الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

KSA placed well comparatively amid global weakness

Strategy Report I January 2023

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Key Highlights

- **2023 - a tough year for global economy but equity markets may recover; supply chain pressure easing**
- **Oil prices expected to remain firm above USD 80/bbl, despite economic growth concerns**
- **Saudi Arabia’s economic growth prospects look attractive amidst other nations**
- **Higher cost of borrowings expected to drag TASI earnings**
- **Estimated fair value of TASI at 11,642**
- **Sector Outlook and Top Picks**
- **Technical Analysis Outlook**

Global Outlook

2023 - a tough year for global economy but equity markets may recover; supply chain pressure easing

2022 in review

- Inflation levels touched multi-year highs in the US and Europe
- Central banks adopted aggressive tightening to tame the inflation
- Economic growth slows down
- China's zero-COVID policy impacted supply chain and economic activities

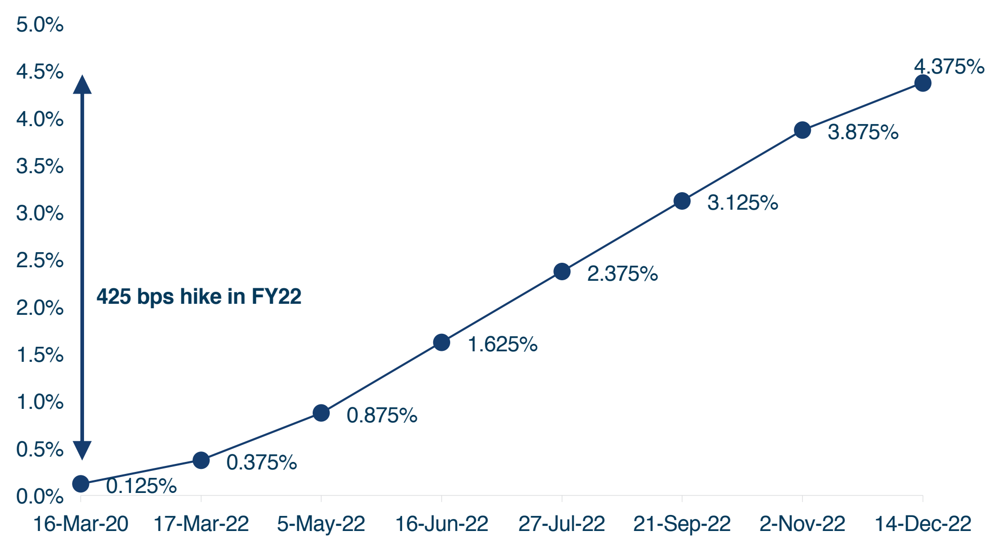
2023 focus areas

- When will the prices come under control?
- How far the central banks will go on rate hikes?
- Is recession inevitable? Soft landing possible?
- Will reopening in China lend some support to global economy?

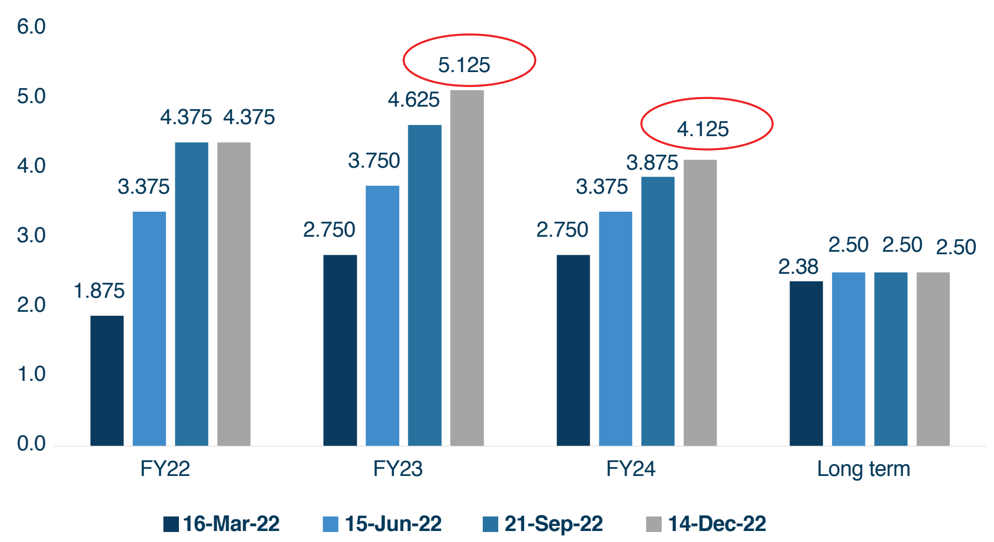
Interest rates to remain high despite pivoting

Fed fund rates expected to exceed 5.0% in FY23; reversal of monetary stance not likely sooner than FY24

Fed Rate Hikes in FY22



Implied Fed Funds Target Rates (%) by Meeting Date



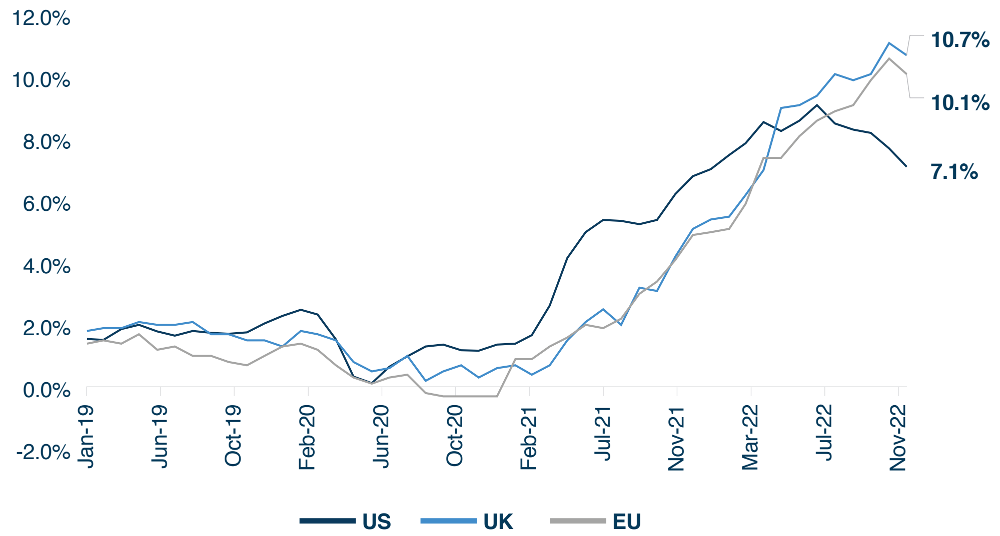
- Persistent high level of inflation forced the US Federal reserve to adhere to most aggressive rate hikes since 1980s. The central bank raised interest rates by a combined 425 bps in FY22. Several other central banks followed the suit including UK, EU and Middle East.
- Median of projected rates by FOMC members during the latest meeting indicates the Fed funds to reach 5.1% in FY23 before decreasing to 4.1% in FY24.
- Despite recent early signs of easing of inflation, it still stands much higher than targeted level. Moreover, there are multiple factors such as ongoing Russia-Ukraine war and its impact on energy and commodity prices, and potential supply chain disruptions due to spike in COVID-19 infections in some regions may continue to pose inflationary risks.
- Thus, we believe the US Fed would remain hawkish at least in FY23 and higher interest rates would prevail during FY23-24.

Source: Bloomberg, Aljazira Capital Research

Inflation continues to be a major concern globally

Moderation seen in the past few months but a long way to go

Inflation Trend in Major Economies



- Consumer prices surged in FY22 as a result of supply chain disruptions due to intermittent lockdowns (especially stringent restrictions in China) and impact of Russian invasion of Ukraine on the prices of oil, gas and other commodities.
- The inflation level in the US, the UK and EU reached to multi-decade highs during the year.
- The inflation is showing some moderation in the US since it touched 9.1% in May.
- Nevertheless, currently at 7.1% US inflation is well-above Fed's long-term target of 2.0%

Upward pressure on inflation

1. Oil supply cut from Russia in response in price cap imposed by G-7 nations may keep demand supply balance despite impact of lower economic growth on demand.
2. Shortage of natural gas in Europe may keep energy prices higher.
3. Overall higher commodity prices due to Russia-Ukraine war.
4. Potential risk of supply chain disruption due to surge in COVID-19 cases.

Downward pressure on inflation

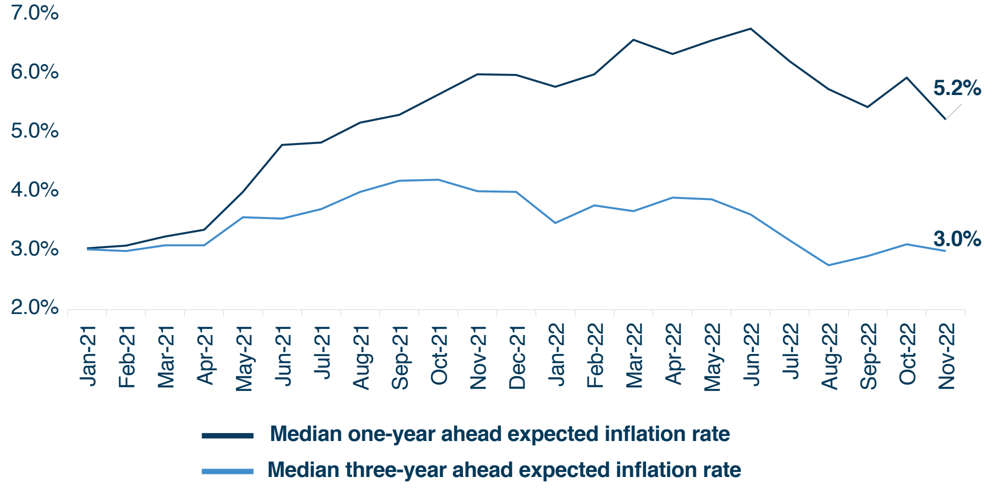
1. Effect of higher interest rates, and tight monetary and fiscal policies on consumer spending.
2. Decrease in demand due to economic slowdown may release pressure on prices.
3. Easing of supply chain pressure due to relaxation of zero-COVID policy by China.
4. Continuation of declining trend in shipping costs may support easing the inflation.

Source: Bloomberg, Aljazira Capital Research

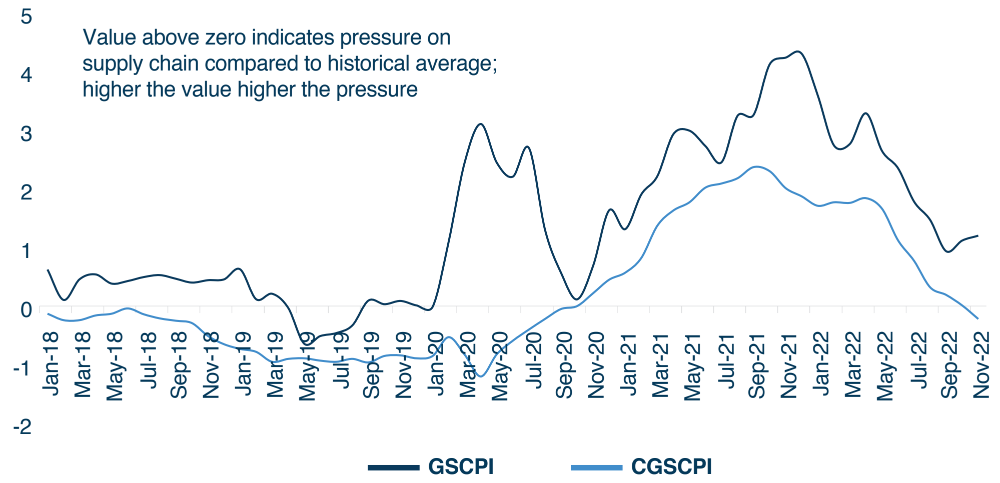
Inflation expected to remain high till the end of this year

Positive development seen in supply chain pressure and shipping costs

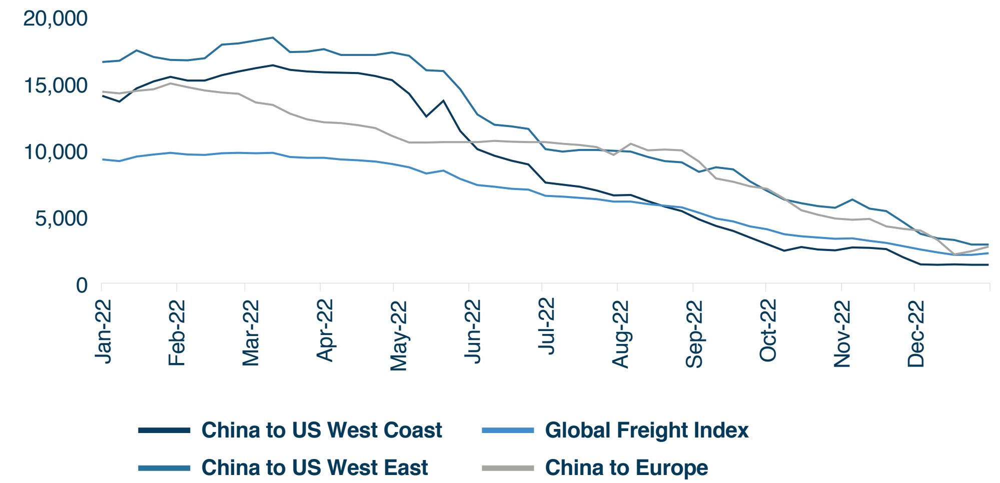
High Inflation Expectations



Supply Chain Pressure Indices – Pressure is relieving



Declining shipping cost



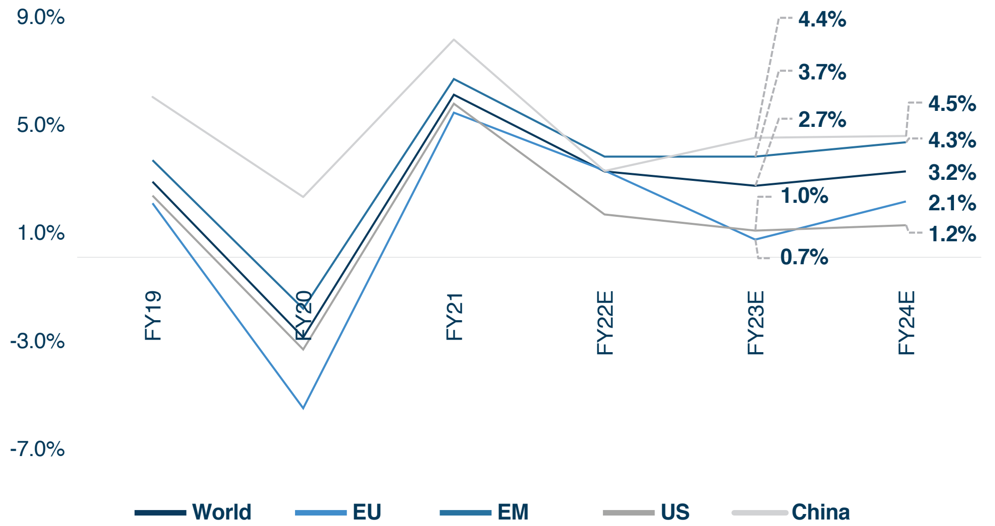
Source: Bloomberg, Federal Reserve Bank of New York, Aljazira Capital Research

- As per the latest survey by the Federal Reserve Bank of New York. One-year ahead inflation expectations still stand at 5.2%, indicating that inflation is likely to stay high throughout FY23.
- On the other hand, certain indicators such as Supply Chain Pressure Index and shipping cost suggest improvement supply bottlenecks.
- However, geopolitical crisis in eastern Europe, which does not seem to get resolve sooner, would be the most important factor keeping prices higher.
- Although reopening of China may resolve supply-side issues, it may exert pressure on commodity prices with increased demand for oil, gas and raw materials.

Subdued growth outlook: World on the verge of recession?

The balance between growth and inflation crucial

GDP growth anticipated to slow down



Recent indications from global agencies

Further downgrades to growth likely; 1/3rd of the world will experience recession in 2023, according to the IMF

More efforts required to bring the world out of stagflation, as per the World Bank

The global economy should avoid a recession in 2023 but Europe will be hit the most, as per OECD

- Stagflation seems to be a realty now in the US and Europe, with sharp decline in GDP growth and consistent high level of inflation. The labor market still showing some resilience, but the condition may worsen in FY23.
- The International Monetary Fund (IMF) expects global GDP growth to drop to 3.2% in FY22 from 6.0% in FY21 and slowdown further to 2.7% in FY23. Developed economies such as the US and Europe expected to record a sluggish growth 1.0% and 0.7%, respectively. The emerging markets forecasted to grow 3.7%, supported by expected growth of 6.1% in India and 4.4% in China.
- We see the slowdown in global economic growth as inevitable, while the severity and length of the recessionary period will be dependent on ability of economies to balance between growth and inflation.
- The long-stretched Russia Ukraine crisis and its impact on energy and commodity prices coupled with increase in COVID-19 cases in China and possibility of larger spread with the country reopening its borders are the key risks for the global economic growth.

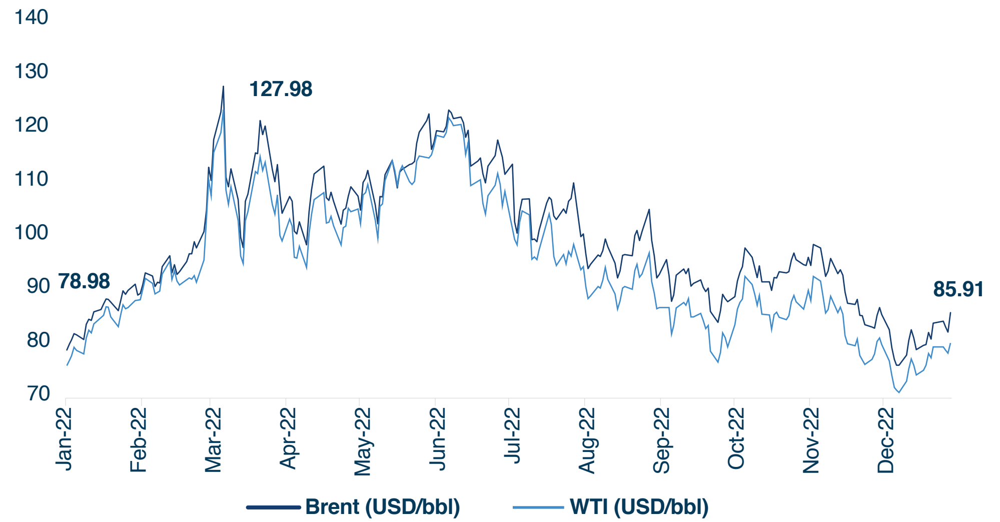
Source: IMF, Aljazira Capital Research

Oil prices expected to remain firm above USD 80/bbl, despite economic growth concerns

Demand concerns exert pressure on oil prices towards the end of FY22

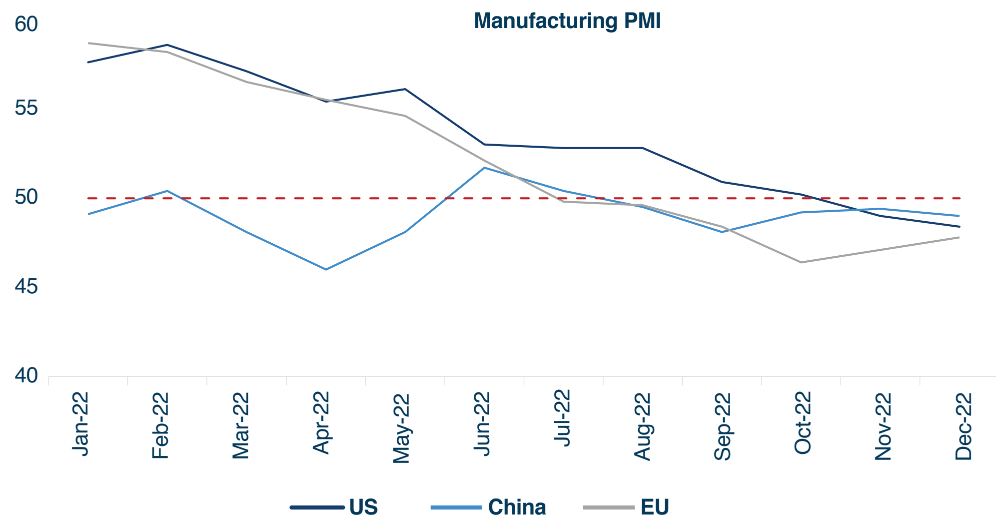
Brent crude rose 10.5% in FY22

Oil prices were volatile during the year



Slowdown in manufacturing activity unfavorable for oil

Major economies in the contraction zone



- Brent and WTI gained 10.5% and 6.7%, respectively, in a volatile FY22.
- Prices jumped in the first half with brent reaching USD 128/bbl following Russia-Ukraine war and sanctions imposed on Russia by several countries.
- In the second half, fears of recession and lockdowns in China put pressure on oil prices.

- Manufacturing PMI for the US, China and EU dropped below 50, indicating contraction in manufacturing activities.
- Slowdown in manufacturing due to subdued economic outlook would impact oil demand.
- China may see some improvement due to the easing of zero-COVID policy. Thus, supporting the oil demand to some extent.

Source: Bloomberg, Aljazira Capital Research

Oil prices expected to remain firm above USD 80/bbl, despite economic growth concerns

Geopolitical risk to keep premium on oil prices; supply-demand growth expected to be balanced out

Global oil supply and demand forecast by EIA

(mbpd)	FY21				FY22				FY21	FY22E	FY23E
World Crude Oil & Liq. Fuels Supply	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E			
OPEC Supply	30.34	30.88	32.28	33.1	33.75	33.76	34.71	34.21	31.66	34.11	34.52
Non-OPEC Supply	62.48	63.94	64.46	65.23	65.08	64.98	66.3	67.08	64.03	65.87	66.54
Total World Supply	**92.81**	**94.82**	**96.74**	**98.33**	**98.83**	**98.75**	**101.02**	**101.29**	**95.7**	**99.98**	**101.06**
World Crude Oil & Liq. Fuels Cons.											
OECD Consumption	42.58	44.13	45.87	46.89	45.84	45.45	46.46	46.54	44.88	46.08	45.83
Non-OECD Consumption	51.94	52.54	52.73	53.48	53.26	53.56	54.05	54.08	52.68	53.74	54.99
Total World Consumption	**94.52**	**96.67**	**98.59**	**100.37**	**99.1**	**99.02**	**100.51**	**100.62**	**97.56**	**99.82**	**100.82**
Supply-Demand Gap	1.7	1.9	1.9	2.0	0.3	0.3	-0.5	-0.7	1.9	-0.2	-0.2

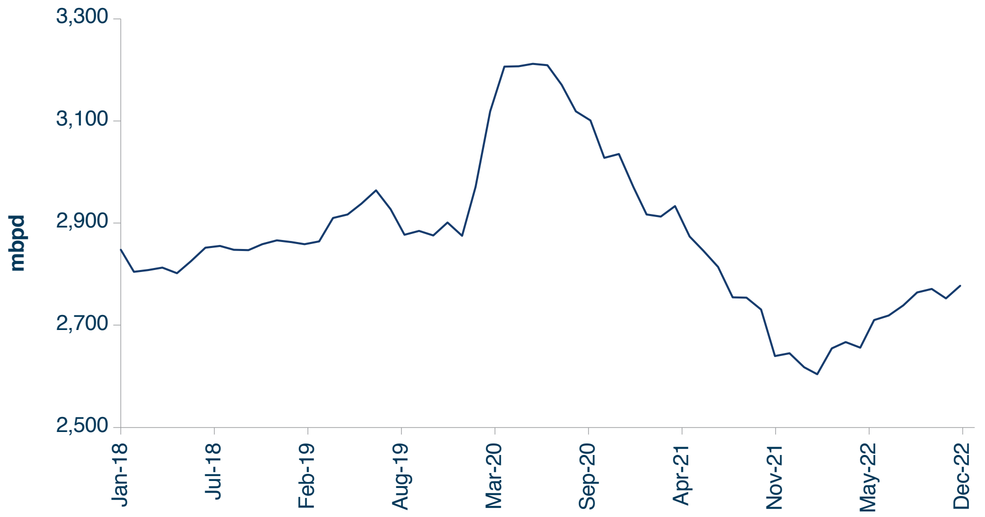
- According to EIA's forecast, global supply of oil and liquid fuels to increase 1.1 mbpd Y/Y in FY23, while consumption growth at 1.0 mbpd is expected to almost balance the rise in supply.
- IEA also estimates global oil demand to increase by 1.0 mbpd; while according to OPEC demand is likely to grow by 2.2 mbpd in FY23, out of which OPEC demand will contribute around 0.6 mbpd.
- China's reopening would bring back demand from the world's largest importer of oil.
- When it comes to supply, OPEC+ decided to cut its supply by 2 mbpd (~2% global demand) starting from November 2022 until the end of FY23.
- Additionally, Russia is expected to cut its output by 500,000 to 700,000 bpd in early FY23 in response to price cap imposed by G-7, the EU and Australia on Russian oil exports. Overall, Russian oil supply expected to decline by 20% in FY23.

Source: EIA STEO December 2022, Aljazira Capital Research

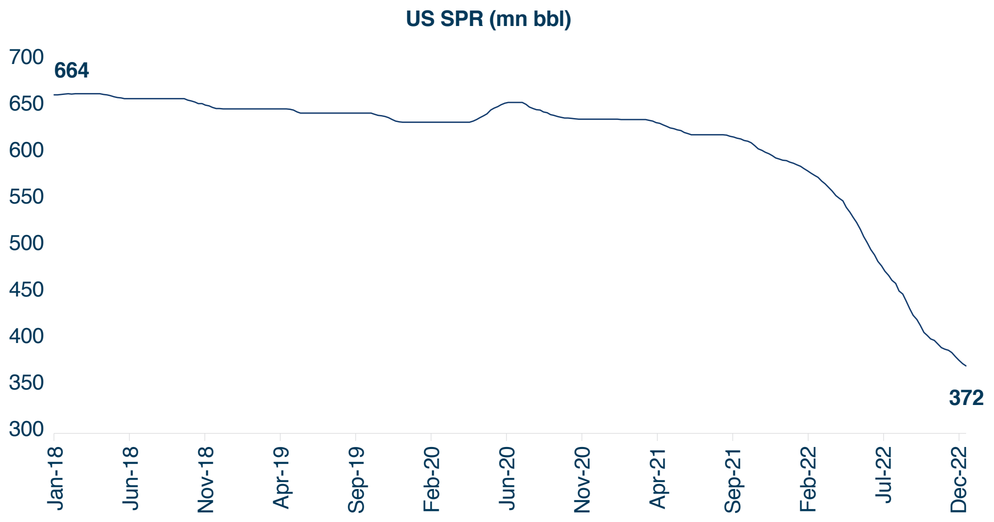
Oil prices expected to remain firm above USD 80/bbl, despite economic growth concerns

Declining inventory levels and potential demand from refiling of US SPR may support oil prices; limited capital spending on oil exploration to keep supply steady

OECD Monthly Inventory



US Strategic Petroleum Reserves



- OECD inventory levels have witnessed declines in last few months, indicating growing demand.
- If the trend continues it will reflect positively on oil prices in the coming period.
- US' Strategic Petroleum Reserve (SPR) depleted significantly in the past one and half year. Currently, at 372 mn bbl reserves are more than 40% below pre-COVID average levels. Hence, if the US decided to refill SPR it will potentially boost the oil demand.
- Moreover, the capital spending in oil and gas industry has been low in the past few years due to lack of funding from the banks as well as investors amid volatility of prices. Hence, there is very low probability of significant increase in supply in the medium term.

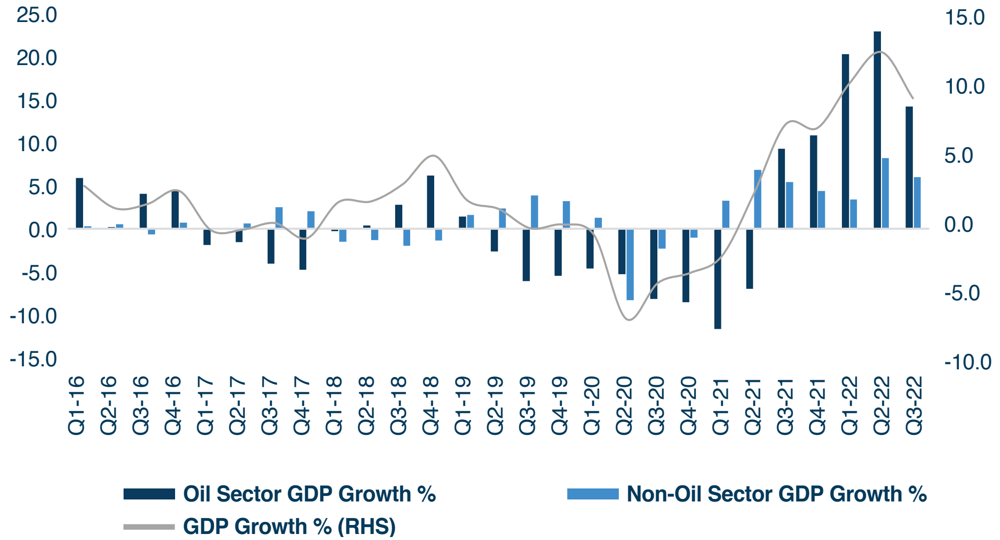
Source: EIA, Bloomberg, Aljazira Capital Research

KSA Macro Outlook

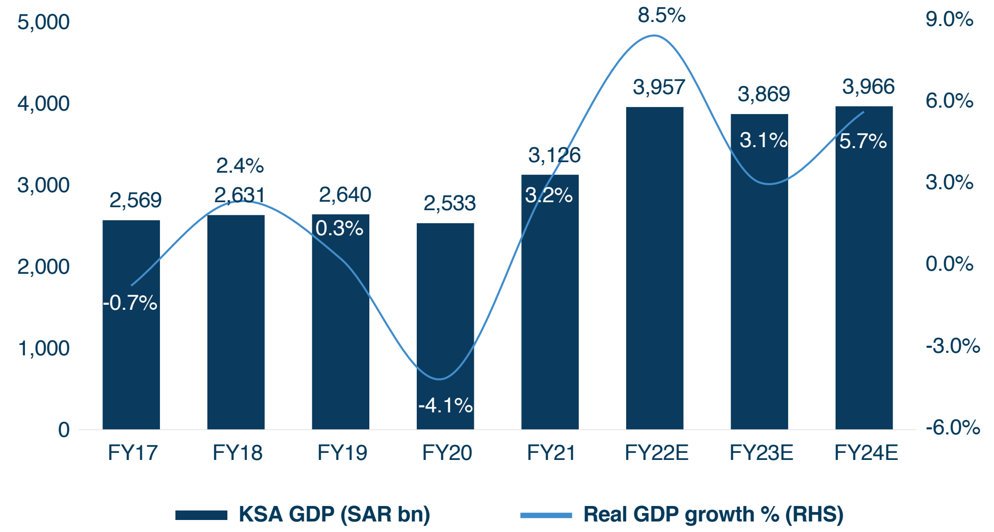
Saudi Arabia to witness healthy GDP growth supported by non-oil activities

The Kingdom's GDP is expected to grow by 8.5% Y/Y in FY22E as per Ministry of Finance

Saudi Arabia GDP Growth Rate (%)



Saudi Arabia GDP Growth Forecast



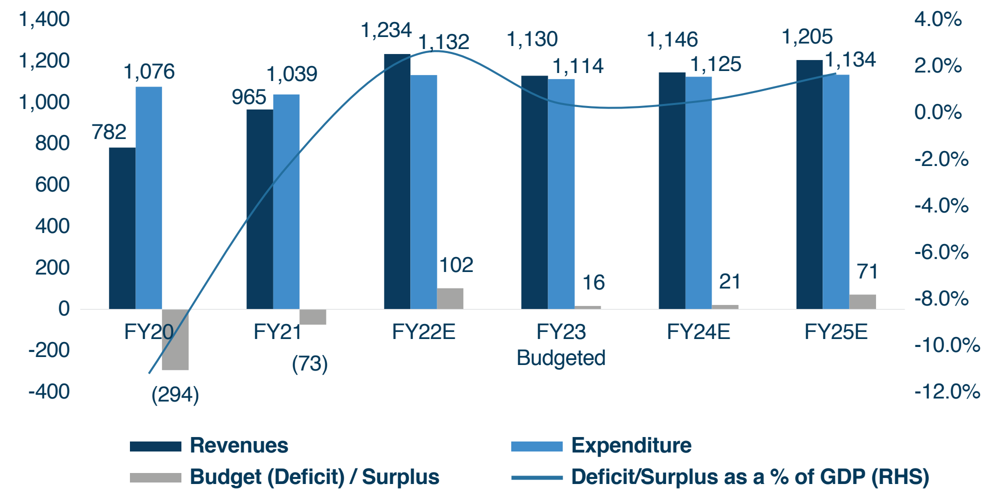
- Saudi Arabia's real GDP growth slowed to 8.8% Y/Y in Q3-22 after recording 12.2% Y/Y growth in Q2-22.
- The rise was mainly attributed to an increase in oil activities by 14.2% Y/Y, supported by the growth in non-oil activities with rise of 6.0% Y/Y.
- Oil revenues for FY22 are estimated at SAR 842bn of the total revenue of SAR 1,234bn.
- The Saudi government has revised up its earlier estimates of GDP growth to nearly 8.5% in FY22, with the finance ministry attributing the increase primarily to non-oil private sector activity.
- The IMF has downgraded the global growth forecast to 3.2% Y/Y and 2.7% Y/Y for FY22 and FY23E, respectively, while on the other hand Saudi Arabia's forecast is upgraded to 7.6% Y/Y and 3.7% Y/Y in the same period.

Source: Gastat, Saudi Arabia Budget 2023 Report, Aljazira Capital Research

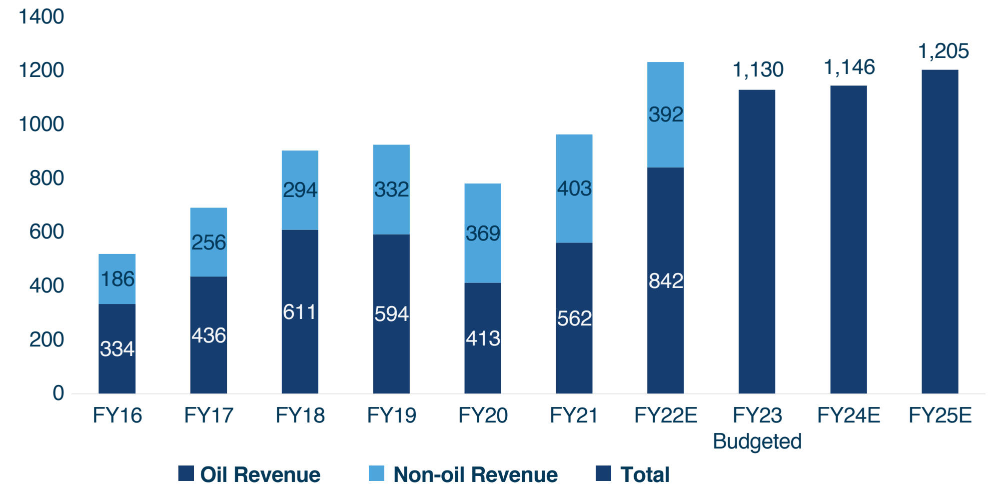
The Kingdom expects budget surplus in FY23, however, lower than that of FY22E

Debt to GDP ratio is expected to reduce to 24.6% in FY23

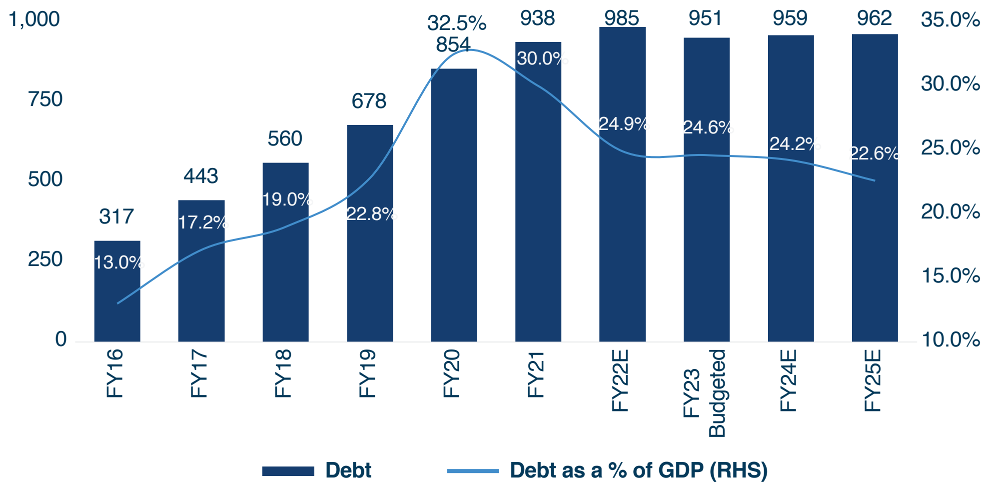
Saudi Arabia Fiscal Surplus/Deficit (SAR bn)



Oil and non-oil revenues (SAR bn)



Fiscal Debt (SAR bn)



- In FY22, Saudi Arabia is expected to earn revenues of SAR 1,234bn and expenditure of SAR 1,132bn, reaching a budget surplus of SAR 102.0bn.
- In FY23, the government expects the region to earn a surplus of SAR 16bn, although c.85% lower than the budgeted surplus of FY22.
- Lower surplus expected in FY23 can be mainly attributable to a bleak global economic demand and lower oil prices which could impact the oil exporter's revenues.

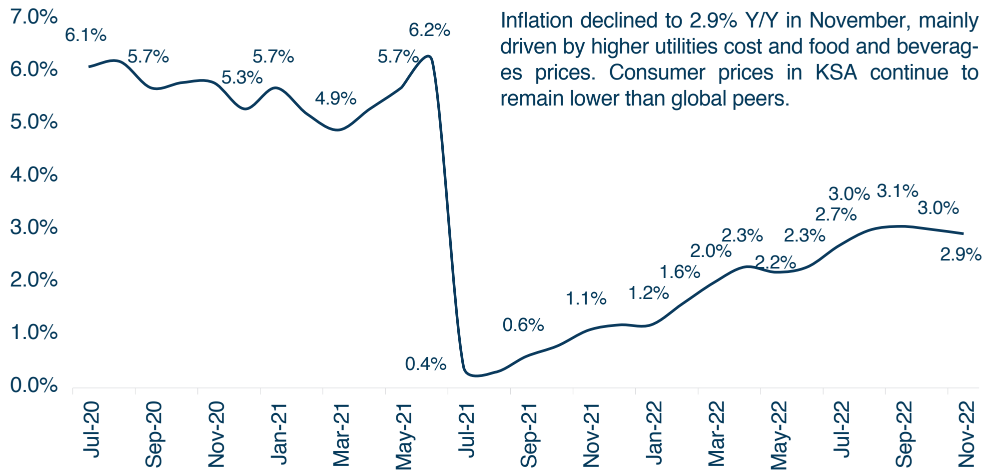
Source: Saudi Araba Budget Report 2023, Aljazira Capital Research

Saudi Arabia's economic growth prospects look attractive amidst other nations

Lowest unemployment rate in last one year, boost in consumer spending and control over inflationary environment

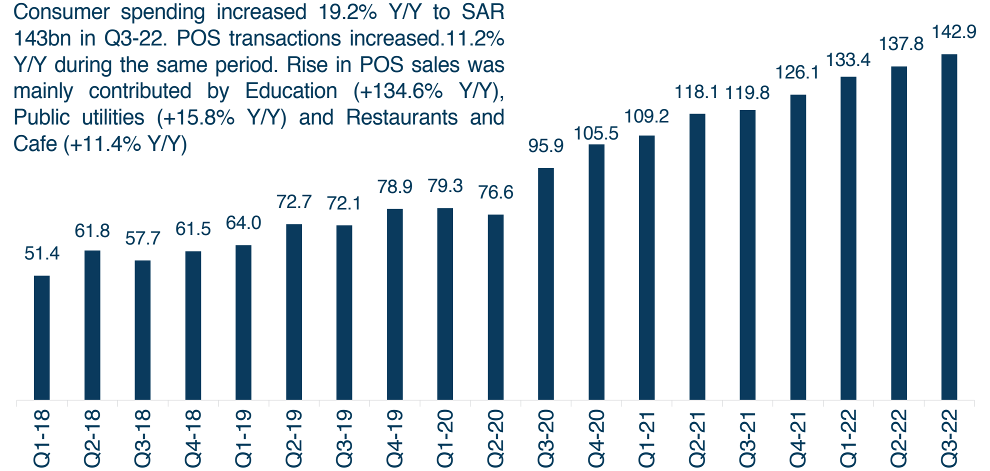
Saudi Arabia Consumer Price Index (Y/Y)

Inflation declined to 2.9% Y/Y in November, mainly driven by higher utilities cost and food and beverages prices. Consumer prices in KSA continue to remain lower than global peers.



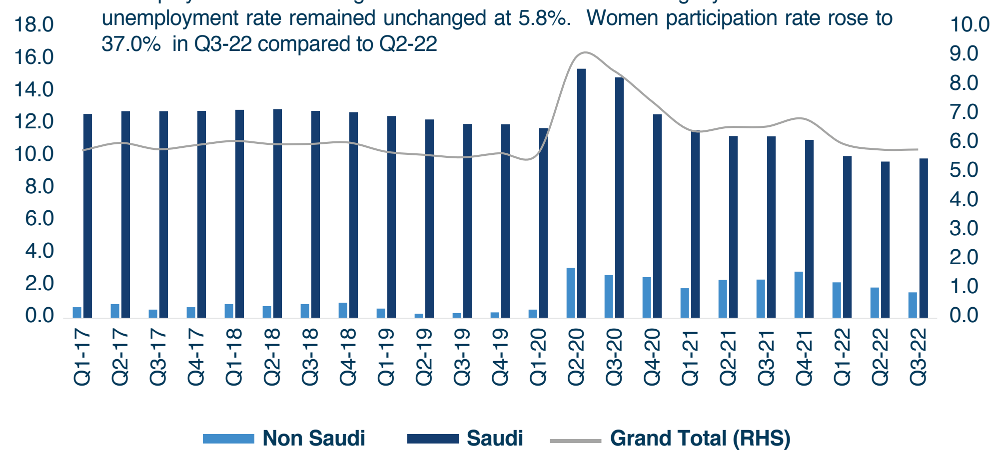
Saudi Arabia Consumer Spending (POS Sales in SAR bn)

Consumer spending increased 19.2% Y/Y to SAR 143bn in Q3-22. POS transactions increased.11.2% Y/Y during the same period. Rise in POS sales was mainly contributed by Education (+134.6% Y/Y), Public utilities (+15.8% Y/Y) and Restaurants and Cafe (+11.4% Y/Y)



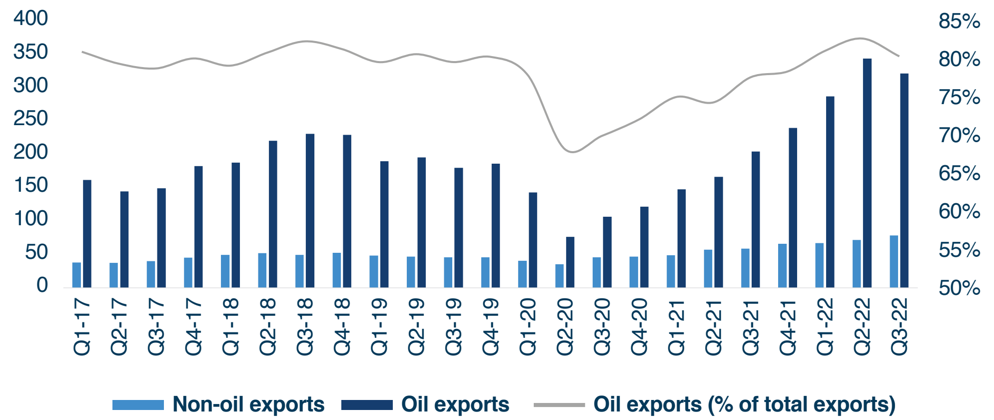
Saudi Arabia Unemployment Rate %

Unemployment rate among Saudis for Q3-22 increased slightly to 9.9%. Overall unemployment rate remained unchanged at 5.8%. Women participation rate rose to 37.0% in Q3-22 compared to Q2-22



Oil and non-oil exports (SAR bn)

Oil exports rose c.57.3% Y/Y in Q3-22 to SAR 321bn. Oil exports as a % of total exports represented 80.4% in Q3-22, after having represented 82.4% of total exports in Q2-22

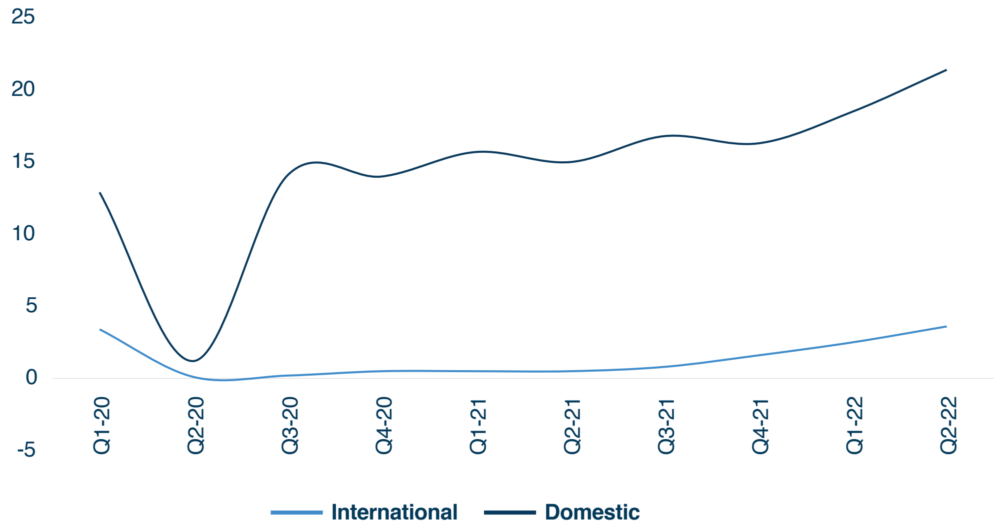


Source: Gastat, SAMA Open Market data, Aljazira Capital Research

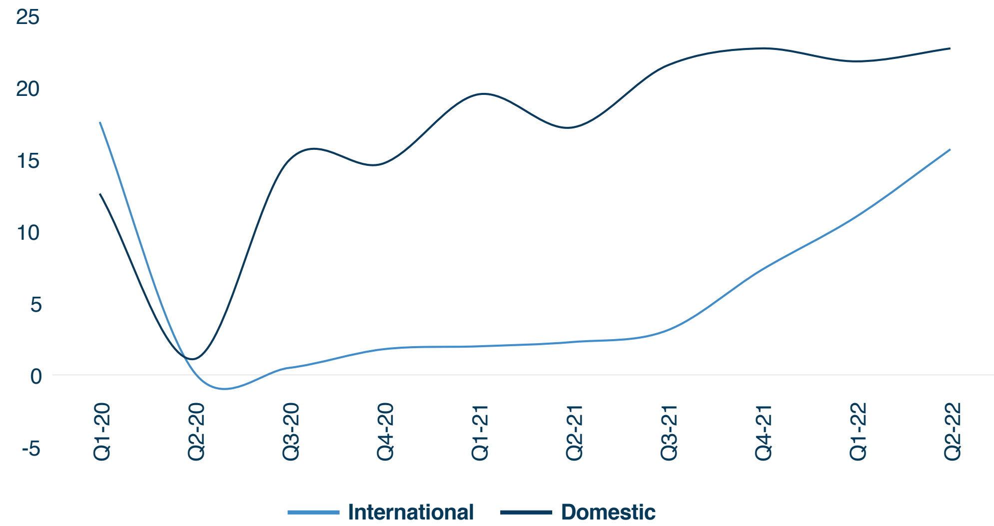
Tourism and affiliated industries get higher support from Saudi Arabian government

The government focuses on making the Kingdom a year-round tourist destination as a part of Vision 2030 plan

International and Domestic Tourists visits (in mn)



International and Domestic Tourism Spending (SAR bn)



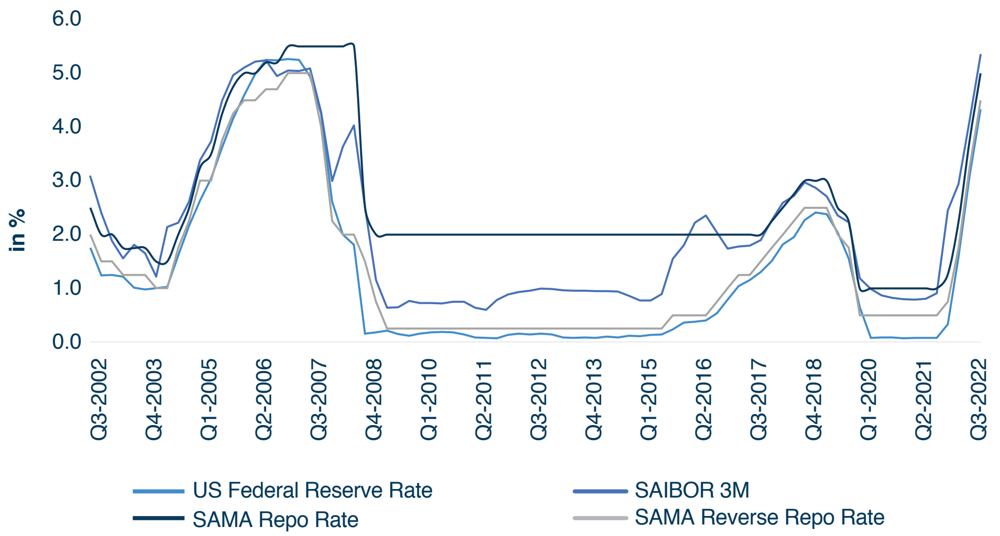
- The number of tourists in Saudi Arabia increased 45.0% Y/Y in H1-22 to 46.0mn from 31.7mn in the year earlier. Tourism spending increased by 73.7% Y/Y to SAR 71.2bn in H1-22.
- The Saudi Arabian government has rolled out new tourism policies which aim at improving the quality of services, safeguarding visitors' rights, and increasing job prospects for younger generations, all while making the Kingdom more appealing to investors.
- This highlights Saudi Arabia's goal of developing a vibrant worldwide tourist industry.
- As per the World Travel and Tourism Council's Economic Impact Report, the level of increase in tourism is more than six times the 1.8% growth rate of the nation's total economy. Tourism will make up 17.1% of the local GDP by FY32.
- However, above charts indicate that recovery in international tourism is still underway despite of higher spending. We believe that if Hajj and Umrah tourists visit at full capacity it can offset the slower recovery in international tourism. However, we are also vigilant of the ongoing challenges faced by intermittent COVID waves in China and acknowledge that it could have an impact on momentum of tourism activities.

Source: Gastat, Saudi Arabia Budget 2023 Report, Aljazira Capital Research

SAMA expected to continue following US Fed's monetary policy

SAIBOR rates started to rise due to strong growth in loans amidst liquidity crunch in the market; SAIBOR rates have started to slowdown of late

SAMA follows US Federal Reserve's monetary policy



SAIBOR rates are estimated to revise downwards in H2-23 after peaking in H1-23

	H1-23	H2-23		H1-23	H2-23
SAIBOR 12M	6.23%	5.93%	**SAIBOR 3M**	6.01%	5.71%
SAIBOR 6M	6.08%	5.78%	**SAIBOR 1M**	5.73%	5.43%

Source: Gastat, Reuters, SAMA, Bloomberg, Aljazira Capital Research

- Given the Saudi Riyal's pegged currency arrangement with the US Dollar, SAMA's repo rate is likely to follow the direction of the US policy rate.
- In Q1-22, KSA banks experienced liquidity crunch due to- 1. Over the last 1.0-1.5 years, credit expansion outpaced deposit growth. 2. Deployment of government deposits in local banks postponed to end of FY22. 3. Local banks anticipated sharp rate hikes and held on to surplus funds and hence liquidity dried up in money market.
- This was reflected in the overall profitability of the banks in the forthcoming quarters. Liquidity in the money market dried up as the local banks hoarded surplus funds in anticipation of rise in interest rates.
- SAMA infused SAR 50bn in form of time deposits with commercial banks to give some relief to the tight market.
- However, given the slowdown and disruptions in the global economies followed by rising inflation, the US Central bank continued to hike interest rates to bring down rising prices.
- As SAMA follows the US central bank's policy stance, an increase of US Federal Reserve rate by 4.25% was replicated by SAMA as it hiked its repo rate (currently at 5.0%) and reverse repo rate (currently at 4.5%)
- Based on the implied Fed Fund Rate futures; the Fed rate in FY23 is expected to peak at 5.25% by the end of H1-23. In this scenario, we expect 12M SAIBOR in H1-23 is expected at 6.23% and further ease to 5.93% in late H2-23 due to partially repricing future fed interest cuts.

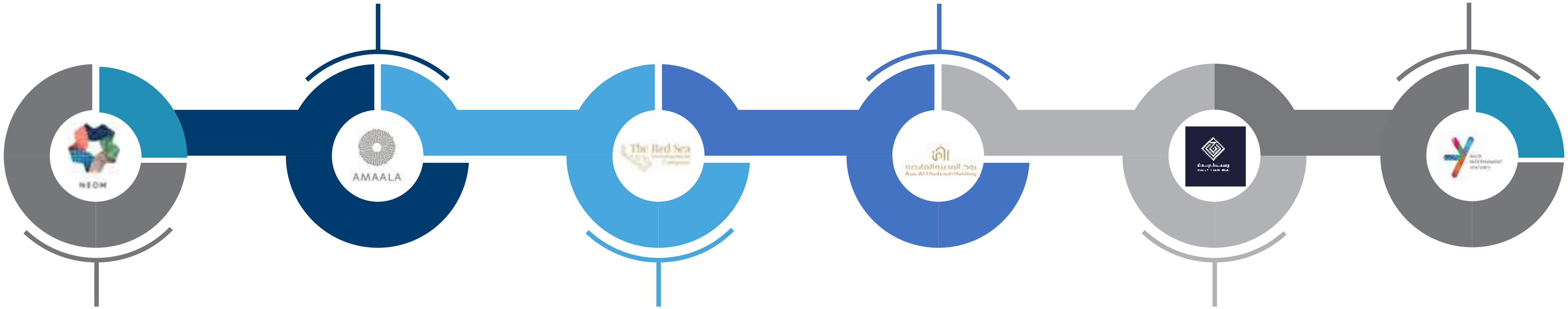
Saudi Arabia aims at economic transformation through Giga projects

Projects are expected to create new jobs, attract tourism activities and increase cultural diversification

AMAALA
Luxury coastal resort project
Total Value: USD 5.1bn
TWA: USD 1.7bn

Rua Al Madinah
Islamic & cultural destination for pilgrims
Total Value: USD 10.0bn
TWA: 1.0bn

Saudi Entertainment ventures
Entertainment complexes in various cities
Total Value USD 5.0bn
TWA: USD 0.2bn



NEOM
City, tourism destination and industrial hub
Total Value: USD 500bn
TWA*: USD 13.4bn

The Red Sea Development Company
A 28,000 sq.km. luxury coastal development
Total Value: USD 16.0bn
TWA: USD 6.6bn

Jeddah Central
Urban Revival
Total Value USD 20.0bn
TWA: USD 0.3bn

Source: Vision 2030, Meed Projects, Aljazira Capital Research
Note: TWA- To be awarded

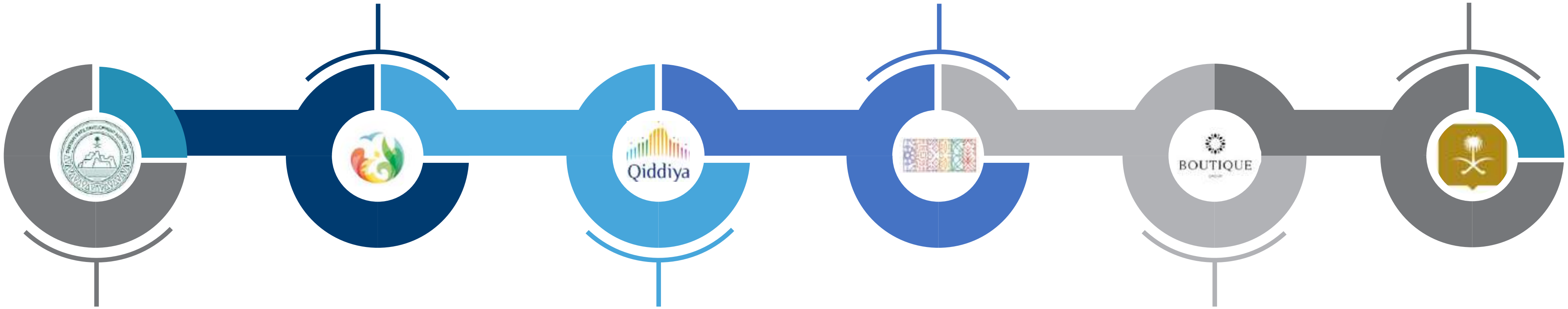
Saudi Arabia aims at economic transformation through Giga projects

Projects are expected to create new jobs, attract tourism activities and increase cultural diversification

King Salman International Park
Sports Boulevard
Total Value: USD 23.0bn

ROSHN
Affordable residential housing for nationals
Total Value: USD 90.0bn
TWA: 0.7bn

Al Ula
Tourism Development
Total Value USD 15.0bn
TWA: USD 0.4bn



Diriyah Gate
Residential, Cultural and Retail Destination
Total Value: USD 20bn
TWA*: USD 2.9bn

Qiddiya
A 334 sq.m. entertainment city
Total Value: USD 8.8bn
TWA: USD 2.3bn

Boutique Group
Luxury Boutique Hotels
Total Value USD 1.5bn

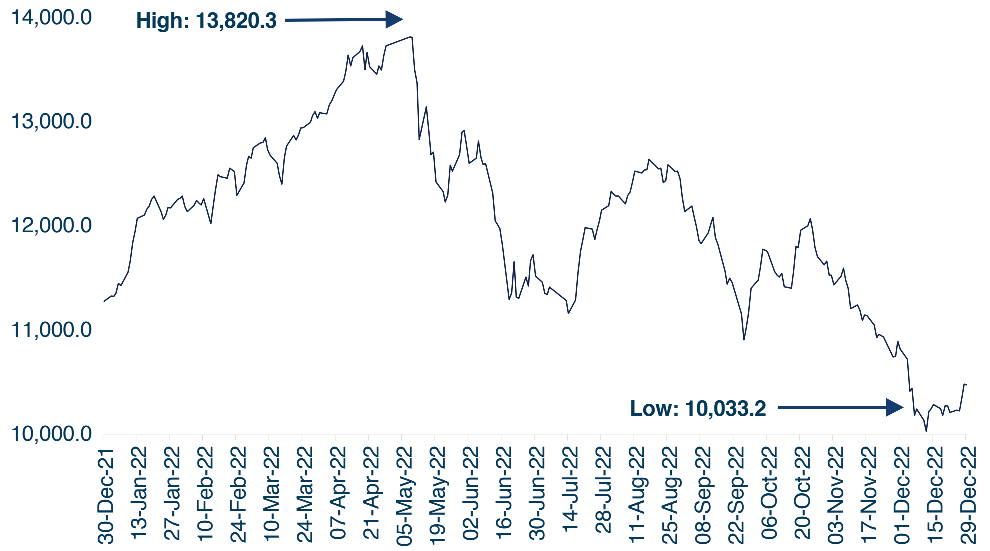
Source: Vision 2030, Meed Projects, Aljazira Capital Research
Note: TWA- To be awarded

KSA Equity Market Outlook

TASI declined 7.1% Y/Y by the end of FY22

Healthcare, Software & Services and Utilities were the only sectors to end the year in green

TASI traded in the range of 10,000 points to 14,000 points



TASI ended the year FY22 at 10,478.5 points (lower by 803.25 points). In the past year, developments and events such as interest rate hike by SAMA, aftermath of Russia Ukraine war on the oil markets and world trade, output cut decision by OPEC+ nations, high fluctuation in oil prices, healthy growth witnessed by the Saudi economy as well budget surplus announced by the Saudi government impacted the TASI price trend.

Sector performance over the year

Sector	FY21	FY22	Change (points)	Change(%)
Healthcare	7,315.0	9,110.0	1,795.0	24.5%
Software and Services	28,654.0	35,888.0	7,234.0	25.2%
Utilities	5,933.0	7,174.0	1,241.0	20.9%
Energy	5,515.0	5,427.0	(88.0)	-1.6%
Food & Beverages	4,836.0	4,640.0	(196.0)	-4.1%
Food Retailing	9,122.0	8,541.0	(581.0)	-6.4%
Banks	12,221.0	11,542.0	(679.0)	-5.6%
Diversified Financials	6,829.0	6,361.0	(468.0)	-6.9%
Media	23,254.0	21,496.0	(1,758.0)	-7.6%
Insurance	5,990.0	5,317.0	(673.0)	-11.2%
Telecom	7,278.0	6,389.0	(889.0)	-12.2%
Transportation	5,234.0	4,541.0	(693.0)	-13.2%
Materials	7,344.0	6,290.0	(1,054.0)	-14.4%
REITs	4,612.0	3,975.0	(637.0)	-13.8%
Consumer Services	4,640.0	3,690.0	(950.0)	-20.5%
Real Estate Management	3,171.0	2,500.0	(671.0)	-21.2%
Commercial & Professional Services	4,444.0	3,436.0	(1,008.0)	-22.7%
Retailing	9,847.0	7,174.0	(2,673.0)	-27.1%
Capital Goods	7,545.0	5,226.0	(2,319.0)	-30.7%
Consumer Durables	6,349.0	4,225.0	(2,124.0)	-33.5%
Pharmaceuticals	5,191.0	2,873.0	(2,318.0)	-44.7%
TASI	11,282.0	10,478.0	(804.0)	-7.1%

Source: Tadawul, Bloomberg,, Aljazira Capital Research

Summary of Saudi Arabia's market performance in FY22

Dallah Healthcare gained 97.0% Y/Y; highest volume was traded in Dar Alarkan while Al Rajhi topped the highest value traded chart

Top 10 performing companies and worst 10 performing companies

Company	Price at FY21 end (SAR)	Price at FY22 end (SAR)	Change(%)
Dallah Healthcare	75.1	148.0	97.0%
ACWA Power	84.0	152.0	81.0%
Maaden	39.3	64.7	65.0%
Tanmiah	82.1	131.2	60.0%
Tadawul Group	125.8	181.0	44.0%
ANB	22.9	32.1	40.0%
Bupa Arabia	105.2	143.8	37.0%
Sulaiman Al Habib	161.4	220.6	37.0%
Alkhorayef Water	102.4	139.4	36.0%
Alinma Bank	24.0	32.6	36.0%

Company	Price at FY21 end (SAR)	Price at FY22 end (SAR)	Change(%)
UCA	34.0	7.2	-79.0%
Al Sagr	50.9	14.0	-72.0%
Arabia Insurance	35.8	10.0	-72.0%
Saudi Enaya	31.5	9.0	-71.0%
Salama	42.5	13.0	-70.0%
Sadr Logistics	102.4	32.3	-68.0%
Arab Sea	196.0	64.0	-67.0%
AlinmaTokio	31.4	12.0	-62.0%
CHUBB Arabia	36.6	15.5	-58.0%
Amana Insurance	20.8	9.1	-56.0%

Dallah Healthcare was the top gainer recording gains of 97.0% Y/Y followed by ACWA Power. Meanwhile on the other end of the leaderboard was UCA and Al Sagr with downside of 79.0% Y/Y and 72.0% Y/Y, respectively.

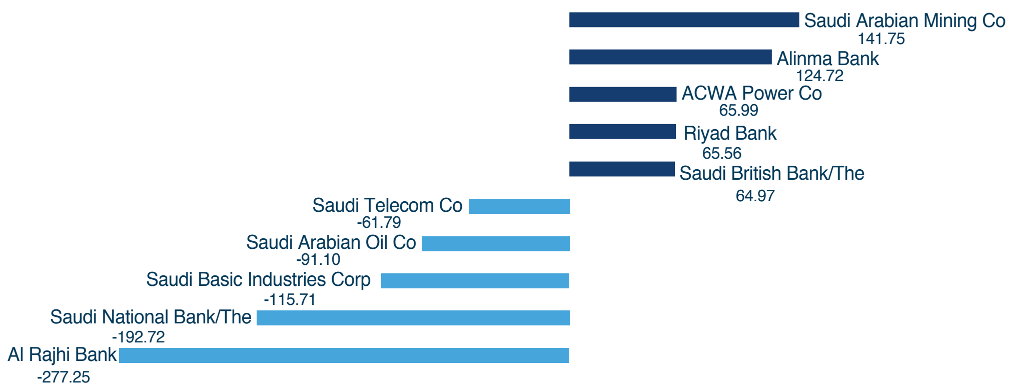
Source: Tadawul, Argaam, Aljazira Capital Research

Top 5 companies by Volume traded and value traded

Company	Close Price (SAR)	YTD % change	Volume Traded (bn)
Dar Alarkan	11.6	15.5%	3.7
Saudi Aramco	32.1	-1.4%	1.9
Alinma	32.6	35.9%	1.9
Al Rajhi	75.2	-15.2%	1.5
Petro Rabigh	10.7	-26.3%	1.5

Company	Close Price (SAR)	YTD % change	Volume Traded (bn)
Al Rajhi	75.2	-15.2%	137.0
Saudi Aramco	32.1	-1.4%	72.7
Alinma	32.6	35.9%	67.4
SABIC	89.4	-22.9%	66.7
SNB	50.5	-21.6%	65.5

Index point contributors

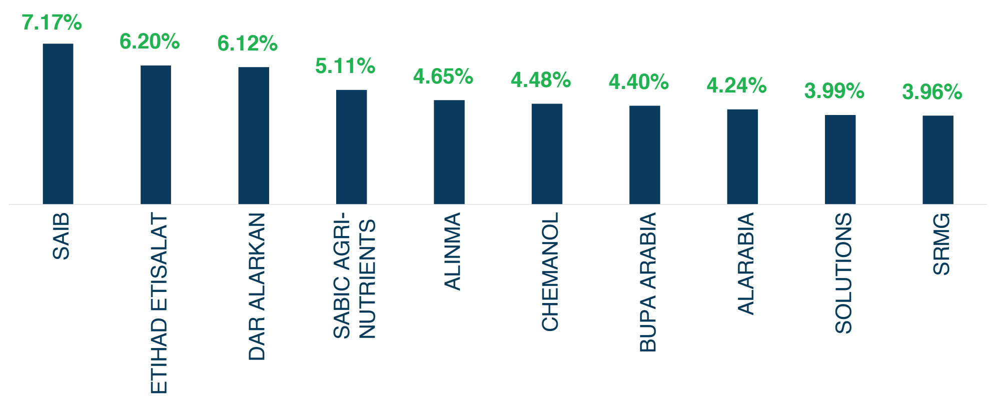


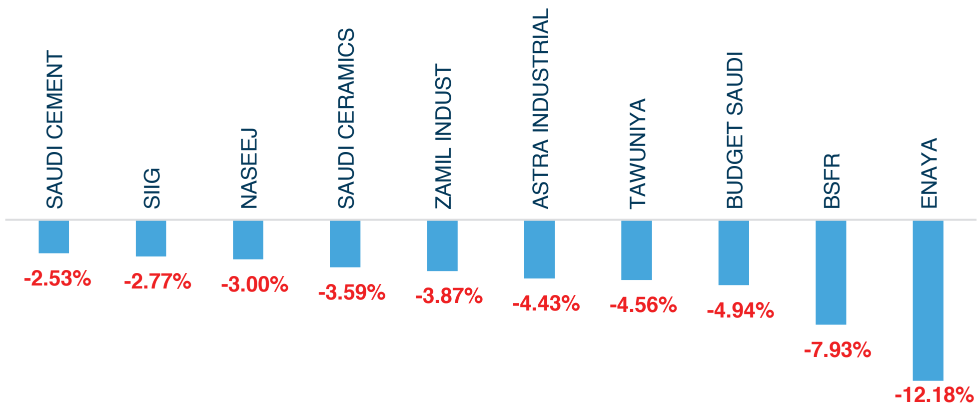
MAADEN and Alinma Bank were the largest upside contributors to the index, contributing c.266.47 points towards the index during FY22. TASI's performance was weighed down by index figureheads: Al Rajhi Bank and SNB, which together pulled the index back by 469.97 points.

Summary of Saudi Arabia's market performance in FY22

SAIB's foreign ownership increased 7.17% while that of Enaya's declined 12.18% over the year

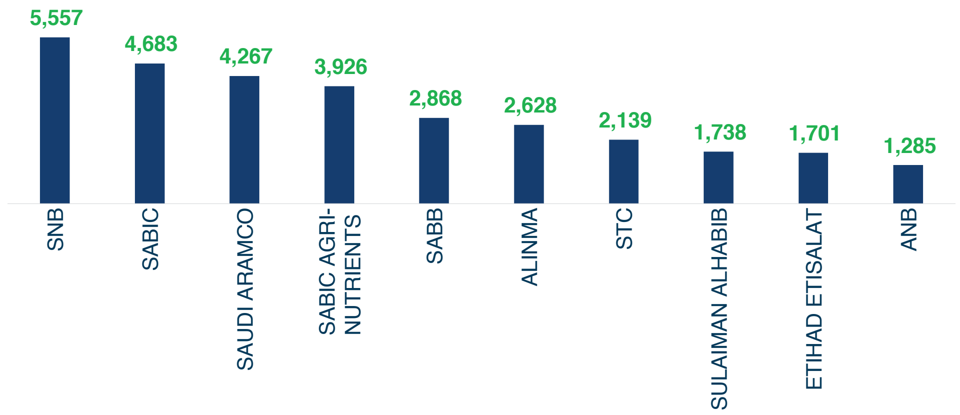
Top 10 and worst 10 companies by change in foreign ownership

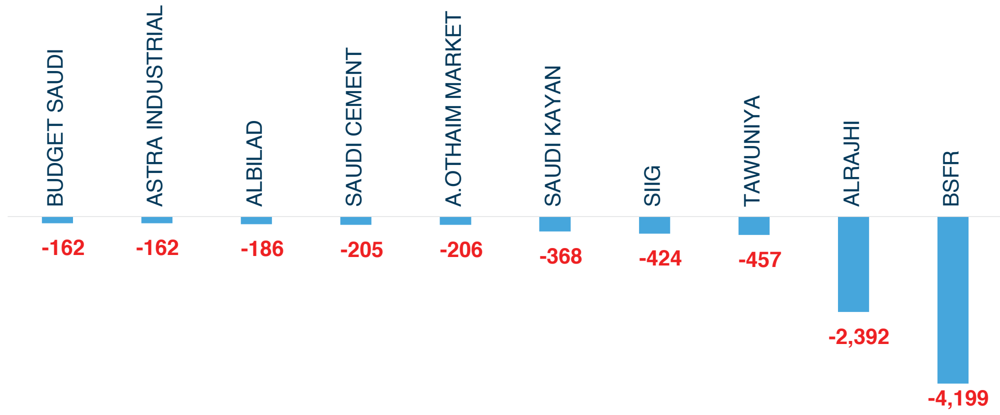




Saudi Investment Bank saw the largest percentage change in its foreign ownership inflow for the year period at 7.17% Y/Y, while Enaya experienced the largest sell-off from QFIs for the year, shedding 12.18% of its foreign ownership by the end of December.

Top 10 and Worst 10 companies by QFIs' inflow/outflow value (SARmn)





Saudi National Bank and Saudi Basic Industries Corp ended the year as the most stocks traded by QFIs by inflow value (by an estimated SAR 5,556.8mn and SAR 4,683.1mn respectively). Banque Saudi Fransi came at the other end of that leaderboard at an outflow of SAR 4,198.6mn from QFIs.

Source: Tadawul, Argaam, Aljazira Capital Research

IPO momentum expected to continue in FY23

In FY22, total 17 companies got listed on the main market, i.e. Tadawul. In FY22, the total offering size increased by 82.9% Y/Y to SAR 31.4bn as compared to that of offering size of SAR 17.2bn of 9 companies that were listed in FY21.

The parallel market Nomu witnessed the highest listings in the last six years with 17 new companies listed publicly in FY22. Nomu witnessed 13 direct listings in FY22 as compared to 8 listings in FY21.

The Capital Market Authority has so far given its approval to four companies to list publicly in this year.

A rise in IPO activity in FY22 directed investor's money towards listings as compared to other markets. In FY22, total volume traded reached 45.1bn shares (-34.2% Y/Y) as compared to 68.5bn shares traded in FY21. Larger IPO activity was one of the reasons that resulted in tight liquidity in the market. Traded value declined 23.6% to SAR 1,708.0bn in FY22 versus SAR 2,235.9bn in FY21.

On the brighter side, new listings adds to market depth, increases investor participation and also helps increase the attractiveness of Saudi market to foreign investors.

Source: Vision 2030, Meed Projects, Aljazira Capital Research
Note: TWA- To be awarded

A flurry of IPOs on the Saudi exchange

Most companies newly listed in FY22 belonged to the Materials sector; of the total 17 companies, 6 are trading bellow their initial offering price.

Sector	Company	Number of IPO shares (mn)	Offer price (SAR)	Offering size (SAR mn)	Institutional investors coverage	Listing Price (SAR)	Current market price (SAR)	Change %
Materials	Luberef	50.1	99	4,954.0	29.5x	94	94.2	0.2%
	Almasane Alkobra Mining Co	19.8	63	1,247.0	73.6x	69.3	72.3	4.3%
	East Pipes	6.3	80	504.0	71.8x	58.65	39.5	-32.7%
Banks	Saudi Home Loan	30.0	20.0	600.0	50.0x	22.0	20.1	-8.5%
Capital goods	Riyadh cables	33.0	43.0	1,419.0	71.8x	41.0	39.0	-4.9%
Consumer Services	Americana Restaurants	252.7	2.7	677.0	65.5x	2.8	3.2	17.1%
	Alamar Foods	10.6	115.0	1,223.0	47.5x	126.0	140.2	11.3%
Energy	Marafiq	73.1	46.0	3,362.0	59.0x	47.8	46.9	-1.9%
	Arabian Drilling	26.7	100.0	2,670.0	61.0x	110.0	115.8	5.3%
Food and Beverages	Naqi Water	6.0	69.0	414.0	30.3x	75.9	67.7	-10.8%
Food & Staples Retailing	Nahdi	39.0	131.0	5,109.0	59.0x	144.0	168.0	16.7%
	Al Dawaa	25.5	73.0	1,862.0	53.8x	80.3	73.7	-8.2%
Healthcare Equipment and Services	Equipment House	6.0	52.0	312.0	65.0x	61.2	62.5	2.1%
Real estate management	Retal	12.0	120.0	1,440.0	62.7x	120.0	121.6	1.3%
Retailing	Al Saif Gallery	10.5	115.0	1,208.0	15.5x	108.2	96.4	-10.9%
Software and Services	2P	4.5	185.0	833.0	61.4x	203.4	179.2	-11.9%
	ELM	24.0	128.0	3,072.0	69.5x	140.8	329.0	133.7%

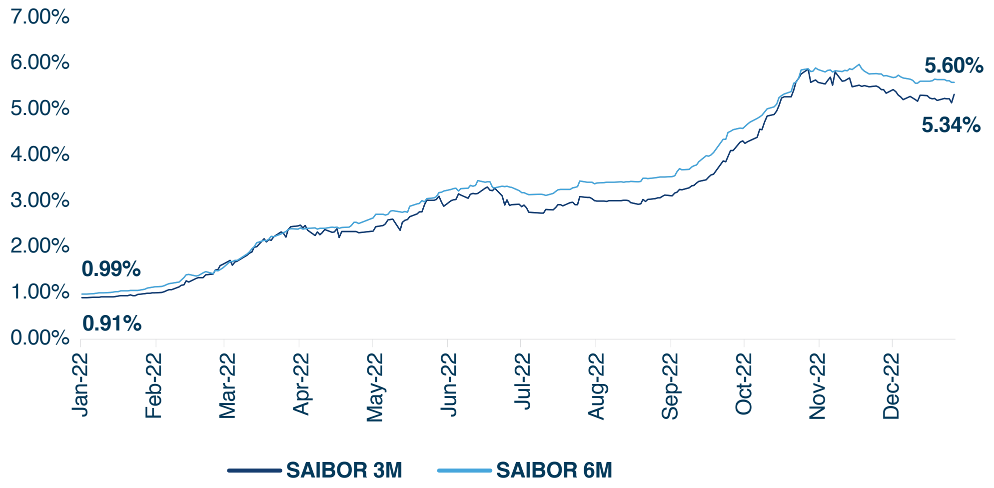
Source: Tadawul, Argaam, Aljazira Capital Research

Higher cost of borrowings expected to drag TASI earnings by SAR 6.6bn in FY23

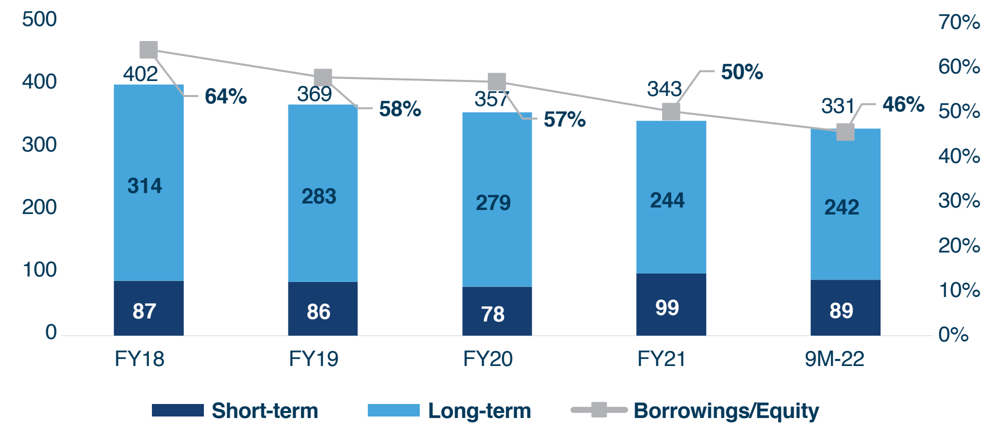
Energy, Utilities and Capital Goods sectors to be impacted the worst by increase in interest rates

- SAMA increased the repo rate by 400 bps last year. Subsequently, SAIBOR 6M was up 460 bps to 5.60% by end of FY22.
- Total borrowings (excluding Banking, Insurance, Saudi Aramco and Saudi Electricity) reduced from SAR 402bn in FY18 to SAR 331bn as of September 2022. There may be further reduction in debt by some companies to control finance costs.
- Based on our calculations, the higher cost of borrowings is expected to add a burden of approximately SAR 6.6bn on TASI's earnings, despite expected repayments by some firms.
- Energy (120%), Utilities (118%) and Capital Goods (88%) being most leveraged will be hit the worst by higher cost of borrowings.

SAIBOR jumped by around 460 bps in FY22



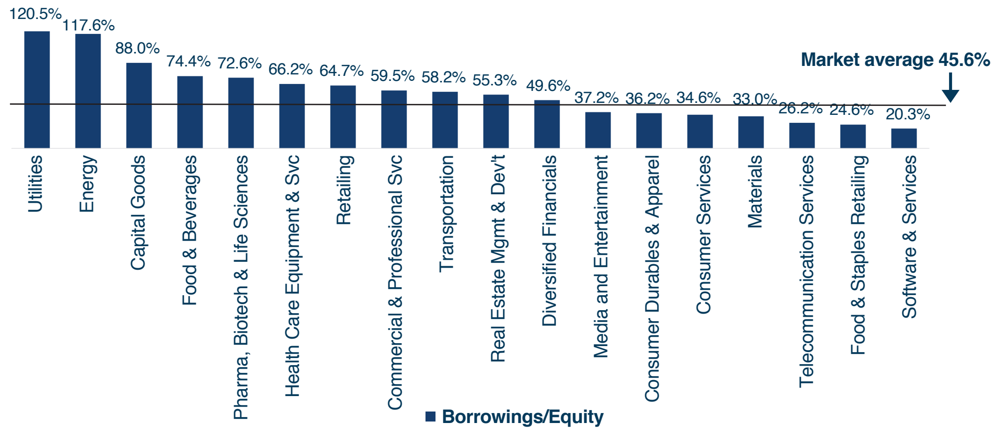
TASI Borrowings Trend (SAR bn)*



*Exclude lease liabilities

*Banking, Insurance, REITs, Saudi Aramco and Saudi Electricity not included

Leverage Level by Sector*



*As of September 2022, borrowings do not include lease liabilities

*Excluding Saudi Aramco and Saudi Electricity

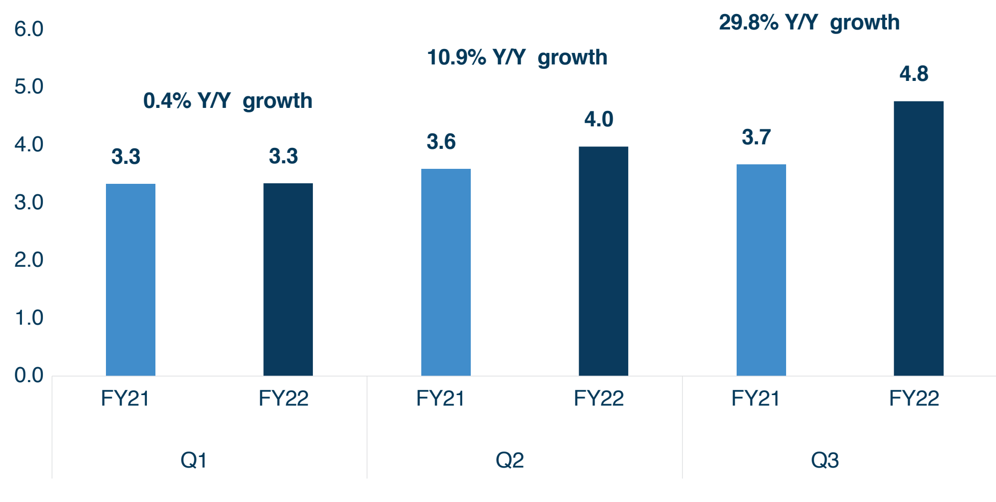
Source: Bloomberg, Argaam, Aljazira Capital Research

Finance expenses jumped significantly in Q3-22; expected to rise further

Challenging period for debt-heavy companies

- Finance expenses for TASI universe (excluding Banking, Insurance, Saudi Aramco and Saudi Electricity) started showing impact of surging interest rate from Q2-22 (+10.9% Y/Y). The rise was more evident in Q3-22 at 29.8% Y/Y, as interest rates increased rapidly.
- In Q3-22, total finance expenses were higher by SAR 1.1bn Y/Y at SAR 4.8bn, reflecting higher borrowing cost, as absolute borrowings decreased during this period.
- Another 125 bps hike came in Q4-22 and more hikes are likely in FY23. Hence, based on our assumption we expect finance cost to increase further with total addition of around SAR 6.6bn.
- Heavily leveraged companies would face the pressure on earnings.

TASI Rising Finance Expenses (SAR bn)



Most leveraged TASI-listed companies

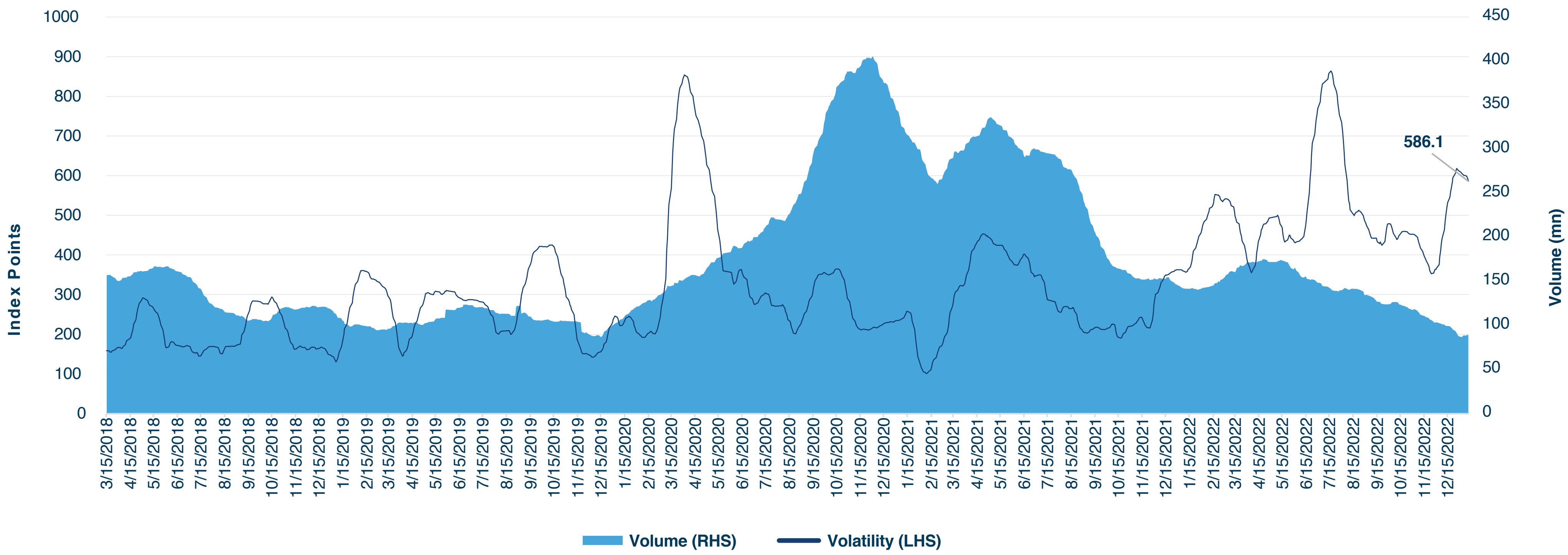
Company	Borrowings (SAR mn)	Equity (SAR mn)	Borrowings/Equity
Amiantit	1,131	246	460%
APC	378	98	385%
ZAMIL INDUST	2,907	871	334%
SPM	537	253	212%
SASCO	1,668	833	200%
ALBABTAIN	1,593	841	189%
Naseej	213	119	178%
SAUDI GERMAN HEALTH	2,135	1,293	165%
LAZURDE	682	428	159%
SAPTCO	1,668	1,052	159%

Company	Borrowings (SAR mn)	Equity (SAR mn)	Borrowings/Equity
Petro Rabigh	26,170	16,926	155%
ALHOKAIR GROUP	496	323	153%
MIS	481	322	149%
SPPC	863	635	136%
ACWA Power	23,802	18,221	131%
Theeb	828	641	129%
2P	282	219	129%
Nama Chemicals	470	387	121%
Real Estate Mgmt & Dev't	24,387	20,244	120%
AWPT	470	399	118%

Source: Bloomberg, Argaam, Aljazira Capital Research

Difficult price discovery during times of illiquidity

Uncertainty, coupled with low volumes, have challenged the market's price discovery mechanisms

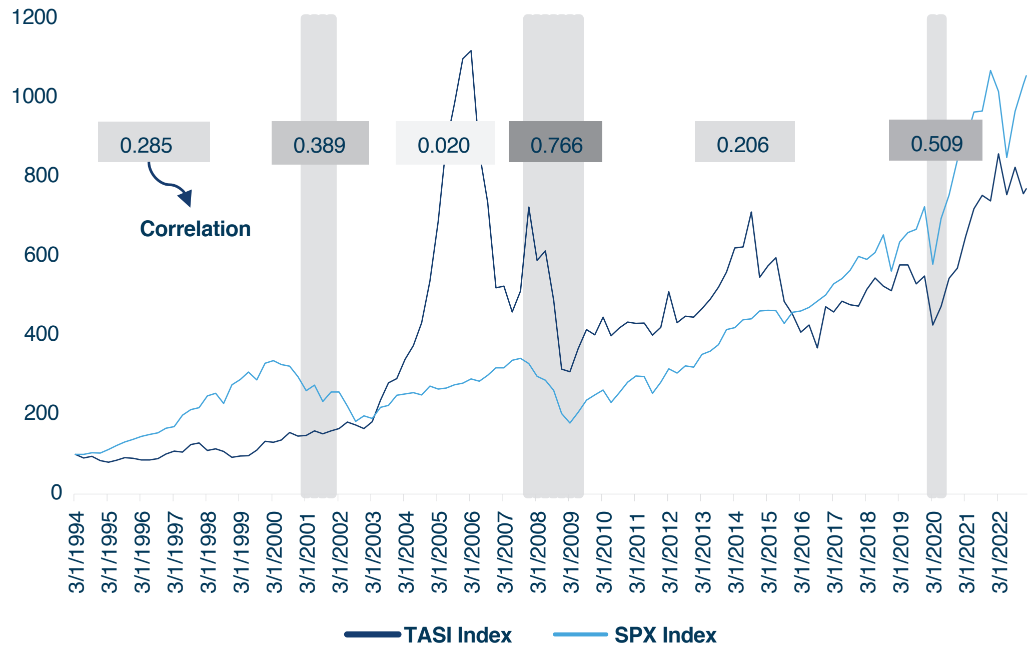


- The recent disruption in the KSA market's price discovery mechanism punctuated to volatility levels higher than 93% of the data observed from since FY18. The volatility seen in 2022 now recorded an average swing of about 500 points every two months since the start of the year.
- Uncertainty in the future prospects in the global markets, as well as 2022's notably low volumes (volume negatively-correlates with volatility) drove the high volatility this year.
- We expect that with the possibility of monetary easing, cheaper capital, and improving prospects in late FY23 will result in an inflow of volume, and a clearer consensus in the markets to result in a lower volatility (post H1-FY23)

Difficult price discovery during times of illiquidity

Uncertainty, coupled with low volumes, have challenged the market's price discovery mechanisms

Correlation with S&P 500 During Economic Cycles



*Grey vertical lines represent recessions as defined by the NBER's economic cycles

Geographic Correlation Matrix H2-22 to Date

Security	TADAWUL	MSCI EUROPE	MSCI AC ASIA Pacific	OPEC	S&P 500	MSCI WORLD	MSCI EM
TADAWUL	1.00						
MSCI EUROPE	0.45	1.00					
MSCI AC ASIA Pacific	-0.02	0.65	1.00				
OPEC Energy Basket	0.54	0.27	-0.24	1.00			
S&P 500 INDEX	0.61	0.98	0.58	0.33	1.00		
MSCI WORLD	0.53	0.99	0.68	0.30	0.99	1.00	
MSCI EM	-0.09	0.56	0.99	-0.35	0.50	0.60	1.00

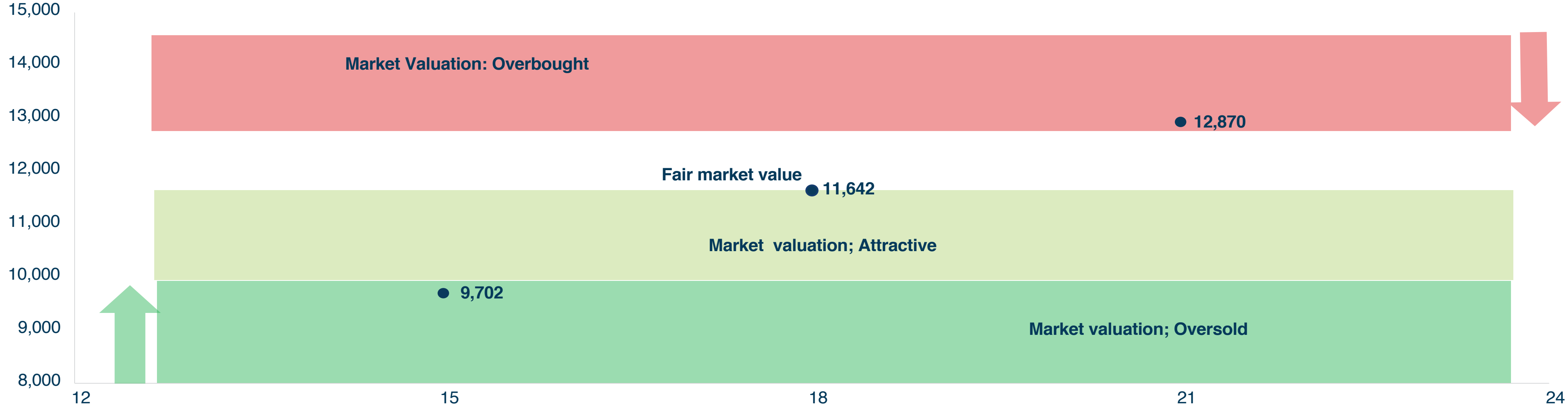
Source: Bloomberg, AlJazira Capital

- Geographic diversification has become increasingly tougher to achieve when observing the correlation among regional markets across decades as a result of increased globalization throughout the global economies. During recessionary periods, we observe TASI becoming more homogenous in its movement when compared with the US market. The higher correlation during this cycle of the economy comes as a result of synchronized monetary adjustments, as well as the lessened oil demand from abroad reflecting onto the KSA broad market when global markets are contacting.
- While the NBER has not yet declared a US recession, TASI correlates with the US broad market by a positive 0.613 on a monthly basis since H2-22 till the time of this report.

TASI's estimated fair value for FY23 at 11,642; attractive below 9,700 level

Growth in Banking is likely to partially offset impact of pressure in cyclicals and higher financing costs

TASI vs. FY23E P/E



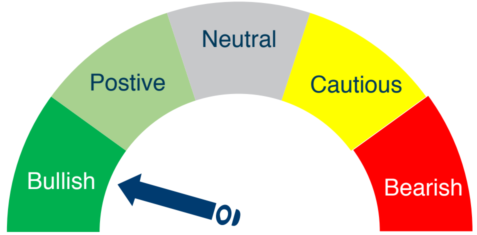
- We estimate a 2.3% decline in TASI earnings in FY23 (excluding Aramco). Earnings of cyclicals such as Petrochemicals are expected to be hit the most; SABIC and Maaden are likely to be main draggers for TASI earnings in FY23. Moreover, the higher financing expenses would also weigh on the earnings of heavily leverage companies.
- On the other hand, the growth in the Banks' earnings, due to repricing of loans and ongoing healthy credit growth, is expected to partially offset the negative impact. Banks earnings are expected to add around SAR 8.3bn to the total earnings.
- Based on our FY23 earnings estimates and long-term average TASI P/E of 18.0x, TASI fair value comes at 11,642, which indicates an upside of 10.5%.
- We see market levels below 9,700 as Oversold from a valuation perspective, while above 12,870 level the market would be overbought.

Source: Bloomberg, Aljazira Capital Research

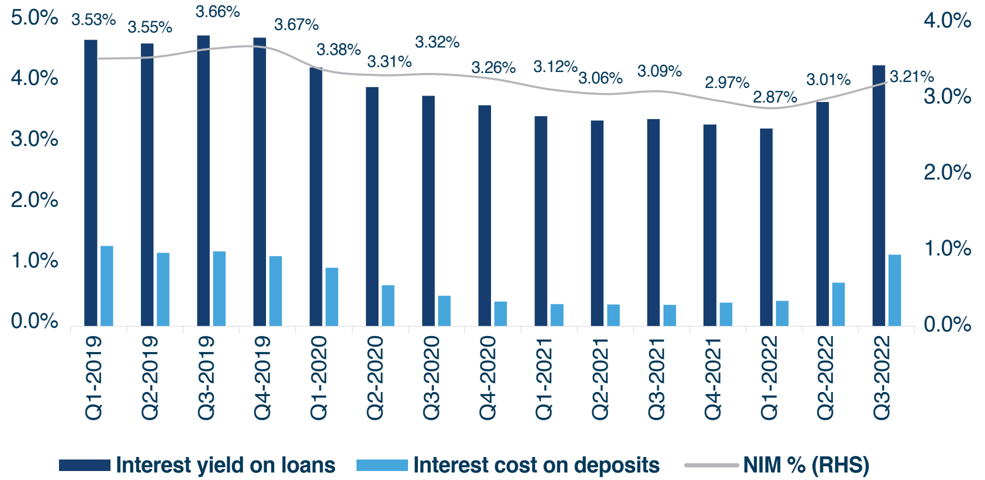
Sector Outlooks

Banking Sector Outlook

Poised to benefit from faster asset repricing in FY23 amid higher interest rate scenario

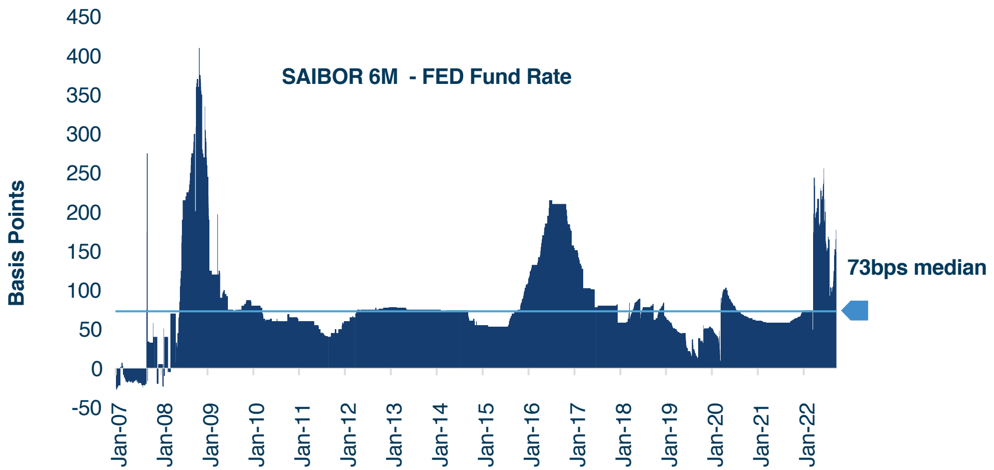


NIMs and gross yields expected to recover; slight pressure on COFs



- US consumer prices have been on a declining trajectory. In December, the US Federal Reserve raised interest rates by 50bps indicating that the central bank will slow the pace of hikes but will continue until inflation is under control
- As per the FOMC Dot plot projections, the US Federal Reserve rate is expected to reach 5.1% in FY23E from its current range of 4.25%-4.50%.
- SAMA continued to follow the Fed's direction in tightening monetary policy and raise repo and reverse repo rate.
- High interest rate expected to boost profitability with pressure on NIMs likely to ease given full repricing of assets in during FY23.

SAIBOR rate expected to ease by in H2-23



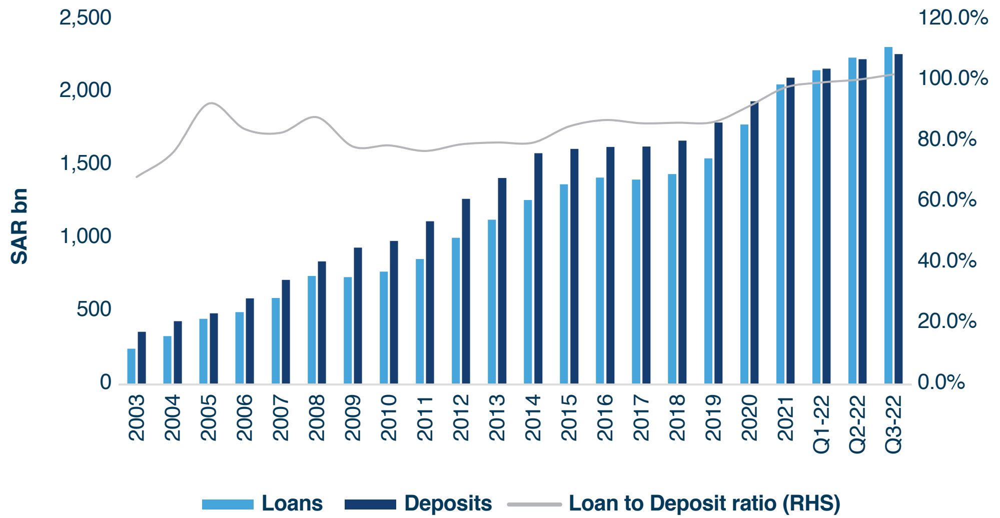
- The SAIBOR to Fed Fund Rate spread averages out to be in the range of 75bps to 80bps.
- The SAIBOR rate not only prices in the anticipated hike ahead of FOMC meetings but has an added premium due to the mismatch between the lower deposits and higher credit expansion in KSA.
- SAIBOR rate is at a c.100 premium (vs the medium spread of 73bps) to the US Federal Funds rate given the challenges related to liquidity. Rise in SAIBOR was one of reasons for increase in cost of funds. Going forward, we expect the impact of cost of funding to be mitigated by asset repricing.
- 6M SAIBOR in H1-23 is expected at 6.08% and further ease to 5.78% in late H2-23 due to partially repricing future fed interest cuts.

Source: FOMC dot plot, Argaam, Bloomberg, Aljazira Capital Research

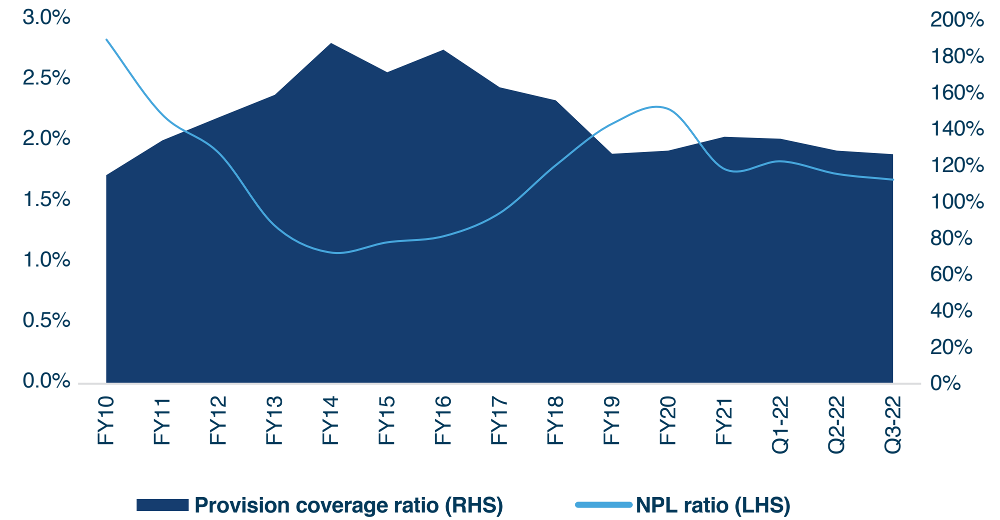
Banking Sector Outlook

Poised to benefit from faster asset repricing in FY23 amid higher interest rate scenario

Loans growth outpaced expansion in deposits resulting in high LDR



Banks have maintained adequate provisioning in recent quarters

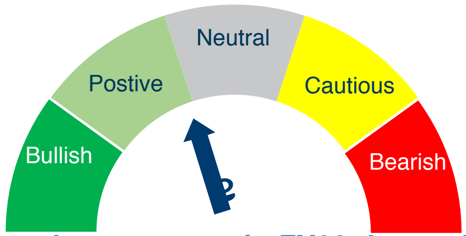


- As of Q3-22, the LDR stood at 102.2% indicating therefore a tight liquidity position. The liquidity infusion of SAR 50bn by SAMA provided some respite towards the end of Q2-22, however, higher cost of funds outweighed the positive impact of higher assets yields on NIMs.
- As per the budget report for FY23 published by the Saudi government, public debt is budgeted to reduce to SAR 951bn in FY23E from an estimated debt of SAR 985bn in FY22. Repayment of debt (given there are is no further roll over would imply sufficient liquidity with banks and would aid in lowering SAIBOR rate and in turn cost of funds).
- On the credit side, mortgages are expected to continue their growth trajectory, however at a slower pace. Meanwhile, we expect the contribution of MSME segment to GDP to increase up to 35% supported by various government programs. We expect MSME to be the next driver for growth.
- In Q3-22, NPL ratio remained at 1.7% while NPL coverage was maintained at 126%. We expect banks to continue maintaining adequate level of provisioning against bad loans.

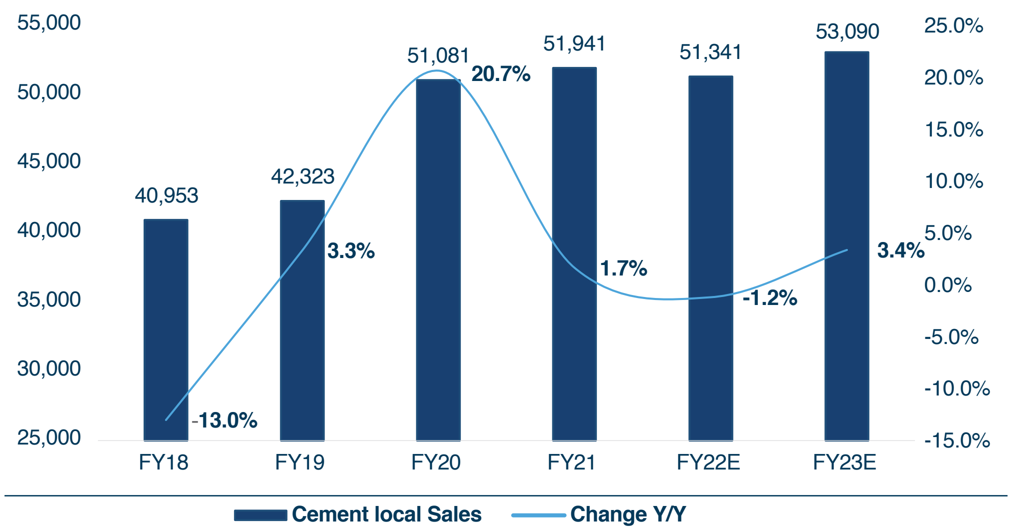
Source: FOMC dot plot, Argaam,Bloomberg, Saudi Budget Report 2023 Aljazira Capital Research

Cement Sector Outlook

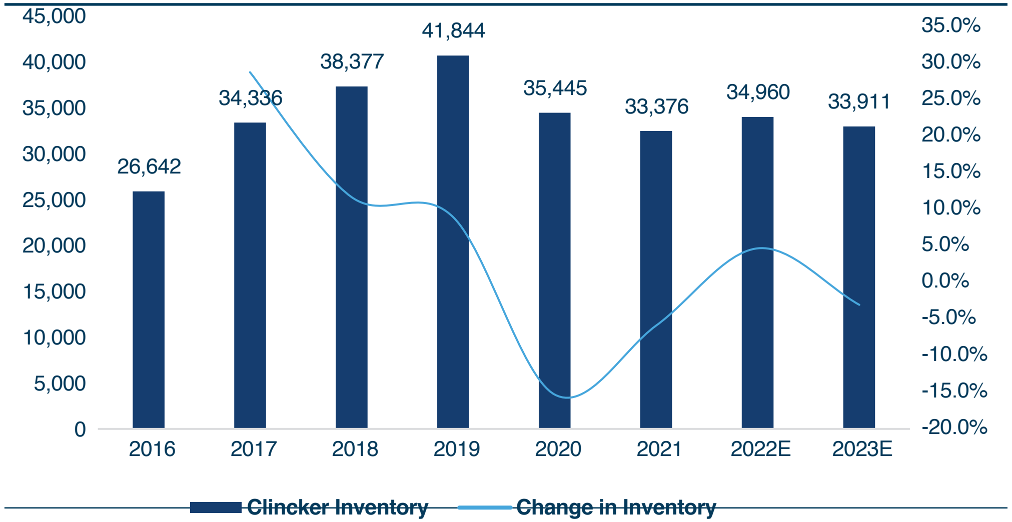
Sector expected to slightly recover in FY23 on better long-term demand prospects



Low single digit growth expected in local cement sales



Inventory to stay high with expected modest recovery in FY23 demand



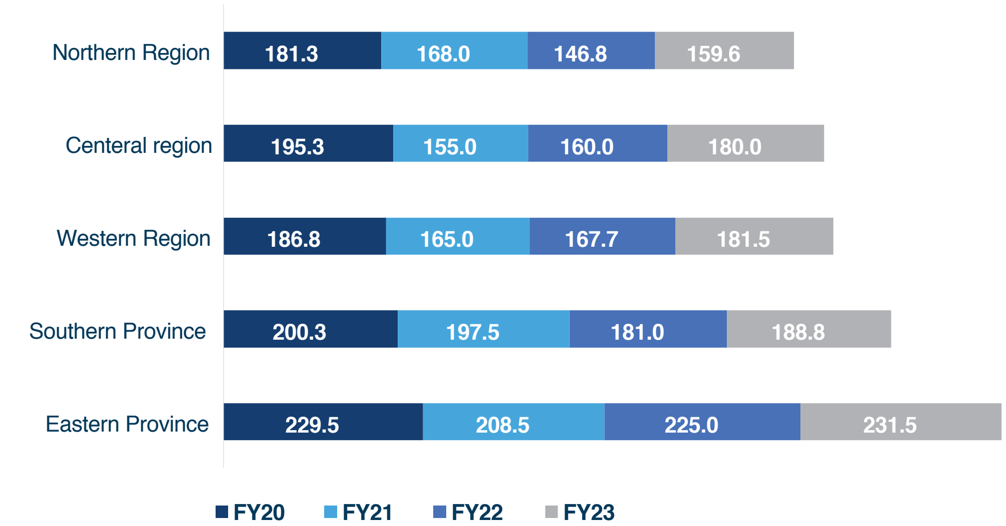
- As per Global Data, construction output growth in the Kingdom is expected to be 3.2% in FY22, with a further annual average growth rate of 4% between FY23 and FY26.
- According to MEED Projects, Saudi Arabia has a 35% market share with USD 31.0bn in contract awards as of October 2022, compared to an overall MENA total of USD 87bn.
- Local cement sales are expected to decline by 1.2% Y/Y in FY22 vs. rise of 1.7% Y/Y in FY21. Overall cement sales declined due to the 9.1% decline in sales from Southern region further impacted by decline of sales in Northern region by 8.2%, meanwhile, Central region recorded 6.8% sales growth.
- We expect sales to grow by modest 3.4% in FY23, given ongoing and planned megaprojects, government spending supported by higher oil prices and fiscal surplus, and slower pace of mortgage growth.
- Inventories piled up during FY22 due to weaker demand, as evidenced by the continuous decline in sales volumes. Despite the recent buildup and weak demand growth, we expect clinker inventories to decline by 2%-3% in FY23 at a faster rate in subsequent years due to expected lower production to sales and slight sales volumes recovery.

Source: Argaam, Aljazira Capital Research

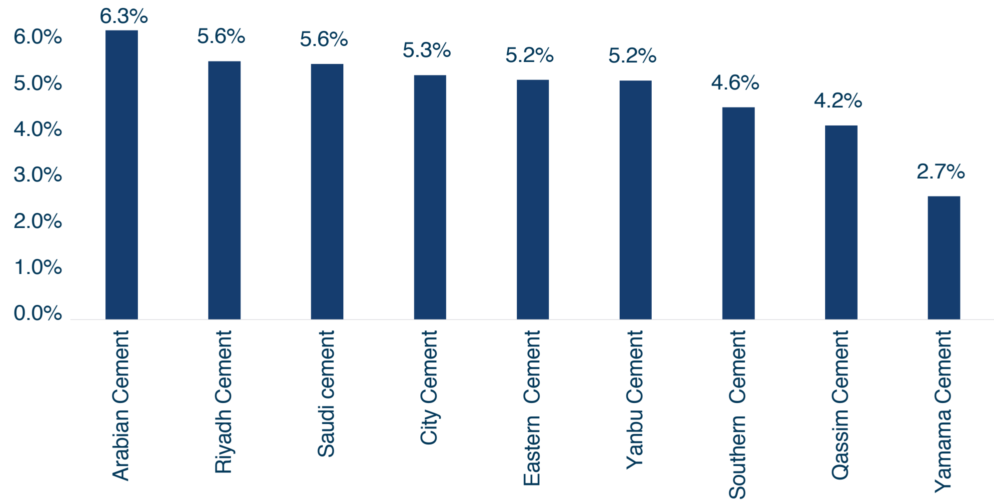
Cement Sector Outlook

Sector expected to slightly recover in FY23 on better long-term demand prospects

Pricing pressure to slightly recover in FY23



Dividend yields likely to improve with recovery in earnings

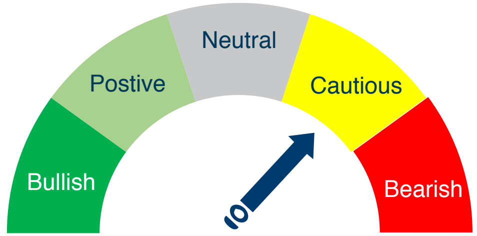


- Pricing pressure eased in H2-22, expected to recover slightly in FY23 but would stay at low levels vs. FY19 amid high inventory level. Selling prices in Saudi Arabia's cement sector were under pressure in the past two years.
- Nevertheless, the pricing pressure started to ease as cement companies lowered their selling prices to retain market share and cement consumption witnessed slight recovery in H2-22.
- Average dividend yield for cement companies under our coverage (excluding Yamama Cement) is estimated at 5.3% in FY23 compared to current TASI yield of ~2.3%.
- Dividend yield would be supported by the high payout ratio of above 90%, same as in FY20/21, driven by strong FCF generation by these companies
- Among the stocks under our coverage, we expect Arabian (6.3%), Saudi (5.6%), and Riyadh Cement (5.6%) to generate the highest dividend yields for investors over the current year.

Source: Argaam, Aljazira Capital Research

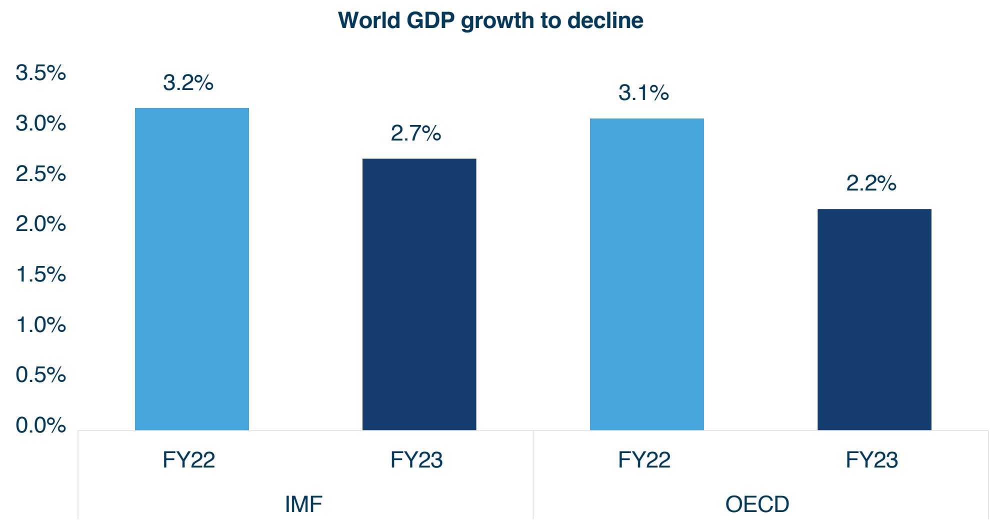
Petrochemicals Sector Outlook

Cautious outlook amid highly uncertain environment



- Petrochemical products as well as feedstock prices were highly volatile in FY22 impacted by oil price movement, macro-economic concerns, supply chain issues and geopolitical tension.
- Overall, there was decline in petrochemical prices. Average prices of PP, HDPE and LDPE in Q4-22 were down 23.2% Y/Y, 20.6% Y/Y and 32.5% Y/Y, respectively. Feedstock naphtha, propane and butane average prices decreased 8.8% Y/Y, 24.9% Y/Y and 23.4%, respectively.
- For Saudi companies, a steeper decline in products was seen compared to feedstock price squeezing their margins.
- We are cautious on the sector for FY23, as the sector will be impacted by the pressure on demand and prices amid anticipated decrease in global economic growth and effect of inflation on end users. However, the impacts would be mitigated by lower shipping costs, easing supply bottlenecks and recent decline in feedstock prices.
- Total net profit for petrochemical companies under our coverage is forecast to fall 26.3% Y/Y in FY23.
- However, we have a positive outlook on specific stocks viz. **SABIC** and **SIPCHEM** based on current valuation and outlook for the product portfolio mix.

Economic growth concerns to weigh on petrochemical demand



Source: ICIS, Aljazira Capital Research

Petrochemical prices declined FY22

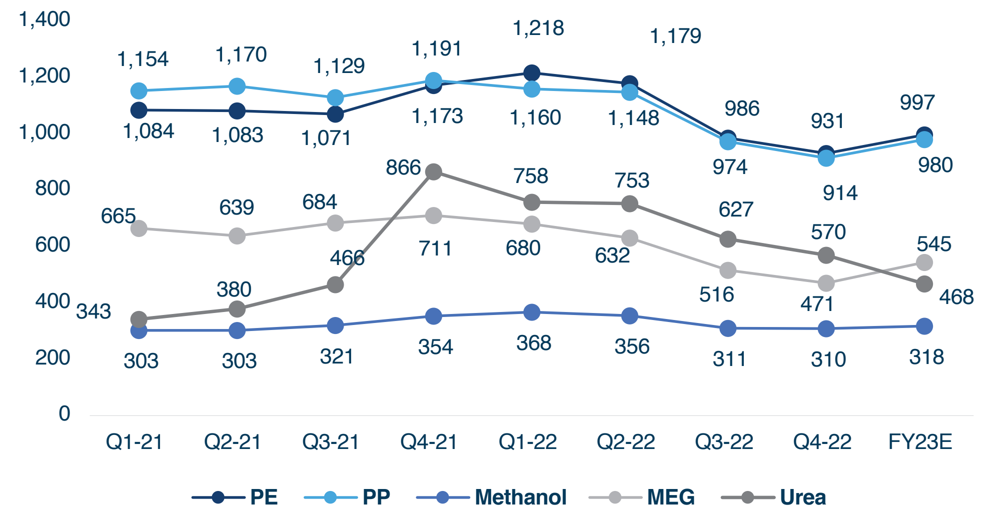
*ICIS Petrochemical Index	M/M	Y/Y
Global Index	-1.1%	-13.9%
NE Asia Index	-0.5%	-13.9%
NW Europe Index	-0.7%	-11.5%
US Gulf Index	-3.5%	-13.0%

*Each index provides a capacity-weighted measure of the average change in global or regional petrochemical prices over time; % change as of December 2022

Petrochemicals Sector Outlook

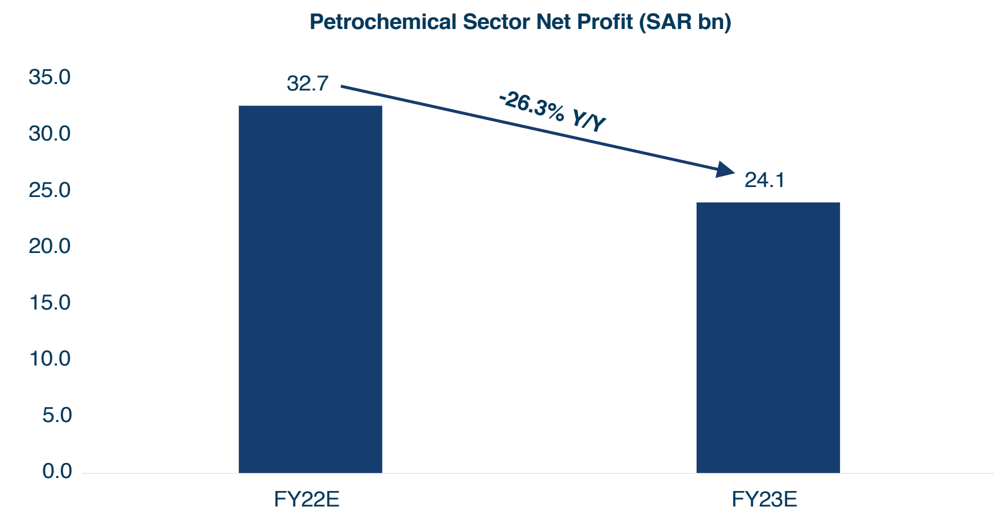
Product prices likely to average lower in FY23 but expected to recover from Q4-22 levels

Key products outlook



- **PE & PP:** Prices are expected to feel pressure from the impact of inflation on consumption and capacity additions.
- **Methanol:** A weak outlook but a gradual recovery expected.
- **MEG:** Prices are likely to recover from the dip in Q4-22 but additional capacity anticipated in Asia would limit the recovery.
- **Urea:** Prices to decline amid subdued demand except from India. Large capacity addition in India would add to the pressure. Natural gas prices will be crucial and potential resumption of European production is amid lower NG prices is another downward risk.

Demand outlook to weigh on earnings; but easing supply chain and lower feedstock price to offer a relief

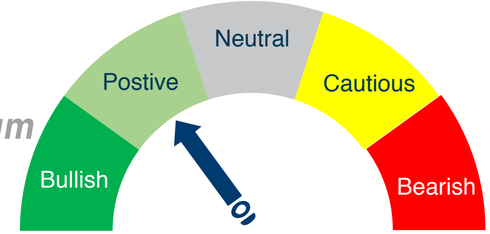


- Demand and pricing pressure due to weaker economic growth is expected to reflect in sales of petrochemical companies, which would ultimately trickle down to profits.
- Total net profit for petrochemical companies under our coverage is forecast to fall 26.3% Y/Y in FY23.
- However, profits will be supported by lower shipping costs, easing supply bottlenecks and recent decline in feedstock prices.
- Relaxing of COVID-19 restrictions in China will a key support, as the country is the largest importer of petrochemicals.

Source: Bloomberg, Aljazira Capital Research

Telecom Sector Outlook

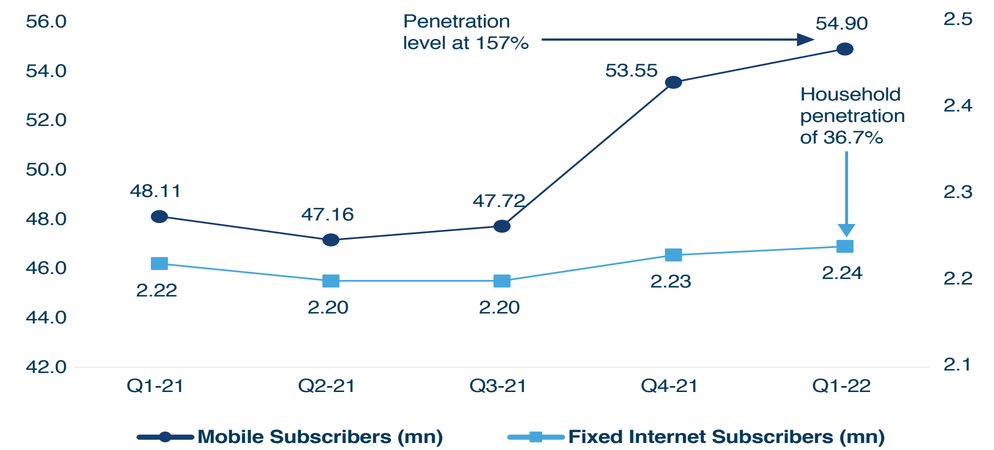
Rising data demand, digitization drive among enterprises and 5G adoption to keep momentum



Sector to remain robust despite global economic headwinds

- Saudi telecom sector is less likely to be impacted by inflation, higher interest rates and recession due to strength in domestic economy.
- We expect B2B business in telecom sector to remain strong amid rising ICT spending by public and private sectors.
- Non-conventional services such as data center services, cloud computing, IoT and ICT services would be key growth areas to target for the operators.
- Consumer segment is expected to be fully get back to normal. However, with entry of new MVNOs competition is expected to rise.
- Availability of 5G devices is expected to lead to increased 5G adoption. This is expected to boost data demand and deliver incremental revenue for telecom players.

Mobile and fixed internet subscription trend in KSA



Mobily and STC are our picks from the sector

- We are positive on **Mobily** and **STC** in the sector.
- Mobily's growth in Business segment with healthy margin, likely gain in market share during FY22 and strong revenue growth are impressive. The company has shown significant growth in FTTH subscribers.
- STC has also delivered strong revenue growth despite the larger base. The company is the leader in terms of investments in modern technologies. These investments are expected generate long term growth for the company. Moreover, the company has established strong subsidiaries.

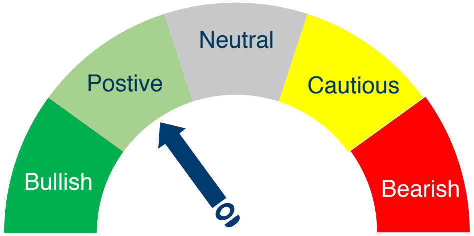
Sector developments that will be under focus in FY23

- Completion of tower sale by Zain KSA and use of proceeds by the company.
- Update on Etisalat Group (e&)'s offer to increase stake in STC above 50% at proposed price of SAR 47.0 per share.
- Update on Etisalat Group (e&)'s offer to increase stake in Mobily above 50% at proposed price of SAR 47.0 per share.

Source: CITC, Aljazira Capital Research

Tourism Sector Outlook

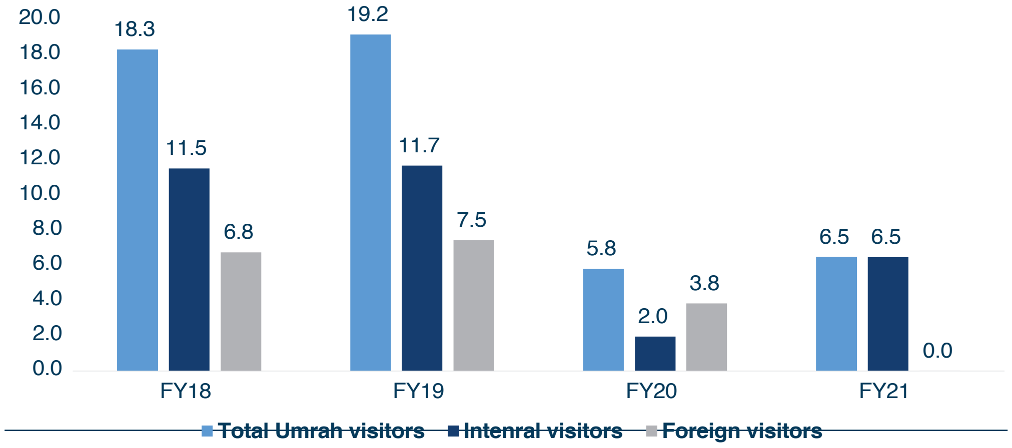
Recovery to continue in FY23, long term prospects remain strong



Religious tourism to reach pre-COVID level

- In January 2023, Ministry of Hajj and Umrah removed cap on number of Hajj pilgrims- a significant increase in religious tourism expected in FY23, which will support growth in tourism related businesses. In current season, 4.0mn Umrah visas are already issued in first 5 months.
- International tourism was slower may continue to feel some pressure due to the impact of inflation, weak economic outlook and risks related to potential rise in COVID-19 cases.
- We expect impact of global factors to be offset by domestic factor, leading to growth in the sector compared to FY22.
- We are positive on **Saudi Catering** in the sector and also see potential in SGS at current valuation and amid healthy long-term prospects.

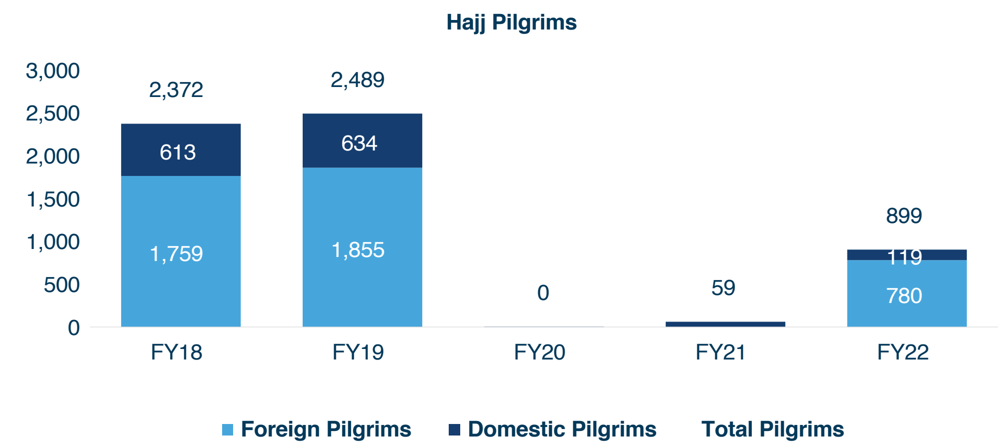
Umrah performers (mn)



Long term growth drivers

- Vision 2030's focus on increasing the contribution of the tourism sector to the GDP to more than 10%.
- A target of 100mn visitors by FY30.
- National Aviation Strategy aims to triple air traffic to 330mn passengers.
- Saudia's planned fleet expansion.
- Airport capacity expansion plans by GACA.
- Launch of second national carrier.

Hajj pilgrims (mn)

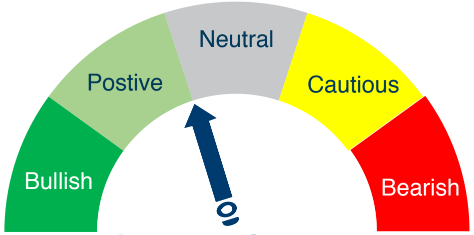


Source: GASTAT, Aljazira Capital Research

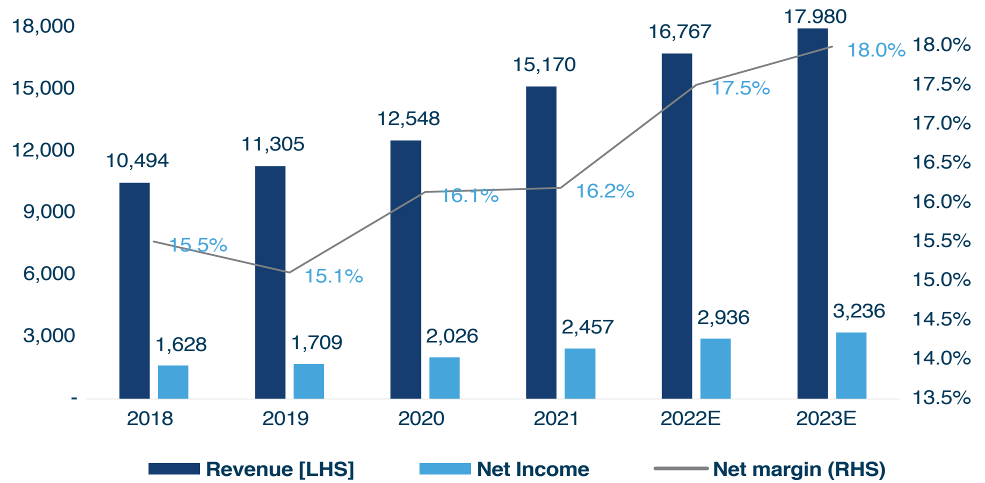
Healthcare Sector Outlook

Displaying pulse readings of growth, price reflects so as well

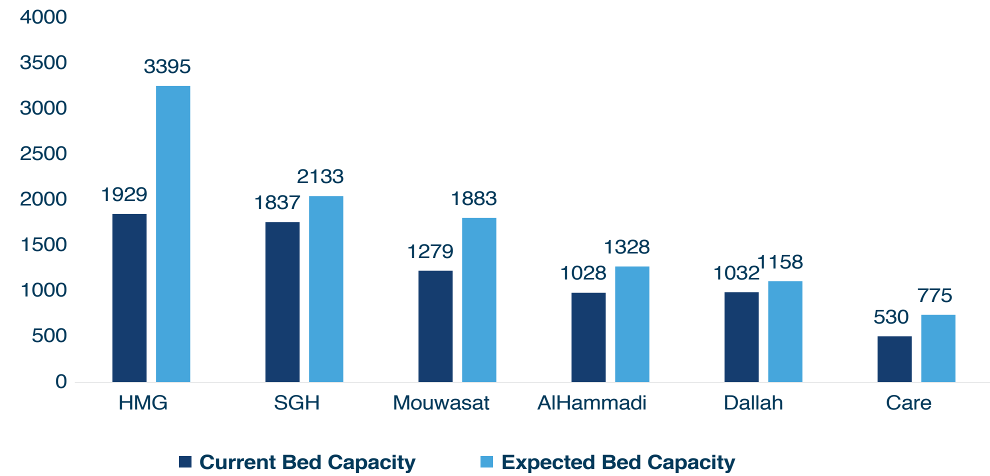
Regulatory re-shaping of the sector drives patient volumes and warrants expansions



Patient volumes expected to continue lifting sectors' revenue growth



Number of beds today, and post expected expansions



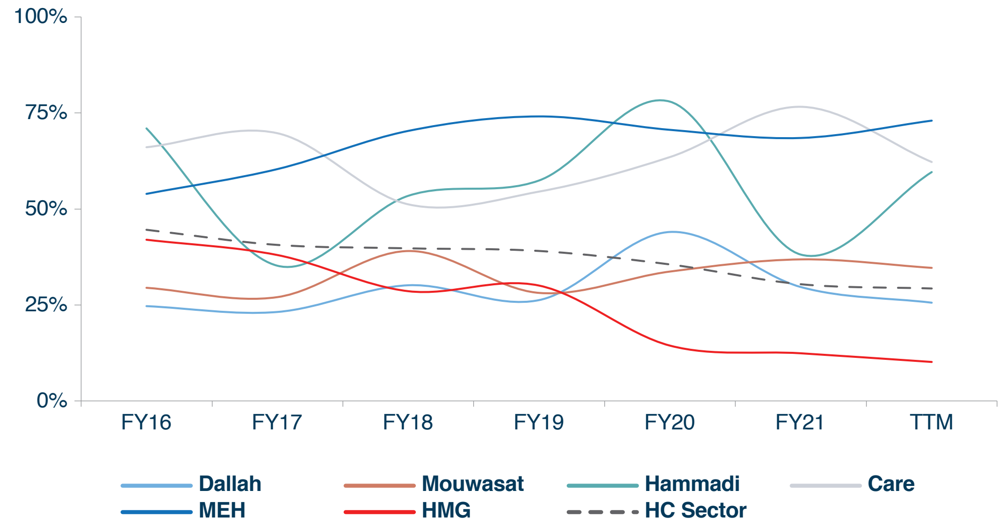
- The healthcare sector continues to expand its capacity in order to service the increasing patient inflow driven by regulatory channeling into the private sector.
- We expect net income to grow by 10.2% in FY23 for the 6 out of 7 covered stocks in the sector, as healthcare providers brace for the bulk of expansions set to kick in the next five years.
- With positive outlooks on the sector, the market seems to reflect the same sentiment onto the 32.4x pricing (median forward P/E), squeezing much of the headroom in upside away. Prior to recent periods, the sector held a median P/E of 24.7x from 2016 to 2019.
- The essential nature of the sector, with fundamental changes acting on its patient inflows, will maintain the sectors' defensive specifications to keep prices buoyant in FY23.

Source: Company reports, Aljazira Capital Research

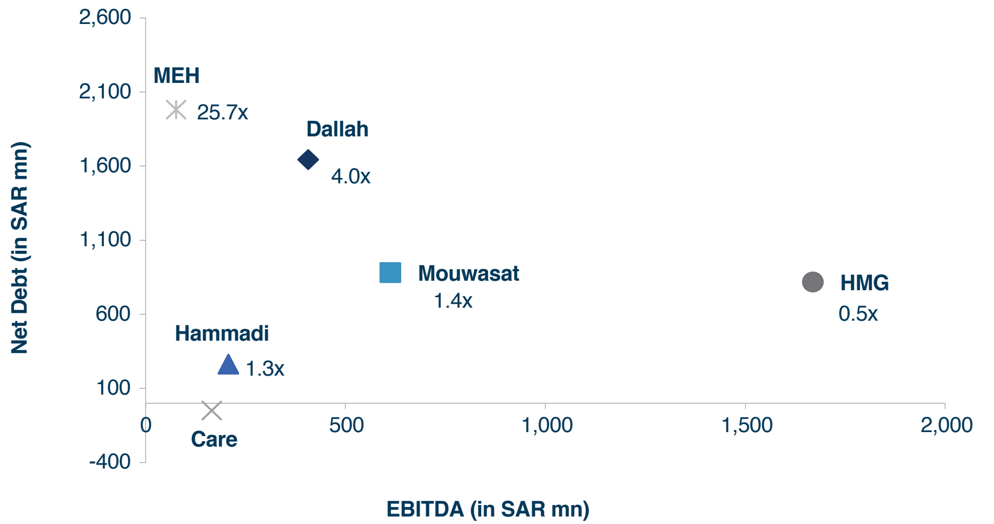
Healthcare Sector Outlook

Receivables management and leverage in the sector remains a concerning gauge to watch

Receivables to sales (%)



Net debt to EBITDA (multiple)

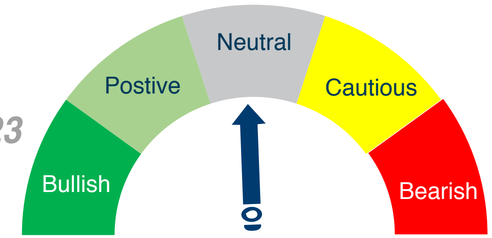


- Receivables management govern the sector, with some healthcare operators (namely Middle East Healthcare and Care) collecting their receivables after almost a little under 300 days into the year.
- There is a theme of shrinking receivable days as more providers migrate their collections process onto the Nafees program. (With the exception of AlHammadi and Middle East Healthcare's worsening collection days).
- Among the most leveraged providers are Dallah and MEH, with MEH having the least in EBITDA (as of TTM). Leverage remains a key tool in the sector as operators are under an expansionary period. Notably, HMG nets its debt off with cash to reach a Net Debt to Equity of nearly 0.

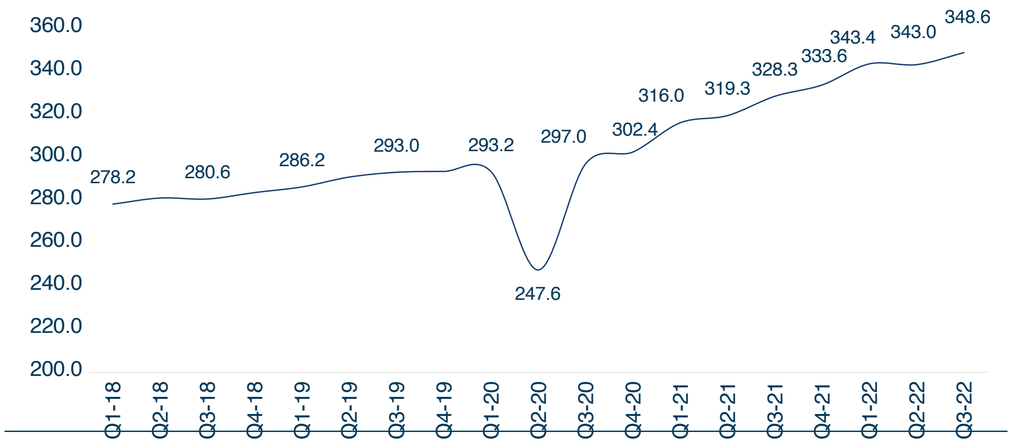
Source: Company reports, Aljazira Capital Research

Retail Sector Outlook

Cost pressures to ease going forward and topline expected to show sign of recovery in H2-23

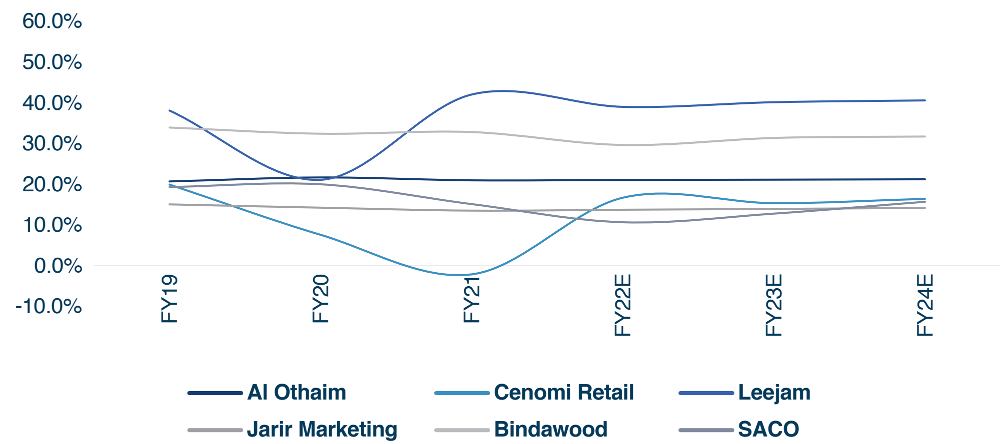


Steady rise depicted in private consumption expenditure (SARbn)



- In Q3-22, private final consumption expenditure increased by 6.2% Y/Y to SAR 348.6bn and consumer sentiment index in Saudi Arabia remained strong at 68.5 in December 2022
- In FY22, some retail companies resorted to promotions and discount-based marketing strategy to outperform competition and attract footfall.
- However, this weighed on the profit margins due to supply disruptions, higher cost of goods sold, and also rising prices impacted consumer's buying behavior and put pressure on consumer wallets.

GP margins expected to gradually expand



- We expect cost pressures to ease with decline in inflation, as well as global shipping costs and easing supply chain knots as China reopened borders which would improve the outlook for fuel demand .
- We foresee a sign of recovery on the top line in the H2-23 supported by an expected slowdown in inflation
- We expect store expansions and higher footfall to support sales of Bindawood and Al Othaim. Leejam is expected to benefit from addition of new fitness centers and increase in member enrollments. Meanwhile, we expect Jarir's topline to be boosted by addition of new stores.

Source: Gastat, Argaam, Reuters,Bloomberg, Aljazira Capital Research

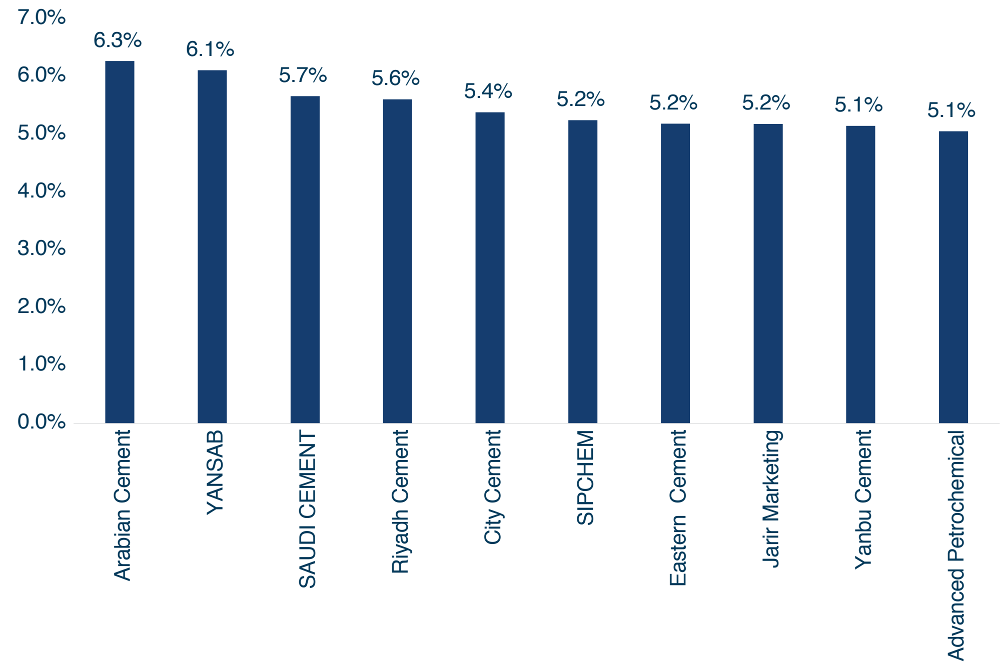
Note: GSCPI- Federal Reserve Bank of New York Global Supply Chain Pressure Index

Top Picks and High Dividend Paying Stocks Under Coverage

Top Picks

Company	TP	Up/Down from CMP
Leejam	112.0	33.3%
Alinma Bank	42.0	30.2%
Seera	23.0	29.2%
Jarir Marketing	194.0	28.1%
SIPCHEM	42.0	25.9%
STC	47.0	24.0%
Catering	91.0	22.3%
Arabian Cement	43.0	19.8%
Yamama Cement	33.0	19.1%
ETIHAD ETISALAT	41.0	18.3%
SABIC	100.0	10.4%

High dividend paying stocks



Source: Tadawul, Aljazira Capital Research

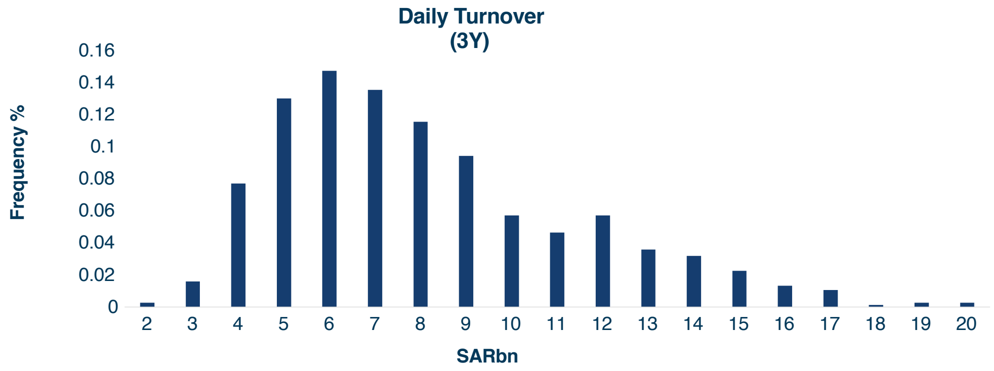
Technical Analysis

TASI set up for a reversal on the price front faces the challenges of a turbulent FY23 to maintain a stance above 9,950 points

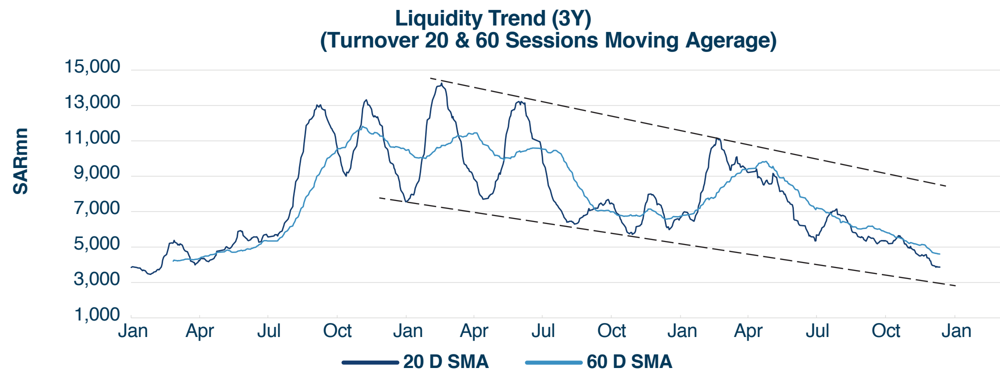
- TASI started to bounce off the lower band of its medium/long-term declining channel, coinciding with the 50 % retracement of the prior long-term up-trend, which began in late March 2020. After developing two consecutive weekly hammer candle patterns, the index cleared its dotted medium-term declining trendline and is currently heading towards the upper band on the channel near the 10,900 / 11,200 zone whereby a decisive weekly close above it will signal the end of the long-term declining correction. An upside target near the of 12,000 / 12,060 zone could then be expected. Moreover, the RSI started to bounce off its Oversold area which added to the bullish evidence. On the other hand, a decisive weekly close below the level of 9,950 will pave the way for further decline toward the 61.80% retracement near the 9,000 level.

Source: Tradingveiw, Tadawul, Aljazira Capital Research

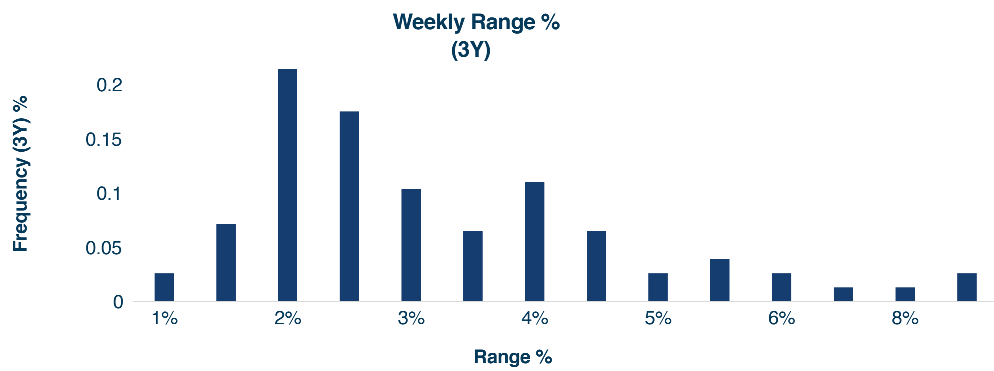
illiquidity plagued the markets of 2022, with no direction but 'up' for next year



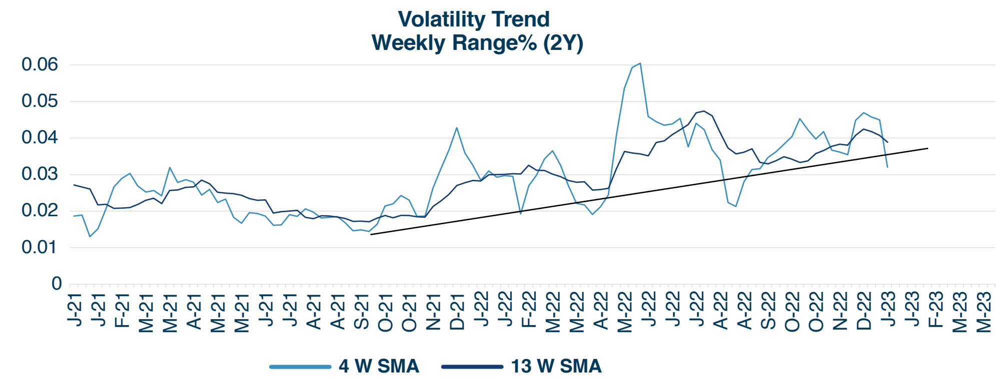
Over the prior three years, the index recorded daily turnovers between SAR 4 – 8bn more than 50% of the time.



The chart above displays that the 20-day SMA of the turnover of TASI is still trending down since the 1st quarter of 2021. However, it is currently approaching its declining support trendline, suggesting that we are near the end of the shallow liquidity period.



Over the prior of three years, the index recorded a weekly spread between 1.50 – 3% more than a third of the time.



The chart above shows that the 13-week SMA of TASI's volatility is still trending up since Oct 2021. Moreover, the current average weekly spread occurs between 3-4%.

Source: Tradingveiw, Tadawul, Aljazira Capital Research

AJC Research Coverage

Ticker	Company Name	Net profit (FY22E, SAR mn)	Net profit (FY23E; SAR mn)	% Change	P/E (FY23E)	ROE (FY23E)	DPS (FY23E; SAR)	DY (%)	Recommendation	TP	Up/down
	Banking										
1120	**Al Rajhi Bank**	17012.9	18508.7	8.8%	16.3	22.0%	3.01	4.0%	**Neutral**	**95.0**	25.8%
1140	**Bank Albilad**	1993.7	2743.9	37.6%	16.1	18.2%	0.69	1.6%	**Neutral**	**49.9**	13.3%
1150	**Alinma Bank**	3714.9	4499.8	21.1%	15.0	16.3%	1.24	3.8%	**Overweight**	**42.0**	30.2%
	Petrochemicals										
2010	**SABIC**	18773.0	15069.0	-19.7%	18.0	10.1%	4.25	4.7%	**Overweight**	**100.0**	10.4%
2020	**SABIC Agri-Nutrients**	9717.6	5507.0	-43.3%	12.34	24.0%	7.00	4.9%	**Neutral**	**166.0**	16.2%
2290	**YANSAB**	522.1	627.2	20.1%	36.5	4.2%	2.50	6.1%	**Neutral**	**45.2**	10.5%
2310	**SIPCHEM**	3605.0	2050.6	-43.1%	11.9	12.4%	1.75	5.2%	**Overweight**	**42.0**	25.9%
2350	**SAUDI KAYAN**	**(1000.60)**	**(56.10)**	-	-	-	-	-	**Neutral**	**14.5**	3.6%
2330	**Advanced Petrochemical**	342.6	379.7	10.8%	29.8	8.8%	2.20	5.1%	**Neutral**	**44.1**	1.4%
2060	**TASNEE**	697.4	482.0	-30.9%	17.5	3.80%	0.00	-	**Neutral**	**14.2**	12.5%
	Cement										
3010	**Arabian Cement**	214.0	254.8	19.1%	14.1	8.9%	2.25	6.3%	**Overweight**	**43.0**	19.8%
3020	**Yamama Cement**	299.9	261.0	-13.0%	21.5	5.8%	0.75	2.7%	**Overweight**	**33.0**	19.1%
3030	**SAUDI CEMENT**	355.4	397.7	11.9%	20.4	17.5%	3.00	5.7%	**Neutral**	**54.5**	2.8%
3040	**Qassim Cement**	137.7	258.7	87.9%	24.8	15.5%	3.00	4.2%	**Underweight**	**61.0**	-14.3%
3050	**Southern Cement**	331.5	360.8	8.8%	20.9	12.0%	2.50	4.6%	**Neutral**	**58.0**	7.4%
3060	**Yanbu Cement**	232.7	329.8	41.7%	18.6	11.7%	2.00	5.1%	**Neutral**	**40.5**	4.2%
3080	**Eastern Cement**	148.8	193.6	30.1%	19.29	8.1%	2.25	5.2%	**Neutral**	**46.0**	6.0%
3003	**City Cement**	94.7	170.2	79.7%	16.8	9.3%	1.10	5.4%	**Neutral**	**22.5**	10.1%
	Telecommunication										
7010	**STC**	12256.8	12906.3	5.3%	14.7	15.3%	1.60	4.2%	**Overweight**	**47.0**	24.0%
7020	**ETIHAD ETISALAT**	1403.4	1539.6	9.7%	17.3	9.2%	1.25	3.6%	**Overweight**	**41.0**	18.3%
7030	**ZAIN KSA**	406.7	726.4	78.6%	12.9	6.5%	-	-	**Neutral**	**12.8**	22.8%

Source: Tadawul, Aljazira Capital Research

AJC Research Coverage

Ticker	Company Name	Net profit (FY22E, SAR mn)	Net profit (FY23E; SAR mn)	% Change	P/E (FY23E)	ROE (FY23E)	DPS (FY23E; SAR)	DY (%)	Recommendation	TP	Up/down
	Miscellaneous										
1211	**Ma'aden**	9802.0	5741.0	-41.4%	30.3	10.9%	-	-	**Neutral**	54.0	-23.7%
2280	**Almarai**	1868.9	2094.1	12.0%	25.0	11.5%	1.00	1.9%	**Neutral**	54.0	4.4%
4260	**Budget Saudi**	264.3	296.8	12.3%	11.1	16.4%	2.00	4.3%	**Neutral**	52.0	12.4%
4261	**Theeb**	177.5	172.9	-2.6%	17.4	22.5%	2.00	2.9%	**Neutral**	72.0	3.0%
4031	**SGS**	-188.6	53.6	NM	High	2.4%	-	-	**Overweight**	28.6	29.8%
6004	**Catering**	200.3	239.2	19.4%	25.5	25.0%	-	-	**Overweight**	91.0	22.3%
4004	**Dallah**	311.0	345.2	11.0%	37.8	15.6%	2.00	1.4%	**Neutral**	117.0	-19.3%
4009	**Middle East Health (Saudi German)**	62.8	75.4	20.0%	32.4	5.8%	0.00	0.0%	**Neutral**	30.0	13.2%
4013	**HMG**	1602.0	1746.2	9.0%	44.5	29.4%	3.63	1.6%	**Neutral**	199.0	-10.4%
4002	**Mouwasat**	554.0	637.1	15.0%	32.2	22.5%	2.50	1.2%	**Neutral**	209.0	2.0%
4005	**Care**	158.5	168.0	6.0%	20.5	14.1%	1.00	1.3%	**Neutral**	73.0	-4.8%
4007	**Al Hammadi**	247.7	263.8	6.5%	27.3	15.5%	0.93	2.1%	**Neutral**	44.5	-1.1%
4001	**Al Othaim***	1040.2	385.0	-63.0%	24.7	16.5%	4.00	3.8%	**Neutral**	131.0	23.8%
4240	**Cenomi Retail****	107.5	111.4	3.6%	16.8	16.2%	-	-	**Neutral**	18.4	12.6%
1830	**Leejam**	227.0	262.5	15.7%	16.8	25.7%	2.00	2.4%	**Overweight**	112.0	33.3%
4190	**Jarir Marketing**	957.7	1046.2	9.2%	17.4	54.3%	7.85	5.2%	**Overweight**	194.0	28.1%
4161	**Bindawood**	77.2	182.7	136.5%	32.2	14.0%	1.15	2.2%	**Neutral**	61.0	18.4%
1810	**Seera**	-82.9	101.5	NM	NM	1.9%	-	-	**Overweight**	23.0	29.2%
4008	**SACO**	-92.5	-40.2	NM	NM	Neg	-	-	**Under review**	-	-

*Al Othaim's net profit includes gain from sale of asset
**Cenomi Retail's financial year end was March
Market prices as of January 08, 2023

Source: Tadawul, Aljazira Capital Research

الجزيرة كابيتال
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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer