

Saudi Arabian Oil Co. (SAUDI ARAMCO)

Hormuz Disruption: Does the Price Gain Offset the Volume Loss?

Saudi Aramco's crude production has declined from 10.9mbpd pre-disruption to an estimated 8-9mbpd, reflecting the curtailment of heavier offshore grades that cannot be fully redirected through the East-West system. Current westbound flows are concentrated in Arab Light, with Yanbu loadings running at approximately 2.7-2.9mbpd in early March and continuing to ramp up. While Saudi Arabia retains the largest operational bypass capacity in the region, the offset remains partial due to grade compatibility constraints, tanker repositioning requirements, and west-coast loading limits. Against this backdrop, we revise our 2026 Brent assumption to USD 79/bbl from USD 63/bbl, while keeping 2027 broadly unchanged at USD 70/bbl, reflecting tighter prompt balances in 2026 but gradual normalization thereafter. Average production for 2026 has been revised down from 10.29 mbpd to 9.3 mbpd. The net effect is that our 2026E net income estimate increases to USD 98.3bn from USD 92.7bn, as the higher oil-price assumption more than offsets lower average production. The stock currently offers ~7% upside on our 12-month target price of SAR 28.6/sh and 2026E dividend yield of ~5%. Maintain BUY.

Aramco's production loss and remaining export capacity

Aramco produced 10.9mbpd of total liquids in Feb'26, with 10.1mbpd supplied to the market based on OPEC secondary sources, reflecting a pre-war contingency ramp-up at a time when Brent was still around USD 72/bbl.

In March, Aramco reportedly reduced production to about 8mbpd. The reduction is concentrated in offshore fields of Safaniyah, Zuluf, Marjan, and Abu Safa (Reuters, 9 March and 13 March), which together account for more than 2mbpd of mainly heavy and medium-heavy crude. These grades cannot be efficiently carried through the East-West pipeline, which primarily handles Arab Light and some Arab Extra Light. Although the management has framed it as a grade reallocation rather than an involuntary cut, it remains an operational downgrade.

East-West pipeline and Yanbu export capacity

The East-West pipeline normally carries around 5mbpd of crude, but effective capacity can rise to 7mbpd when parallel NGL lines are converted for crude service. Of this, ~2mbpd feeds western domestic refineries, leaving ~5mbpd available for crude exports via Yanbu. It takes 4-10 days for additional crude injected at Abqaiq to physically arrive at Yanbu. Current throughput is being supported by the use of drag-reducing agents (DRAs), which enhance flow efficiency and allow higher effective utilization of the system. Pre-crisis throughput was approximately 2.8mbpd as per the CEO, and by the second week of March, the system was reaching its full capacity.

The major binding constraint remains Yanbu port. The port's loadings have ramped up with Reuters shipping data showing crude loadings on course for a record 3.8mbpd in March (month-to-date average 2.6mbpd, versus 1.4mbpd in February and 1.3mbpd in January). However, Yanbu has never sustained more than 2.5mbpd historically, and its observed monthly peak was just 1.7mbpd in April 2024 (Kpler). The port has two crude terminals, seven berths, and a theoretical handling capacity of >4.5mbpd, 1.5mbpd at Yanbu North and 3mbpd at Yanbu South, but this has never been tested at scale. Aramco has also supplemented volumes through spot cargo sales from Yanbu, including a 2mn bbl Arab Light cargo offered in mid-March.

Rating Summary

Recommendation	BUY
2026 YE target price	29
Upside/(downside)	6.6%

Stock Details

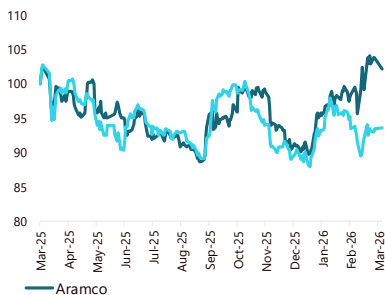
Last Close	26.82
Market Cap (bn)	6,490
Shares O/S (mn)	242,000
52-week high/low	27.16/23.13
Price change (YTD)	13%
Reuters/Bloomberg	2222.SE/ARAMCO AB

SAR bn	2025 A	2026 E	2027 E
Revenue	1,559	1,646	1,602
Operating Profit	707	726	735
Net Profit	348	368	371
EPS (SAR)	1.44	1.52	1.53
DPS (SAR)	1.32	1.36	1.41
Brent (USD/bbl)	68	79	70
Crude Production (Kbpd)	9,451	9,317	10,291

Ratios

Operating Margin	44%	41%	43%
Net Debt/EBITDA	0.1	0.2	0.1
Dividend yield	5.22%	5.06%	5.28%
P/E	17.6	17.6	17.5

Aramco vs. TASI (rebased)



Asmar H. Shams, CFA

+966 (11) 282 6676

ashams@bsfcapital.sa



The bypass works, but with limits

The Red Sea corridor preserves a substantial share of Aramco's export capability, but three constraints remain.

1. The route serves only lighter grades, the heavy and medium-heavy barrels from Safaniyah, Zuluf, Manifa, and Marjan remain stranded regardless of pipeline throughput.
2. The system is operating well above historical norms and is dependent on sustained high operational intensity.
3. The bypass is itself now exposed to direct escalation risk. On 19th March, a drone struck the SAMREF refinery in Yanbu, briefly halting loadings before operations resumed with initial reports indicating only minimal damage.

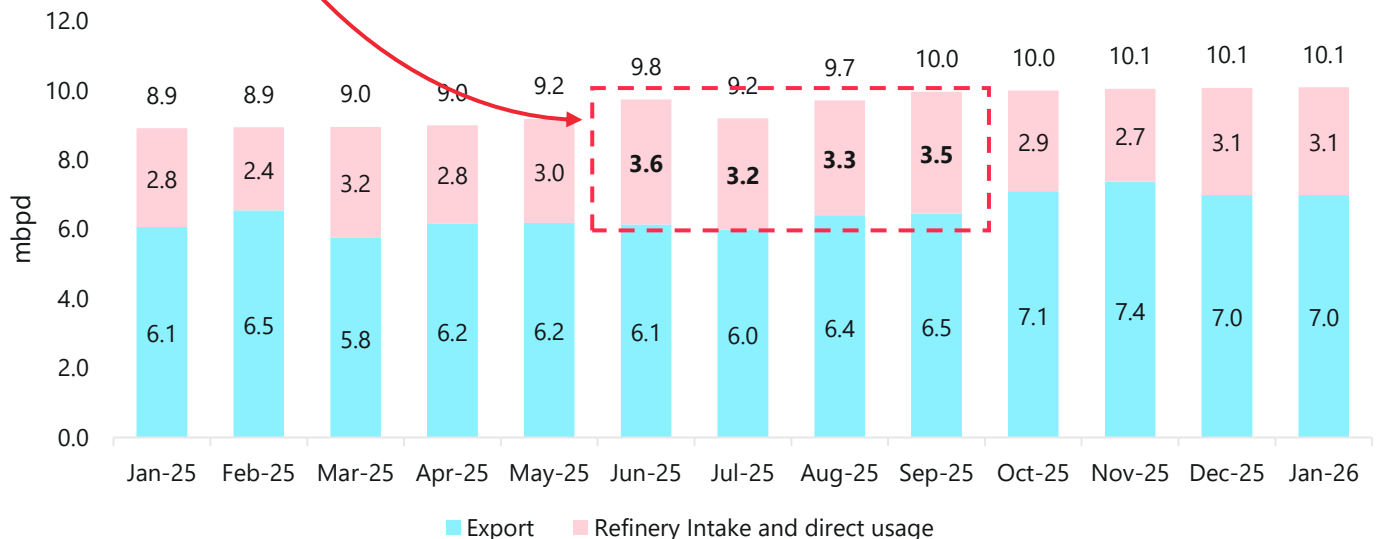
Saudi Crude Balance and Export Availability (Feb-26 vs. Post-Disruption Scenario)

All figures in kbpd	
Saudi Supply to Market (Feb-26)	10111
Observed Crude Exports (Feb-26, Kpler)	7108
Implied Domestic Crude Use	3003
Post-Disruption Supply Scenario	
Illustrative Post-Disruption Production Case	8000
Domestic Usage	3003
Crude Available for Export	4997
Westbound export system	
East-West Pipeline Capacity	7000
Less: west coast refinery / domestic runs	2000
Theoretical crude export capacity via pipeline (Light Grades)	5000
Yanbu terminal capacity	~4500
Observed Yanbu loadings in March	~3800
Illustrative binding export bottleneck	~4500

Implied crude use will increase between June and September

Implied domestic crude use based on Feb-26 balance (OPEC secondary sources, Kpler). Illustrative post-disruption case assumes unchanged domestic refinery demand and light-grade compatibility with the East-West pipeline system. Yanbu capacity estimates based on market sources and observed March loading data.

Saudi Arabia Exports and Domestic Usage (Jan 2025-Jan 2026)



Source: JODI

Public



Restart Capability

The CEO stated Aramco can ramp production back up in days, not weeks, once Hormuz reopens. In certain areas, Aramco uses well restrictions rather than full shutdowns. No physical damage to any Aramco facilities has been confirmed. All major development programmes (Zuluf, Dammam Phase 2, Jafurah Phase 2) continue as normal. However, export normalization may lag production recovery, as tanker fleets currently repositioned toward Yanbu would need to rotate back toward Gulf loading terminals, implying a temporary logistics adjustment period even after flows through Hormuz resume.

Oil price assumption revised.

We revise our average Brent assumption to USD 79/bbl in 2026, while leaving 2027-28 largely unchanged. The upward revision is concentrated in 2026, as the disruption to Hormuz-related flows is tightening prompt balances through export bottlenecks, storage congestion, and shut-in risk across the Gulf.

USD/bbl	Old	New	% Change
2026F	63	79	25%
2027F	69.3	70	1%
2028F	74.4	74.4	0%

Around 20mbpd of crude and product flows normally move through the Strait, while the main mitigating channels still leave a large gap. Saudi and UAE bypass pipelines/terminals provide around 5.5mbpd, Iran exports contribute roughly 1.5mbpd, and a potential IEA stock release could add around 3.3mbpd, still leaving an implied shortfall of roughly 9.7mbpd. This is why we think the market remains tightest in 2Q26: exports are disrupted first, then storage fills, and producers are increasingly forced to shut in output, extending the shock from logistics into upstream supply.

Hormuz disruption	mb/d
Normal oil flows through Hormuz	~20.0
Alternative export capacity outside Hormuz (UAE+KSA)	3.5-5.5
Potential IEA emergency stock release equivalent	~3.3-3.5
Iran Exports	1-1.5
Indicative uncovered exposure after bypass	9.5-12.2

Figures compiled from IEA, S&P Commodities at Sea, Kpler, and public company disclosures. Ranges reflect uncertainty around operational availability and shipping constraints. Components are indicative and not strictly additive.

Evidence of tightening is already visible in refined product flows. Financial Times reported that shipments from major Asian exporters were running roughly 30% below the prior five-month baseline, with the sharpest declines in jet fuel (>40%), followed by gasoline (>30%) and diesel (>20%).

Oil demand remains highly price inelastic in the short run. IMF estimates of short-run price elasticity of -0.02 to -0.03 imply that meaningful demand adjustment typically requires a large move in prices. In practical terms, a 33-50% increase in prices may be required to reduce demand by roughly 1%, equivalent to around 1mbpd relative to global demand of ~100mbpd.

Our 2026 assumption, therefore, reflects a period of tighter balances concentrated in 2Q26, followed by gradual normalization as transit conditions stabilize and shut-in supply returns. The implied quarterly path is approximately USD 78.8/bbl in 1Q26, USD 91/bbl in 2Q26, USD 77/bbl in 3Q26, and USD 70/bbl in 4Q26, resulting in a full-year average of USD 79/bbl. This profile assumes the current disruption does not persist long enough to sustain extreme energy prices through year-end, and remains sensitive to conflict duration and the speed of logistics normalization.

Beyond 2026, we assume progressive normalization in trade flows, the return of curtailed supply, and renewed inventory accumulation. On that basis, we make only a marginal adjustment to the 2027 forecast, while leaving the 2028 forecast unchanged.

EIA view of global crude supply through 2026

World crude supply profile	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26
World crude production (mb/d)	106.0	107.9	101.8	104.5	105.7	107.1	108.1	108.4	108.3	108.8	109.1	108.9
OPEC+ crude production (mb/d)	43.9	44.7	39.4	42.4	43.3	44.1	44.7	44.9	44.8	45.0	44.9	44.9

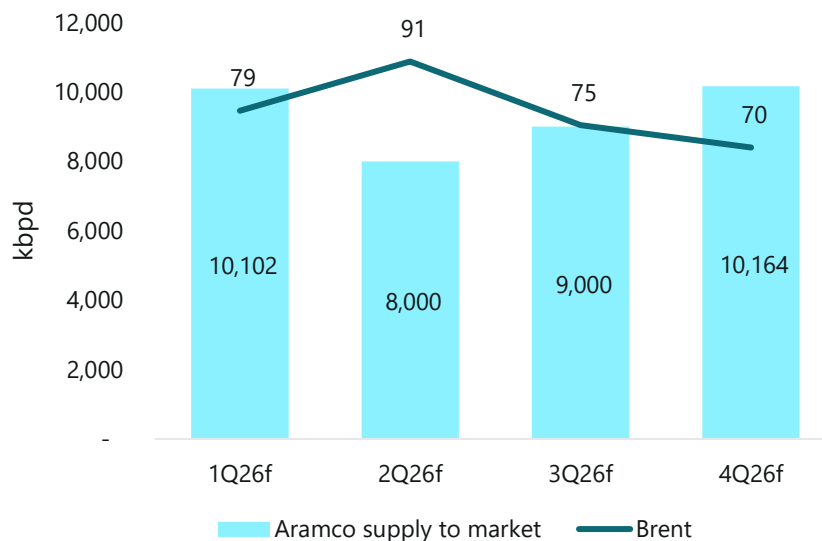
Source: EIA

Net income sensitivity to price and production

We revise our 2026E-27E estimates for Saudi Aramco to reflect a higher oil price assumption and a revised post-conflict production profile. Our 2026E net income estimate rises to USD 98.3bn, based on Brent of USD 79/bbl and average crude production of 9.3mbpd (vs. earlier estimate of 10.29mbpd). 2026 production assumes a gradual pickup in the second half, with production ramping up from 8mbpd to 10.3mbpd by December. The 2026 change is driven by a higher Brent assumption, partly offset by lower production in the aftermath of the conflict.

	12/24 A	12/25 A	12/26 E	12/27 E
Net Income (USD bn)	108.2	92.8	98.3	99.0
PER (x)	17.4	17.6	17.6	17.5
PBV (x)	4.8	4.1	4.2	4.2
EPS (SAR)	1.7	1.4	1.5	1.5
DPS (SAR)	1.9	1.3	1.4	1.4
RoE (%)	27.1	23.6	24.4	24.0
Dividend Yield (%)	6.6	5.2	5.1	5.3

Quarterly Production and Brent assumption



Source: BSFC, JODI



Brent price movement impact on Net Income

Aramco's earnings sensitivity to Brent is highly non-linear because the royalty structure is progressive.

All figures in USD

Brent	Tier 1 royalty (15% on first \$70)	Tier 2 (45% on \$70-100)	Tier 3 (80% on \$100+)	Total royalty	Net-of-royalty price	Post-tax retained value / bbl (~50%)
63	9			9	54	27
70	11			11	60	30
80	11	5		15	65	33
90	11	9		20	71	35
100	11	14		24	76	38
110	11	14	8	32	78	39
115	11	14	12	36	79	40
120	11	14	16	40	80	40

Simplified representation of Saudi royalty structure based on publicly disclosed fiscal tiers. Post-tax retained value assumes ~50% effective upstream tax rate for illustration.

Relative to our USD 79/bbl base case, the uplift in profitability is meaningful through USD 100/bbl, but moderates above that level as the progressive royalty structure captures a larger share of incremental upside.

On the production side, earnings remain reasonably resilient around the revised 9.32mbpd base, but deteriorate quickly once output moves materially below 9mbpd. A recovery toward 10mbpd is clearly accretive, while 8mbpd becomes difficult to offset without Brent moving toward the high 80s or above. A move to 7mbpd would remain strongly dilutive even in a very supportive oil-price environment.

The scenario matrix points to a clear hierarchy. A recovery to 10mbpd is positive across most realistic Brent outcomes, while 9mbpd remains manageable with only modest price support. By contrast, 8mbpd requires a meaningfully stronger oil environment to offset lost volumes, and 7mbpd remains value-destructive across almost the full range tested. The breakeven table below summarizes the Brent level required at each production scenario.

Estimated impact on 2026E net income (USD bn) for production levels and Brent price

Production (Mbd)	USD70	USD80	USD90	USD100	USD110	USD120
Base case: 9.317mbpd	-8.4	0.9	10.3	19.6	23.0	26.4
10mbpd (+0.683mbpd vs base)	-1.0	9.0	19.1	29.1	32.8	36.4
9.0mbpd (-0.317mbpd vs base)	-11.9	-2.8	6.2	15.2	18.5	21.8
8.0mbpd (-1.317mbpd vs base)	-22.7	-14.7	-6.7	1.4	4.3	7.2
7.0mbpd (-2.317mbpd vs base)	-33.6	-26.6	-19.5	-12.5	-9.9	-7.4

Sensitivities calculated using Saudi fiscal regime (15% royalty below USD70/bbl, 45% between USD70-100/bbl, 80% above USD100/bbl) and ~50% effective tax rate. Volume sensitivity reflects post-royalty earnings per incremental barrel at each price level. Figures annualized.



Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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Head Office

8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia

Mailing Address

P.O. Box 23454 Riyadh 11426 | Kingdom of Saudi Arabia

Tel: +966 11 282 6666 | 800 125 9999

www.bsfcapital.sa

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