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Al Rajhi Capital

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Key themes

As Q3 ended, we present revenue and bottom-line estimates for companies under our coverage in various sectors.

Saudi Arabian Equities
Q3 2021 earnings preview

Overall economic indicators remain healthy in Saudi Arabia in Q3. As for the listed companies, in the Petrochemicals sector, lower polymer prices and higher feedstock costs are likely to slightly lower the sector's margins. As for the hospitals, revenue and profitability, still robust, are likely to be slightly lower due to a higher base in the same period, the previous year. Cement companies' results are likely to be weak during the quarter, due to lower volumes and prices on a y-o-y basis. Further, the rising cost of raw materials and freight costs, and lower demand due to lower number of expats are likely to keep the food sector's financial performance under check. However, Saudi retailers are likely to witness strong growth due to the lower base last year.

Petrochemicals

We expect the combined earnings of the Saudi petrochemical sector to decline sequentially in Q3 2021, weighted down by slightly lower average polymer prices, coupled with the increased upstream costs. Despite average oil prices rose ~6% q-o-q aided by continuous improvement in the oil market dynamics, key polymer products prices (LDPE, HDPE, PP, and PS), on average, declined 3-6% q-o-q. Average VAM and Polycarbonate prices also declined ~13% q-o-q and ~8%, respectively. However, bucking the trend, MEG and Methanol prices were up +6 q-o-q each. On the other hand, key feedstock prices (Naphtha: ~11% q-o-q; Propane with 1-month lag: ~10%; Butane with 1-month lag: ~14% increased at a relatively faster pace, signalling a likely reduction in product spreads for the sector. Accordingly, the sector's net margin may come under pressure in Q3. Among our petchem coverage, most companies are expected to witness lower earnings on a quarterly basis, except Sipchem and SABIC Agri-Nutrients, which may benefit from the increased product prices and higher other income.

Retail

The consumer spending is expected to remain modest however covid recovery should drive the in-store traffic which should lead to revenue growth for Saudi retailers when compared to Q3 2020. Third-quarter last year was impacted due to VAT so retailers can show good growth on a low base this quarter. Back to school campaign would be a positive catalyst while the resumption of traveling is a negative driver, which could have an impact on retail companies under our coverage.

Cement sector

During Q2 2021, total cement sales volume increased 21% y-o-y aided by a lower base during the previous period due to Covid restrictions. The total volume during the first 8 months of the year grew 5% y-o-y, while the April and May months witnessed a rise of 51% in volume, at the back of the lower base, due to covid related lockdown. During the first 8 months of 2021, most of the listed cement companies reported a y-o-y increase in sales volume led by Riyadh Cement (+54% y-o-y), Arabian Cement (+44% y-o-y), Eastern Cement (+21%), and City Cement (+14%). On the other hand, Yamama Cement (-16% y-o-y), Tabuk Cement (-13% y-o-y), Southern Cement (-12% y-o-y) and Northern Cement (-9% y-o-y) reported a drop in volume.

Average realized prices during Q2 2021 declined marginally by 1% y-o-y, but improved 4% q-o-q and we expect realization to come under pressure in the coming period. By the end of Q2 2021, the total clinker inventory for the sector was at 34.0mn tonnes, representing c.65% of the last twelve months' sales.

Going forward, we expect Q3 sales volume and average realization to come under pressure. The slowdown in construction activities and high inventory levels are expected to put pressure on the performance of the sector. Based on our estimates, companies under our coverage are expected to report a 24% fall in revenue, y-o-y, in Q3 with lower volumes and cement prices putting pressure on the performance.

Telecoms

Key events to watch out in the telecom sector are increase in subscribers (expats) as travel and tourism restrictions open up, changes in data prices, uptake of 5G, tower deals, etc. Overall we believe one could expect a moderate increase in top-line and bottom-line for the consumer telecom segment and a 10%+ increase for the business segment. With regards to the planned stake sale of STC by PIF, the increase in free float is positive but may take some time for the sale to happen and get reflected in MSCI/FTSE indices. Irrespective of the fundamentals, the concern for some participants could be that there would be selling pressure because of the stake sale. We view this volatility as temporary and are positive on the stock with a target price of SAR140/share. It would be a good time to add for a long-term investor.

Food sector

The food sector is undergoing several challenges such as depopulation leading to excess supply, lower basket size post VAT which are impacting the revenue growth for most of the food manufacturers such as Almarai and SADAFCO. The rising price of the agro commodity and higher freight rates along with subsidy removal will continue to affect the dairy manufacturers. We expect both the top-line and bottom-line for the overall sector to decline.

Healthcare sector

The Q3 revenues are likely to be aided on a y-o-y basis by improvement in utilization and acquisition by Dallah. However, profitability is likely to come under pressure due to lower margins. Overall, we expect the revenues of healthcare companies under our coverage to increase by 9% y-o-y, while net profit is expected to fall by 4% y-o-y, reflecting a fall in margins.

Insurance sector

Health insurance companies are expected to witness benefits from the pricing hike that came into effect at the start of the year. The increase in users is expected to continue due to better enforcement of insurance. On the other hand, the seasonality of low loss ratios in 3Q (pre-pandemic) seen usually will not be seen in this quarter because of no material travel activity. We expect the loss ratios to be higher than the usual 3Q levels. Additionally, with the Govt hospitals coming more under the medical insurance for Saudi nationals, there would be higher claims. As for motor insurance, we expect no material change as the competition continues to be high and pricing levels are expected to be lower on an annual basis. Loss ratios are likely to gradually uptick because of increased local travel activity.

Others

Bawan: We expect Bawan to report strong revenue growth, aided by the robust performance of the steel segment. Performance of other segments too is expected to grow, with profitability being aided by improvement in operating efficiency.

SISCO: For SISCO the declining getaway volume is expected to put pressure on top-line and bottom-line growth. We will also see the impact of the PIF-COSCO deal on net income in Q3 2021 financials. The next key catalyst for the company would be the strategy regarding usage of cash received by selling stakes in RSGT which we expect the company to announce soon.

Saudi Ceramics: Financial performance will be aided by an improvement in both volume and prices.

Leejam: Clubs expansion and market share gains to drive the top-line growth, margins to expand due to cost-cutting initiatives, and other operating efficiencies achieved last year.

Aldrees: Resumption of school along with new station expansion to drive the top-line growth and margins.

Al Yamamah Steel: Profitability growth to remain elevated, at the back of lower base, though margins are likely to come under pressure on a q-o-q basis.

Al Moammar Information Systems (MIS): Margins to remain under pressure, though likely to improve sequentially.

Arabian Internet and Communications: Revenue likely to remain strong in line with the previous quarter, though margins to come under pressure.

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Saudi market: Q3 estimates of the companies we cover

	Revenues (SAR mn)					Net Profit (SAR mn)				
Company	**2020Q3A**	**2021Q2A**	**2021Q3E**	**YOY % chg.**	**QOQ % chg.**	**2020Q3A**	**2021Q2A**	**2021Q3E**	**YOY % chg.**	**QOQ % chg.**
Petrochemical										
SABIC*	29,295	42,419	43,687	49.1%	3.0%	1,089	7,643	6,776	522.5%	-11.3%
	SABIC is likely to witness a decline in earnings sequentially, mainly due by higher feedstock costs.									
Sipchem	1,362	2,363	2,417	77.5%	2.3%	10	830	935	NM	12.6%
	Earnings are likely to increase notably in Q3, primarily aided by improved prices for key products and higher other income.									
SABIC Agri-Nutrients^	902	1,839	2,370	162.7%	28.9%	398	836	1,170	194.4%	40.0%
	Higher Urea prices and improved efficiencies to boost earnings in Q3.									
Yansab	1,441	1,983	1,831	27.1%	-7.7%	196	596	476	143.3%	-20.2%
	Top-line and bottom-line are likely to decline sequentially, driven by lower sales volume amid the unplanned shutdown.									
APCC	545	769	728	33.6%	-5.3%	156	265	200	27.6%	-24.6%
	Earnings are likely to decline on lower product spreads amid higher Propane prices.									
Petrochemical Sector	**33,545**	**49,373**	**51,034**	**52.1%**	**3.4%**	**1,848**	**10,170**	**9,557**	**417.1%**	**-6.0%**
Cement										
Arabian Cement	237	233	214	-9.8%	-8.3%	79	34	20	-74.6%	-40.3%
	Pressure on prices and lower volumes to put pressure on financials									
Yamama Cement	218	203	198	-9.0%	-2.3%	78	78	54	-30.6%	-30.6%
	Lower average realization to put pressure on profitability									
Saudi Cement	387	348	311	-19.7%	-10.8%	108	86	52	-51.7%	-39.8%
	Fall in volumes and pressure on prices to impact financials									
Qassim Cement	232	198	139	-40.0%	-29.8%	110	100	42	-61.8%	-58.0%
	Lower volumes and prices to put pressure on profitability									
Yanbu Cement	240	243	203	-15.6%	-16.4%	81	41	25	-69.6%	-40.3%
	Lower prices to impact financials									
Southern Cement	426	287	261	-38.7%	-9.2%	150	95	69	-53.8%	-27.3%
	Fall in volumes and prices to put pressure on profitability									
Najran Cement	159	132	114	-28.0%	-13.0%	47	33	18	-62.0%	-44.9%
	Fall in cement prices and lower volumes to impact profitability									
Cement Sector	**1,898**	**1,643**	**1,439**	**-24.2%**	**-12.4%**	**653**	**467**	**280**	**-57.1%**	**-40.1%**
Telecom										
STC	14,881	15,899	15,477	4.0%	-2.7%	2,766	2,821	2,931	6.0%	3.9%
	STC is likely to increase topline by 4% and bottom-line by 6%. Any announcement of special dividends would be key to watch.									
Mobily	3,355	3,728	3,523	5.0%	-5.5%	222	244	249	12.1%	2.0%
	Mobily is expected to increase its topline by 5% y-o-y and bottom-line by 12%.									
Zain KSA	1,928	1,896	1,966	2.0%	3.7%	60	42	48	-20.5%	14.8%
	We expect Zain's to report SAR48mn bottom-line. Details on Zain KSA's possible tower deal would be key to watch.									
Telecom Sector	**20,164**	**21,522**	**20,966**	**4.0%**	**-2.6%**	**3,048**	**3,107**	**3,228**	**5.9%**	**3.9%**
Food & Agriculture										
Almarai	3,863	4,006	3,832	-0.8%	-4.3%	615	490	537	-12.7%	9.6%
	Expat exodus, lower consumer spending and rising commodity prices continue to impact Almarai's top-line and margins.									
Savola	4,587	5,901	4,679	2.0%	-20.7%	284	200	217	-23.6%	8.5%
	The Food segment to benefit due to rising commodity prices which impacts smaller players; the retail segment growth to remain impacted due to lower consumer spending.									
Herfy	311	321	345	10.9%	7.5%	51	35	38	-25.5%	8.6%
	Herfy's top-line is expected to gradually get back to pre-covid levels however gross margin dilution remains a key concern.									
Food & Agri. Sector	**8,761**	**10,228**	**8,856**	**1.1%**	**-13.4%**	**950**	**725**	**792**	**-16.6%**	**9.2%**

Saudi market: Q3 estimates of the companies we cover

Company	Revenues (SAR mn) 2020Q3A	2021Q2A	2021Q3E	YOY % chg.	QOQ % chg.	Net Profit (SAR mn) 2020Q3A	2021Q2A	2021Q3E	YOY % chg.	QOQ % chg.
Retail										
Jarir	2,038	2,015	2,100	3.0%	4.2%	255	189	272	6.7%	43.9%
	Back to school sales to partially provide some respite however global shortage of electronic devices to hurt electronics segment revenue.									
Alhokair**	1,186	1,700	1,233	4.0%	-27.5%	(98)	47	15	NM	-68.1%
	Top-line to grow as last quarter same period was impacted with lower footfalls due to social distancing norms.									
AlOthaim	1,813	2,171	1,899	4.7%	-12.5%	61	48	63	3.3%	31.3%
	We expect AlOthaim's revenue to improve as Q3 2020 was negatively impacted due to pre-VAT buying in Q2 2020.									
Extra	1,225	1,329	1,433	17.0%	7.8%	53	100	118	122.6%	18.0%
	Extra is expected to post a strong double digit growth, driven by higher contribution from consumer finance business.									
Bindawood Holding	1,082	1,123	1,104	2.0%	-1.7%	79	95	91	15.8%	-3.7%
	Back to school sales and higher number of religious tourist compared to Q3 2020 is expected to improve Bindawood's sales.									
Retail Sector	**7,344**	**8,338**	**7,769**	**5.8%**	**-6.8%**	**350**	**479**	**559**	**59.9%**	**16.8%**
Healthcare										
Dallah	351	491	490	39.8%	-0.1%	54	48	49	-8.8%	3.2%
	Acquisition to boost revenue, though profitability to be impacted by one-off gains in Q3 2020									
Mouwasat	549	527	525	-4.4%	-0.4%	161	141	140	-12.8%	-0.7%
	Revenue and profitability to be impacted by lower patient flow y-o-y basis									
NMCC	213	202	198	-7.3%	-2.3%	16	31	30	86.3%	-1.0%
	Improvement in margins to aid in improvement in profitability									
Al Hammadi	249	268	265	6.5%	-1.0%	37	40	37	0.5%	-8.8%
	Pressure on margins to keep profitability flat									
Healthcare Sector	**1,362**	**1,488**	**1,478**	**8.5%**	**-0.6%**	**268**	**260**	**257**	**-4.2%**	**-1.3%**
Other										
Bupa Arabia	3,076	2,570	3,230	5.0%	25.7%	140	288	241	72.4%	-16.4%
	Earnings are likely to improve, driven by increased investment income and lower allowances for doubtful receivables									
Tawuniya	1,320	2,265	1,385	4.9%	-38.9%	95	144	122	29.0%	-15.1%
	Earnings are likely to improve, mainly due to price hike, offsetting higher than usual loss ratio in Q3.									
Leejam Sports	210	222	243	15.7%	9.5%	27	52	57	111.1%	9.6%
	We expect a strong national day campaign to restore revenue to pre covid levels; margins are expected to improve due to cost efficiencies undertaken in FY 2020									
Saudi Ceramics	373	356	400	7.2%	12.3%	32	63	65	100.3%	2.7%
	Improvement in both price and volume to aid financial improvement									
Aramco*	200,059	312,353	356,628	78.3%	14.2%	44,278	90,902	99,014	123.6%	8.9%
	Top-line and bottom-line are likely to increase sequentially, supported by higher oil prices and sales volume.									
SISCO	260	245	224	-13.8%	-8.6%	28	22	10	-64.3%	-54.5%
	This quarter SISCO's share of income will decrease to account for PIF and cosco deal, from business point of view the declining getaway volume is expected to hurt the revenue and net income.									
Aldrees	1,300	2,173	2,379	83.0%	9.5%	37	36	43	16.2%	19.4%
	Resumption of school along with new station expansion to drive the top-line growth and margins.									
Bawan Company	549	789	788	43.7%	-0.1%	30	43	45	51.2%	3.7%
	Strong performance from steel and electricity segment to aid in growth in both revenue and profitability									
MIS	235	248	257	9.6%	3.9%	23	10	20	-12.5%	88.8%
	Margins to remain under pressure, though is likely to improve on a q-o-q basis									
Solutions	NA	1,937	1,995	NM	3.0%	NA	256	200	NM	-22.1%
	Profitability to be impacted by lower margins on a q-o-q basis									
SADAFCO**	535	492	529	-1.1%	7.5%	70	38	54	-22.9%	42.1%
	Rising commodity prices and over supply of milk is expected to continue to impact top-line and bottom-line for SADAFCO.									
Al Yamamah Steel	474	406	437	-7.8%	7.7%	25	65	58	130.6%	-10.5%
	Profitability growth to remain strong at the back of lower base									

** Data is not comparable due to Aramco-SABIC deal ** SADAFCO and Fawaz Alhokair follow April-Mar financial year. ^ Data is not comparable due to SANIC acquisition.*

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"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 12 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 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.

"Target price": We estimate target 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.

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