Saudi Arabian Oil Co. (ARAMCO)

Key Investment View

Skeptical outlook for the coming year

We initiate coverage on Saudi Aramco (ARAMCO) with a HOLD recommendation based on a 12-month price target of SAR31.56 resulting from a DCF valuation (70%) and multiple analysis (30%). Saudi Aramco has recently approached to the financial market and is part of MSCI TADAWUL 30. The target price mainly reflects the following four points:

Global industry affected by COVID-19

The whole industry production has been affected by the coronavirus pandemic and its effects. By 2020, oil demand is expected to decline by 8.1 mb/d, the largest in history, and then resume 5.7 mb/d in 2021. The reduction in jets and kerosene will affect total oil demand by at least 2022. Since the delivery of COVID-19 exceeded expectations during the lock-in period, oil demand in 2020 has increased by nearly 500 kb/d to 91.7 mb/d. In China, oil demand quickly recovered from March to April, and demand in India rose sharply in May.

Stable cash flow looking forward

This pandemic will definitely affect Saudi Aramco's revenue and growth in 2020 because it will affect the production and demand of each barrel of oil and natural gas in the world. Saudi Aramco has large reserves and therefore has a large share of the entire market. Therefore, we expect revenue and net income growth and free cash flow to decrease significantly, reaching -30.30% in FY20. In the next few years, we expect to return to the usual stable level, with revenues year-on-year increase of 39.13% in 2021 and a year-on-year increase of 19% in 2022.

Maintaining a stable leadership position

We expect Saudi Aramco to maintain its position as the world's leading crude oil producer. Its reserves, operating capacity, and standby capacity enable it to increase production according to demand. We foresee Saudi Aramco to maintain the required crude oil production by balancing production between mature regions and newer production sources and developing new reservoirs as needed to optimize the depletion rate of its oil fields.

SABIC acquisition for global business expansion

Saudi Aramco recently acquired a 70% stake in SABIC to accelerate growth, transform plans, expand its product portfolio, and reach a global perspective. Whether organic or inorganic, SABIC is striving to build an asset footprint in the United States to take advantage of shale gas opportunities, establish a business in Asia and Europe, and leverage its strength in Saudi Arabia. It plans to use and strengthen its local infrastructure and capabilities to support its growth ambitions in China. These goals are more likely to be achieved through acquisitions and partnerships between the two companies' facilities.

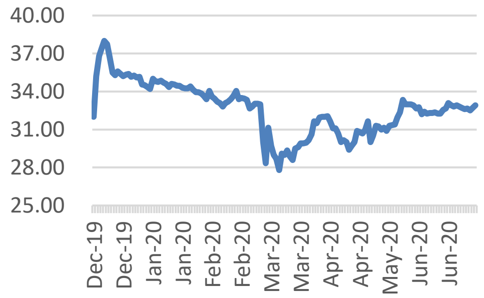
Rating: HOLD

Initiating Coverage

Sector: Oil & Gas

Recommendation	
Current Price (15-July-20)	33.20
Target Price	31.56
Upside/Downside (%)	-4.9%

Stock Information	
Market Cap (SAR, mm)	6.690B
Revenue (SAR)	225B
52-Week High (SAR)	38.7
52-Week Low (SAR)	27.0
3M Avg. daily value (SAR, mm)	204,995,800



Financial Ratios	
Dividend Yield (12m)	1.27
Dividend Pay-out (%)	NA
Price-Earnings Ratio (x)	32.80
EV-to-EBITDA (SAR)	14.90
EV-to-boed (SAR)	1,361.1
Eearning Per Share (SAR)	1.56
Beta	1
Peer-Adjusted-Beta	0.542

Stock Performance	
5 Days	0.60%
1 Months	3.72%
3 Months	8.96%
6 Months	-3.60%
1 Year	NA
Quarter to Date (QTD)	2.92%
Year to Date (YTD)	-5.11%

Multiples

	2019	2020F	2021F	2022F
P/E	21.36	32.9	24.1	19.1
P/B	6.81	6.58	6.31	5.90
EV/EBITDA	9.64	14.9	11.1	9.07

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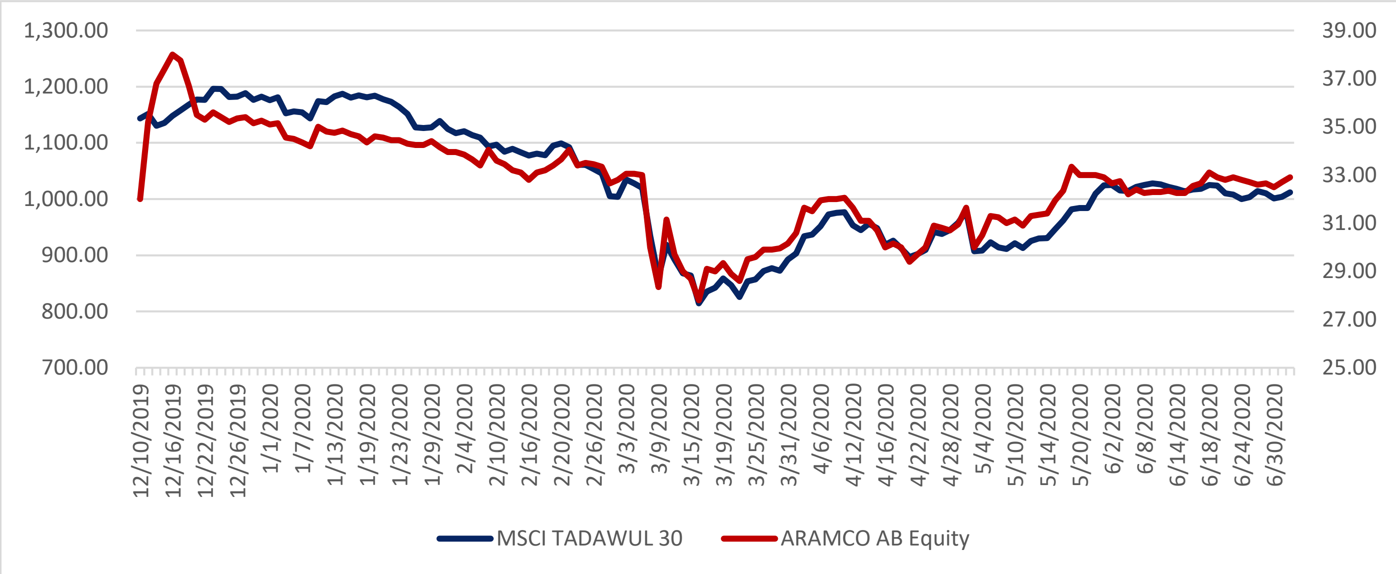
Trading history and ownership

Exhibit 1: Trading history and stock data



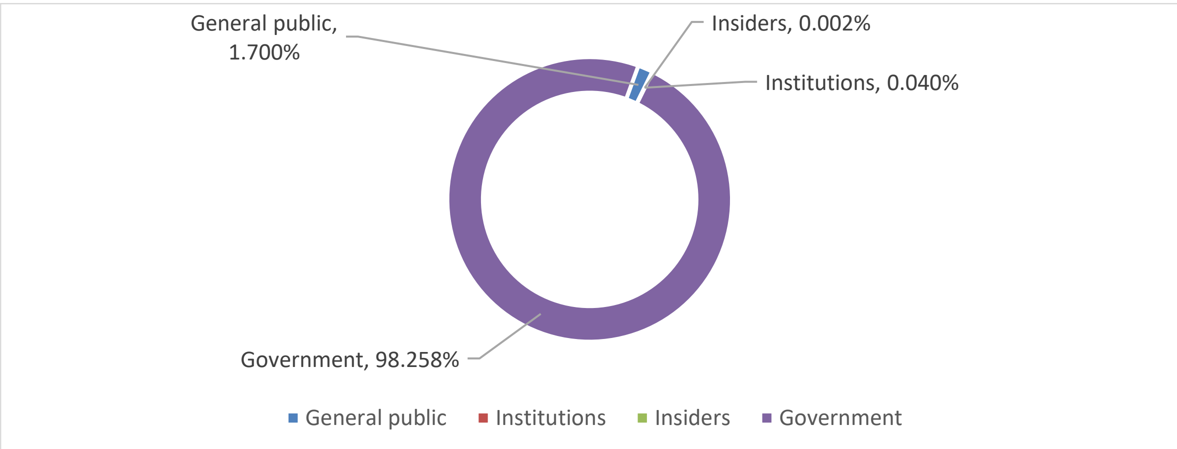
Source: - FABS, Bloomberg

Exhibit 2: Stock data

Bloomberg	**ARAMCO:AB**
Reuters	**2222.SE**
Closing market price (SAR) on 15 July 2020	**33.20**
Market capitalization (SAR billions)	**6.690**
52-week High/Low (SAR)	**38.7/27.0**
3-months average daily value traded (SAR mm)	**206,989,900**
Free float (%)	**1.70%**

Source: - FABS, Bloomberg

Exhibit 3: Company Ownership



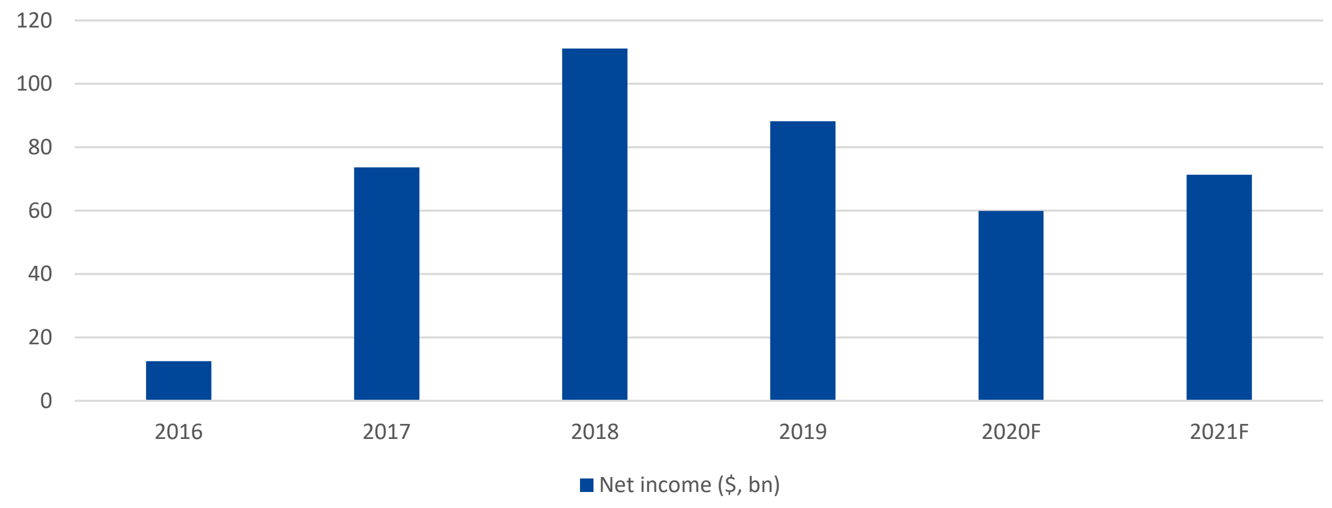
Source: - Company Annual report and own assessment

Investment view

A reduced performance

In FY19, net income was US$88.2 billion, compared with US$111.1 billion in FY18. The main reasons for the decrease were lower crude oil prices and production, lower refining, and chemical profit margins, and $1.6 billion in impairment companies related to Sadara Chemicals. EBIT amounted to $177.9 billion compared to $212.8 billion of FY18, resulting in a reduction of 16.38%. This was mainly due to falling crude oil prices, lower refining and chemical profit margins, and Saudi Aramco's increased share of the joint venture and associate losses, primarily due to impairment charges recognized by Sadara.

Exhibit 4: Net income evolution



Source: - Company annual report and own assessment

Upstream EBIT was $183.9 billion, while the Downstream segment resulted in a negative EBIT of -$0.9 billion. To assess the performance, we used the ratio of earnings before interest and taxes (EBIT) to average book capital, which shows that the company is capable of generating meaningful returns on all sources of capital. In fact, it was 65.4% highly above the market average. Furthermore, we assessed the level of profit from each barrel of oil (Downstream EBIT/Total barrels of oil). This measure is mainly reduced due to the negative EBIT registered by the Downstream division, and it is about 0%, resulting in a bad performance. Free cash flow was US$78.3 billion, compared with US$85.8 billion last year. This was mainly due to lower income but was offset by lower capital expenditures and favorable working capital flows. The balance sheet shows that as of the end of 2019, the asset-liability ratio is -0.2%, indicating the company's stable and prudent financial framework.

Exhibit 5: Main performance indicators

Performance indicator and assumptions	2019	2018
Revenue	$329.8B	$359.2B
Net Income	$88.2B	$111.1B
EBIT	$177.9B	$212.8B
Upstream EBIT	$183.9B	$212.3B
Downstream EBIT	$-0.9B	$3.4B
EBIT Margin	53.94%	59.24%
Total Barrels of Oil (bbl)	4.818B	
Average Book Capitalization	271.9B	271.9B
EBIT/Average Book Cap.	65.4%	78.26%
Downstream EBIT/bbl	0%	

Source: - Company annual report and own assessment

Scalability and scale indicators confirming the leadership position

In 2019, the company remains one of the world's largest producers of crude oil and condensate, with a total average daily oil and gas production of 13.2 million barrels of oil equivalent. According to the concession agreement, Saudi Aramco's average daily total oil and gas production is 13.2 mm barrels (mmboe) (2018: 13.6 mm barrels), including 9.9 mm barrels/day (2018: 10.3 mm barrels/day) crude oil (including mixed condensate, but excluding the Kingdom of Bahrain from Abu Safa. These extended scale indicators mean that Saudi Aramco benefits from greater asset diversification (by geography and by reserve basin) and economies of scale. However, the amount of proved reserves, which are oil and gas reserves below the surface that have not yet been produced and that are economically viable to extract, is relatively small, thus confirming our worry about the current and future fair value of the company. This measure is mainly related to the company's upstream assets. Overall, Saudi Aramco is in a stronger position to negotiate with service providers, such as oilfield services companies, for lower costs, thus tracking operating efficiency, longevity, and access to capital markets.

Stable dividends and CAPEX

The total dividend payment for 2019 is US$73.2 billion. As disclosed in the IPO prospectus, the company announced the payment of a common dividend of US$3.9 billion, covering the period from December 5, 2019 (the date when the IPO shares are distributed to investors) to December 31, 2019. These common stock dividends account for a portion of the total common stock dividend announced in the fourth quarter of 2019 of US$13.4 billion. The $3.9 billion dividends will be paid to registered shareholders from March 31, 2020 to March 18, 2020. Last year's capital expenditure was US$32.8 billion, compared with US$35.1 billion in 2018. In view of current market conditions and recent commodity price fluctuations, 2020 will be between 25 billion and 30 billion US dollars. The company's lower upstream costs and lower ongoing capital provide significant flexibility and demonstrate differentiation to its peers.

Exhibit 6: Saudi Aramco dividends and peers

Peers	Current dividend yield
Sinopec	0.40%
CNPC	2.50%
Shell	3.87%
BP	10.89%
ExxonMobil	7.96%
Total	7.57%
Valero	6.94%
Gazprom	7.87%
Phillips 66	5.21%
Average	*5.91%*
Saudi Aramco	**4.33%**

Source: - FABS, Bloomberg

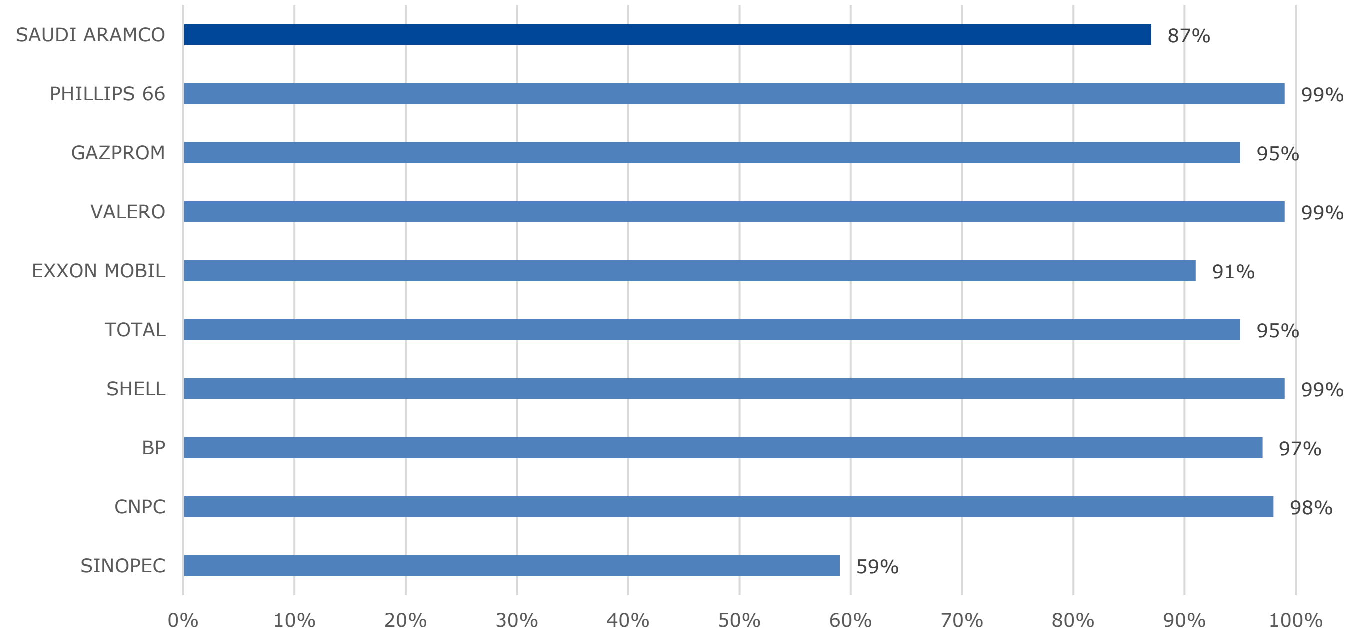
Stable outlook post COVID-19

The pandemic will surely impact the 2020 revenue and growth of Saudi Aramco, as it will affect the production and demand of barrels of oil and natural gas around the world. Saudi Aramco has a significant disposition of reserves, making it a large player in the whole market. Therefore, we expect an important reduction in revenue and net income growth, as well as free cash flow, amounting to -30.30% for the FY20. For the coming years, we expect a recovery to the usual stable amounts, growing 39.13% YoY in 2021, and 19% in 2022.

Company structure and leverage

We expect Saudi Aramco's capital structure to remain univariant for the coming years, thus reflecting our WACC calculation and future price target. Saudi Arabian Oil Co., as the majority of oil companies, uses leverage to invest in new establishments and for growth initiatives. Currently, the capital structure is composed of 87% of the debt, and 23% of equity.

Exhibit 7: Saudi Aramco leverage level compared to peers



Source: - FABS, Bloomberg

Strategic diversification acquisition strategy

The acquisition of SABIC is in line with Aramco's diversification strategy. All IOCs have a large share in the downstream and upstream and increasingly seek to dominate the natural gas business and its downstream. SABIC will provide a significant boost to Aramco's business in Saudi Arabia and the global chemical industry. Khalid Al Falih has developed a strategy to expand overseas markets, enter shale gas and traditional natural gas markets, and extensively develop its downstream chemical business at home and abroad. This strategy will ultimately make the market view Amicorp as comparable to, or even more important than, ExxonMobil, and make it as valuable as most other international oil companies in the world. The merger provides Aramco with the opportunity to expand its chemical business rapidly, and the company is seeking to develop its development as part of its downstream strategy. SABIC's methanol, ammonia and urea products are extremely competitive because their advantage is based on Aramco's sale to methane at US$1.25 per million British thermal units (MMBtu), which is undoubtedly the cheapest methane gas in the world. Similarly, all ethane products from SABIC are competitive. This is because Aramco offers a price of US$1.57/MMBtu, making it the lowest ethane in the world. Despite the low price of natural gas raw materials in Saudi Arabia, the production cost of Saudi Arabia is also very low. Therefore, it can be said that the Saudis are not dumping in the sense of international trade (that is, selling at a price below cost). On the other hand, low natural gas prices keep Saudi Basic Industries Corporation and all other natural gas users in Saudi Arabia at extremely low production costs. However, SABIC's low cost of obtaining raw materials (methane, ethane, etc.) means that when Aramco takes over SABIC and merges the raw material costs, the oil company will not see any reduction in its overall costs.

Saudi Arabian economy responds to COVID-19

The stagnant growth in 2019 is mainly due to deliberate production cuts that exceed the OPEC+ agreement and lower oil prices. Overall, despite the strong performance of the non-oil sector supported by private consumption and investment, the economy still grew by 0.3% in 2019. The International Monetary Fund said Saudi Arabia's 2020 GDP would be 1.9%, lower than the 2.2% forecast in October. The fund maintains its 2021 outlook at 2.2%, compared with 0.2% in 2019. The strong non-oil sector offset the adverse effects of oil, and the main inflation rate in December showed positive growth for the first time in a year. There are two main downside risks, which are being realized simultaneously. First, the recent failure of the OPEC+ agreement has brought further downward pressure on oil prices, as several major players have reported plans to increase production, sometimes discounting the existing large market surplus. Saudi Arabia is participating in efforts to stabilize prices through the current production coordination mechanism (OPEC+)

and the G20. Secondly, due to COVID-19 and its impact on energy demand and hydrocarbon revenues, the outlook for global economic growth continues to decrease. In addition, the information on the extent and duration of the outbreak is limited, making it difficult to assess the channels of indirect impact on the economy.

Oil and natural gas market foresee to decrease

Although the oil market is still fragile, the recent moderate rebound in prices indicates that the first half of 2020 will end in a more optimistic posture. The new data shows that although it is still unprecedented, the demand disruption at the beginning of the year is less than expected. On the supply side, OPEC+'s record-breaking production cuts and other major non-OPEC oil-producing countries' sharp cuts in global oil production dropped a significant 12 mb/d in May. In addition to the decrease of 9.4 mb/d in OPEC+ oil supply last month, since the beginning of this year, the volume of transactions outside non-OPEC countries/regions has also decreased by 4.5 mb/d. In order to further speed up the market rebalancing, OPEC+ decided on June 6 to extend its historic output reduction by nearly 10 mb/d until July.

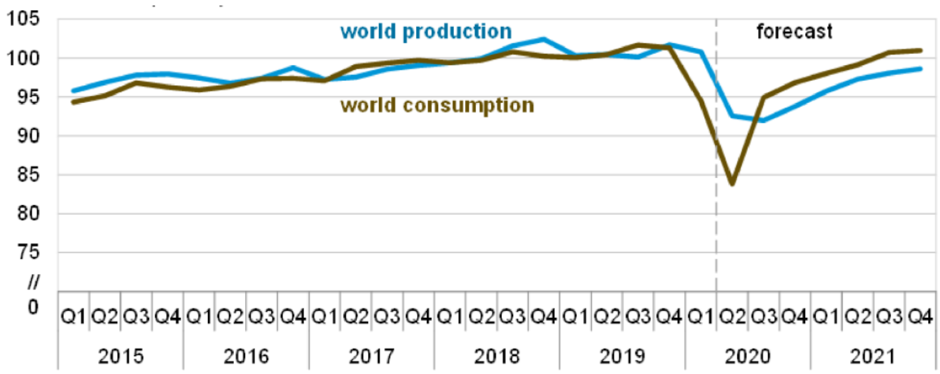
The gap of 2.4 mb/d between 2021 and 2019 can be primarily explained by the severe situation in the aviation industry. According to data from the International Air Transport Association, passenger traffic in 2020 will be nearly 55% lower than in 2019. By 2021, the aviation industry will continue to drag down oil demand, and our first estimate indicates that this number has dropped by 3 mb/By 2020, jet/kerosene demand will rebound by only 1 mb/d in 2021, making it low at a pre-crisis level. By 2020, the global oil supply will drop by an average of 7.2 mb/d. Assuming 100% compliance with the OPEC+ reduction agreement, then the global oil supply will only increase by 1.8 mb/d in 2021. The recent rise in oil prices has kept WTI trading close to US$40/barrel for several days, which is not enough to increase US production significantly. In June, US production was estimated to fall to 10.5 mb/d, a decrease of 2.4 mb/d hit a record high from November. At the same time, high crude oil and product inventories will limit the scope of producers in many countries selling more products to refineries. Taking the United States as an example, data from the Energy Information Administration shows that since the beginning of the year, the commercial inventories of crude oil and products have increased by about 1 mb/d and set a record high.

For specific insights, we have highlighted the most recent updates of the Oil industry:

The largest decline in demand

By 2020, oil demand is expected to decline by 8.1 mb/d, the largest in history, and then recover by 5.7 mb/d in 2021. Reduced jet and kerosene delivery will affect total oil demand, at least until 2022. In this report, the demand for oil in 2020 has increased by nearly 500 kb/d to 91.7 mb/d, due to Covid-19's delivery during the lock-up period exceeding expectations. In China, oil demand quickly recovered from March to April, and demand in India rose sharply in May.

Exhibit 8: Demand and supply of oil

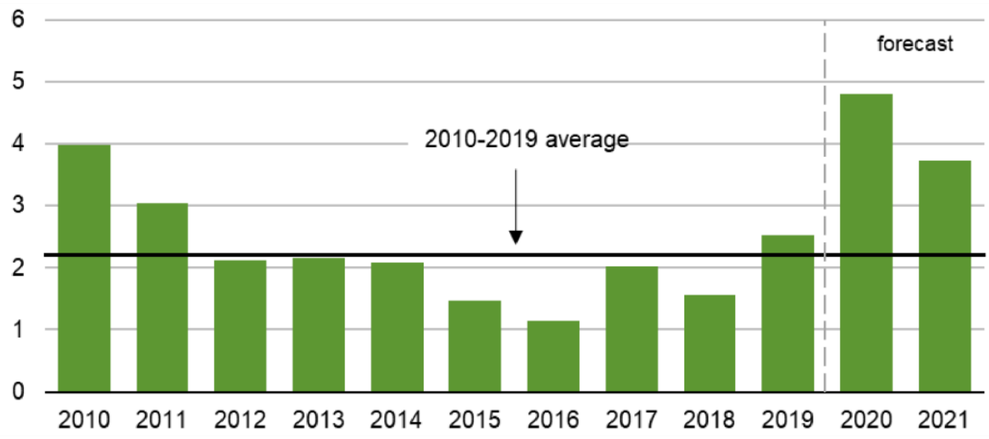


Source: - EIA

Record in reductions in OPEC+ production

The global oil supply plummeted by 11.8 mb/d in May, driven by record reductions in OPEC+ production and economic stagnation in the United States, Canada, and other regions. After a plunge of 7.2 mb/d in 2020, assuming OPEC+ production cuts eased, Norway, Brazil and Guyana achieved steady growth, and Libya managed to maintain a rebound, then by 2021, global oil production will be set at a moderate recovery of 1.7 mb/d. U.S. supply is expected to decline by 0.9 mb/d in 2020 and will fall further by 0.3 mb/d next year, unless higher prices release new investments in shale plaques. In April, global oil refining imports decreased by 6.6 mb/d from the previous month to only 68.8 mb/d, down by 12.3 mb/d year-on-year and decreased by 1 mb/d in May. A large number of implied product inventories laid the foundation for a sluggish profit environment in the near future. After a decline of 5.4 mb/d this year, refining activities will increase by 5.3 mb/d in 2021, almost returning to 2019 levels, but below the historical peak of 2018.

Exhibit 9: OPEC+ production surplus

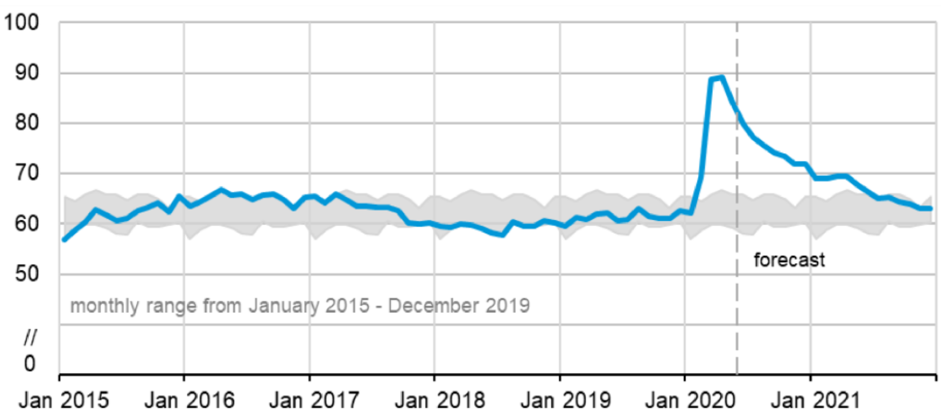


Source: - EIA

Inventories continue to increase

OECD data for April showed that industrial inventories increased by 148.7 mb (4.9 mb/d) to 3 137 mb, 208.3 mb higher than the five-year average. In the United States, preliminary data show that the commercial inventory in early June was at a record high, reaching about 1 mb/d by 2020. In the first quarter of 20 years, the stocks held by the government increased by nearly 2 mb, mainly in European product stocks. In May, the floating storage of crude oil dropped from a record high (172.2 mb in April) to 6.4 mb to 165.8 mb. As demand began to recover and global supply fell sharply, crude oil prices rose to their highest level in three months in May. Due to concerns about the global economy and a weak outlook for the aviation industry, rising prices have squeezed cracks in products, especially diesel and jet/kerosene. After OPEC+ cuts came into effect, freight rates plummeted. At the beginning of June, the trading prices of WTI and Brent crude oil were close to US$40 per barrel for several consecutive days, and then fell back slightly

Exhibit 10: Inventories level in OPEC+ countries



Source: - EIA

Valuation

Valuation methodology

The target price of SAR31.56 is derived as the weighted average of a combination of intrinsic and relative valuation methodologies, including the DCF Valuation (70%), and a multiple analysis (30%). Given the peculiarity of the oil and gas sector, we have assessed different valuation approaches. However, due to the structure of the business, divided into two main segments, and the few data obtainable after the IPO of 2019, the DCF valuation is more feasible for this purpose.

Fair value estimate

Model	Weight	Value per share
DCF	70%	22.95
Multiple Analysis	30%	8.60
Total (SAR per share)		**31.56**

DCF Valuation

We projected the free cash flows of the company, taking into account the past years data, and the current pandemic situation. We have forecasted the potential damage resulting from the pandemic taking into account the reduction in demand and the global outlook. After 2020, we expect revenues and operativity to come back to normality. Therefore, we expect an increase in the growth of main parameters starting from 2021, due to the cyclicality of the business and the new partnerships signed in the last few months. We have considered the SABIC acquisition and the potential advantage for a more global vision. The weighted average cost of capital has been calculated using the current cost of equity derived from the CAPM, and the cost of debt using the bond issue history of the company. The debt amounts to 87% of the capital structure, while equity results to be 13%. This ends up with a WACC of 2.53%. The terminal growth, instead, has been calculated using potential growth in GDP of the main operating areas, namely the Middle East, USA, and Asia. The resulting price for this method is $32.79

Exhibit 11: DCF Valuation Assumptions and Assessment

	2018	*2019*	*2020F*	*2021F*	*2022F*	*2023F*	*2024F*	*2025F*	*2026F*	*2027F*	*2028F*	*2029F*	*Terminal*
Free Cash Flow	85.8	78.3	54.58	75.93	90.36	98.94	101.51	104.15	106.86	109.64	111.28	112.95	114.08
% growth		*-8.74%*	*-30.30%*	*39.13%*	*19%*	*9.50%*	*2.60%*	*2.60%*	*2.60%*	*2.60%*	*1.50%*	*1.50%*	*1%*
NPV	834.5361851												
Terminal Value	5676.163982												
Enterprise Value	6510.700167												
Net cash	47.4												
Other liabilities	0												
Revalued minority interest	0												
Association + revalued invstm.	0												
Equity value	6558.100167												
Equity value/share	**32.79050083**												

Source: - Own assessment

Multiple Analysis

The second approach considered the main global competitors previously indicated. We have assessed three main analysis and compared three main indicators: (1) EV/EBITDA which compares the oil and gas business – free of debt – to the EBITDA, (2) EV/boed measuring the ability of the company in trading, and (3) P/E. From the analysis, Saudi Aramco is overvalued, with all the multiples worse than the averages. This results in a target price of $28.68 for this methodology.

Exhibit 12: 3-Multiples Analysis

Peers/Parameters	EV/EBITDA	EV/boed	P/E	EV	boed
Sinopec	9.12	11,636.27	9.35	23,738	2.04
CNPC	5.46	31,284.78	14.2	154,234	4.93
Shell	9.32	5,772.79	9.34	7,724	1.338
BP	6.61	33,857.10	-6.65	128,657	3.8
ExxonMobil	13.5	101,865.04	-43.6	243,050	2.386
Total	7.91	47,416.39	73.5	142,913	3.014
Valero	15	10,766.66	-10.5	33,915	3.15
Gazprom	6.04	30,038.22	16.1	112,373	3.741
Phillips 66	10.6	19,130	-20.6	42,086	2.2
Average	9.28	32,418.59	4.57		
Saudi Aramco	**14.9**	**1,361.16**	**32.8**	**6,558**	**4.818**

	Weights	Price
EV/EBITDA	30%	19.20
EV/boed	60%	32.79
P/E	10%	32.472
Multiple Price	**100%**	**28.683**

Source: - FABS, Bloomberg and own assessment

Company description

An international leader with strong local partnership

Saudi Aramco is an oil and gas integrated company. The Company's chemicals business spans from the production of basic chemicals, such as aromatics, olefins and polyolefins to complex products, such as polyols, isocyanates, and synthetic rubber. The Company is represented in three global energy markets of Asia, Europe and North America. Saudi Aramco's corporate activities mainly support its Upstream and Downstream business. The company's activities include technical services critical to the success of Saudi Aramco's core business, as well as human resources, finance, legal and corporate affairs.

Activities in the Upstream segment include the process of exploration, development and production crude oil, condensate, natural gas and NGL. Saudi Aramco is responsible for managing Saudi Arabia unique reserves and resource base, optimize production, and maximize long-term value pursuant to the Hydrocarbon Law, mandating Saudi Aramco Hydrocarbon's mining promotes long-term development productivity of Kingdom Reservoir and support its prudent management of the Hydrocarbon resources.

Downstream segmentation activities mainly include oil refining and petrochemical manufacturing, supply and trading, distribution and power generation. Strategic integration of Saudi Aramco Upstream and Downstream's segments secures crude oil demand and get incremental value from oil supply chain through sales to its dedicated system. Extensive for Saudi Aramco Downstream operations, including safety, reliable supply of high-quality crude oil, which helps ensure safety and reliability of supply refined products to the Downstream's customers.

The company was listed in December 2019, with 1.7% of the shares being publicly owned. The government owns the remaining 98.3% of the group and is of key strategic importance. The support from the government allows the company to effectively mitigate geopolitical, regulatory, and market risks, especially in overseas operations.

Exhibit 13: Company subsidiaries and geographical position

Major subsidiaries	Core business	Location
Aurora Capital Holding	Real estate holdings	USA
Bolanter Corporation	Crude oil storage	Curaçao
Briar Rose Ventures	Real estate holdings	USA
Canyon Lake Holdings	Retail fuel operations	USA
Excellent Performance Chemicals Company	Petrochemical manufacture and sale	Saudi Arabia
Motiva Pipeline	Refining	USA
SAEV Europe Ltd.	Investment	United Kingdom
Saudi Petroleum Overseas	Marketing support and tanker services	United Kingdom
Vela internationa marine	Marine management and transportation	Liberia
Wisayah Global Investment	Financial Support	Saudi Arabia

Source: - Company annual report

Upstream division (78.46% of revenues, 103.4% of EBIT)

Saudi Aramco is the exclusive supplier of natural gas in the Kingdom. The portfolio is rich in liquids, proven by the production of unmixed condensate, and NGL, a by-product of its crude oil production. Saudi Aramco owns and operates MGS. This is an extensive pipeline network connecting critical gas production and the processing place for the entire Kingdom. Saudi Aramco hopes to further expand its natural gas reserves obtained through new oilfield discoveries, add new reservoirs to existing fields, and delineate and reevaluate existing reservoir and fields.

The main areas of Saudi Aramco are located in Central and Eastern Province Kingdom. The extensive pipeline network connects Saudi Aramco's oil fields for processing factory buildings and other facilities. Crude produced condensate, natural gas, and NGL go through the Saudi Aramco pipeline and various facilities can be processed into refined products or export to domestic customers. Especially from Saudi Aramco East-west pipelines are essential for connecting oil production facilities in Eastern Province with Yanbu' on the west coast and offer export flexibility from east to west of the kingdom.

The government decides the Kingdom maximum crude oil production in its sovereign privileges and Saudi Aramco is required to maintain MSC. As of December 31, 2019, Saudi Aramco's MSC is 12.0 mmbpd of crude oil. Spare by retaining the capacity provided by the MSC Enable Saudi Aramco to increase its crude oil production quickly exceeded planned levels responding to changes in global crude oil supply and demand. Saudi Aramco also uses surplus capacity as an alternative supply choice during unplanned production shut down anywhere and keep it conventional field production level maintenance.

Exhibit 14: Division production: Upstream leading the core business

Division production	Upstream
Crude oil (mbpd)	9,943
Condensate (mbpd)	202
Propane (mbpd)	535
Butane (mbpd)	319
Natural gasoline (mbpd)	222
Total liquids (mbpd)	**11,221**
Natural gas (mmscfd)	8,978
Ethane (mmscfd)	960
Total gas (mmscfd)	**9,938**
Total hydrocarbon prod. (mboed)	**13,172**

Source: - Company annual report

Downstream division (21.54% of revenues, -3.4% of EBIT)

Saudi Aramco's Downstream business is the largest customer of the Upstream department of crude oil production, consuming 38% of its crude oil production in 2019. Saudi Aramco's Upstream produces and processes all the crude oil supplied to Saudi Aramco's wholly-owned subsidiary in the Kingdom and most areas.

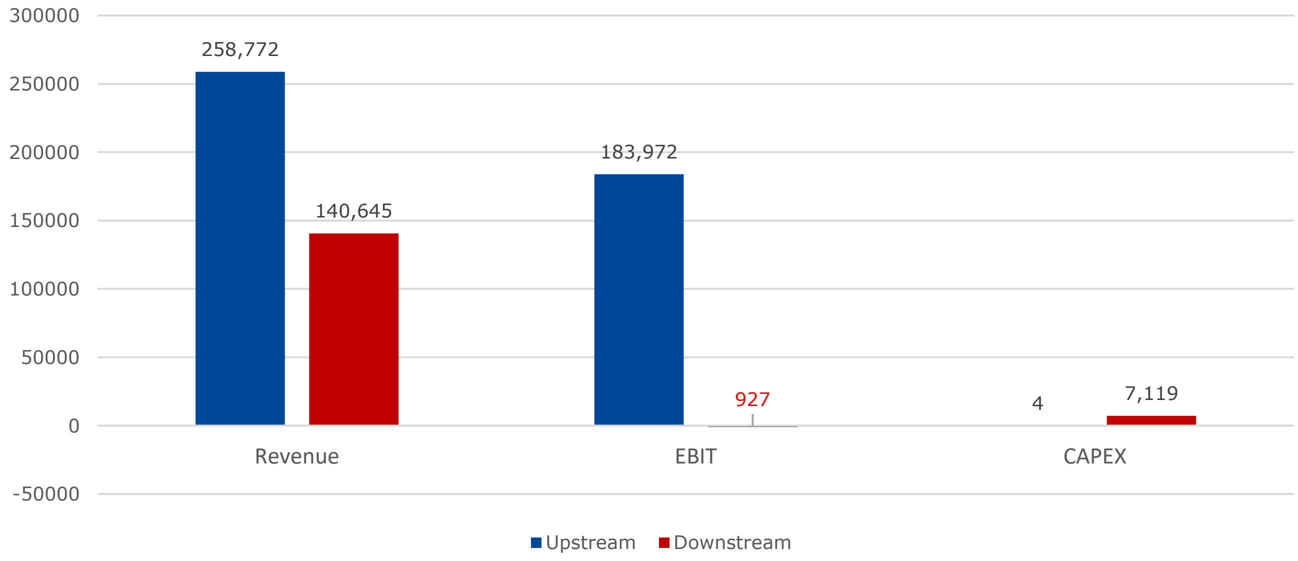
Saudi Aramco's oil refining business in Saudi Arabia, including its domestic branches and local distribution systems, provides Saudi Aramco with unique access to its large domestic market with its sole supplier. In addition to focusing on the domestic market, Saudi Aramco has also concentrated its downstream investments in high-growth areas, including China, India, and Southeast Asia, the United States, and other material demand centers and countries that rely on imported crude oil (such as Japan and Korea). Saudi Aramco continues to expand its fuel retail business through its branches. Saudi Aramco continues to provide refined products for 17,000 gas stations worldwide, of which there are 5,300 in the United States, more than 5,200 in China and South Korea, 6,500 in Japan, and 270 in Saudi Arabia.

Saudi Aramco also has an integrated petrochemical business in its downstream sector, which allows it to generate incremental profits in the hydrocarbon value chain. Saudi Aramco's chemicals business ranges from the production of basic chemicals (such as aromatic compounds, olefins and polyolefins) to more complex products (such as polyols, isocyanates and synthetic rubber). Saudi Aramco has a strategic position at home and abroad, and benefits from the transfer of technology and operational knowledge. The core of its petrochemical product manufacturing is through branches in the United Kingdom, China, Japan, South Korea and the Netherlands. The main industry players in these branches include Sadara, Sumitomo (Petro Rabigh) and Total (SATORP) And Sinopec (YASREF). Through these branches, Saudi Aramco produces commodities and differentiated petrochemical products.

The proposed acquisition of PIF's 70% stake in SABIC has recently been unconditionally cleared in all jurisdictions that require prior notice of antitrust documents and is expected to be completed in the first half of 2020. After the acquisition, Saudi Aramco's chemical business will produce a range of chemicals in more than 50 countries, including ethylene, ethylene glycol, ethylene oxide, methanol, MTBE, polyethylene, engineering plastics and their derivatives, among others. Saudi Aramco believes that the purchase of a majority stake in SABIC will advance its strategy to increase the production ratio of petrochemical products in Saudi Aramco's downstream product portfolio and support its downstream growth ambitions.

Saudi Aramco's downstream business also includes sales, distribution and trading platforms for crude oil and products. These platforms support Saudi Aramco's upstream and downstream operations, enabling it to optimize crude oil sales and product placement through its important pipeline and terminal infrastructure network and access to transportation and logistics resources.

Exhibit 15: Divisions' impact in Saudi Aramco business

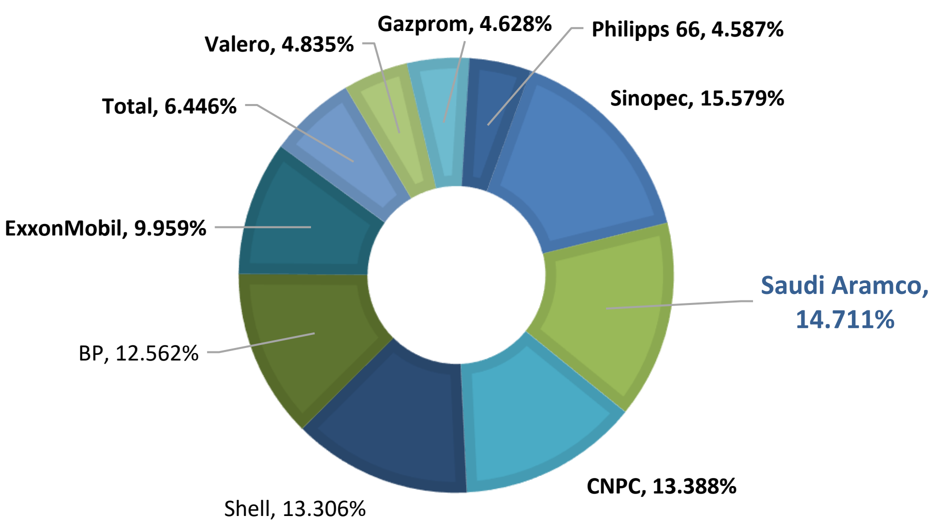


Source: - Company annual report

Saudi Aramco as one of the main leaders in the global market

Saudi Aramco plays a leadership role in the global market, being the second player in terms of revenues and production. In this market, Saudi Aramco competes mainly with the Downstream's division, having a more global vision. Main players competing with Saudi Arabic Oil Company's core business are: (1) Sinopec (China), (2) CNPC (China), (3) Shell (UK-Netherlands), (4) BP (UK), (5) ExxonMobil (USA), (6) Total (France), (7) Valero (USA), (8) Gazprom (Russia), and (9) Philipps 66 (USA). In this market, we don't expect any change in the competitive structure, seeing Saudi Aramco still dominating the market thanks to the Saudi Arabia Government's permission and the strong role in OECD decisions. However, we expect stable sales for the coming years, due to the consolidation of the market.

Exhibit 16: Position in the global market, by market share



Source: - FABS, Bloomberg

Playing an important role in the local highly competitive market

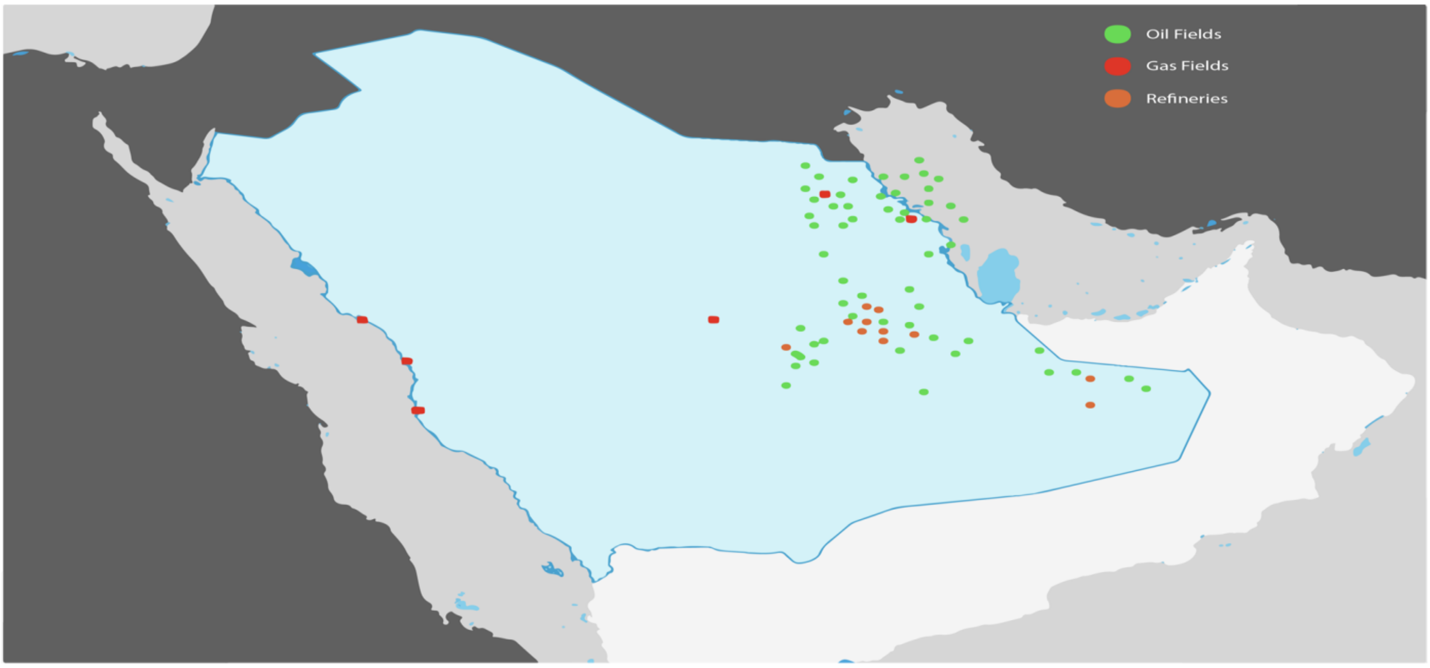
Saudi Aramco is the leader or natural gas supply in the local market thanks to the concession of Saudi Arabia obtained in 1933. However, for crude oil, the sales outside Saudi Arabia is very competitive. Saudi Aramco's main competitors selling crude oil outside Saudi Arabia include NOC and IOC, many of which have large crude oil reserves and financial resources. The main factors driving competition are the global crude oil supply and demand relationship and the quality of the crude oil produced, which affects the relative value of crude oil used to produce diesel, gasoline and other refined products.

Refineries in Saudi Aramco's downstream sector are affected by competition in areas where refined or petrochemical products are sold. The competition comes mainly from other refineries in or adjacent to the relevant market, and if the refinery is a net importer, it comes from other international producers. Operational efficiency and production costs are the key factors that affect competition in the refined oil and chemical markets.

What makes Saudi Aramco stand out from the competition is an unrivaled scale of crude oil and condensate production and conventional proved reserves, long reserves life, with a long-term track record of low-cost reserves replacement, and a unique ability to capture value through active management of the world's largest conventional hydrocarbons reserves base. In this market, Saudi Aramco mainly competes with: (1) Al-Khafji Joint Operations, (2) Saudi Arabian Chevron, (3) Arabian American Oil Company, (4) Arabic Oil Company, (5) Conoco, (6) International company for Petroleum Waste.

Saudi Aramco has expressed to stabilize its leadership in the market, but we expect a small growth in market share in the coming years, coming mainly for inorganic activities benefiting the Downstream's segment. In fact, Saudi Aramco has recently bought 70% of the equity of Saudi Basic Industries Corporation (SABIC) using the Saudi Arabian Sovereign Wealth Fund Public Investment Fund (PIF), with a total purchase price of 259.125 billion rials ($69.1 billion), which is equivalent to 123.39 riyals per share. The acquisition of SABIC's shares is in line with Aramco's long-term downstream strategy to increase the capacity of its integrated refining and petrochemical products and create value through the integration of the entire hydrocarbon chain. By transforming Aramco into one of the world's leading petrochemical companies, it has particularly enhanced Aramco's chemical strategy. Combine upstream production with SABIC raw materials; expand purchasing, supply chain, manufacturing, marketing, and sales capabilities; complement geographic regions, projects, and partners; and increase the flexibility of cash flow generation through collaborative opportunities. SABIC is also expected to benefit from Aramco's downstream production of chemical raw materials and its ability to invest in large scale and execute major growth projects.

Exhibit 17: Facilities and structures in Saudi Arabia



Source: - Company websit

Financial Analysis

Exhibit 18: Saudi Aramco's financial statements

Income Statement	2018	2019	2020F
Total revenue	**359,204.00**	**329,809.00**	**229,876.87**
Royalties	-55,601.00	-48,571.00	-33,853.99
Purchases	-53,647.00	-60,045.00	-41,851.37
Producing and manufacturing	-14,987.00	-15,533.00	-10,826.50
SG&A	-8,333.00	-9,773.00	-6,811.78
Exploration	-2,114.00	-1,944.00	-1,354.97
R&D	-591.00	-573.00	-399.38
Depreciation & Amortization	-11,023.00	-13,404.00	-9,342.59
Total operating costs	-146,296.00	-149,843.00	-104,440.57
Operating income	**212,908.00**	**179,966.00**	**125,436.30**
Financial income	-136.00	-2,168.00	-1,511.10
Income before income taxes	**212,772.00**	**177,798.00**	**123,925.21**
Income taxes	-101,701.00	-89,613.00	-62,460.26
Net income	**111,071.00**	**88,185.00**	**61,464.95**

Balance Sheet	2018	2019	2020F
Assets	**1,346.10**	**1,494.10**	**1,658.37**
Current Assets	**382.60**	**408.20**	**435.51**
Cash	183.90	223.40	271.38
Net receivables	93.90	93.50	93.10
Inventory	42.50	42.60	42.70
Other	0.60	0.40	0.27
Non Current Assets	**963.50**	**1,985.90**	**4,093.20**
PPE	892.70	1,003.90	1,128.95
Intangible	7.90	8.20	8.51
Other	4.60	3.60	2.82
Liabilities	**699.00**	**587.20**	**493.28**
Current Liabilities	**183.70**	**215.60**	**253.04**
Current Debt	29.20	17.80	10.85
Accounts Payable	32.90	38.60	45.29
Other	11.80	14.70	18.31
Non-current Liabilities	**134.00**	**232.30**	**402.71**
LT Debt	59.00	116.80	231.22
Deferred taxes	23.80	44.40	82.83
Shareholders' Equity	**1,016.70**	**1,035.10**	**1,053.83**
Common Stock	60.00	60.00	60.00
Retained Earnings	920.60	943.70	967.38
Total Equity and Liabilities	**1,346.10**	**1,494.10**	**1,658.37**

Cash flow statement	2018	2019	2020F
Operating cash flow	**453.70**	**416.50**	**290.30**
Investing cash flow	**-131.20**	**-177.10**	**-123.44**
Financing cash flow	**-220.50**	**-244.80**	**-170.63**
End cash position	183.10	177.70	123.86
CAPEX	**-131.70**	**-122.80**	**-85.59**
Issuance of Debt	11.60	51.90	36.17
Repayment of debt	-11.10	-12.90	-8.99
Repurchase of capital stock	0.00	-3.70	-2.58

Source: - Company annual report, USD, bn

Risks and mitigation

Saudi Aramco's industry is characterized by price volatility, dangerous operations and uncertain project outcomes. Saudi Aramco manages its strategic, operational, compliance and financial risks by continuously evaluating and taking appropriate countermeasures. Business decisions are made after due consideration of rewards and related risks. We have identified three material risks: (1) crude oil supply and demand, (2) economic and political developments in Asia, and (3) hydrocarbon reserves estimation.

Crude oil and supply-demand

Crude oil sales are the largest component Saudi Aramco's consolidated revenue and other income related to sales. Therefore, Saudi Aramco’s operating performance and cash flow are significantly affected by the price at which crude oil can be sold. In the past, international crude oil prices have fluctuated significantly and may remain volatile. From mid-2014 to early 2016, Brent crude oil prices fell sharply. Brent crude oil prices fell from an average of US$112.0 per barrel per month in June 2014 to US$31.9 per barrel per month in January 2016. From January 2016 to the beginning of March 2020, Brent crude oil prices typically fluctuated between US$50.0 and US$75.0 per barrel. However, recently, the price of Brent crude oil fell below US$37.0 per barrel in mid-March 2020, mainly due to concerns about coronavirus, its potential impact on global oil demand and economic activity, and between some of the world’s largest oil companies. The relationship broke down and the producing country and company decided to lower their official selling price. The fluctuation in the price of Saudi Aramco's crude oil sales may result in huge changes in Saudi Aramco's operating performance and cash flow. In addition, the decline in the price of Saudi Aramco's crude oil sales may have a significant adverse effect on Saudi Aramco's operating performance and cash flow.

Economic and political developments in Asia

Saudi Aramco exports most of its crude oil and refined products to Asian customers. In addition, as new downstream assets in Asia begin operations, Saudi Aramco is expected to export more crude oil to Asia. We expect that crude oil exports to Asian customers will continue to account for a large portion of its total exports and production. In addition, refined, chemical and petrochemical products produced by Saudi Aramco's joint venture and international operations in Asia are usually sold locally and exported to other Asian countries. If Asian economic growth slows, economic recession or recession or other adverse economic or political development (including the recent outbreak of a new coronavirus called 2019 coronavirus disease (COVID-19)), Saudi Aramco may encounter a decrease in customers' demand for their products. In addition, any such developments in other parts of the world (including political and social unrest or armed conflict in the Middle East and North Africa region) may cause other producers to supply excess capacity to Asia, thereby intensifying competition from Asian customers and affecting Saudi prices. The decline in Saudi Aramco's product demand in Asia may have a significant adverse effect on its business, financial condition and operating performance.

Hydrocarbon reserves estimation

The estimation of proven oil and gas reserves depends on important explanations, assumptions and judgments. Any significant deviations or changes in existing economic and operating conditions can affect the estimated quantity and value of Saudi Aramco's proven reserves. There is no guarantee that Saudi Aramco's interpretations, assumptions, and judgments used to estimate proven reserves will be accurate. With these interpretations, any significant deviation from assumptions or judgments may have a significant impact on the estimated quantity or value of Saudi Aramco's proven reserves. In addition, these estimates may change due to new information on production or drilling activities, changes in economic factors (including changes in hydrocarbon prices, changes in laws, regulations or concessions, or other events). A drop in hydrocarbon prices may cause certain proved reserves to no longer be considered commercially viable, which may lead to Saudi Aramco's reduction in its estimated reserves, asset impairment or Saudi Aramco's capital expenditures and production changes.

Governance assessment

The company's board of directors (Board of Directors) is responsible for the overall management and supervision of the company, and provides strategic leadership, management guidance, assessment of the company's opportunities, risks and risk mitigation control measures. The board of directors also oversees the establishment of effective governance, risk and compliance systems.

The chairman of the board is H.E. Yasir O. Al-Rumayyan. The current board members include senior government officials and former executives from the international oil and gas, chemical, oil refining, petrochemical and financial industries.

Exhibit 19: Board Members and Roles

Board Member	Title	Role
H.E. Yasir O. Al-Rumayyan	Chariman	Non-executive Director
H.E. Dr. Ibrahim A. Al-Assaf	Deputy Chairman	Non-executive Director
H.E. Mohammed A. Al-Jadaan	Director	Non-executive Director
H.E. Mohammed M. Al-Tuwaijri	Director	Non-executive Director
H.E. Nabeel M. Al-Amundi	Director	Non-executive Director
Sir Mark Moody-Stuart	Director	Independent non-executive director
Mr. Andrew N. Liveris	Director	Independent non-executive director
Mr. Andrew F.J. Gould	Director	Independent non-executive director
Ms. Lynn Laverty Elsenhans	Director	Independent non-executive director
Mr. Peter L. Cella	Director	Independent non-executive director
Mr. Amin H. Nasser	Director, President and CEO	Executive director

The board of director is composed of professional figures, with national and international knowledge. Saudi Aramco has diversified members in terms of international exposure and independence, making the governance strong in making fair and transparent decisions. However, pain points are the scarcity of women in the board (only one), and the presence of Government pressure in making decisions. In addition, the management is considered experienced with 4.1 years of tenure.

Exhibit 20: Governance Assessment Model

Section of Assessment	Weight	Score
Disclosure and transparency	**30%**	**10**
• *Annual reports drawn-up using IAS*		*10*
• *Board's members information disclosed in annual reports*		*10*
• *Clear policy to disclose important matter*		*10*
• *Annual external audit from independent company*		*10*
Shareholders rights	**20%**	**9**
• *Basic shareholders rights are ensured*		*10*
• *Adequate company systems for shareholder attendance*		*10*
• *Dividend policy transparent and disclosed*		*6*
• *Board Chairman and External audit Chairman attend AGM*		*10*
Equitable treatment of shareholders	**25%**	**6.75**
• *Can minority shareholders affect composition of board?*		*7*
• *Structures that have potential to violate minority rights*		*6*
• *Mechanisms providing effective redress for complaints*		*7*
• *Company policies prohibiting misuse of directors' information*		*7*
Structure of the board	**25%**	**6.25**
• *Professionalism and experience in the sector*		*7*
• *Equitable board structure with women and men*		*2*
• *Equitable international and local expert membership*		*6*
• *Presence of independe and non-executive in the Board*		*10*
Total Score	**100%**	**8.05**

To conclude, the top 25 shareholders own 98.31% of the company, with a high share of the Saudi Arabian government of 98.27%. Other relevant institutions and funds include: The Vanguard Group, BlackRock, Yasir binn Othman Al-Rumayyan, Geode Capital Management, AP Fonden 7, Credit Suisse Asset Management, and UBS Asset Management, among others. We don't find these participations relevant for the company's decisions.

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Institutional Desk	+971-4 -5658395	
Sales and Marketing	+971-2 -6161622	
Customer Service		
Abu Dhabi Office	+971-2 -6161600	

FAB Securities Awards

Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"

Best Brokerage House in UAE
2016, 2017 and 2019
by "IFA"

Best Brokerage in the UAE
2016 By "Global Investor/ ISF
ME Awards"

Best Research House
in UAE 2016
by "IFA"

Best New Mobile Application in
UAE 2016
by "IFA"

Best Equity Finance
Company in UAE 2016
by "IFA"