

The quarter saw a number of positives i) oil prices showed a significant recovery, averaging at USD 74.9/bbl, as compared to USD 67.0/bbl in 1Q-2018, a significant improvement of 12.8%QoQ ii) Tadawul was included in the MSCI emerging index and iii) The sum total of the positives was that the Saudi GDP (Gross Domestic Product) grew by 1.2%YoY.

We have issued forecast for a total of 40 companies (Petrochemical sector forecast is issued in a separate report titled: **Petrochemical Sector - Forecasts Report**). Overall we expect a 38.4%YoY jump in earnings to SAR 26.6bn from the 40 companies. Major growth is expected from the petrochemical companies, which are expected to improve their profitability by 70.3%YoY. The three Sharia banks under our coverage are expected to post growth of 12.9%YoY. Cement (sub sector of basic material) and consumer sector are expected to remain weak with 36.7% and 65.8% fall in earnings YoY.

Banks: Shariah compliant banks have maintained their performance despite of the hurdles. The major challenge that remains for the sector is the muted loans growth, which potentially can recover once the economy steps out of recession. Recent GDP announcement does suggest that the economy has embarked on a road to recovery, which can potentially result in higher spending by the government. We remain positive on the Shariah banking sector, despite of increasing share of Murabaha deposits for Al-Bilad and Al-Inma. For Q1-2018 all three sharia banks are expected to improve their profitability based on higher lending rates, and marginal improvement in loans portfolio.

Telecommunication Services: After going through a rough patch in 2016 and 2017 due to the finger print registration, decline in expat population and the general slowdown in economy, the telecom sector is expected to show some improvement. According to data released by CITC, mobile subscribers at the end of Q1-2018 stood at 42mn subscribers, a significant improvement over 40.2mn subscriber base towards the end of 2017, depicting a jump of 4.5%QoQ. We expect STC to gain from the increase in subscribers whereas ZAIN has already shown a decline of 1mn subscribers. We expect STC to post earnings of SAR2.6bn, whereas ZAIN and Mobily will continue to post losses.

Cement sector: 2Q2018 earnings will be impacted by seasonality and slowdown in construction activity as Ramadan and Eid Holidays came in May and June, resulting in lower profitability on QoQ and YoY basis. Cement dispatches for the months of April and May dropped by 16.5%YoY to 7.6mn tons; whereas Cement sales for the month of June are expected to show a decline in the range of 45%-60%MoM across all companies under our coverage. We expect selling prices to show a decline on QoQ basis, except Arabian Cement and Yanbu Cement which we expect to show slight improvement after a sharp decline (discounts) during previous quarter. On YoY basis, we expect City Cement, Yamama Cement and Southern Cement to show improvement in selling prices. Yamama Cement is expected to show YoY growth as a result of expected higher selling price.

Consumer Services/Retail: Retailers are expected to post weak LFL growth in Q2-2018, growth will mainly come through expansions. Discretionary retailers are coming out of a weak Q1-2018, in which sales were pressured by VAT, pressure on disposable income, and a shift in spending to Q4-2017 (where sales experienced growth in Q4-2017 in anticipation of VAT in Q1-2018). Fawaz Al-Hokair recently posted Q4-2018 earnings (Fiscal year ends in March 2018), recording a negative surprise. We place the company "**Under Review**".

Healthcare: We expect sector companies to report revenue growth for the quarter, with expansions and capacity additions taking effect throughout Q2-2018. A level of margin contraction will show along with the growth in revenues. Dallah is expected to report its first full quarter after the commencing of Nemar hospital (at a capacity of 150 beds for the first phase of operations). This is expected to weigh in on the company's operating margins. Care will also reports its first full quarter with the added capacity (an estimated addition of 232 beds) which is expected to reflect positively on Care's bottom line (43.5% YoY). We update our recommendation on Saudi German Hospital (MEH) to "**Neutral**" with an unchanged PT of SAR 63.70 per share.

Company Code	Company Name	Forecasted-Net Profit Q2-2018	Forecasted- EPS Q2-2018	Forecasted- QoQ growth	Forecasted- YoY growth	Forecasted- EPS 2018	Prospective PE-2018	Taregt Price	Recommendation
Banks									
1120	Bank Alrajhi	2,412.4	1.48	1.3%	10.6%	5.88	14.60	96.4	Overweight
1150	Bank Alinma	600.0	0.40	3.1%	22.9%	1.55	13.73	23.7	Overweight
1140	Bank Albilad	270.1	0.45	5.5%	13.1%	1.72	13.66	26.4	Overweight
Telecommunication Services									
7010	STC	2,625.0	1.31	1.4%	10.5%	5.30	16.8	88.8	Neutral
7020	Mobily	(116.1)	(0.15)	-24.4%	38.8%	(0.85)	NM*	13.0	Underweight
7030	Zain	(59.5)	(0.10)	23.0%	NA*	(0.32)	NM*	6.4	Neutral
Retailing									
4190	Jarir	145.7	1.62	-33.5%	-1.4%	10.04	17.6	160.0	Neutral
4290	Fawaz Al Hokair **	159.6	0.76	NA*	-31.3%	1.44	16.4	NA*	Under Review
4008	SACO	38.9	1.62	166.6%	-3.6%	5.17	21.9	117.6	Neutral
Materials									
1211	MAADEN	553.6	0.47	-13.3%	55.3%	1.80	31.3	55.5	Neutral
3020	Yamamah Cement	13.7	0.07	-42.5%	12.6%	0.46	34.5	16.2	Neutral
3030	Saudi Cement	86.8	0.57	-39.0%	-7.6%	2.64	18.1	47.3	Neutral
3050	Southern Cement	82.5	0.59	-18.9%	-13.1%	2.52	16.1	45.3	Overweight
3040	Qassim Cement	36.0	0.40	-37.0%	-32.3%	2.16	17.8	44.5	Overweight
3010	Arabian Cement	6.9	0.07	-	-80.4%	1.19	24.6	27.1	Neutral
3060	Yanbu Cement	26.6	0.17	-32.9%	-66.9%	0.99	26.9	28.8	Neutral
3003	City Cement	7.4	0.04	-40.1%	-70.1%	0.38	28.9	10.3	Neutral
3080	Eastern Cement	12.3	0.14	-25.4%	-64.9%	0.58	40.9	25.7	Neutral
Health Care									
4007	Hammadi	28.9	0.24	-6.2%	12.9%	1.01	32.7	36.0	Neutral
4002	Mouwasat	86.2	0.86	-18.8%	12.8%	3.74	24.3	82.0	Neutral
4005	Care	28.0	0.62	9.4%	43.6%	2.70	21.9	66.2	Overweight
4004	Dallah	56.3	0.95	-3.1%	-19.6%	4.44	21.6	104.0	Neutral
4009	Saudi German	66.5	0.72	-23.6%	16.4%	3.22	18.5	63.7	Neutral
Consumer Services									
1810	Al Tayyar	153.8	0.73	79.7%	-27.4%	2.20	12.0	34.0	Overweight
1820	Al Hokair Group	(2.1)	(0.04)	71.7%	NA*	(0.27)	NM*	22.7	Neutral
Food & Beverages									
2280	Almarai Co.	702.9	0.70	104.2%	4.3%	2.29	25.9	54.0	Neutral
MISC									
4260	Budget	40.1	0.56	1.3%	-5.9%	2.20	15.7	31.4	Neutral
6004	Catering	121.3	1.48	0.9%	-7.4%	5.98	15.4	90.8	Neutral
4001	Al Othaim	80.6	0.89	19.8%	13.2%	4.36	17.5	81.0	Neutral
4031	SGS	104.2	0.55	-2.5%	-14.8%	2.25	15.9	39.5	Neutral
4030	Bahri	152.1	0.39	23.5%	-1.2%	1.77	17.6	35.2	Overweight

Source: TADAWUL, Prices as of 3 of July 2018

*Not Applicable, Not Meaningful

** Fiscal year ends March 2018

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- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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