



US\$1.835trn Market cap
1.78% Free float
US\$83.8mn Avg. daily volume

Target price **35.00** +1.7% over current
Current price **34.40** as of 03/11/2020

Existing rating

Underweight Neutral **Overweight**

Earnings

| (SARbn) | 2019 | 2020E | 2021E |
|------------------|--------|--------|--------|
| Revenue | 1,106 | 775 | 1,021 |
| Y-o-Y | -6.5% | -29.9% | 31.7% |
| Operating profit | 675 | 390 | 491 |
| Operating margin | 61.0% | 50.3% | 48.1% |
| Net profit | 331 | 188 | 244 |
| Y-o-Y | -20.5% | -43.1% | 29.6% |
| Net margin | 29.9% | 24.3% | 23.9% |
| EPS (SAR) | 1.65 | 0.94 | 1.22 |
| DPS (SAR) | 1.37 | 1.40 | 1.40 |
| Payout ratio | 83.0% | 148.8% | 114.8% |
| Dividend yield | 4.0% | 4.1% | 4.1% |
| P/E (Curr) | 20.8x | 36.6x | 28.2x |
| P/E (Target) | 21.2x | 37.2x | 28.7x |

Source: Company data, Al Rajhi Capital

Mazen Al-Sudairi
Tel +966 11 836 5468
alsudairim@alrajhi-capital.com

Pritish Devassy, CFA
Tel +966 11 836 5464
devassyp@alrajhi-capital.com

Saudi Aramco

Resilient despite market volatility

Aramco continued to maintain its quarterly dividends in Q3 even as global IOC peers are expected to cut dividends. This has been reflected in the share prices of big IOCs which have declined 40-50% YTD while Aramco's share price has remained mostly resilient (Figure 2). Aramco's Q3 net income was up 80% q-o-q (still down 45% y-o-y) beating consensus estimates. Despite the lower demand amid the economic slowdown, Aramco improved its FCF to US\$12.4bn in Q3 helped by lower settlement of income/other taxes/zakat. This, along with its low leverage ratios and borrowing, helped the company in maintaining its quarterly dividends at US\$18.75bn (SAR0.35 per share) for Q3, in-line with our expectation and its annual dividend commitment of at-least US\$75bn till 2024. We remain positive on the company, given its ability to maintain dividends backed by healthy FCF generation (as long as it remains over ~US\$1.3bn, which is the payment to non-government shareholders based on 1.78% free float), optimization of its capex program, and healthy balance sheet. We reiterate our target price of SAR35/share, which is based on a 4% dividend yield on DPS of SAR1.4/sh. Please click [here](#) for our detailed valuation report.

Figure 1 Aramco's Q3 2020 results

| (SAR bn) | Q3 2020 | Q3 2019 | Y-o-Y | Q2 2020 | Q-o-Q | ARC est | vs ARC |
|------------------------------|---------|---------|--------|---------|-------|---------|--------|
| Revenue | 200 | 266 | -24.8% | 123 | 62.3% | 214 | -6.6% |
| Operating costs | (104) | (101) | | (70) | | (109) | -4.2% |
| Operating profit | 96 | 165 | -41.9% | 53 | 80.9% | 106 | -9.0% |
| Operating margin | 48.0% | 62.1% | | 43.1% | | 49.3% | |
| Net profit (before minority) | 44 | 80 | -44.6% | 25 | 79.6% | 50 | -11.1% |
| Net margin | 22.1% | 30.0% | | 20.0% | | 23.2% | |

Source: Company data, Al Rajhi Capital

Q3 results: Aramco's Q3 top-line reported at ~SAR200bn, slightly below our expectation, primarily due to marginally lower-than-expected crude sales volume (8.5mmb/d vs. 8.7mmb/d forecasted). However, total operating costs came in slightly below our expectations, capping the miss at the operating level (in absolute numbers). Accordingly, net income (before minority) reported at SAR44mn, missing our estimate.

On track to meet its annual commitment despite the challenging market conditions: For Q3 2020, the company has declared a total ordinary dividend of US\$18.75bn/SAR70.32bn (SAR0.3518/share; in-line with our expectation). For 2020, the company is committed to distributing at-least SAR281bn (US\$75bn) dividend, implying a dividend yield of ~4.1% based on the current price.

SABIC fully consolidated in Aramco's downstream segment: Post-acquisition of 70% equity interest in SABIC on June 16, 2020, Q3 is the first full quarter, in which Aramco fully consolidated SABIC's financials in its downstream segment. The company also said that the company's integration with petchem giant is on track and is expected to create value across the hydrocarbon chain. However, despite the inclusion of SABIC financials, which posted SAR2.1bn EBIT last week, Aramco's downstream segment has swung to losses with an EBIT loss of ~SAR3bn, implying continuous weakness in its refining and chemical business.



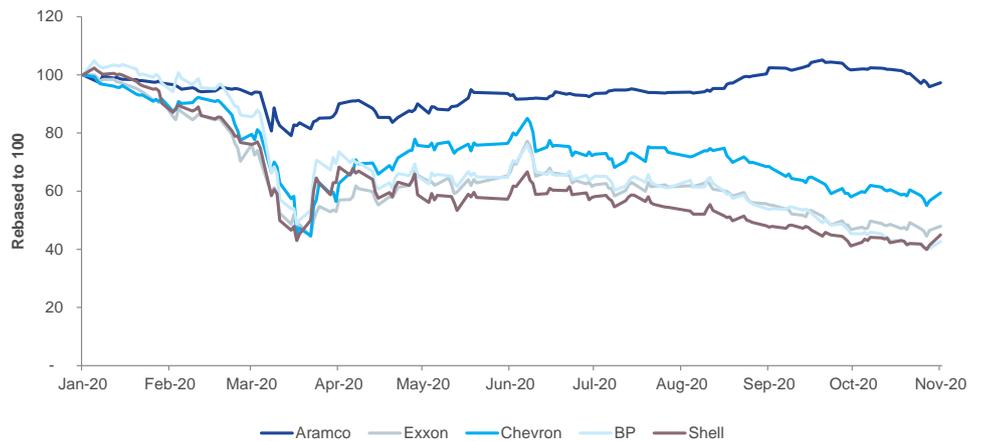
Q3 operational data

- Total hydrocarbon production for the first nine months of 2020 was 12.4 mmoed, including an average crude oil production of 9.2 mmbpd. Achieved a record daily natural gas production of 10.7bscfd from both conventional and unconventional fields on 6 August 2020
- Reliability: 100% (97.3% Q3 2019)
- Gross refining capacity: 6.4mmbpd (5.4mmbpd as of Sep 2019)
- Average realized crude price: US\$43.6/bbl (US\$62.4/bbl in Q2 2020); observed no discount to benchmark prices.
- Gearing ratio: 21.8% (20.1% in Q2 2020); significantly above its targeted gearing ratio of 5-15%, which could be due to SABIC's acquisition.
- ROACE: 14.8% (17.4% in Q2 2020).

Capex: Q3 capex remained at SAR23.9bn (~US\$6.4bn). We note that the company has earlier reiterated its capex guidance range at US\$25-30bn (9M capex: SAR20bn; prior guidance at the time of IPO: US\$35-40bn including SABIC) for 2020 due to challenging oil market volatility and the COVID-19 outbreak.

Aramco may not conduct its Q3 earnings call, as announced earlier. The next earnings call would be conducted for FY 2020 results.

Figure 2 Share price-performance: Aramco vs. Big IOCs



Source: Bloomberg, Al Rajhi Capital

Valuation: Despite showing multiple methods for valuing the company in our initiation ([Dividend haven. Initiate at US\\$2trn](#)), we used the required dividend yield (4%) method for valuing Aramco given the "soft guarantee" of dividends (SAR1.4/share). Consequently, our TP stands at SAR35/sh., implying a Neutral rating based on the current market price. We view Aramco more like a bond and hence value it unconventionally. This dividend arrangement is similar to the Saudi Electricity Company (SECO).

Risks: Key downside risk to our valuation is a 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, delay in recovery in oil prices, and further slowdown in the global economy.



IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, nor misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

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

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

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

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

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi
Head of Research
Tel: +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.