

US\$2.270trn	5.81%	US\$58.92mn
Market cap	Free float	Avg. daily volume

Target price **42.00** +8.5% over current
Current price **38.70** as of 28/08/2022

Research Department
Mazen AlSudairi, CFA
Tel +966 11 836 5468, alsudairim@alrajhi-capital.com

Existing rating

Underweight **Neutral** **Overweight**

Earnings

(SARbn)	2021	2022E	2023E
Revenue	1,347	2,076	2,039
Y-o-Y	75.4%	54.1%	-1.8%
Operating profit	772	1,209	1,198
Operating margin	57.3%	58.3%	58.7%
Net profit	395	638	591
Y-o-Y	113.7%	61.4%	-7.4%
Net margin	29.3%	30.7%	29.0%
EPS (SAR)	1.80	2.90	2.69
DPS (SAR)	1.27	1.28	1.28
Payout ratio	70.8%	44.1%	47.6%
Dividend yield	3.3%	3.3%	3.3%
P/E (Curr)	21.5x	13.3x	14.4x
P/E (Target)	23.4x	14.5x	15.6x

Source: Company data, Al Rajhi Capital.

Saudi Aramco

Q2: In-line operating performance; Remain Neutral

Aramco reported record quarterly earnings since its IPO in 2019 (slightly above our and consensus estimates), aided by higher oil prices (+16% q-o-q), increased hydrocarbon production (+2% q-o-q) and better refining margins. The company generated FCF of US\$34.6bn in Q2 2022 (vs. US\$30.6bn in Q1 2022; significantly above the dividends of US\$18.8bn), driven by increased operating cash flows. Further, the gearing ratio improved to 7.9% as on June 30, 2022 (within its target of 5-15%) from 14.2% as on Dec 31, 2021, providing enough room to increase the spending (US\$40-50bn capex guidance for 2022 vs US\$31.9bn in 2021) and further deleveraging its financial position.

We see Q2 record performance as an exception and may not be repeated in the near term, given the slowdown in the global economy amid rising inflation, lower demand (particularly in China amid the lockdown), and easing geopolitical tensions. Average oil prices are already down by ~9% so far in Q3 and are likely to remain below the Q2 2022 level. However, total hydrocarbon production is expected to increase by ~4% q-o-q in Q3, aided by an ongoing ramp-up in production amid the OPEC+ agreement. Overall, we expect Aramco to witness a slight decline in earnings in Q3. However, the medium to long-term outlook remains positive, driven by i) healthy demand, ii) an increase in MSC from 12mmbd to 13mmbd by 2027, iii) higher gas production (+50% by 2030) iv) a robust balance sheet. Despite rising production, the company's upstream carbon intensity (targeting 15% reduction by 2035) still remains low compared to its major global peers. The stock currently offers a dividend yield of 3.3%, which will continue to provide support to the share price. We remain Neutral on Aramco with a TP of SAR42/sh.

Figure 1 Aramco's Q2 2022 results

(SAR bn)	Q2 2022	Q2 2022	Q2 2021	Q2 2020	ARC Est.	Cons Est.	q-o-q	y-o-y	% ch vs 2020	vs ARC	vs Cons
Revenue	562.1	467.0	312.4	123.2	559.1	578.1	20.4%	79.9%	356.1%	0.5%	-2.8%
Op. costs	(237.6)	(189.3)	(133.2)	53.1	(233.9)	NA	25.5%	78.3%	-547.5%	1.6%	NM
Op. profit	324.5	277.7	179.1	53.1	325.2	NA	16.8%	81.2%	511.2%	-0.2%	NM
Op. margin	57.7%	59.5%	57.3%	43.1%	58.2%	NA					
Net profit	181.6	148.0	95.5	24.6	171.3	170.7	22.7%	90.3%	637.7%	6.0%	6.4%
Net margin	32.3%	31.7%	30.6%	20.0%	30.6%	29.5%					

Source: Company data, Al Rajhi Capital

Q2 results. Top-line increased ~20% q-o-q to ~SAR562bn, in line with our estimate (SAR559bn) but slightly lower than the consensus (SAR578bn) estimate. The sequential growth was mainly driven by higher oil prices and increased sales volume. Further, as expected, production costs were up by 25.5% q-o-q, resulting in a largely in-line operating profit. During the quarter, the company witnessed an improvement in the share of results of JVs and associates as well as generated higher finance and other income – both were higher-than-expected. Accordingly, net income (before minority) was reported at ~SAR182bn, above our estimate of SAR171bn (consensus: SAR171bn).

Valuation. For 2022, we expect the company to maintain DPS at SAR1.28, although it can potentially/gradually increase it further. This is because 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 and keep our TP unchanged at SAR42/sh., implying a Neutral rating.



Risks. The 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, 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.



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, CFA
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.