Saudi Aramco

Oil & Gas
ARAMCO AB: Saudi Arabia
15 May 2023

US$2.175trn	9.81%	US$187.19mn
Market Cap	Free Float	Avg. Daily Volume

Target price	34.50	2.2% above current
Current price	33.70	as at 14/05/2023

Existing rating

Underweight | **Neutral** | Overweight

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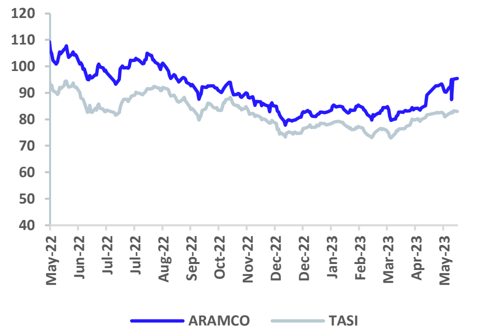
Performance(Rebased to 100)



Earnings

SAR(bn)	2022A	2023E	2024E
Revenue	2,007	1,655	1,803
Y-o-Y	49.0%	-17.5%	9.0%
Operating income	1,144	966	1,103
Operating margin	57.0%	58.4%	61.2%
Net Profit	597	510	562
Net Margin	29.8%	30.8%	31.2%
EPS (SAR)	2.47	2.11	2.32
DPS (SAR)	1.17	1.21	1.21
Payout ratio	47.5%	57.4%	52.1%
Dividend Yield	3.8%	3.6%	3.6%
P/E (Current)	13.6x	16.0x	14.5x
P/E (Target)	14.0x	16.4x	14.8x

Source: Company data, Al Rajhi Capital.

Saudi Aramco

TP maintained at SAR34.5/sh, lower risk from oil prices

Aramco's Q1 earnings came in line with expectations, driven by lower hydrocarbon production (-9.9% q-o-q). The company has declared a dividend of SAR0.3024/sh for Q1 2023, ~4% higher than the dividend declared for Q4 2022 albeit lower earnings and headwinds in the oil market. The company reported Q1 2023 FCF of US$30.9bn. Further, the gearing ratio improved to -10.3% as of Mar 2023 versus -7.9% as of Dec 2022.

We believe that at the back of lower production, Aramco's earnings may continue to be under pressure for 2023. The crude oil prices declined steeply by ~17% y-o-y and by ~8% q-o-q at the back of global slowdown, higher inflation levels and the doom in the global economy. Nonetheless, we expect the oil market fundamentals to remain healthy, driven by OPEC+ active role in maintaining the oil market balance by way of production curbs. Furthermore, we continue to remain positive on the company, mainly due to its i) healthy balance sheet besides and strong operating cash flow which can sustain high levels of capex, ii) well defined long-term expansion outlook with a capex guidance of ~$45-55bn, iii) upcoming development of Al-Jafurah gas field which shall be a shale gas play, iv) intention to increase its oil production capacity to 13mmbpd by 2027 and v) strategic expansion in its downstream business by way of inorganic growth opportunities. Moreover, the recent announcement by the company on sharing the upside with investors reiterates the confidence in exogenous factors and the efficiency of production. However, in our view it would be a little too early to assess the declaration of the performance-linked dividend owing to the current production cut even though oil prices may show resilience. In our view things shall be more clear in ongoing quarters. Overall, post Q1 2023 earnings, we revise our estimates, resulting in a TP of SAR34.5/sh (SAR34.5/sh earlier).

Figure 1 **Q1 2023 Earnings**

(SAR bn)	Q1 2023	Q1 2023	Q1 2023	ARC Est.	Cons Est.	y-o-y	q-o-q	vs ARC	vs Cons
Revenue	460	487	517	458	425	-11.0%	-5.6%	0.4%	8.3%
Op. costs	-238	-246	-239	-215	NA	-0.6%	-3.2%	10.4%	*NM*
Op. Profit	**222**	**242**	**278**	**243**	**NA**	**-20.0%**	**-8.1%**	**-8.4%**	***NM***
Op. margin	*48.3%*	*49.6%*	*53.7%*	*53.0%*	*NA*				
Net Profit*	**120**	**115**	**148**	**120**	**125**	**-19.2%**	**3.7%**	**-0.2%**	**-4.4%**
Net margin	*26.0%*	*23.7%*	*28.6%*	*26.2%*	*29.5%*				

Source: Company data, Al Rajhi Capital

Q1 2023 results: Top-line decreased ~5.6% q-o-q to ~SAR460bn, in line with our estimates of SAR458bn. Weaker hydrocarbon production at 12.8mmboed vis a vis 14.4mmboed coupled with a fall in oil prices lead to lower revenues. However, operating profit missed our estimate, due to higher-than-expected operating expenses. Nevertheless, net income (before minority) was reported at ~SAR120bn, in line with our estimates of SAR120bn (consensus: SAR125bn)

Valuations: For 2023, we expect the quarterly run rate of dividend to be in with the current level of base dividend as of Q1 2023. The dividends can potentially increase more given the company's intention to bring forward a mechanism for performance linked dividend in addition to the base dividend, given its strong FCF and financial positions. We believe the company is driven by longer-term goals and is likely to exhibit resilience and stability. To capture this potential growth, we use the DCF valuation method (9.1% cost of equity; 8% WACC), implying a TP of SAR34.5/sh (SAR34.5/sh earlier), and a Neutral rating on the stock.

Risks: The key downside risk to our valuation is a steep surge in interest rates which looks unlikely at this point. Other downside risk factors to our estimates are lower-than-expected dividends, geo-political tensions, downside in oil prices, and further slowdown in the global economy.

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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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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