

Q3-18 earnings Y/Y recovering

Q3-18 oil prices continued its recovery. TASI started the period on 8314.19 points, losing nearly 845 points to 7469.81 on the back of weak emerging market fundamentals and China/USA trade war. Since then, possible sanction on Iran and weak economic fundamentals of Venezuelan economy has posed risk to disrupt oil supply, resulting in a run in Oil prices. Crude price (Brent) recently reached USD 86.0/bbl, its highest level since the end of FY14, depicting an increase of 6.5%Q/Q to average at USD 76.5/bbl in 3Q/18 and USD 72.8/bbl since the beginning of 2018. Brent crude is currently moving at its highest levels in four years amid concerns of a global supply shortage, as US prepares to re-impose sanctions on Iran early November (Iran is the third largest exporter in OPEC with total export of 2.4mn/bpd).

The recovery in Oil prices along with investor confidence has buoyed TASI to close to 8000 points. For Q3-18, we expect companies under our coverage (or in our forecast) to post cumulative earnings of SAR 17.1bn depicting a jump of 12.0%Y/Y. Petrochemical sector is expected to post a healthy jump of 18.1%, whereas the Shariah compliant banks are expected to show a jump of 17.3%. Cement sector is expected to continue its losses on the back of weak demand fundamentals.

Petrochemicals

For Q3-18 we expect photochemical earnings will continue to grow, due to better product spreads, improved operating rates of most Petchem players; however, Q/Q results is expected to be under pressure due to higher feedstock cost and slight decline in some end product prices. During the quarter, we believe that the rebound in oil price was the key driver for the increases in most feedstock prices, while Petchem intermediates and end products witnessed mixed performance between modest increase to decline.

Prices of feedstock such as Naphtha rose 3.1%Q/Q to USD 663/ton (average prices), while average prices of NGL feedstock Propane and Butane increased by 13.0%Q/Q and 17.3%Q/Q respectively.

Prices of end products such as PP-Asia slightly declined by 0.5%Q/Q, while Ethylene derivatives such as HDPE and LDPE fell by 3.6%Q/Q and 5.5%Q/Q. The weighted average price of titanium dioxide continued to stabilize high at USD 3,438/ton in 3Q/18 from USD 3,425/ton in the previous quarter.

Urea average price jumps by 18.1%Q/Q to USD 288/ton due to improved fertilizer fundamentals. Prices of intermediate petrochemicals such as MEG-Asia and VAM declined by 4.0%Q/Q and 1.5%Q/Q respectively. The basic petrochemicals products such as Acetic Acid-AA prices fell by 12.1%Q/Q to an average price of USD 697/ton, while Methanol-China stabilize at USD 398/ton with no major change.

SABIC's earnings are expected to decline by 7.5%Q/Q to SAR 6,197mn on lower petrochemical products spreads, whereas metal and fertilizers business are expected

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to witness better Q/Q performance due to higher prices level and higher expected sales volumes. **Kayan**, gross margin is expected to be under pressure in 3Q-18 standing at 33.8% as compared to 37% in the previous quarter due to 17.5%Q/Q increase in the feedstock prices (Butane; represents 70% of the total feedstock), whereas HDPE-Asia and MEG declined by 3-4%Q/Q. **Advanced petrochemical**, net income is expected to decline to SAR 230.4mn from SAR 253.3mn due to tight margin and weak spreads of PP-Propane; as Propane (feedstock) average prices increased 13%Q/Q to USD 578/MT, while polypropylene prices fell by 0.5%Q/Q to USD 1,240/MT. **Sipchem**, is expected to show Q/Q weaker performance, impacted by lower sales volumes due to Methanol plant shutdown on 16th of Sep for 5 weeks; while Q/Q weaker sales revenue are mainly attributed to lower sales prices of some products, such as VAM and Acetic Acid-AA. We expect **Yansab**, to post SAR 747.0mn from SAR 821.0mn in 2Q-18; largely owing to higher feedstock cost (Propane: up by 13%Q/Q) and weaker prices of ethylene derivatives & MEG. **SAFCO**, net income is expected to increase to SAR 473.3mn from SAR 410.5mn in 2Q/18 (up 15.3%Q/Q), driven by higher sales volume and Urea prices. **Petrochem**, is expected to show net income of SAR 270.3mn; indicating a decline of 6.1%Q/Q due to higher Naphtha prices and lower sales prices for HDPE-Asia and LDPE-Asia. **Tasnee's** net profit is expected to fall in 3Q18 to SAR 371.0mn from SAR 396.0mn in the previous quarter, mainly due to lower product spreads of petrochemical segment, while industrial segment is expected to stabilize. **SAHARA**, earnings are expected to decline by 19.1%Y/Y due to the impact of un-scheduled shutdown for 17days of AlWaha plant in 3Q/18.

Shariah Banks

Shariah Compliant banks are expected to post earnings of SAR 3.6bn for Q3-18, against SAR 3.1bn in Q1-17. Alinma is expected to post the strongest growth of 21.6%Y/Y, followed by Albilad at 19.4%Y/Y and Alrajhi at 16.0%Y/Y. On a quarterly basis Bank Albilad is expected to post the highest growth of 6.5%. Improvement in earnings is backed by favorable growth in Deposits for Shariah banks, along with the higher lending rates.

Cement

For Q3-17 we expect Cement to continue its decline, as selling prices remain under pressure. We expect Selling prices to be below Q2-18 level. Cement dispatches have declined by 6.3%Y/Y in July and August, as exports relieved some of the pressure on dispatches. September dispatches are expected to witness Y/Y growth due to seasonality, still overall dispatches will record a decline in Q3-18. Revenue is expected to decline by 18.8%Y/Y for the companies under coverage. We place Arabian Cement "Under Review".

Telecom

STC is the only telecom company that is expected to post profits, whereas Zain and Mobily will continue to post net losses. However Mobily is expected to post a 50.4%Y/Y decline in losses, backed by slight improvement in revenues, improved gross margins and lower operating expenses. Zain will continue to post operational profits, however finance expenses will continue to put downward pressure on bottom line.

Healthcare

After posting disappointing earnings in Q2-18, sector companies are expected to report a marginally better set of Q3-18 results. The estimated improvement broadly stems from higher utilization of added capacity in the previous quarter, which burdened last quarter's earnings along with a seasonality factor. Higher utilization is expected to show in the Q/Q growth in top-line across the sector. Margin contraction is estimated to continue going forward, as expansions as well as sector macro factors weigh on margins. The sector underwent a significant drop in market cap (a 23.2% drop in total market cap during Q3-18) post Q2-18 earnings. The drop appear to have opened a window of opportunity for value plays after standing at relatively pricey levels for a while. We have revised our FY18 EPS and PTs while maintaining our recommendations for companies under coverage.

Dallah's top line is estimated to continue its growth trajectory with the addition of Nemar Hospital. However, Nemar's operating losses are expected to continue to pressure Dallah's bottom line, resulting in a Y/Y decline of 54% for the quarter. This pressure is expected to ease over time with the recent sign-up with insurance companies for the coverage of Nemar hospital. Net income for the quarter is expected to stand at SAR 35.3mn while revised FY18 EPS is estimated at SAR 2.67 (c. -6.3%). Mouwasat commenced operation of Al-Khobar hospital in the last two weeks of the quarter; the addition is expected to pressure operating margins given the pre-operating expenses involved without the significant addition to top-line. Revised FY18 EPS stands at SAR 3.45 (c. -7.7%). Care's H1-18 expansion (an addition of 170 beds and 40 clinics) is estimated to take full effect in Q3-18, which is behind our 6.6% and 42.1% estimated growth Y/Y and Q/Q respectively. Revised FY18 EPS stands at SAR 2.41 (c. -10.7%). SGH reported a disappointing set of Q2-18 earnings, the decline is expected to continue in Q3-18 with the ongoing operating margin contraction. We maintained outlook and our FY18 EPS at SAR 2.42.

Company Code	Company Name	Forecasted-Net Profit Q3-2018	Forecasted- EPS Q3-2018	Forecasted- QoQ growth	Forecasted- YoY growth	Forecasted- EPS 2018	Prospective PE-2018	Taregt Price	Recommendation
Banks									
1120	Bank Alrajhi	2,627.7	1.6	2.3%	16.0%	5.88	14.93	96.4	Overweight
1150	Bank Alinma	658.8	0.4	6.0%	21.6%	1.55	13.87	23.7	Overweight
1140	Bank Albilad	293.7	0.5	6.5%	19.4%	1.72	14.71	26.4	Neutral
Telecommunication Services									
7010	STC	2,510.1	1.3	2.7%	-4.2%	5.30	16.04	88.8	Neutral
7020	Mobily	(86.5)	(0.1)	-10.0%	50.4%	(0.47)	(40.38)	13.6	Underweight
7030	Zain	(45.3)	(0.1)	-20.6%	NA*	(0.17)	(37.31)	6.4	Neutral
Materials									
2010	SABIC	6,197.0	2.1	-7.5%	7.1%	8.21	15.35	126.0	Neutral
2060	TASNEE	371.0	0.6	-6.3%	93.6%	2.20	9.14	23.4	Overweight
2290	YANSAB	746.9	1.3	-9.0%	15.9%	5.24	13.45	78.0	Overweight
2020	SAFCO	473.3	1.1	15.3%	151.2%	3.6	22.06	70.0	Neutral
2310	Sipchem	166.3	0.5	-21.3%	36.8%	1.86	12.17	25.5	Overweight
2330	Advanced	230.4	1.2	-9.0%	10.6%	3.98	13.77	57.0	Neutral
2350	KAYAN	714.9	0.5	-18.6%	87.9%	1.79	9.75	22.1	Overweight
2260	SAHARA	133.7	0.3	-39.5%	-19.1%	1.46	12.49	19.5	Neutral
2002	Petrochem	270.3	0.6	-6.1%	37.3%	2.39	11.44	30.0	Neutral
1211	MAADEN	440.3	0.4	-15.0%	81.3%	1.69	30.53	53.0	Neutral
3020	Yamamah Cement	(33.4)	(0.2)	7.8%	NA*	-0.29	NM**	12.6	Neutral
3030	Saudi Cement	50.9	0.3	-12.2%	-41.7%	2.13	21.08	40.2	Neutral
3050	Southern Cement	22.2	0.2	-38.4%	-61.2%	1.35	25.48	31.9	Neutral
3040	Qassim Cement	15.8	0.2	-14.1%	-69.2%	1.29	25.78	31.2	Neutral
3010	Arabian Cement	(45.1)	(0.5)	11.2%	NA*	-1.34	NM**	NA*	Under Review
3060	Yanbu Cement	1.2	0.0	-73.9%	-93.3%	0.33	66.36	19.2	Underweight
3003	City Cement	6.8	0.0	-30.9%	-64.5%	0.27	36.04	9.3	Neutral
3080	Eastern Cement	12.6	0.2	-32.8%	-9.0%	0.73	28.11	21.4	Neutral
Health Care									
4007	Hammadi	17.36	0.14	-12.8%	-26.4%	0.79	34.18	29.8	Overweight
4002	Mouwasat	73.10	0.73	-16.8%	-4.7%	3.45	23.33	77.0	Neutral
4005	Care	28.80	0.64	42.1%	6.6%	2.41	20.95	51.4	Overweight
4004	Dallah	35.30	0.60	88.5%	-54.0%	2.67	22.73	70.0	Overweight
4009	Saudi German	43.20	0.47	26.0%	-28.0%	2.42	15.62	45.1	Overweight
Consumer Services									
1820	Al Hokair Group	(1.80)	(0.03)	NA*	NA*	(0.27)	NM**	20.2	Neutral
Food & Beverages									
2280	Almarai Co.	646.2	0.65	-2.2%	-3.1%	2.24	22.01	54.0	Neutral
MISC									
4260	Budget	41.4	0.58	1.5%	-3.3%	2.22	11.55	26.3	Neutral
6004	Catering	126.1	1.54	-3.3%	4.9%	5.78	14.60	94.3	Overweight
4031	SGS	144.2	0.77	27.9%	-9.9%	2.29	15.44	37.2	Neutral
4030	Bahri	203.1	0.52	6.5%	235.7%	1.88	18.51	35.2	Neutral

Source: TADAWUL, Prices as of 4 of October 2018

*Not Applicable, Not Meaningful

** Fiscal year ends March 2018

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