

2023 Saudi Equity Strategy

In a Different Rhythm

January 2023

SNB Capital – Equity Research

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Please refer to the last page for important disclaimer

Executive Summary

Contact us for the full report

Welcome 2023!

Swinging between the extremes of euphoria and depression and battered by inflation, unprecedented Fed moves, global geopolitical tension, and extreme volatility, 2022 was indeed a decade wrapped in a year. The Saudi market enters the new year with major opposing forces, global recessionary pressure, and a determination to achieve Vision 2030 goals

Breaking the perceived positivity norm, bearish sentiments cloud the global equity markets with fears of uncontrolled inflation and severe recession. Valuations are also under scrutiny as the cheap money era is ending. However, hopes hang on a soft landing, Fed pivot, and China re-opening

We believe the outlook is shifting towards positive territory for EMs as the strong US\$ period is ending, China re-opens its economy, and valuation levels are compelling. Although it might pressure the premium over EMs, we believe the Saudi equity market is in a different rhythm driven by the unmatched characteristics which will enable it to maintain its favorable positioning. This includes 1) major economic reforms, 2) unmatched opportunities driven by Vision 2030 programs, and 3) a structured capital market with a high level of governance

The Saudi economy is expected to grow by 3.1% in 2023f as the strong growth in non-oil GDP continues. We believe the ongoing economic reforms, ambitious government strategies/initiatives, acceleration in Mega/Giga projects, and the vital role played by the national funds will be the economy's main drivers, shielding it from the global recessionary pressures

Stock selection rather than sector positioning



As companies' exposure to economic headwinds varies significantly, we opt for stock selection rather than sector positioning. We prefer stocks with earnings visibility, unique exposure, strong balance sheets, and attractive valuations. Although we prefer stock selections, we believe the Banking, Telecom, and Tourism sectors are generally attractive

Earnings to remain broadly flat in 2023f

Impacted by the consequences of the anticipated global recession, we expect the Saudi market earnings to remain broadly flat (0%-5%) in 2023f. This compares to a growth of 110% yoy and 39% yoy in 2021 and 2022f, respectively. We expect lower commodity prices to put pressure on energy and petrochemicals earnings which will offset the expected growth of locally focused sectors, led by Banks, Telecoms, and Tourism

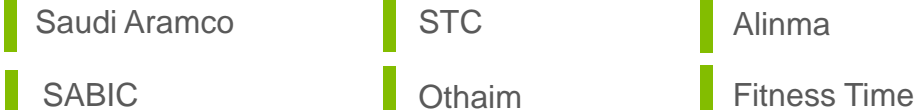
TASI to trade between 9,900 to 12,000 points

Based on our earnings expectation and forward P/E range, we believe TASI will trade between 9,900 to 12,000 in 2023f, reflecting a dividend yield of 3.1%-3.7%. Moreover, our bottom-up approach based on our PTs indicates a fair value of 11,400

Key themes



Top picks



IMPORTANT INFORMATION

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