Saudi All Industries Sector
All Industries –All Sectors
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Key themes

As Q4 ended, we present revenue and bottom-line estimates for companies under our coverage in various sectors.

Saudi Arabian Equities
Q4 2022 earnings preview

The overall outlook for Q4 2022 earnings is mixed, with a few sectors witnessing pressure on earnings due to lower topline and an increase in operating and finance expenses. On the other hand, a few of them, food, insurance, healthcare, etc. would continue to maintain their positive trend supported by growth in topline. For the petrochemical and energy sectors, we expect most companies to continue to witness pressure on earnings sequentially, mainly due to lower product prices amid a weak demand outlook. The retail sector is expected to face pressure on margins owing to higher rates, changes in customer behaviour, and inflationary pressures. Telecom sector performance is expected to be mixed given the higher rates pressuring the enterprise segment growth (although still at attractive levels). The food sector is expected to report healthy growth in earnings on the back of higher prices and healthy volumes but would be partially offset by higher interest rates pressuring the bottom line. Further, we expect a recovery in the performance of the construction sector, especially cement companies, aided by improved prices on a y-o-y basis. We also expect hospital operators' performance to be positive, aided by double-digit revenue growth from most of the companies under our coverage. Moreover, we expect insurance companies to benefit from improved pricing.

Petrochemicals

The Saudi petrochemical sector is likely to continue witnessing pressure on earnings in Q4, due to weak product spreads amid lower product prices. Oil prices continued to decline for the second consecutive quarter, weighed down by lower oil demand amid the slowdown of global economic activities. The recent manufacturing PMI data also indicates the global economic slowdown, with the JPM Mfg PMI remaining below 50 for the third straight month in Nov 2022. The last time when we saw the PMI data below 50 was in 2019-20, the demand and petchem prices were tremendously under pressure. Hence the rising fears of the global recession imply a likely lower demand for petrochemical products and thereby impacting prices. Accordingly, key polymer product prices (LDPE, HDPE, PP, and PS), on average, remained under pressure in Q4, down in the range of 6-16% sequentially. The prices of other key products, VAM, MTBE, and MEG, also declined by 35% q-o-q, 9%, and 7%, respectively. On the other hand, Naphtha, a key feedstock for SABIC, dropped by 4%, while Propane (1-month lag), and Butane (1-month lag) prices were also down by 14-16% q-o-q. Overall, we expect lower product prices amid weak demand to lower product spreads, signaling a possible decline in margins for the sector in Q4 2022. Consequently, the earnings of all the petchem companies under our coverage are likely to remain under pressure in Q4.

Retail

In Q3, the demand in the retail sector was still strong, despite pressures arising from inflation and other activities, which showed that the retail portion of consumer spending was not largely affected. Most of the retailers reported positive top-line growth numbers in Q3. Some retailers also managed to sustain the level of earnings despite the increase in operating expenses due to shipping costs and Saudization. In the last few months, shipping costs have started declining, which we believe will support companies' earnings next year.

When it comes to consumer spending, the last report by SAMA showed growth in POS transactions, reflecting strong demand in the economy.

Leejam: The company is expected to record profits of SAR71.5mn in Q4 2022 as opposed to SAR85.9mn in Q4 2021, down by 17% y-o-y. We expect the revenue to increase by 4% y-o-y, but gross profit to decline by 13% y-o-y on the back of shrinkage in gross margin by 6.1pps to 32.2%. The anticipated decline in margins can mainly be attributed to the ramp-up in costs due to the addition of new centers as well as pricing pressure from changing customer behavior.

Jahez: The company is forecasted to record profits of SAR91.0mn in H2 2022, up 3% y-o-y. The company is expected to record revenues of SAR1,062mn as opposed to SAR734.4mn during the same period last year. However, a rise in operating expenses, as well as finance costs, is likely to squeeze the net profit margins to 8.6% as against 12.0% during Q4 2021.

Construction

For the first two months of Q4 2022, cement volumes have increased by 6% y-o-y, aided by an improvement in construction activity, though the companies in our segment have shown mixed performance. We expect the pricing scenario of cement companies to have improved in Q4 2022, especially on a y-o-y basis, which is likely to aid in the financial performance of cement companies. However, non-cement companies under our coverage could face pressure on margins, due to a higher base on a y-o-y basis. Overall, based on our estimates, the companies under our coverage are expected to report an 18% y-o-y increase in revenue in Q4, aided by an improved pricing scenario, which is likely to also aid in growth in profitability.

Telecoms

In Q3 2022, the telecom sector saw some major events. STC announced the sale of a 51% stake in its tower company to PIF, generating roughly SAR11bn in cash. Another important event is the continued deceleration seen in the enterprise segment. STC's enterprise segment y-o-y growth in Q3 was 12.4%, down from 15.9% in Q2. Similarly, Mobily's enterprise segment had y-o-y growth in Q3 and Q2 of 6.7% and 5.9%, respectively. Going forward, and especially with the increasing interest rate, we should expect the enterprise segment's growth to slow down. Also, an important event is the SAIBOR level and its impact on companies next year. We believe Zain will be most negatively affected by high interest, followed by Mobily and then STC.

Food

The recent decline in the FAO index is giving some hope for the beginning of food prices relief. The FAO index has been range-bound for the last few months (August-November). The index fell 15% from its peak in March 2022 but is still 38% higher than 2020 and 43% higher than 2019. The increase in prices impacted food producers last year, forcing them to raise product prices to offset the increase in input costs. Overall, based on our analysis, we expect companies under our coverage in the food sector to report normal to good results, except for Savola due to its size and the probability of a one-time impairment charge.

Healthcare

Q4 is seasonally a strong quarter for the healthcare sector. We estimate a topline growth of 11% y-o-y and 8% q-o-q mainly led by low double-digit growth by most of the hospital operators. Among all the names, Care, that has surprised us in recent quarters, could maintain the positive growth trend supported by improved utilization and higher patient flows led by GOSI. For Mouwasat and Dallah, we see cost pressure as well as higher finance expenses to offset the benefits of 10% growth in the topline. We also expect the absence of certain one-off gains seen in Q4 2021 to weigh in on the y-o-y profitability growth of Dallah. For Hammadi, we estimate a mid-single digit growth in topline, while sharp improvement in profitability on the back of lower provisions versus last year as well as better gross margins. For Habib, we believe the company will continue to improve its market share in the eastern region through its Khobar hospital. Moreover, we also estimate a slight improvement in its margins.

Insurance

The ongoing price hikes in the two major segments of the industry (primarily on the back of inflation and other aspects) medical as well as motor, have helped both Bupa and Tawuniya to manage their loss ratios despite rising pressure from the claims, especially in the medical side. We expect the price hikes taken in both medical and motor should help both Bupa and Tawuniya to aid their growth profile. Overall, based on our estimates, the companies under our coverage are expected to report a 26% y-o-y increase in GWP in Q4, aided by an improved pricing scenario, which is likely to also aid in growth in profitability.

Energy

Aramco: Oil prices, despite the OPEC+ production cut deal, declined by around 9% q-o-q in Q4, largely impacted by a weak demand outlook amid the likely economic slowdown (mainly in DMs). Further, China's "Zero Covid Policy" dampened the market sentiments, pressurizing oil prices. Accordingly, lower oil production amid the OPEC+ production cut deal, coupled with weak oil prices, may impact Aramco's earnings sequentially in Q4.

Aldrees: Q4 2022 net income is expected to clock in at SAR 63.2mn as opposed to SAR 54.1mn in Q4 2021, up 17% y-o-y. The expected growth in profitability can be attributed to 1) an increase in the number of stations (up 16% y-o-y), and 2) an 11% y-o-y increase in throughput/station. Resultantly, the top line for the company is expected to grow by 31% y-o-y to SAR 3,423mn. We expect gross profit margins to be at 4.7% while net profit margins to register at 1.8%.

Information and Technology (IT)

MIS: Q4 2022 profitability is expected to increase by 40% y-o-y to SAR26.3mn as against SAR18.8mn in Q4 2021. Revenue is expected to grow by 27% y-o-y driven by one-off development fees from data center units. However, adjusting for the data center revenues, we expect the topline to fall marginally y-o-y.

Solutions: Arabian Internet and Communications (Solutions) is likely to record profits of SAR174mn in Q4 2022 as against SAR114mn in Q4 2021. The top line is expected to grow at 6% y-o-y while we expect gross margins to remain flattish y-o-y. We expect operating expenses to remain at lower levels y-o-y, increasing the net margin to 8.0% vs 5.6% in 4Q 2021.

Utility

AWPT: We expect Alkhorayef Water and Power Technologies (AWPT) to record a profit of SAR36.6mn in Q4 2022, representing an increase of 13% y-o-y. In the 4Q, we expect the top line to grow by 69% y-o-y to SAR276.5mn on the back of increased backlog recognition as new projects for the company continue to swell. Gross profit is likely to clock in at SAR63.4mn resulting in gross margins of 23%, a drop of 1.3pps y-o-y. Due to the rise in interest rates, coupled with an increase in debt levels for the company, the finance cost is set to increase. Despite an increase in net profits for the year, we expect net profit margins to come under pressure (13.2% vs 19.8% in the prior quarter last year) due to burgeoning finance costs.

Media

AlArabia: Arabian contracting services (Al Arabia) is likely to record a profit of SAR85mn in Q4 2022, up by 21% y-o-y. The top line for the company is set to grow by 50% y-o-y to SAR339mn led by an increase in digital faces. At the gross levels, Al Arabia is likely to record a profit of SAR138mn representing margins of 40.7% as against 47.5% in Q4 2021.

Saudi market: Q4 estimates of the companies we cover

	Revenues (SAR mn)					Net Profit (SAR mn)				
Company	2021Q4A	2022Q3A	2022Q4E	YOY % chg.	QOQ % chg.	2021Q4A	2022Q3A	2022Q4E	YOY % chg.	QOQ % chg.
Petrochemical										
SABIC	51,276	46,868	42,279	-17.5%	-9.8%	4,934	1,836	1,730	-64.9%	-5.8%
	Weak product prices to impact SABIC's earnings sequentially in Q4									
Sipchem	3,083	2,939	2,425	-21.3%	-17.5%	1,321	774	503	-61.9%	-35.1%
	Sipchem is likely to witness a decline in earnings sequentially, primarily due to lower top-line and margins.									
SABIC Agri-Nutrients	4,040	4,417	3,909	-3.2%	-11.5%	2,764	2,331	1,959	-29.1%	-16.0%
	Lower Urea prices may impact earnings sequentially in Q4.									
Yansab	1,922	1,595	1,470	-23.5%	-7.9%	335	(61)	(15)	NM	75.1%
	Yansab is expected to continue incurring losses in Q4, due to lower prices and weak margins									
APCC	905	657	600	-33.7%	-8.6%	161	27	24	-85.3%	-12.6%
	Q4 earnings are likely to be impacted sequentially by lower PP prices and higher operating expenses.									
Petrochemical Sector	**61,226**	**56,476**	**50,684**	**-17.2%**	**-10.3%**	**9,514**	**4,907**	**4,199**	**-55.9%**	**-14.4%**
Construction										
Arabian Cement	256	241	251	-2.0%	4.2%	23	59	62	165.8%	5.1%
	Improved cement prices and margins to aid in profit growth									
Yamama Cement	182	253	361	97.8%	42.4%	(12)	101	152	NM	49.7%
	Higher average realization to aid financial performance									
Saudi Cement	327	328	407	24.1%	23.9%	67	81	123	82.5%	52.5%
	Improved prices and volumes to aid in financial performance									
Qassim Cement	131	167	220	67.8%	32.2%	34	23	60	78.2%	157.3%
	Improved cement prices to aid in financial performance									
Yanbu Cement	191	262	244	27.5%	-7.0%	10	69	61	518.6%	-11.9%
	Improved cement volumes and prices to aid revenue and profitability									
Southern Cement	328	323	345	4.9%	6.6%	88	89	95	8.4%	7.6%
	Higher clinker sales and improved margins to aid in financial performance									
Najran Cement	140	128	163	16.9%	27.9%	36	28	42	15.6%	49.4%
	Improved volumes to aid in financial performance									
Riyadh Cement^	270	259	340	26.1%	31.5%	51	85	137	167.5%	61.2%
	Improved cement prices to aid revenue and profitability growth									
Bawan	849	882	896	5.5%	1.6%	45	38	39	-11.7%	3.3%
	Margins to continue to remain under pressure, though it is likely to improve sequentially									
Saudi Ceramics	378	367	365	-3.5%	-0.4%	47	43	44	-6.1%	3.5%
	Preassure on prices and cost of materials to impact financial performance									
Construction Sector	**3,053**	**3,209**	**3,591**	**17.6%**	**11.9%**	**389**	**616**	**816**	**109.5%**	**32.4%**
Telecom										
STC	16,087	16,468	16,719	3.9%	1.5%	2,614	3,541	2,718	4.0%	-23.2%
	STC is expected to grow earnings by 4% in Q4									
Mobily	3,897	3,828	3,980	2.1%	4.0%	321	373	368	14.8%	-1.2%
	We expect Mobily to record strong bottom line growth due to the strong growth witnessed last year.									
Zain KSA	2,083	2,287	2,352	12.9%	2.9%	49	85	103	111.1%	20.6%
	Zain showed improvement in perfromance, earnigns increase is attributed to the adjustment for the depreciation expense									
Telecom Sector	**22,068**	**22,582**	**23,051**	**4.5%**	**2.1%**	**2,983**	**3,999**	**3,189**	**6.9%**	**-20.3%**

** Follows April-Mar financial year. *** Considered pre-tax net profit for the insurance companies, ^ Six-month financials, ^^Q4 2021 aided by one-off gains.*

Saudi market: Q4 estimates of the companies we cover

	Revenues (SAR mn)					Net Profit (SAR mn)				
Company	**2021Q4A**	**2022Q3A**	**2022Q4E**	**YOY % chg.**	**QOQ % chg.**	**2021Q4A**	**2022Q3A**	**2022Q4E**	**YOY % chg.**	**QOQ % chg.**
Food & Agriculture										
Almarai	4,257	4,769	4,855	14.0%	1.8%	290	475	512	76.6%	7.8%
	Prices increase to offset the increase in input prices and other related costs									
SADAFCO*	519,905	694,490	652,863	25.6%	-6.0%	55	86	75	36.6%	-13.4%
	Inflation driving the growth and with better competitive landscape									
Savola	6,757	7,072	7,240	7.2%	2.4%	(216)	202	117	NM	-41.9%
	We expect Savola to record Impairment charge this Quarter but lower than 2021. Also, Interest is pressuring bottom line.									
Herfy	329	310	320	-2.8%	3.3%	49	21	22	-55.5%	3.3%
	Herfy to show slight improvement in earnigns QoQ due to improvement in margins									
Tanmiah food	415	560	573	38.3%	2.5%	(12)	32	33	NM	5.0%
	Higher volume will boost earnings in Q4. However, higher interest expense will impact bottom-line.									
Food & Agri. Sector	**531,663**	**707,201**	**665,852**	**25.2%**	**-5.8%**	**165**	**816**	**759**	**359.5%**	**-7.0%**
Retail										
Jarir	2,318	2,517	2,468	6.4%	-2.0%	304	274	278	-8.7%	1.4%
	Due to higher OPEX , Jarir earnings will likely decline in Q4									
Alhokair*	1,466	1,373	1,481	1.0%	7.9%	15	22	15	0.2%	-31.2%
	The saudization is impacting the Cenomi's EBIT.									
AlOthaim	2,138	2,348	2,437	14.0%	3.8%	155	744	155	0.4%	-79.2%
	Alothaim revenue expected to be 13% up while earnings suffer from increase of operating costs									
Extra	1,767	1,373	1,465	-17.1%	6.7%	119	94	104	-12.3%	10.4%
	The decline in both revenue and earnings is due to shifting the campaign from Q4 to Q2 this year.									
BinDawood Holding	1,057	1,183	1,163	10.0%	-1.7%	13	(48)	23	73.5%	NM
	Bin Dawood is taking some corrective actions which we expect Q4 to be better than Q3.									
Leejam	261	264	271	4.0%	2.7%	86	68	72	-16.7%	5.1%
	Company's expansion of new stores and ramp up costs from the same are likely to put pressure on operating margins									
Jahez^	734	778	1,062	44.5%	36.5%	88	53	91	3.0%	71.0%
	Increase in number of orders to aid revenue growth, though margins are likely to come under pressure on a y-o-y basis									
Retail Sector	**9,743**	**9,835**	**10,347**	**6.2%**	**5.2%**	**780**	**1,208**	**737**	**-5.5%**	**-38.9%**
Healthcare										
Dallah^^	576	601	632	9.7%	5.1%	109	44	81	-25.1%	85.3%
	Improvement in utilisation level to aid profits. However, higher interest costs to offset some of the benefits.									
Mouwasat	552	549	613	10.9%	11.5%	147	122	146	-0.7%	19.5%
	Topline to be supported by new facilities, while higher operating expenses and financial expenses to impact profitability									
NMCC	216	238	246	14.2%	3.3%	37	43	46	24.0%	6.8%
	Increased patient flow and efficiency measures to support profit growth									
Al Hammadi	282	247	300	6.2%	21.4%	11	57	71	562.9%	23.8%
	Improved utilisation in Suwaidi to aid topline. Last year's numbers were impacted by impairment of goodwill.									
Sulaiman Al Habib	1,968	2,052	2,203	12.0%	7.4%	384	421	440	14.8%	4.7%
	Improvement in the performance of Suweidi and Khobar to aid in revenue and profitability growth									
Healthcare Sector	**3,594**	**3,687**	**3,993**	**11.1%**	**8.3%**	**687**	**686**	**784**	**14.2%**	**14.2%**

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Insurance										
Bupa Arabia***	2,101	4,176	2,521	20.0%	-39.6%	(11)	400	63	NM	-84.2%
	Higher growth from GWP to offset pressure from rising loss ratios									
Tawuniya***	3,168	2,921	4,117	30.0%	41.0%	13	138	50	271.0%	-63.8%
	Diversified business exposure and better pricing in medical as well as motor to aid profitability									
Insurance Sector	**5,269**	**7,097**	**6,639**	**26.0%**	**-6.5%**	**3**	**538**	**113**	**NM**	**-78.9%**
Energy										
Aramco	403,413	543,712	479,574	18.9%	-11.8%	116,639	156,068	146,224	25.4%	-6.3%
	Top-line and bottom-line are likely to decline sequentially, mainly due to weak oil prices and lower sales volume.									
Aldrees	2,620	3,256	3,423	30.6%	5.1%	54	62	63	16.8%	2.4%
	Opening of new stations and ramp up of previously opened stations to drive top-line growth.									
Energy Sector	**406,033**	**546,968**	**482,998**	**19.0%**	**-11.7%**	**116,693**	**156,130**	**146,287**	**25.4%**	**-6.3%**
IT										
MIS	175	199	222	26.5%	11.5%	19	25	26	39.7%	4.9%
	Data center operations to aid in financial performance									
Solutions	2,060	2,227	2,183	5.9%	-2.0%	114	300	174	51.7%	-42.1%
	Strong order execution to keep financial performance strong, though sesonality to impact q-o-q performance									
IT Sector	**2,236**	**2,426**	**2,404**	**7.5%**	**-0.9%**	**133**	**325**	**200**	**50.0%**	**-38.5%**
Utility										
AWPT	163	194	276	69.4%	42.9%	32	28	37	13.2%	30.1%
	Higher backlog recognition would boost the topline as new projects for the company continue to swell.									
Media										
ALARABIA	226	258	339	50.0%	31.4%	71	66	85	20.6%	29.3%
	Improvement in occupancy and number of faces to aid financial performance									

* *Follows April-Mar financial year. *** Considered pre-tax net profit for the insurance companies, ^ Six-month financials, ^^Q4 2021 aided by one-off gains.*

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"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.

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