

**Key themes**

As Q1 ended, we present revenue and bottom-line estimates for companies under our coverage in various sectors.

Saudi Arabian Equities

Q1 2021 earnings preview

TASI recorded a gain of +14% (+14.7% YTD) in Q1, aided by a sharp recovery in oil prices, along with optimism over faster economic recovery and improving Government spending post rolling out vaccination program across the Kingdom. For the petrochemical sector, higher product prices, backed by healthy demand and tight supply, are likely to drive the combined earnings of the sector. As for the hospitals, revenue and profitability will be aided by improvement in utilization and continued improvement from outpatient revenue. However, for the consumer sector, high base effect and reduced basket size driven by lower purchasing power are expected to continue in Q1 FY 2021, which may keep the top-line under pressure. Further, we expect a negative top-line growth for the F&B sector due to the expat exodus, reduced pocket size, and delay in school re-opening. Cement companies' results are likely to come under pressure during the quarter, on the back of lower growth in volumes and pressure on cement prices on a y-o-y basis.

Petrochemicals

We expect the aggregate earnings of the petrochemical sector to improve in Q1 2021, driven by the continuous upward movement in product prices on optimism over healthy demand amid distribution of COVID vaccines globally, along with tight supply (disruptions on account of a winter storm in the US) and increased upstream costs (oil: +35% q-o-q). Key Polymer products (LDPE, HDPE, PP) prices rose in the range of 10-20% q-o-q in Q1 2021, while Methanol (CFR China), Polycarbonate, MEG prices soared 28% q-o-q, 23%, and 21%, respectively. VAM prices also increased sharply (+67% q-o-q). However, higher oil prices also pushed up the feedstock prices (Naphtha: 38% q-o-q; Propane; 36%; Butane: 33%) steeply. We expect SABIC, SIPCHEM, and SABIC Agri-Nutrients (post 100% of SABIC acquisition) to witness strong earnings growth, mostly driven by higher product prices. On the other hand, YANSAB (24 days and 10 days shutdowns at the MEG and Olefin plants, respectively) and APPC (25- and 16-days shutdowns at the Propylene and PP plants, respectively) could see pressure in its earnings, weighed down by lower sales volume on planned shutdowns. Kayan is likely to witness weakness due to 36 days shutdown at the Olefin plants (starting from 11 March 2021).

Retail

For Saudi retailers, high base effect and reduced basket size driven by lower purchasing power are expected to continue in Q1 FY 2021. For Jarir, the delay in school opening will continue to hurt top-line and margins while sustained strong demand for new iPhone, iPad, and play stations would drive retail revenue. We expect Extra results to standout as its consumer finance business is expected to leverage the growth during the quarter. Grocery retailers are expected to suffer due to expat exodus and reduced purchasing power. Overall, we expect a 2.5% y-o-y drop in top-line for the companies in this sector.

Cement sector

During Q4 2020, total cement sales volume increased 13% y-o-y aided by strong growth from mortgages. The total volume during 2020 grew 20% y-o-y. Growth for the first 2 months of 2021, was 4% y-o-y and came under pressure due to a



higher base. Among the companies under our coverage, Arabian Cement (63.9% y-o-y), Riyadh Cement (19.2%), and Najran Cement (16.0%) reported strong growth and outperformed the sector. Yamama Cement (-30.6%) and Southern Cement (-0.6%), were the only two companies in our coverage, which reported a drop in volume.

Average realized prices during Q4 2020 declined by c.11% y-o-y, though we expect prices to stabilize in the current quarter. By the end of Q4 2020, total inventory for the sector was at 37.1mn tonnes, representing c.70% of 2020 sales.

Going forward, we expect 1Q 2021 sales volume growth to come under pressure. Based on our estimates, companies under our coverage are expected to report a 4.2% y-o-y fall in revenue, at the back of pressure on volumes and a fall in the average realization on a y-o-y basis.

Telecoms

2020 was a unique year with the pandemic starting from the end of Q1 2020 in Saudi Arabia. The effect on the telecom sector was expected to be mixed with an unprecedented surge in data usage and a decline in the number of users because of lower roaming/Umrah/business visitors. In actual, the last 9M of 2020 saw STC's gross profit up by 5% y/y while Mobily's gross profit was up 2% and ZainKSA saw a decline. We look at gross profits instead of revenues to eliminate the effect of certain large very thin margin business segment which can distort growth numbers. In STC's March newsletter, the company reported a drop in prices for some of the high-value quicknet postpaid packages and most of the Baity Fiber packages, which was broadly expected. As such, with the continued decline in expats and no material change in prices, one could expect similar trends as in the recent past to continue. STC recently announced SAR1/share additional dividend for 2020 as a result of its receivables settlement while Mobily reinitiated dividends for 2020 which could increase to SAR1/share in 2021 in our view.

Food sector

The Food sector witnessed a significant growth in Q1 FY2020 mainly driven by pantry loading amid COVID-19 led lockdown. This quarter we expect negative top-line growth for the overall sector due to the high base effect, expat exodus, reduced pocket size, and delay in school re-opening. We also expect the margins to dilute a bit due to rising agro-commodity prices over the last six months which might also have an adverse impact on hedging cost. Restrictions in dining especially in February might have an adverse impact in wholesale demand from the restaurant industry.

Healthcare sector

The Q1 2021 results are likely to remain positive mainly due to improvement in utilization. Out-patient traffic growth is expected to continue to recover and grow in 1Q2021. Overall, we expect revenue of healthcare companies under our coverage to grow by 26.0% y-o-y, while net profit is expected to grow by 40.9% y-o-y, reflecting growth in revenue and the improvement in scale of operation.

Others

Insurance: GWP declined for Bupa in the last 9months of 2020 vs the equivalent period in 2019 because of a) high base b) likely down-trading of policies c) possible loss of some accounts. Also, loss ratios worsened in 2020 (same periods in comparison) given the travel restrictions in place as more clients likely got treated within hospitals in the Kingdom. This was witnessed in the strong growth in revenue for the healthcare firms as well. While this may reverse by the end of 2021 as travel restrictions ease, we forecast Q1 2021 loss ratios to be marginally weaker than 1Q 2020. Drop in GWP is likely to continue thereby leading to flat NEP. While the net profit is likely to be weaker than last year, we believe Bupa is a solid franchise with a dominant market share and is likely to continue its growth trajectory when things stabilize. Policy acquisition costs, provisions due to doubtful accounts, the impact of enforcement of Article 11 of the Cooperative Health Insurance Law, which requires insurance



companies to include some Govt. healthcare providers in their networks are other key factors to watch out for.

As for Tawuniya, key factors to watch out for in Q1 would be details on market share wins in the medical account, clean-up of accounts leading to possible improvement in medical loss ratios, zakat settlement, among others. Also, the outlook on the restart of Umrah/business visitors, and motor insurance regulatory changes are other factors. Overall, we expect GWP to decline marginally as a weak Hajj/Umrah portfolio could offset decent performance from other insurance segments (mostly P&C and Health). Overall loss ratio is expected to increase, mainly due to change in portfolio mix (weak contribution from high-margin Hajj and Umrah portfolio). However, this could be more than offset by lower underwriting expenses (including Manafeth insurance share distribution) and lower allowance for doubtful debt, which may push the earnings higher during the quarter.

Bawan: We expect Bawan to report strong growth in revenue and profitability, aided by robust revenue growth from the steel segment and the resultant improvement in operating efficiency. We also expect stable growth from the other segments, plastic, electricity, wood, and concrete to support the overall performance of the company.

SISCO: SISCO is expected to deliver a strong quarter driven by port segment revenue. The traffic in JIP is increasing, especially the transshipment volumes. The logistics and water segments are expected to remain flattish.

Ceramics: We expect the Saudi Ceramics top-line to grow by 6% y-o-y driven by volume growth in the tiles and sanitaryware segment. Gross margins are also expected to increase due to higher sales.

Leejam: Leejam is expected to report a net loss mainly due to the lockdown of clubs for almost a month. However, we do not expect any drop in the subscribers Q-O-Q.

Aldrees: Aldrees is expected to deliver a double-digit net income growth as the new stations opened in FY 2020 start contributing to the overall revenue. The total throughput per station, as well as revenue from the transportation segment, are also expected to improve as the economy progresses to a recovery path.



Saudi market: Q1 estimates of the companies we cover

Company	Revenues (SAR mn)					Net Profit (SAR mn)				
	2020Q1A	2020Q4A	2021Q1E	YOY % chg.	QOQ % chg.	2020Q1A	2020Q4A	2021Q1E	YOY % chg.	QOQ % chg.
Petrochemical										
SABIC*	30,193	32,848	39,678	31.4%	20.8%	(1,046)	2,223	4,607	NM	107.2%
Earnings are expected to improve significantly in Q1, driven by increased product prices and better operating efficiency.										
Sipchem	1,404	1,607	1,948	38.7%	21.2%	(53)	318	377	NM	18.7%
Higher product prices to drive earnings growth sequentially despite a couple of shutdowns at the IPC and SCC plants.										
SABIC Agri-Nutrients^	728	768	1,818	149.6%	136.6%	304	234	580	91.0%	148.2%
SAFCO is likely to start consolidating Al Baytar and Al Bayroni post the SANIC acquisition.										
Yansab	1,195	1,379	1,369	14.6%	-0.7%	104	333	206	96.8%	-38.2%
Shutdowns at the MEG plant (24 days) and Olefin plant (10 days) are likely to keep Q1 earnings under pressure sequentially.										
Kayan^	1,888	2,477	2,246	19.0%	-9.3%	(517)	158	(27)	94.8%	NM
Kayan is likely to report losses due to 36 days shutdown at the Olefin plants (starting from 11 March 2021).										
APCC	535	633	608	13.8%	-3.9%	104	180	142	36.4%	-20.9%
Lower sales volume amid the shutdown at Propylene (25 days) and PP (16 days) plants is likely to drag the profitability lower.										
Petrochemical Sector	35,943	39,711	47,667	32.6%	20.0%	(1,103)	3,445	5,884	NM	70.8%
Cement										
Arabian Cement	205	291	268	31.0%	-7.9%	45	53	43	-4.6%	-19.3%
Revenue growth to drive topline growth, though pressure on margins to impact bottomline										
Yamama Cement	290	211	176	-39.3%	-16.4%	124	114	57	-54.0%	-49.8%
Revenue and profitability impacted by lower volume										
Saudi Cement	450	435	446	-0.9%	2.6%	149	124	133	-10.2%	7.4%
Pressure on average realization to put pressure on both revenue and profitability										
Qassim Cement	262	238	229	-12.5%	-3.6%	111	113	106	-4.9%	-6.5%
Subdued volume growth and lower average realization to impact revenue and profitability growth										
Yanbu Cement	277	265	271	-2.3%	2.2%	92	71	78	-14.8%	10.6%
Pressure on average realization to put pressure on profitability										
Southern Cement	457	431	438	-4.2%	1.6%	183	177	176	-4.1%	-0.8%
Lower average realization to impact revenue and profitability growth										
Najran Cement	156	186	182	16.4%	-2.4%	40	84	63	56.6%	-25.0%
Strong volume growth to aid in revenue and profitability growth										
Cement Sector	2,098	2,057	2,010	-4.2%	-2.3%	744	736	656	-11.8%	-10.9%
Telecom										
STC	13,935	15,213	14,353	3.0%	-5.7%	2,913	2,683	2,626	-9.9%	-2.1%
We expect STC's financial performance to remain broadly stable given its sticky high ARPU customer base										
Mobily	3,600	3,533	3,672	2.0%	3.9%	130	246	253	94.5%	3.0%
We expect Mobily's growth to gradually decline given the challenging market conditions.										
Zain KSA	2,039	2,061	2,059	1.0%	-0.1%	105	36	55	-47.3%	54.2%
We expect ZainKSA to be impacted by weakness in number of expats.										
Telecom Sector	19,573	20,806	20,084	2.6%	-3.5%	3,148	2,965	2,935	-6.8%	-1.0%
Food & Agriculture										
Almarai	3,592	3,819	3,652	1.7%	-4.4%	367	333	315	-14.2%	-5.4%
Top-line to grow moderately while bottom-line to remain under pressure due to pressure in gross margins.										
Savola	5,923	5,183	5,522	-6.8%	6.5%	173	45	79	-54.3%	75.6%
Expat exodus and reduced pocket size to hurt top-line of retail business.										
Herfy	297	298	332	11.8%	11.4%	25	22	44	76.0%	100.0%
Herfy should post a strong bottom-line due to low base effect last year as the quarter was impacted due to lockdown										
Food & Agri. Sector	9,812	9,300	9,506	-3.1%	2.2%	565	400	438	-22.5%	9.5%



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Retail										
Jarir	2,340	2,554	2,302	-1.6%	-9.9%	252	287	250	-0.8%	-12.9%
We expect Jarir's top-line to decline marginally due to weak stationary sales										
Alhokair**	1,085	1,350	1,120	3.2%	-17.0%	(888)	(128)	77	NM	NM
Alhokair is expected to turn profitable amid improving EBITDA margin driven by F&B segment										
AlOthaim	2,379	2,045	2,285	-4.0%	11.7%	99	165	81	-18.2%	-50.9%
Top-line is expected to decline from a high base in Q1 FY2020										
Extra	1,232	1,955	1,343	9.0%	-31.3%	34	102	48	41.2%	-52.9%
Consumer finance business and market share expansion to drive the top-line growth										
Bindawood Holding	1,413	1,113	1,188	-15.9%	6.7%	126	57	77	-38.9%	35.1%
Decline in top-line due to high base last year as well as lower contribution from Harmain stores.										
Retail Sector	8,449	9,017	8,238	-2.5%	-8.6%	(377)	483	533	NM	10.4%
Healthcare										
Dallah	315	405	463	47.2%	14.3%	19	17	30	56.1%	75.7%
Acquisitions and improvement in utilization to aid in revenue and profitability growth										
Mouwasat	494	534	563	13.9%	5.4%	108	143	153	41.6%	6.8%
Improvement in utilization to aid in revenue and profitability growth										
NMCC	195	215	210	7.8%	-2.0%	33	22	33	-1.0%	49.3%
Pressure on margins to impact profitability										
Al Hammadi	207	292	289	39.9%	-0.9%	25	30	45	81.6%	49.9%
Improvement in utilization to aid in revenue and profitability growth										
Healthcare Sector	1,210	1,445	1,525	26.0%	5.5%	185	213	261	40.9%	22.8%
Other										
Bupa Arabia	3,470	1,658	3,192	-8.0%	92.5%	100	69	77	-23.2%	11.2%
Earnings are likely to remain under pressure on an annual basis due to weak GWP and likely higher policy acquisition costs.										
Tawuniya	2,573	2,699	2,545	-1.1%	-5.7%	67	44	112	68.1%	156.9%
Net income is likely to supported by lower other underwriting costs and lower provisions for doubtful debts.										
Leejam Sports	196	230	145	-26.0%	-37.0%	6	(1)	(11)	NM	NM
Earnings to be impacted due to lockdown in February 2021, we expect average subscribers to remain flat.										
Saudi Ceramics	393	368	417	6.0%	13.4%	11	28	47	338.9%	66.5%
Higher volumes and improvement in efficiency, at the back of higher scale of operation to aid profitability										
Aramco*	225,567	219,252	264,201	17.1%	20.5%	63,532	51,746	64,656	1.8%	24.9%
Top-line and bottom-line are likely to improve sequentially, driven by increased oil prices.										
SISCO	168	239	233	38.7%	-2.5%	27	28	24	-11.1%	-14.3%
Company is expected to deliver a strong quarter driven by rising port segment revenue										
Aldrees	1,458	1,496	1,909	30.9%	27.6%	30	40	54	80.0%	35.0%
Ramp-up of new stores and increase in throughput per station to drive the top-line growth.										
Bawan Company	643	707	775	20.5%	9.6%	15	30	44	188.4%	46.5%
Strong revenue growth and improved efficiency to aid profitability										
SADAFCO**	561	482	535	-4.6%	11.0%	75	64	65	-12.8%	1.6%
Expat exodus and over supply of milk will continue to have an adverse impact on the top-line.										

* Data is not comparable due to Aramco-SABIC deal ** SADAFCO and Fawaz Alhokair follow April-Mar financial year.

^ Data is not comparable due to SANIC acquisition; ^^ Non-covered



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"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.

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