Saudi All Industries Sector
All Industries –All Sectors
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الراجحي المالية
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Key themes

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

Saudi Arabian Equities
Q2 2022 earnings preview

We expect the overall outlook for Q2 2022 to be mixed, with high oil prices, and easing restrictions providing a positive impetus, which will be tempered by the global economic slowdown, increasing interest rate, and high input costs. For Petrochemical, we expect the companies to witness pressure on earnings, mainly due to increased feedstock costs amid stable polymer prices, signalling weaker margins in Q2. For cement companies, lower cement volume is likely to put pressure on their financial performance of the companies. The retail sector could see some impact from inflation and increasing interest rates, which is likely to weigh over the discretionary spending capacity and lowering demand. However, this is likely to be offset by better employment numbers and an overall improvement in economic activities. The rise in the number of pilgrims should also aid in keeping the demand strong. As for healthcare, improvement in capacity utilization for two large hospitals, Dallah and Habib, is expected to aid the revenue growth. For the Telecom sector, growth will be driven by the business segment, while the consumer segment growth is likely to be modest. For the Food sector, increasing product prices and declining input costs are likely to aid in improving margins for the rest of the year.

Petrochemicals

We expect most of the petrochemical companies (except SABIC) under our coverage to witness a decline in earnings sequentially in Q2 2022, weighed down by higher feedstock costs (mainly NGLs) amid stable polymer prices. Average oil prices rose ~14% q-o-q in Q2 2022, mainly due to tight supply amid healthy demand. Despite a double-digit rise in oil prices, key polymer product prices (LDPE, HDPE, PP, and PS), on average, increased at a relatively slower pace (low to mid-single-digit rise) sequentially. Meanwhile, MTBE and VAM prices surged 11-24% q-o-q in Q2. However, other key products such as Polycarbonate, MEG, and Methanol, dropped in the range of 4-8% q-o-q. On the other hand, Propane (with 1-month lag: +16% q-o-q) and Butane (with a 1-month lag; +22% q-o-q) increased sharply on higher oil prices, while Naphtha prices largely remained stable. Overall, we expect lower product spreads and margins for the sector in Q2 2022.

Among our petchem coverage, APPC, Yansab, and Sipchem are likely to witness pressure on earnings, mainly due to higher feedstock costs, while SABIC AN's earnings may decline owing to lower-top-line on likely shutdowns at Al Baytar plants (18 days shutdown at its Ammonia plant and 14 days shutdown at its Urea plant in H2 as per the board report) in Q2 2022. However, rising Fuel Gas, MTBE, and Styrene prices may support SABIC's top-line while stable Naphtha prices are likely to boost its earnings.

Retail

The retail sector is expected to show moderate improvement in its 2Q numbers on a Y-o-Y basis considering the overall improvement in economic activity. Notable factors in support include the post-Covid-19 normalcy and better employment data, especially female participation. The sector experienced some conflicting elements at play as inflation continued to rise which resulted in more stringent monetary policy. Given the sensitivity of the sector to the discretionary spending capacity of individuals, these factors are likely to have some impact. Consumer durables demand may be impacted as consumer finance gets expensive impacting Extra. Improvement in Hajj pilgrim numbers bodes well for supermarkets like Bindawood and Al Othaim. Increased female participation in the labor force and back to school should reflect in better numbers for Leejam and Jarir.

Cement sector

For the first two months of Q2 2022, cement volumes have fallen by 12% y-o-y, at the back of lower construction activity, and we expect the performance to continue to remain weak for the rest of the quarter. Average realized prices during Q1 2022 declined by 13% y-o-y, though they recovered by 8% q-o-q. Going forward, we expect the prices to remain weak, due to the slowdown in demand, though they are likely to stabilise at the current levels. Based on our estimates, the companies under our coverage are expected to report a 25% y-o-y fall in revenue in Q2, with lower volumes and cement prices putting pressure on the performance.

Telecoms

On the back of strong growth in the business segment, we expect telecom revenues to rise by 7.7% y-o-y to 23.2bn. Earnings will slightly improve from 3.1bn in the 2Q21 to 3.53bn in the 2Q22 (13.7%). We believe the positive trends seen in Q1 2022 such as strong growth in the business segment, expanding FTTH services, and modest growth in the consumer segment would continue in Q2 2022.

Food sector

The food sector faced some challenges in the 2Q, as prices of main input costs surged. Corn prices rose by 29% (YTD), soybean surged by 26% and wheat also jumped by 12% mainly due to drought in many agricultural areas, soaring fertilizers prices, and the Russian-Ukrainian war. However, the companies increased their selling prices to offset the input cost pressure. On the back of higher selling prices and the recent decline in the prices of many commodities from their peak, the margins in the food sector should improve in the coming quarters. However, we believe the margin improvement will not be broad-based as companies in the restaurant sector would face difficulty passing the higher cost to end-users because of the intense competition, while others are more able to pass to end users like poultry firms (Tanmiah, Almarai). With Haji season expected to witness nearly 1 million pilgrims this year, a positive impact will be seen for many companies during 2Q.

Healthcare sector

For Q2 2022, we expect revenues on average for the companies under our coverage to increase by c.6% y-o-y, aided by an improvement in the capacity utilization for two large hospitals, Dallah (Namar) and Habib (Khobar). Dallah's revenue is expected to grow by 16% y-o-y, driven by improved utilization of its facilities, especially Namar. Al Habib's revenue is expected to grow by 6% y-o-y, aided by improved utilization of the Khobar facility, while Mouwasat's revenue is expected to improve by 4%, aided by contribution from its recently opened Dammam facility and better pricing. Al Hamadi's revenue is expected to grow by 2% y-o-y, aided by better revenue per patient, while National Medical Care Company's (NMCC) revenue is expected to fall by 2% y-o-y on the back of weaker utilization.

Insurance sector

We continue to believe the topline for the sector will remain strong, especially in the medical insurance segment driven by higher pricing as well as ongoing growth in the insured lives. In terms of loss ratios, we assume some improvement compared to Q1 2022 aided by price hikes in the medical insurance and normalization post the unusually high loss ratio for motor in Q1 2022. However, compared to the same period last year (Q2 2020), we assume higher loss ratios on the full reopening of the economy. Our net profit (before Zakat) growth estimate for Bupa is 5.6% and for Tawuniya it is +8.1% y-o-y.

Others

Bawan: Strong steel prices to aid revenue growth, though pressure on margins to impact profitability.

SISCO: Volumes to gradually improve, however, margins are likely to continue to be lower.

Saudi Ceramics: Lower gross margins to put pressure on the financial performance.

Leejam: Better employment data with higher female participation along with back to school should aid in members growth.

Aldrees: Opening of new stations and ramp-up of previously opened stations to support top-line growth.

Al Yamamah Steel: Lower volumes is likely to impact financial performance.

Al Moammar Information Systems (MIS): Profitability to be in line with Q1 levels.

Arabian Internet and Communications (Solutions): Performance to remain strong aided by strong order execution.

Jahez: Performance to remain strong aided by growth in users.

Saudi market: Q2 estimates of the companies we cover

	Revenues (SAR mn)					Net Profit (SAR mn)				
Company	2021Q2A	2022Q1A	2022Q2E	YOY % chg.	QOQ % chg.	2021Q2A	2022Q1A	2022Q2E	YOY % chg.	QOQ % chg.
Petrochemical										
SABIC	42,419	52,642	57,322	35.1%	8.9%	7,643	6,475	7,604	-0.5%	17.4%
	SABIC' is likely to witness a rise in earnings sequentially, primarily aided by higher top-line and better margins.									
Sipchem	2,363	2,409	2,583	9.3%	7.2%	830	1,079	1,025	23.5%	-5.0%
	Earnings are likely to come under pressure sequentially, due to higher costs amid the planned shutdown at the IAC plants									
SABIC Agri-Nutrients	1,839	4,657	4,278	132.6%	-8.1%	836	2,513	2,189	161.8%	-12.9%
	Lower Urea prices and sales volume due to planned shutdown at Al Baytar plant may impact earnings sequentially in Q2.									
Yansab	1,983	1,971	2,083	5.0%	5.7%	596	283	224	-62.4%	-20.8%
	Higher feedstock costs to impact Q2 earnings.									
APCC	769	866	878	14.3%	1.4%	266	164	113	-57.4%	-31.2%
	Top-line is likely to remain mostly flat, while bottom-line is expected to decline on higher Propane prices.									
Petrochemical Sector	**49,373**	**62,546**	**67,144**	**36.0%**	**7.4%**	**10,171**	**10,514**	**11,155**	**9.7%**	**6.1%**
Cement										
Arabian Cement	233	259	188	-19.5%	-27.7%	34	42	20	-40.7%	-52.6%
	Financial performance to be impacted by lower cement volume									
Yamama Cement	203	222	197	-2.9%	-11.2%	78	30	64	-17.4%	116.6%
	Lower cement prices to impact financial performance									
Saudi Cement	348	315	268	-23.1%	-15.1%	86	61	42	-51.1%	-30.8%
	Lower cement volume and prices to impact financial performance									
Qassim Cement	198	142	126	-36.4%	-11.7%	100	25	35	-65.5%	37.7%
	Lower cement volume and realization, though prices have recovered q-o-q , to impact revenue and profitability									
Yanbu Cement	243	242	190	-21.6%	-21.2%	41	39	26	-36.1%	-32.0%
	Lower volume and production stoppage due to maintenance to impact profitability									
Southern Cement	287	330	217	-24.4%	-34.2%	95	87	46	-51.6%	-47.1%
	Lower cement volume to impact profitability									
Najran Cement	132	140	98	-25.4%	-29.9%	33	23	10	-69.3%	-56.8%
	Lower cement volume to impact revenue and profitability									
Riyadh Cement^	401	270	250	-37.8%	-7.4%	160	51	57	-64.7%	10.4%
	Lower cement volume and prices, though realization have recovered on a q-o-q, to impact financial performance									
Cement Sector	**2,045**	**1,919**	**1,533**	**-25.0%**	**-20.1%**	**627**	**358**	**300**	**-52.2%**	**-16.2%**
Telecom										
STC	15,899	16,991	17,020	7.1%	0.2%	2,821	3,035	3,069	8.8%	1.1%
	The Enterprise to continued lifting STC topline while other segments are will grow at a lower pace.									
Mobily	3,728	3,811	3,959	6.2%	3.9%	244	319	376	54.4%	18.1%
	Improving subscribers base and a great exposure to Haji season									
Zain KSA	1,896	2,179	2,198	16.0%	0.9%	42	81	88	110.4%	8.9%
	Net profit to keep improving.									
Telecom Sector	**21,522**	**22,981**	**23,177**	**7.7%**	**0.9%**	**3,107**	**3,434**	**3,533**	**13.7%**	**2.9%**
Food & Agriculture										
Almarai	4,006	4,503	4,630	15.6%	2.8%	490	423	433	-11.7%	2.4%
	Price increase likely to increase sales as cost are at a high level.									
SADAFCO*	492	628	603	22.6%	-3.9%	38	63	66	73.1%	4.8%
	Strong ice cream sales, while milk slightly fell after Ramadan.									
Savola	5,901	7,489	7,290	23.5%	-2.7%	200	271	179	-10.5%	-33.9%
	Rise in the prices of commodity will impact margins									
Herfy	321	328	348	8.3%	6.0%	27	28	26	-4.4%	-10.2%
	Passing increment in cost to end consumer could be challenging owing to high competition									
Tanmiah food	367	435	485	32.4%	11.4%	3	2	14	318.0%	826.7%
	Growth mainly coming from price and secondly from volume.									
Food & Agri. Sector	**11,087**	**13,384**	**13,356**	**20.5%**	**-0.2%**	**758**	**786**	**717**	**-5.4%**	**-8.8%**

Saudi market: Q2 estimates of the companies we cover

Company	Revenues (SAR mn) 2021Q2A	2022Q1A	2022Q2E	YOY % chg.	QOQ % chg.	Net Profit (SAR mn) 2021Q2A	2022Q1A	2022Q2E	YOY % chg.	QOQ % chg.
Retail										
Jarir	2,015	2,287	1,897	-5.9%	-17.0%	189	251	194	2.5%	-22.8%
	Post Covid-19 normalcy and Back to School and price hikes to improve profitability, albeit marginally									
AlOthaim	2,171	2,462	2,315	6.6%	-6.0%	48	91	59	23.1%	-35.4%
	Inflation to reflect in the top line owing to price increases, also better footfall is expected given higher pilgrim numbers									
Extra	1,329	1,412	1,369	3.0%	-3.0%	100	98	108	7.5%	10.8%
	Consumer durables demand may lower due to higher consumer finance cost amid rising rate environment									
BinDawood Holding	1,123	1,175	1,163	3.6%	-1.0%	95	65	78	-18.3%	18.5%
	Improvement expected on the back of higher footfall, especially given improved numbers of Hajj pilgrims.									
Retail Sector	**6,638**	**7,336**	**6,744**	**1.6%**	**-8.1%**	**433**	**506**	**439**	**1.4%**	**-13.2%**
Healthcare										
Dallah	491	609	570	16.2%	-6.4%	48	83	71	50.2%	-13.6%
	Growth to be driven by improvement in utilization, especially Namar. Sharp jump in profitability is due to breakeven at Namar.									
Mouwasat	527	567	546	3.6%	-3.8%	141	150	139	-1.8%	-7.6%
	Revenue growth to be aided by by contribution from its recently opened Dammam facility and better pricing, though margins are expected to fall slightly on capacity addition.									
NMCC	202	211	197	-2.5%	-6.6%	31	30	28	-8.8%	-6.5%
	Lower utilization to impact both revenue and profitability									
Al Hammadi	223	251	227	1.8%	-9.3%	40	62	50	24.3%	-19.1%
	Performance to be aided by higher revenue per patient									
Sulaiman Al Habib	1,751	1,991	1,856	6.0%	-6.8%	325	391	356	9.4%	-8.8%
	Performance to be aided by improvement in utilization of Khobar hospital									
Healthcare Sector	**3,195**	**3,630**	**3,397**	**6.3%**	**-6.4%**	**585**	**715**	**644**	**10.1%**	**-9.9%**
Other										
Bupa Arabia***	2,570	4,222	3,084	20.0%	-27.0%	334	138	352	5.6%	155.3%
	Earnings (pre-tax) growth to be driven by increased pricing as well as ongoing recovery in expats' insured lives segment.									
Tawuniya***	2,265	3,507	2,705	19.4%	-22.9%	166	41	179	8.1%	332.4%
	Pre-tax earnings to grow driven mainly by higher GWP. On QoQ basis, we expect improvement in the loss ratio.									
Leejam Sports	222	232	240	8.2%	3.6%	51	46	45	-11.6%	-2.2%
	Better employment data with higher female participation along with back to school should aid in members growth									
Saudi Ceramics	356	396	363	2.1%	-8.3%	63	51	40	-36.3%	-21.3%
	Lower margins to impact financial performance									
Aramco	312,353	467,003	559,102	79.0%	19.7%	90,902	142,012	164,821	81.3%	16.1%
	Top-line and bottom-line are likely to increase sequentially, supported by higher oil prices and sales volume.									
SISCO	252	213	224	-11.0%	5.5%	22	1	2	-93.0%	102.8%
	Volumes to gradually improve, however, margins are likely to continue to be lower.									
Aldrees	2,173	2,780	2,894	33.2%	4.1%	36	62	59	64.7%	-5.2%
	Opening of new stations and ramp-up of previously opened stations to support top-line growth.									
Bawan Company	789	950	928	17.7%	-2.4%	43	50	44	2.4%	-12.3%
	Pressure on gross margins to impact profitability									
MIS ^^	NM	106.6	94.0	NM	-11.8%	NM	4.6	4.7	NM	2.0%
	Profitability to be in line with Q1 levels									
Solutions	1,937	2,418	2,111	9.0%	-12.7%	256	283	270	5.5%	-4.4%
	Performance to be aided by order execution									
Jahez^	486	734	634	30.3%	-13.7%	29	88	48	67.6%	-45.5%
	Growth in users to aid in performance									
Al Yamamah Steel **	406	448	471	16.2%	5.1%	65	35	34	-47.6%	-3.1%
	Lower gross margins to impact profitability									

** SADAFCO follows April-Mar financial year. ^ Financials are for half yearly. ** Yamamah Steel follows Oct-Sep financial year. ^^ Q2 2021 data are not comparable due to restated data. *** Considered pre-tax net profilt for the insurance companies.*

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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