** recently announced FY21 results (ending July 2021), recording a 51.1%Y/Y decline in earnings due to the impact of the pandemic, despite the consolidation of 'Education International Schools' and 'Al-Wasat National Schools'. In Q1-FY22 (ending October 2022), we expect Ataa to post strong Y/Y growth in top and bottom line due to the lifting of discounts and recovery in students count, along with the consolidation of Arabian Group. NCLE is yet to announce Q4-FY21 results (ending August 2022). We expect **NCLE** to post 33.8%Y/Y decline in net income as the quarter is expected to be impacted by the pandemic. However, a 48.9%Q/Q growth is expected due to lower operational costs during summer vacation. **Alkhaleej Training** is expected to return to profitability driven by margin recovery and lifting of school tuitions discounts.

Miscellaneous Sector: On the way to recovery

The miscellaneous sector is estimated to return to profit in Q3-21. The sector is expected to benefit from multiple positive developments during the quarter. Theeb is expected to be the top performer in the sector in Q3-21, as its earnings would almost double from that in the same quarter last year, while SGS would be the only company registering a loss in Q3-21. **SGS** and **Catering** are likely to benefit directly from the resumption of domestic flights with full capacity from September 1 and the lifting of travel restrictions on several countries. **Catering** is expected to swing back to profit for the first time since the outbreak of COVID-19. **SGS** is anticipated to narrow its loss to almost one-third of that in Q3-20. Given the increase in traveling and the resumption of Umrah with limited capacity, the car rental business is also expected to show a recovery, which would be reflected in the earnings for **Budget Saudi** and **Theeb**. Furthermore, continued strong demand for used vehicles would also boost earnings of those car renting companies.

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Code	Company Name	Forecasted-Revenue Q3-21	Forecasted-Net Profit Q3-21	Forecasted-EPS Q3-21	Forecasted-Q/Q growth	Forecasted-Y/Y growth	Forecasted-EPS FY21	Prospective PE-FY21
				Banks				
1120	Bank Alrajhi	6,486.9	3,680.7	1.47	2.1%	38.5%	5.47	22.19
1150	Bank Alinma	1,646.1	706.5	0.36	-0.5%	12.3%	1.23	19.13
1140	Bank Albilad	1,140.8	409.0	0.55	-1.7%	6.9%	2.10	19.08
				Telecommunication Services				
7010	STC	15,948.7	2,923.2	1.46	3.6%	5.7%	5.65	22.03
7020	Mobily	3,768.2	254.0	0.33	4.2%	14.5%	1.27	24.21
7030	Zain	1,913.4	44.1	0.05	5.8%	-26.8%	0.20	HIGH
				Food & Staples Retailing				
4001	Al Othaim	1,940.7	50.0	0.56	4.3%	-17.7%	3.32	33.77
4161	Bindawood	1,030.9	90.4	0.79	-4.8%	14.9%	3.02	35.50
				Retailing				
4190	Jarir	2,275.7	290.9	2.42	53.7%	14.0%	8.71	23.98
4240	Fawaz Al Hokair**	1,202.6	(116.5)	(0.55)	NM	NM	(1.33)	NM
4008	SACO	329.4	15.0	0.42	3.8%	-9.0%	1.71	36.30
				Materials				
2010	SABIC	41,673.0	6,281.2	2.09	-17.8%	477.0%	8.04	16.02
2060	TASNEE	767.6	305.1	0.46	-14.5%	NM	1.84	12.48
2290	YANSAB	1,893.4	526.1	0.94	-11.8%	168.9%	3.68	19.38
2020	SABIC AGRI-NUTRIENTS	2,142.5	1,136.2	2.39	35.9%	185.8%	6.75	25.04
2310	Sipchem	2,211.9	792.3	1.08	-4.5%	NM	3.70	11.57
2330	Advanced	722.3	248.7	1.15	-6.0%	58.9%	4.19	18.02
2350	KAYAN	2,870.3	619.0	0.41	-20.7%	NM	1.59	12.89
2002	Petrochem	2,299.7	435.4	0.91	-27.8%	272.3%	3.43	14.52
1211	MA'ADEN	6,800.6	1,561.4	1.27	41.4%	NM	3.87	20.65
3020	Yamamah Cement	229.3	86.8	0.43	11.7%	11.6%	1.40	21.44
3030	Saudi Cement	355.1	103.2	0.67	19.8%	-3.0%	2.89	21.33
3050	Southern Cement	297.9	110.1	0.79	15.7%	-26.5%	3.85	18.97
3040	Qassim Cement	185.1	87.8	0.98	-12.3%	-20.2%	4.57	18.04
3010	Arabian Cement	233.5	58.4	0.58	74.2%	-26.0%	2.44	16.76
3060	Yanbu Cement	219.8	44.3	0.28	5.8%	-46.3%	1.50	27.38
3003	City Cement	143.6	55.8	0.40	12.2%	9.1%	1.75	15.09
3080	Eastern Cement	196.4	53.7	0.62	-13.2%	25.9%	3.01	16.37
				Health Care				
4007	Hammadi	272.9	41.4	0.35	2.8%	13.3%	1.34	28.34
4002	Mouwasat	522.6	135.1	1.35	-4.4%	-16.1%	5.67	31.69
4005	Care	204.8	31.7	0.71	3.0%	94.0%	2.82	22.44
4004	Dallah	498.3	58.1	0.65	22.2%	8.0%	2.52	28.33
4013	Sulaiman Al Habib	1,813.4	363.1	1.04	11.6%	21.5%	3.89	44.49
4009	Saudi German	505.6	29.1	0.32	217.9%	-16.8%	0.88	42.91
				Consumer Services				
4292	Ataa***	136.7	16.3	0.46	-15.9%	232.1%	2.26	27.12
4291	NCLE****	49.6	13.6	0.32	48.9%	-33.8%	0.72	HIGH
4290	Alkhaleej Training	212.6	5.3	0.12	NM	-19.2%	0.12	HIGH
1810	SEERA	379.0	(56.9)	(0.19)	NM	NM	(0.99)	NM
1830	Leejam	238.4	52.7	1.01	3.6%	98.4%	2.96	34.36
				Food & Beverages				
2280	AlMarai Company	2,756.5	492.5	0.49	2.2%	-20.8%	1.78	31.85
				Transportation				
4260	Budget	247.0	58.5	0.82	4.0%	44.6%	3.25	15.11
4261	Theeb	187.4	27.9	0.65	11.7%	99.4%	2.49	25.79
4031	Saudi Ground Services	415.9	(31.5)	(0.17)	NM	NM	(0.63)	NM
				Commercial & Professional Svc				
6004	Catering	323.5	10.7	0.13	NM	NM	(0.00)	NM

Prices as of 30th SEP 2021 *Not meaningful **Fiscal year ends March 2022 ***Ataa forecasts for Q1-FY22 ending October 2021 (expected EPS for FY22)
****NCLE forecasts for Q4-FY21 (ending August 2021)

Source: AlJazira Capital

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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