

MENA Q2 2023

Stocks we like ahead of Q2 earnings

Equities MENA

- ◆ Overall, we expect Q2 net profit growth of 7.1% y-o-y for non-banks and 7.4% for banks after 11.2% and 6.3% in Q1 23
- ◆ Non-bank stocks trading at 24.3x 2023e PE and banks at 14.2x
- ◆ Our analysts highlight four Buy-rated stocks for which they believe Q2 results could act as a catalyst

Air Arabia (AIRARABI UH, Buy, TP AED3.00): AA posted solid Q1 results, generating strong margins from robust passenger demand enabling strong revenue yields. It has avoided large-scale margin erosion despite higher fuel prices and inflationary pressures since 2Q22 and should benefit from cheaper fuel from 2Q23e. On top of impressive operating performance, AA has a healthy balance sheet with a strong cash position, allowing flexibility in funding expansion plans and allowing for better investor returns through higher dividends. We expect AA to remain proactive in adding new routes (24 added in FY2022, and 9 in 1Q23) and exploring expansion through new partnerships.

Alamar (ALAMAR AB, Buy, TP SAR152.00): We expect a return to earnings growth in 2Q 2023 for the leading QSR pizza player in Saudi/MENA, a quarter that also benefits from the positive impact of fewer days of Ramadan for the overall QSR sector. We believe YTD underperformance relative to the index and the broader consumer sector is overdone given the business's medium term prospects and see earnings growth accelerating in 2H-2023 when the business will benefit from easing raw material prices.

Banque Saudi Fransi (BSFR AB, Buy, TP SAR47.10): We expect Q2 23 net income growth of 33% y-o-y and NIMs to improve 54bp y-o-y to 3.31%, with a lower downside risk in the event of 2024 US Fed rate cuts. We believe BSF can be competitive across all quality spectrum of project finance deals as its balance sheet is underleveraged at 7x asset/equity in Q1 23. We estimate cost of risk of 0.76% in Q2 23, down 3bp y-o-y. BSF trades at 11.8x EPS '24e, in line with EEMEA banks under our coverage.

Ooredoo (ORDS QD, Buy, TP QAR12.50): Ooredoo continues to have several near-term catalysts such as asset monetization (tower and datacenters) and disposal of Myanmar operations whereas the merger synergies in Indonesia are also scaling well above management's earlier expectations. The valuation also looks attractive vs peers (on 2024e EV/EBITDA) as Ooredoo trades at 4.3x vs MENA sector average at 7.4x. We expect 3.1% y-o-y top-line growth in 2Q23 (vs. 1.6% in 1Q23), primarily driven by Iraq and Kuwait. Domestic market (Qatar) will likely remain challenging against a backdrop of competitive pre-paid as well post-paid segments. We also expect some weakness on clean EPS due to higher opex and tax expenses.

Key ratings and target prices

Company	Ticker	Rating	Ccy	Latest Price	Target Price	Implied Upside
Air Arabia	AIRARABI UH	Buy	AED	2.54	3.00	18.1%
Alamar Foods	ALAMAR AB	Buy	SAR	126.40	152.00	20.3%
Banque Saudi Fransi	BSFR AB	Buy	SAR	42.45	47.10	11.0%
Ooredoo	ORDS QD	Buy	QAR	11.49	12.50	8.8%

Note: Latest prices as at close on 6 July 2023; Source: Bloomberg, HSBC estimates

Raj Sinha*

Head of EEMEA Equity Research
HSBC Bank Middle East Ltd, UAE branch
raj.sinha@hsbc.com
+971 4 423 6932

Ankur Agarwal*, CFA

Senior Analyst
HSBC Bank Middle East Ltd, UAE branch
ankuragarwal@hsbc.com
+971 4 423 6558

Aybek Islamov*, CFA

Analyst
HSBC Bank Middle East Ltd, UAE branch
aybek.islamov@hsbc.com
+971 4 423 6921

Cenk Orcan*

Aviation & Industrials Analyst
HSBC Yatirim Menkul Degerler A.S.
cenkorcan@hsbc.com.tr
+90 212 376 46 14

Madhvendra Singh*, CFA

Senior Analyst, TMT
HSBC Bank Middle East Ltd, DIFC
madhvendra.singh@hsbc.com
+971 4 50 93348

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Shaken, but not stirred

The 12th edition of the EM Sentiment Survey

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This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

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MENA – Q2 2023E preview (ex-banks)

Stock	Ticker	Rating	CCY	Latest Price	Target Price	Net income (m)			EBIT (m)			Revenue (m)			PE (x) 2023E	Div yield 2023E
						Q2 23E	% change YoY Q2 23E	Q1 23A	Q2 23E	% change YoY Q2 23E	Q1 23A	Q2 23E	% change YoY Q2 23E	Q1 23A		
Consumer																
Agthia	AGTHIA.AD	Buy	AED	5.07	5.39	41	15%	18%	77	27%	25%	1,016	8%	12%	14.2	3.3%
Alamar Foods	6014.SE	Buy	SAR	126.40	152.00	27	13%	-67%	34	7%	-62%	269	5%	-8%	23.4	3.2%
Al Othaim	4001.SE	Reduce	SAR	14.36	9.70	100	112%	35%	103	80%	36%	2,570	14%	13%	27.4	2.8%
Almarai	2280.SE	Buy	SAR	65.00	68.00	677	30%	52%	840	30%	47%	4,986	8%	12%	31.4	1.8%
Americana Restaurants	AMR.AD	Buy	AED	3.97	4.30	71	45%	-19%	82	45%	-20%	649	13%	2%	29.0	1.7%
Ataa Educational Company	4292.SE	Hold	SAR	76.40	69.00	39	NM	241%	50	NM	118%	140	-15%	13%	37.2	1.6%
Budget KSA	4260.SE	Buy	SAR	74.80	74.00	69	11%	15%	78	17%	21%	290	25%	20%	17.4	3.2%
Cenomi (Fawaz Alhokair)*	4240.SE	Hold	SAR	16.14	18.40	8	-86%	6%	86	-40%	-52%	1,714	0%	2%	51.1	0.0%
Extra	4003.SE	Buy	SAR	76.80	85.00	65	-49%	-13%	125	-5%	-1%	1,739	2%	2%	16.0	4.1%
Herfy	6002.SE	Hold	SAR	38.15	36.00	8	-59%	NM	11	NM	NM	286	-2%	-16%	29.2	2.4%
HumanSoft	HUMN.KW	Buy	KWD	3.77	5.00	10,324	-13%	-27%	10,926	-10%	-30%	20,045	-4%	-12%	10.2	9.4%
Jarir Marketing Company	4190.SE	Buy	SAR	16.30	20.60	196	11%	-1%	204	6%	-1%	2,272	13%	19%	18.4	4.9%
Leejam	1830.SE	Buy	SAR	139.60	136.00	53	46%	36%	69	38%	32%	280	20%	20%	21.2	2.5%
National Co for Learning	4291.SE	Hold	SAR	109.80	123.00	32	72%	50%	34	67%	59%	117	48%	48%	36.8	1.5%
Savola	2050.SE	Hold	SAR	42.05	40.00	182	-15%	45%	511	1%	40%	7,786	13%	4%	28.6	1.7%
SACO	4008.SE	Hold	SAR	36.45	33.00	-16	N/A	N/A	-8	N/A	N/A	242	-3%	-25%	NM	0.0%
SADAFCO*	2270.SE	Buy	SAR	327.20	334.00	90	65%	48%	91	2%	31%	694	10%	6%	34.2	1.9%
Saudi Airlines Catering	6004.SE	Buy	SAR	109.00	114.00	56	30%	63%	69	25%	42%	527	28%	32%	23.9	0.7%
Seera Group	1810.SE	Buy	SAR	27.90	29.00	60	N/A	N/A	86	N/A	N/A	854	50%	61%	45.0	0.9%
Healthcare																
Al Hammadi	4007.SE	Hold	SAR	61.10	42.00	57	-13%	31%	68	-7%	31%	269	-5%	19%	40.5	1.2%
Al Mouwasat	4002.SE	Buy	SAR	238.80	236.00	170	20%	11%	197	27%	20%	649	16%	17%	35.0	1.4%
Integrated diagnostics***	IDHC.L	Buy	EGP	0.48	0.63	158	26%	-46%	116	-30%	-67%	889	15%	-22%	12.1	6.6%
Dallah Healthcare	4004.SE	Reduce	SAR	159.80	97.00	93	26%	9%	131	35%	20%	681	17%	18%	35.2	1.5%
CARE	4005.SE	Buy	SAR	130.60	84.00	52	25%	88%	60	31%	81%	251	16%	24%	37.4	1.9%
Nahdi Medical Co	4164.SE	Buy	SAR	173.00	221.00	279	4%	3%	303	-1%	0%	2,178	-3%	1%	24.9	3.1%
Saudi Pharmaceutical	2070.SE	Hold	SAR	41.25	24.00	-10	NM	64%	6	NM	86%	388	25%	18%	NM	1.5%
Rameda	RMDA.CA	Buy	EGP	2.29	2.98	53	2%	-28%	90	13%	8%	400	9%	14%	8.4	0.0%
Industrials																
Air Arabia	AIRA.DU	Buy	AED	2.54	3.00	385	141%	17%	355	120%	7%	1,500	35%	27%	8.7	5.9%
Dubai Electricity & Water	DEWAA.DU	Hold	AED	2.68	2.80	2,128	7%	4%	2,425	2%	7%	7,500	7%	7%	17.2	4.8%
Empower	EMPOWER.DU	Buy	AED	1.91	2.80	233	n/a	7%	267	n/a	9%	743	8%	6%	19.3	4.5%
Maaden	1211.SE	Reduce	SAR	43.50	36.20	117	-97%	-81%	625	-89%	-71%	5,682	-52%	-10%	NM	0.0%
Marafiq	2083.SE	Buy	SAR	82.00	70.00	242	-8%	-25%	359	5%	8%	1,694	2%	1%	28.0	2.7%
Salik Company PJSC	SALIK.DU	Buy	AED	3.15	3.39	216	N/A	N/A	255	N/A	N/A	471	N/A	N/A	23.2	4.3%
Zamil Industries	2240.SE	Reduce	SAR	23.14	9.80	-7	NM	NM	28	NM	NM	1,103	15%	16%	NM	0.0%
Insurance																
Bupa Arabia Cooperative ^A	8210.SE	Hold	SAR	183.00	156.00	352	22%	69%	N/A	N/A	N/A	3,602	20%	28%	22.9	2.6%
Cooperative Insurance Co ^A	8010.SE	Buy	SAR	154.40	96.00	268	27%	144%	N/A	N/A	N/A	4,201	30%	47%	26.6	1.3%

Notes: Latest prices as at close at 6 July 2023. *Year-end - SADAFCO (March), Fawaz Alhokair (March); ^APBT is mentioned instead of Net Income and Revenue figures are GWP; Source: Company data, Refinitiv Datastream, HSBC estimates

MENA – Q2 2023E preview (ex-banks)

Stock	Ticker	Rating	CCY	Latest Price	Target Price	Net income (m)			EBIT (m)			Revenue (m)			PE (x) 2023E	Div Yield 2023E
						Q2 23E	% change YoY Q2 23E	Q1 23A	Q2 23E	% change YoY Q2 23E	Q1 23A	Q2 23E	% change YoY Q2 23E	Q1 23A		
Oil & Gas																
ADNOC Distribution	ADNOCDIST.AD	Hold	AED	3.97	4.60	401	-55%	-19%	487	-48%	-13%	8,511	-1%	19%	21.5	5.2%
ADNOC Gas	ADNOCGAS.AD	Buy	USD	3.20	3.40	1,048	N/A	N/A	1,463	N/A	N/A	4,584	N/A	N/A	14.5	4.9%
Aldrees	ALDREES AB	Buy	SAR	125.00	107.00	67	46%	13%	102	23%	26%	3,557	19%	23%	33.3	2.0%
Luberef	2223.SE	Hold	SAR	148.00	126.00	420	-4%	47%	448	-16%	12%	2,980	-11%	-34%	16.4	4.5%
Qatar Fuel	QFLS.QA	Buy	QAR	16.44	22.60	276	16%	-15%	177	4%	-42%	7,131	-9%	13%	15.3	5.5%
Petrochemicals																
APPC	2330.SE	Hold	SAR	44.75	50.00	76	-31%	-74%	110	-16%	-65%	594	-27%	-28%	46.3	0.0%
Borouge LLC Ltd	BOROUGE.AD	Hold	AED	2.71	3.00	207	-57%	-46%	347	-52%	-36%	1,451	-22%	-13%	19.9	5.9%
Chemanol	2001.SE	Reduce	SAR	25.75	20.00	-10	NA	NA	9	-91%	NA	189	-42%	-39%	55.0	0.4%
Fertiglobe	FERTIGLOBE.AD	Buy	AED	3.34	3.90	44	-90%	-62%	93	-87%	-59%	534	-64%	-41%	22.2	5.0%
Industries Qatar	IQCD.QA	Buy	QAR	11.70	20.00	949	-65%	-57%	393	-77%	-71%	3,110	-39%	-34%	12.5	8.5%
National Industrialization Co.	2060.SE	Reduce	SAR	14.98	10.00	97	-67%	-73%	203	-64%	-70%	669	-38%	-9%	38.8	0.0%
OCI NV	OCI.AS	Buy	EUR	21.59	36.60	53	-89%	NM	162	-85%	-113%	1,205	-58%	-41%	NM	8.1%
PetroRabigh	2380.SE	Reduce	SAR	11.38	8.00	-1,102	NA	NA	-349	NA	NA	10,609	-41%	-24%	NM	0.0%
SABIC	2010.SE	Reduce	SAR	88.60	78.00	474	-94%	-90%	2,212	-78%	-82%	39,541	-29%	-25%	43.8	4.1%
SAFCO	2020.SE	Buy	SAR	131.20	146.30	521	-83%	-61%	479	-85%	-64%	1,611	-72%	-41%	21.4	3.9%
Saudi Kayan**	2350.SE	Buy	SAR	13.34	14.00	-360	NA	NA	-259	NA	NA	2,366	-33%	-46%	NM	0.0%
Sidi Kerir	SKPC.CA	Reduce	EGP	23.22	16.00	498	NA	NA	515	69%	NA	3,156	78%	71%	12.1	4.5%
SIIG	2250.SE	Buy	SAR	25.60	29.00	121	-58%	NA	117	-61%	NA	0	0%	0%	39.6	7.8%
Sipchem	2310.SE	Buy	SAR	38.20	44.00	245	-81%	-56%	215	-84%	-51%	1,159	-64%	-13%	16.4	6.5%
Yansab**	2290.SE	Hold	SAR	47.50	46.00	91	-68%	NA	108	-61%	NA	1,569	-24%	-66%	70.6	5.8%
Telecom																
Emirates Telecom Group	EAND.AD	Reduce	AED	22.20	21.00	2,187	-15%	2%	4,483	-6%	-8%	12,799	-2%	-2%	19.1	3.6%
Ooredoo	ORDS.QA	Buy	QAR	11.49	12.50	553	-15%	15%	1,258	-7%	12%	5,715	3%	2%	10.9	4.2%
STC	7010.SE	Buy	SAR	44.30	50.00	2,774	-8%	9%	3,174	-15%	-2%	18,117	7%	7%	19.1	4.5%
Solutions by STC	7202.SE	Buy	SAR	325.00	330.00	300	10%	7%	325	11%	5%	2,650	27%	19%	30.0	1.9%
Yahsat	YAHSAT.AD	Buy	AED	2.61	3.07	25	-1%	35%	29	4%	12%	110	3%	2%	19.7	6.3%
Zain	ZAIN.KW	Buy	KWD	0.52	0.75	45	-13%	6%	84	3%	21%	454	8%	15%	10.2	7.4%
Zain KSA	7030.SE	Reduce	SAR	13.72	11.00	84	-38%	nm	266	2%	0%	2,426	10%	11%	7.8	3.6%
Real Estate																
Aldar Properties	ALDAR.AD	Buy	AED	5.21	6.60	706	-13%	22%	769	-11%	14%	2,973	11%	14%	13.4	3.3%
Cenomi Centres*	4321.SE	Hold	SAR	23.40	21.90	157	5%	119%	253	3%	66%	562	3%	11%	17.7	5.4%
Emaar Properties	EMAR.DU	Buy	AED	6.79	7.60	2,120	3%	43%	2,452	0%	13%	7,121	3%	-5%	7.1	2.9%
Emaar Development	EMAARDEV.DU	Buy	AED	6.58	5.70	959	-16%	1%	1,083	-14%	-8%	3,438	-7%	-33%	6.9	4.4%
Palm Hills Development	PHDC.CA	Buy	EGP	2.08	2.86	308	17%	-14%	570	-22%	23%	3,606	-11%	22%	4.6	5.2%
SODIC	OCDI.CA	Buy	EGP	18.50	21.10	238	NM	-17%	300	149%	-38%	1,870	21%	26%	4.9	3.0%
Average							-8.1%	8.7%		-5.6%	-1.8%		-0.2%	2.6%	24.3	3.3%
Adj average***							7.1%	11.2%		4.4%	11.6%		3.5%	2.6%		

Notes: Latest prices as at close at 6 July 2023; *Year-end - Cenomi Centres (March); **Companies have some plant shutdowns in Q2;***Adj. average excludes outliers: companies with earnings changes of (higher/lower) than (+100%/-50%) are defined as outliers.
Source: Company data, Refinitiv Datastream, HSBC estimates

MENA Q2 2023E preview – Banks and diversified financials

Stock	Ticker	Rating	CCY	Latest Price	Target Price	Net income* (m)			Non-interest income (m)			Net interest income (m)			Net interest margin			PE (x) 2023E	Div Yield 2023E
						Q2 23E	% change YoY Q2 23E	Q1 23A	Q2 23E	% change YoY Q2 23E	Q1 23A	Q2 23E	% change YoY Q2 23E	Q1 23A	Q2 23E	bps change YoY Q2 23E	Q1 23A		
UAE																			
ADCB	ADCB.AD	Buy	AED	8.20	10.00	1,782	20%	24%	937	2%	34%	2,868	12%	33%	2.49%	13	40	8.5	2.4%
ADIB	ADIB.AD	Hold	AED	10.66	11.10	1,123	55%	48%	393	0%	9%	1,705	76%	70%	4.51%	133	112	9.6	5.7%
DIB	DISB.DU	Hold	AED	5.53	5.90	1,558	16%	11%	570	3%	-17%	2,170	8%	23%	3.14%	11	51	7.6	6.6%
ENBD	ENBD.DU	Buy	AED	16.15	17.60	4,441	27%	219%	2,166	-18%	54%	6,846	33%	69%	4.05%	66	156	6.1	5.8%
FAB	FAB.AD	Hold	AED	13.78	12.70	3,483	33%	-23%	1,680	6%	-44%	4,561	35%	41%	1.69%	21	34	11.2	4.0%
Egypt																			
CIB	COMIq.L	Hold	EGP	1.14	1.25	5,171	47%	43%	(54)	-48%	4%	10,931	56%	62%	6.54%	103	138	7.8	2.2%
EFG-Hermes	HRHO.CA	Hold	EGP	18.98	19.50	642	87%	156%	2,597	78%	178%	NA	NA	NA	NA	NA	NA	7.0	1.4%
Kuwait																			
KFH	KFIN.KW	Reduce	KWD	0.76	0.50	133	11%	34%	106	16%	55%	232	2%	1%	2.85%	8	3	21.7	2.2%
NBK	NBKK.KW	Reduce	KWD	0.96	0.76	139	15%	15%	66	3%	0%	214	19%	26%	2.47%	23	34	14.4	3.8%
Oman																			
Bank Muscat	BMAO.OM	Hold	OMR	0.28	0.27	53	4%	6%	34	-25%	-1%	92	10%	12%	2.87%	17	30	11.1	5.4%
Qatar																			
CBQ	COMB.QA	Buy	QAR	5.80	6.70	765	-4%	18%	355	15%	17%	996	-1%	8%	2.63%	15	22	9.2	4.3%
Doha Bank	DOBK.QA	Hold	QAR	1.59	1.60	183	-31%	-48%	151	30%	-19%	493	-17%	-24%	2.07%	(35)	(52)	12.3	3.3%
Masraf Al Rayan	MARK.QA	Reduce	QAR	2.53	1.70	451	-13%	-21%	210	17%	19%	749	-24%	-25%	1.93%	(51)	(47)	21.7	3.5%
QIB	QISB.QA	Hold	QAR	17.90	19.40	1,055	10%	6%	244	3%	-3%	1,287	-5%	-6%	3.09%	11	4	10.7	3.9%
QNB	QNBK.QA	Buy	QAR	16.20	20.20	3,534	-9%	24%	1,450	-1%	54%	7,393	6%	15%	2.58%	(1)	17	10.4	4.1%
Saudi Arabia																			
Alinma Bank	1150.SE	Hold	SAR	34.45	28.50	1,185	28%	18%	496	-4%	-10%	1,911	35%	32%	3.61%	44	38	15.7	2.5%
Alrajhi Bank	1120.SE	Hold	SAR	72.50	62.40	4,082	-4%	0%	1,757	11%	2%	5,196	-7%	-4%	2.91%	(68)	(77)	17.5	1.7%
Arab National Bank	1080.SE	Hold	SAR	26.80	28.20	957	35%	52%	296	-19%	8%	1,749	34%	46%	3.45%	62	82	10.2	5.2%
Banque Saudi Fransi	1050.SE	Buy	SAR	42.45	47.10	1,113	33%	23%	410	-8%	-3%	1,853	28%	36%	3.31%	54	71	12.4	4.6%
Riyad Bank	1010.SE	Hold	SAR	33.40	29.70	2,172	35%	30%	843	1%	-2%	3,181	33%	45%	3.57%	63	85	12.6	4.0%
SNB	1180.SE	Hold	SAR	36.85	41.00	4,826	5%	12%	1,685	8%	-2%	6,852	1%	11%	3.03%	(15)	16	11.3	3.4%
Diversified Fins.																			
Nayifat Finance	4081.SE	Reduce	SAR	17.02	11.00	31	-29%	-34%	-	NA	NA	88	-6%	-2%	18.02%	(305)	(166)	16.4	2.7%
Saudi Tadawul Group	1111.SE	Hold	SAR	201.6	165.00	91	-34%	-36%	NA	NA	NA	NA	NA	NA	NA	NA	NA	60.8	1.1%
Average						14.7%	25.1%		3.4%	15.9%		15.6%	22.4%					14.2	3.6%
Adj average**						7.4%	6.3%		2.1%	2.2%		10.3%	9.1%						

Notes: Latest prices as at close 6 July 2023; Notes: *Net income is before payment of interest on capital notes. For Saudi banks, net income is after zakat; ** Adj. average excludes outliers, companies with earnings changes of (higher/lower) than (+40%/-40%) are defined as outliers; Source: Company data, Refinitiv Datastream, HSBC estimates

Valuation and risks

	Valuation	Risks
Air Arabia AIRARABI UH Buy	<p>Current price: Our valuation for Air Arabia is based on a three-stage DCF model for which our medium-term assumptions are as follows: medium-term EBIT margin of 10%, invested capital growth of 5%, and average asset turnover ratio of 0.8x. Our DCF WACC assumption of 6.1% is based on an equity risk premium of 5%, risk-free rate of 2.0%, adjustment factor of 0.5% for UAE companies, beta of 0.97 (the spot Bloomberg-adjusted beta plus an additional 15% premium for COVID-19 risks) and debt/equity of 29%/71%.</p> <p>AED2.54</p> <p>Target price: AED3.00</p> <p>Up/downside: +18.1%</p> <p>Our target price of AED3.00 implies 18.1% upside and we have a Buy rating due to strong near-term earnings momentum on the back of solid demand-pricing and cheaper fuel price.</p>	<p>Downside risks: (1) Slowdown of the recovery in traffic due to possible travel restrictions in response to a new COVID-19 variant; (2) high volatility in oil prices beyond our assumptions (sharp falls would deteriorate economics in the Gulf region, while sharp rises would lead to short-term pressure on fuel costs); (3) social/political disruption in the Middle East, leading to worse-than-expected traffic; (4) tougher competition leading to weaker passenger yields; (5) weaker-than-expected network development; (6) lower-than-expected cash dividend payments; (7) weaker local currencies in markets operated (translating into lower revenues in AED); (8) fuel price risks; ie, over-hedged when prices are falling or under-hedged when prices are rising.</p>
Cenk Orcan* cenkorcan@hsbc.com.tr +90 212 376 46 14		
Alamar Foods ALAMAR AB Buy	<p>Current price: Our DCF-based target price of SAR152 is derived using a WACC of 9.2%. We determine our WACC based on the D/V (where V=Debt + Equity) of 0%, and assume a beta of 0.8 (average of global QSR peers), risk-free rate of 2.0% and an equity risk premium of 9.0%, which includes a 400bps premium to our equity strategists' assumption of 5.0% for Saudi Arabia to reflect: (1) the current high rate environment; and (2) its exposure to high-risk markets beyond GCC. This yields a WACC of 9.2% and we use a terminal growth rate of 3.0%. Our target price implies a target multiple of 28.4x EPS FY 2023e. Our target price implies upside of 20.3% and we have a Buy rating. Alamar has high exposure to USD-pegged GCC markets, ongoing socio-economic changes in Saudi Arabia and strong top-line growth compared to peers</p> <p>SAR126.40</p> <p>Target price: SAR152.00</p> <p>Up/downside: +20.3%</p>	<p>Downside risks: (1) Increase in competition, especially in Saudi where Americana (AMR UH, Buy, AED3.97) is ramping up Pizza Hut in Saudi; (2) fast changing consumer preferences; (3) consumers shifting towards healthier QSR choices; (4) any supply chain constraints or ban on imports; (5) higher FX risk from non-GCC markets; and (7) higher Saudisation requirements could increase costs and impact margins.</p>
Ankur Agarwal*, CFA ankurpagarwal@hsbc.com +971 4 423 6558		
BSF BSFR AB Buy	<p>Current price: We derive our fair value target price for BSF using a residual income methodology comprising three stages. For Saudi banks, we use an inflation differential model to calculate the cost of equity. We assume the cost of equity to be the sum of the US risk-free rate (2%) and the inflation differential between the country and the US (0%), plus the equity risk premium (7%) multiplied by the stock beta of 1. We use a cost of equity of 9% for BSF. All these assumptions are unchanged. Our unchanged target price implies 11% upside. We have a Buy rating on the stock as we estimate BSF's NIM to have lower downside risk in the event of US Fed rate cuts in 2024. Improving corporate loan demand, BSF's ability to compete in project finance and a lagged improvement in NIM are the key drivers of a projected 22% y-o-y increase in our 2023e EPS.</p> <p>SAR42.45</p> <p>Target price: SAR47.10</p> <p>Up/downside: +11.0%</p>	<p>Downside risks: 1) Slower than expected corporate loan growth; 2) decline in share of demand deposits resulting in lower than expected NIMs; 3) higher-than-expected increase in Stage 2 & 3 loan ratio resulting in stronger-than-expected increase in cost of risk; and 4) stronger cost growth than we estimate</p>
Aybek Islamov* aybek.islamov@hsbc.com +971 4423 6921		
Ooredoo ORDS QD Buy	<p>Current price: Given its relatively stable dividends, we value Ooredoo based on dividend yield assuming a target yield of 4.25%, which is the same as we assume for STC and E& (based on long-term historical average DY). We assume 2024e DPS of QAR0.54, resulting in our target price of QAR12.50, which implies 8.8% upside. We maintain our Buy rating as, despite some price rerating lately, we still believe there are catalysts (e.g., a potential Myanmar exit, Tower and other asset disposals, merger synergies in Indonesia) that could work in favour of the stock. Our DPS forecasts imply c55% payout for 2024e as Ooredoo, like other MENA telcos, focuses on absolute DPS within its dividend policy of 40-60% of normalised EPS.</p> <p>QAR11.49</p> <p>Target price: QAR12.50</p> <p>Up/downside: +8.8%</p>	<p>Downside risks: 1) Macro and geopolitical risks remain key for Ooredoo, with macro weakness or unfavorable geopolitical movements in its international operations potentially increasing the risk perception; 2) an increase in competitive intensity in some of its markets, which could negatively impact the growth outlook; 3) unfavorable FX movements; and 4) execution failure as we saw how the company was unable to maintain momentum in key markets after initial signs of progress.</p>
Madhvendra Singh*, CFA madhvendra.singh@hsbc.com +971 450 93348		

Priced at 6 July 2023

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Disclosure appendix

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Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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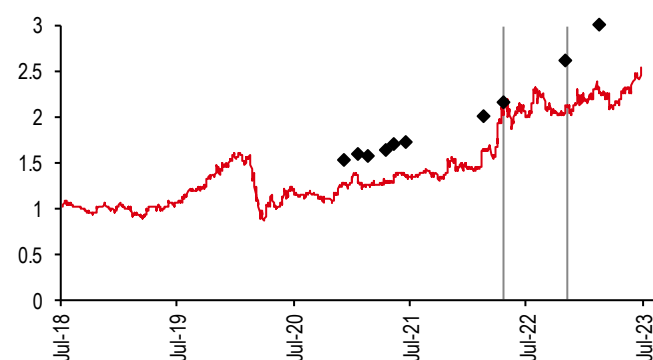
Buy	60%	(13% of these provided with Investment Banking Services in the past 12 months)
Hold	33%	(12% of these provided with Investment Banking Services in the past 12 months)
Sell	7%	(9% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

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Share price and rating changes for long-term investment opportunities

Air Arabia (AIRA.DU) share price performance AED Vs HSBC rating history



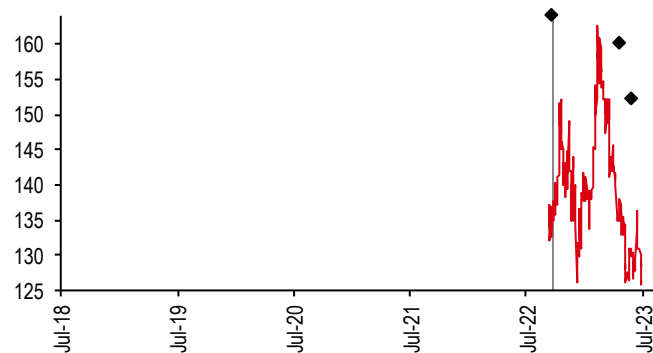
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Hold	26 Apr 2022	Cenk Orcan
Hold	Buy	10 Nov 2022	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	1.51	11 Dec 2020	Cenk Orcan
Price 2	1.59	22 Jan 2021	Cenk Orcan
Price 3	1.56	25 Feb 2021	Cenk Orcan
Price 4	1.63	20 Apr 2021	Cenk Orcan
Price 5	1.69	18 May 2021	Cenk Orcan
Price 6	1.72	24 Jun 2021	Cenk Orcan
Price 7	2.00	21 Feb 2022	Cenk Orcan
Price 8	2.15	26 Apr 2022	Cenk Orcan
Price 9	2.60	10 Nov 2022	Cenk Orcan
Price 10	3.00	23 Feb 2023	Cenk Orcan

Source: HSBC

Alamar Foods (6014.SE) share price performance SAR Vs HSBC rating history

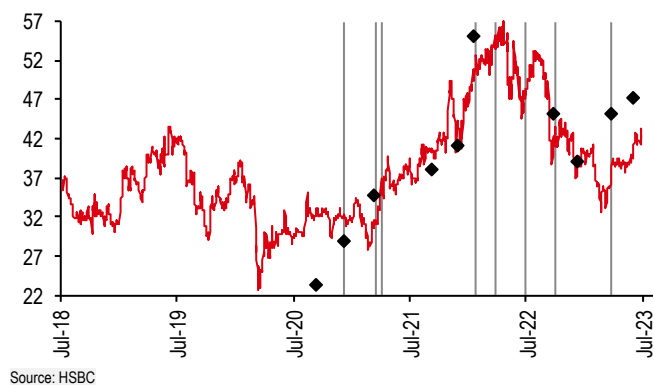


Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Buy	25 Sep 2022	Ankur Agarwal
Target price	Value	Date	Analyst
Price 1	164.00	25 Sep 2022	Ankur Agarwal
Price 2	160.00	24 Apr 2023	Ankur Agarwal
Price 3	152.00	30 May 2023	Ankur Agarwal

Source: HSBC

Banque Saudi Fransi (1050.SE) share price performance SAR Vs HSBC rating history


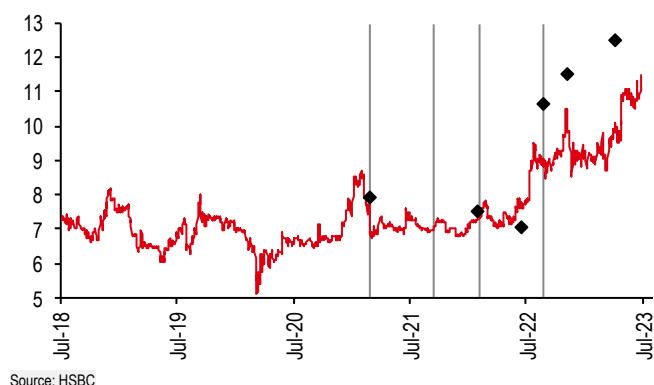
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Reduce	Hold	09 Dec 2020	Aybek Islamov
Hold	Buy	16 Mar 2021	Aybek Islamov
Buy	Hold	08 Apr 2021	Aybek Islamov
Hold	Buy	24 Jan 2022	Aybek Islamov
Buy	Hold	30 Mar 2022	Aybek Islamov
Hold	Buy	29 Jun 2022	Aybek Islamov
Buy	Hold	03 Oct 2022	Aybek Islamov
Hold	Buy	29 Mar 2023	Aybek Islamov

Target price	Value	Date	Analyst
Price 1	23.20	14 Sep 2020	Aybek Islamov
Price 2	28.90	09 Dec 2020	Aybek Islamov
Price 3	34.70	16 Mar 2021	Aybek Islamov
Price 4	38.00	16 Sep 2021	Aybek Islamov
Price 5	41.00	01 Dec 2021	Aybek Islamov
Price 6	55.00	24 Jan 2022	Aybek Islamov
Price 7	45.00	03 Oct 2022	Aybek Islamov
Price 8	39.00	13 Dec 2022	Aybek Islamov
Price 9	45.00	29 Mar 2023	Aybek Islamov
Price 10	47.10	08 Jun 2023	Aybek Islamov

Source: HSBC

Ooredoo (ORDS.QA) share price performance QAR Vs HSBC rating history


Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Hold	28 Feb 2021	Sunil Rajgopal
Hold	Restricted	16 Sep 2021	
Restricted	Hold	06 Feb 2022	Madhvendra Singh
Hold	Buy	30 Aug 2022	Madhvendra Singh

Target price	Value	Date	Analyst
Price 1	7.90	28 Feb 2021	Sunil Rajgopal
Price 2	Restricted	16 Sep 2021	
Price 3	7.50	06 Feb 2022	Madhvendra Singh
Price 4	7.00	21 Jun 2022	Madhvendra Singh
Price 5	10.60	30 Aug 2022	Madhvendra Singh
Price 6	11.50	16 Nov 2022	Madhvendra Singh
Price 7	12.50	10 Apr 2023	Madhvendra Singh

Source: HSBC

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Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
AIR ARABIA	AIRA.DU	2.54	06 Jul 2023	7
ALAMAR FOODS	6014.SE	126.40	06 Jul 2023	1, 5
BANQUE SAUDI FRANSI	1050.SE	42.45	06 Jul 2023	6, 7
OOREDOO	ORDS.QA	11.49	06 Jul 2023	7

Source: HSBC

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HSBC Bank Middle East Ltd, UAE branch
HSBC Tower, Downtown Dubai
PO Box 66
Dubai UAE
Telephone: +971 4 4235031
Fax: +971 4 4267397
Website: www.research.hsbc.com

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