

LUBEREF

Rating Change

Q2 23

Positive outlook priced in, downgrade to Neutral

After a strong rally of +40% since listing, we downgrade Luberef to Neutral with a revised PT of SAR132.5 as we believe the current price fully reflects all the positives. The new feedstock allocations are expected to annually add c130,000 MT of base oil, while we believe additional allocation is a key stock catalyst going forward. In the long-term, Yanbu expansion and introducing higher grades are the main stock drivers. The stock trades at 2023f P/E and EV/EBITDA of 16.8x and 12.4x vs its peer group average of 16.3x and 10.3x, respectively.

- More feedstock, positive impact**

In April 2023, Luberef signed an agreement with Saudi Aramco to receive additional supplies of up to 2,000 bpd of vacuum oil (VGO) to produce lighter grades of Group II from Yanbu facilities. We highlight that the additional feedstock is different from reduced oil, which represents most of the company's feed as it produces more diesel and naphtha with limited asphalt volumes. Moreover, its' price is based on a formula linked to diesel which is different from reduced oil which is linked to HSFO. The feedstock will be supplied to the Yanbu facility to produce mainly lighter grades of Group II. We estimate additional feed will increase the production volume by c37,000 MT. The one-year agreement will automatically renew and is subject to the product availability from Saudi Aramco.

- Additional RCO allocation of 5,000 bpd**

In May 2023, Luberef secured an additional allocation of 5,000 bpd of Reduced Crude Oil (RCO) from Saudi Aramco for its Yanbu plant, increasing the total allocation from 45,000 bpd to 50,000 bpd. We note that Yanbu plant initially had an allocation of 40,000 bpd, which increased to 45,000 bpd (during the IPO) and, with this allocation, increased further to 50,000 bpd. The amended agreement is effective from 01 June 2023 and it will be automatically renewed for another 12 months. The additional allocation can potentially increase Luberef's annual Group II base oil production by c88,000 MT and Bright Stock by 5,000 MT. This along with the VGO allocation, will increase production by c130,000 MT of base oil. Based on a crack margin of US\$585, we estimate EBIT would increase by cSAR280mn. We believe the additional volume allocation is a positive signal of the company's ability to secure more feedstock going forward.

- Crack margins to normalize**

In 2023f, we estimate crack margins to normalize gradually after a strong level in 2022 and Q1 23. We expect crack margins to decline by 11.7% yoy to US\$585 in 2023f and to reach US\$489 by 2024f (the long-term average). Accordingly, we forecast 2023f EBITDA and net income to reach SAR1.95bn (-22.4% yoy) and SAR1.42bn (-28.3% yoy), respectively. This is expected to result in an EBITDA and net income margins of 25.1% (vs 23.7% in 2022) and 18.3% (vs 18.6% in 2022). We estimate 2023f DPS of SAR6.7 with a pay-out ratio of c80%, reflecting a dividend yield of 4.7%.

- Downgrade to Neutral with a PT of SAR132.5**

After a strong rally of +40% since the IPO, we downgrade Luberef to Neutral with a PT of SAR132.5. The long-term outlook for Luberef is positive due to 1) Yanbu Growth II Expansion, to be completed in 2025f and 2) production of higher margin Group III base oil in 2026f. Moreover, additional feedstock allocation is a key short-term driver. The stock trades at 2023f P/E and EV/EBITDA of 16.8x and 12.4x, vs its peer group average of 16.3x and 10.3x respectively.

Summary Financials

SAR mn	2022	2023f	2024f	2025f	CAGR
Revenues	10,614	7,749	7,604	8,143	(8.5)%
Gross income	2,504	1,884	1,623	1,806	(10.3)%
Gross margin (%)	23.6%	24.3%	21.3%	22.2%	
EBIT	2,171	1,612	1,350	1,503	(11.5)%
EBIT Margin (%)	20.5%	20.8%	17.8%	18.5%	
Net income	1,978	1,419	1,216	1,381	(11.3)%
Net margin (%)	18.6%	18.3%	16.0%	17.0%	
EPS (SAR)	11.72	8.41	7.21	8.19	(11.3)%

Source: The company, SNB Capital Research

NEUTRAL

Price target (SAR)	132.5
Current price (SAR)	141.0
Upside/Downside (%)	(6.4)

VALUATION MULTIPLES

	22	23f	24f
P/E (x)	12.0	16.8	19.6
P/B (x)	4.7	4.7	4.5
EV/EBITDA (x)	9.6	12.4	14.2
Div Yield (%)	3.5	4.7	4.3

Source: SNB Capital Research estimates

MAJOR SHAREHOLDERS

Investor	% Ownership
Saudi Aramco	70.0%
Foreign Investors	4.6%

Source: Saudi Exchange, SNB Capital. As of 8 June 2023.

STOCK DETAILS

Range H/L since IPO (SAR)	141/93
Market cap (\$mn)	6,345
Shares outstanding (mn)	169
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	Since IPO
Absolute	15.2	28.4	42.4
Rel. to market	14.4	19.5	32.4

Avg daily turnover (mn)	SAR	US\$
3m	136	36.3
12m	145	38.8

Reuters code	2223.SE
Bloomberg code	LUBEREF AB
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