

Aramco Company

Resilient financial performance despite COVID-19

1Q21 profit higher than our estimate

Saudi Arabian Oil Co. (Aramco) Net Profit has increased by 23.7% YOY, from SAR63.53 bn in 1Q20 to SAR78.59 bn in 1Q21. However, it exceeded our estimate of SAR76.06 bn by 3.3%, in 1Q21. The profitability was driven up by higher oil prices and improved economic environment for the 1Q21.

P&L highlights

The Revenue for 1Q21 increased by 19.9% YOY to SAR300.16 bn from SAR250.34 Bn in 1Q20. Cost of sales increased by 16.9% YOY reaching SAR113.67 bn as compared to SAR97.22 bn in 1Q21. Resultantly, the Gross profit increased by 21.8% YOY to SAR186.48 bn in 1Q21 from SAR153.1 bn in 1Q20. Moreover, Operating profit increased by 17.1% on a year-on-year comparison reaching SAR151.88 bn from SAR129.73 bn. However, Selling General and administrative expenses almost doubled in 1Q21 witnessing an increase by 96.8% YOY from SAR6.3 bn in 1Q20 to SAR12.4 bn in 1Q21. Research & Development increased drastically to SAR878 mm in 1Q21 from SAR415 mm in 1Q20. Finance cost increased as well by 65.7% YOY reaching SAR2.62 bn in 1Q21 compared to SAR1.58 bn in 1Q20, while finance income decreased to SAR329 mm in 1Q21 from SAR1,171 in 1Q20.

Balance sheet highlights

Total assets have increased by 32.4% YOY from SAR1,474.22 bn in 1Q20 to SAR1,951.49 bn in 1Q21. Total liabilities have also significantly increased by more than 100% on a year-on-year basis reaching SAR827.98 bn from SAR394.68 bn in 1Q20. Equity increased by only 4.1% YOY in 1Q21 to SAR1,123.51 bn compared to SAR1,079.54 bn in 1Q20.

Target price and recommendation

We maintain our HOLD rating on the stock with a revised target price of SAR35.00 . The Energy Industry witnessed a strong recovery underpinned by rebalancing supply-demand drivers and a positive outlook due to an increase in global demand, aiding the increase in crude oil prices. Resultantly, Saudi Arabian Oil Company, Saudi Aramco, recorded strong financial and operational results during the first quarter of 2021. The Company mainly operates via three segments namely – Upstream, Downstream and Corporate. The Upstream segment (Operations in Hydrocarbon substances) reported an Average Total Hydrocarbon Production of 11mmbode in 1Q21, the highest production levels in the world. The EBIT from the Upstream segment increased by 6.4% YOY to SAR150 bn in 1Q21, as compared to SAR141 bn in 1Q20. This was mainly driven by fiscal discipline and favourable changes in the energy markets. Furthermore, positive changes in average realized crude oil prices (\$60.2/

Rating : HOLD

First Look Note – 1Q21

Sector: Energy

Recommendation

Current Price (10-May)	35.80
Target Price (SAR)	35.00
Upside/(Downside) (%)	-2.2%

Stock Information

Market Cap (mm)	7,160,000
Share Capital (mm)	60,000
52 Week High	37.15
52 Week Low	31.70
3M Avg. daily value (SAR)	170,697,900



Financial Ratios

Dividend Yield (12m)	3.93
Dividend Pay-out (%)	152.11
Price-Earnings Ratio (x)	38.88
Price-to-Book Ratio (x)	7.22
Book Value (SAR)	4.96
Return-on Equity (%)	18.26
Earning Per Share (SAR)	0.92
Adj Beta (2Y)	0.764

Stock Performance

5 Days	1.13%
1 Months	0.56%
3 Months	3.32%
6 Months	1.42%
1 Year	14.01%
Month to Date (MTD)	1.13%
Quarter to Date (QTD)	-0.56%
Year to Date (YTD)	2.29%

barrel) impacted the earnings, partially offset by the lower volumes sold. The Capital Expenditure increased by 18.6% YOY to SAR24.4 bn in 1Q21, as compared to SAR20.5 bn in 1Q20. This was mainly due to projects related to construction and procurement. The segment has consistently invested in technology and encouraged digital transformations. In January 2021, Aramco and Saudi Telecom Sector (STC) discovered the Damman 7 supercomputer to facilitate exploration and development projects. The supercomputer is amongst the ten most powerful computers in the world.

The second segment, *Downstream* (Refining and Petrochemical businesses) reported a strong recovery in EBIT to SAR16.7 bn in 1Q21, as compared to a Loss of SAR19 bn in 1Q20. The reported robust performance was mainly due to the improvement in the macroeconomic environment in the first three months of 2021, optimization in petrochemicals and refinery operations also supported the margins. EBIT was further positively impacted by the inventory re-valuation gains. The segment consolidates SABIC's results, that supported the robust EBIT. The Capital Expenditure on the segment reduced by 15% YOY to SAR5.86 bn in 1Q21 as compared to SAR6.9 bn in 1Q20. This was mainly due to overall portfolio optimization and completion of deployed projects. During 1Q21, Aramco and Dow Chemical Company partnered with Sadara Chemical Company Joint Venture to provide feedstock and extend the debt repayment time-period. This is in line with Downstream long-term strategy to achieve results through strategic diversification of its operations. Resultantly, the Company reported a 30% YOY increase in Total Net Profit to SAR81.4 bn in 1Q21, as compared to SAR62.5 bn in 1Q20. This was mainly due to improvement in oil markets, higher Downstream margins slightly impacted by the lower production. The Company reported a strong 21.7% YOY increase in its Free Cash Flow position to SAR68.5 bn in 1Q21, as compared to SAR56.33 bn in 1Q20. This was mainly due to improvement in its Operating Cash flow, driven by increase in earnings, reduction in cash paid for settlement of income, zakat and other taxes, contrary to changes in the working capital. The Earnings and Strong Cash Flow is driven by sold volumes of refinery, hydrocarbon products and favourable market prices. Furthermore, the 1Q21 results are supported by consolidation of SABIC's performance following the June 2020 acquisition. The Capital Expenditures increased by 10.9% YOY to SAR30.8 bn in 1Q21, as compared to SAR27.74 bn in 1Q20. This was mainly due to Capex relating to Upstream segment, which constitutes of 79.2% of the Total Capex. The Company has forecasted around \$35 bn in capital expenditures for 2021, as compared to the original guidance of \$40 -\$45 bn. The guidance is maintained in line with the expected favourable macroeconomic environment. Furthermore, due to the Company's robust Free Cash Flow position, around SAR70.32 bn in Dividends were declared in 1Q21, a 40% YOY increase from SAR50.2 bn in 1Q20. The declared dividends are expected to be paid in 2Q21. It amounts to a DPS of SAR0.35 in 1Q21. Similarly, the EPS increased by 22% YOY to SAR0.39 in 1Q21, compared to SAR0.32 in 1Q20. The Total Assets increased slightly by 1.2% YOY to SAR1951 bn in 1Q21, from SAR1914 bn in 1Q20. The Gearing Ratio remained stable at 23% in 1Q21, as compared to 23% in 1Q20 signalling that Aramco has maintained its level of operations financed via debt. The ROACE has decreased to 14.2% (12-month rolling basis) in 1Q21, as compared to 26.3% in 1Q20. This was mainly because of lower Net Income over the 12-month period and increase in borrowings in June 2020 due to the SABIC acquisition. Resultantly, the Average capital employed increased and impacted the ROACE. Aramco's strategic highlights include the \$12.4 bn infrastructure deal to optimize its portfolio. This is in line with company's vision regarding creating opportunities. Furthermore, the Shareek Program is launched to tap in opportunities via incentives and promote investments. In April 2021, Aramco sold 49% equity interest in Aramco Oil Pipelines to EIG Global Energy Partners for SAR46.5 bn in cash consideration. The Company maintained its title of Global Energy Supplier with 100% reliability in deliveries in 1Q21 (1Q20: 99.7%) demonstrating operational strength and logistics agility. The 2021 outlook for Aramco is optimistic with favourable expectations from the energy demand in 2021. As per the management statement, Aramco has a strong position to cover the world's expected energy as the macroeconomic outlook improves. Based on the above. We maintain our HOLD rating on the stock.

Saudi Aramco P&L

(SAR MM)	1Q20	4Q20	1Q21	1Q21F	Var	YOY	QOQ	2020	2021F	YOY
Revenue	250,345	243,798	300,157	272,069	10.3%	19.9%	23.1%	862,091	1,290,161	49.7%
Direct costs	97,224	95,340	113,672	104,866	8.4%	16.9%	19.2%	345,430	484,716	40.3%
Gross profit	153,121	148,458	186,485	167,203	11.5%	21.8%	25.6%	516,661	805,445	55.9%
Selling/ general & admin. Ex-penses	6,302	17,816	12,403	14,632	-15.2%	96.8%	-30.4%	46,970	54,731	16.5%
Research & development	415	1,045	878	781	12.4%	111.6%	-16.0%	2,830	3,414	20.6%
Others	16,672	25,107	21,317	20,223	5.4%	27.9%	-15.1%	83,501	89,122	6.7%
EBIT	129,732	104,490	151,887	131,567	15.4%	17.1%	45.4%	383,360	658,178	71.7%
Share of assoc.	1,585	-748	-1,787	942	-289.7%	-212.7%	138.9%	3,554	1,094	-69.2%
Provision/(+reversal)	65,257	49,655	69,940	49,524	41.2%	7.2%	40.9%	188,661	302,957	60.6%
Finance income	1,171	530	329	885	-62.8%	-71.9%	-37.9%	3,182	1,569	-50.7%
Finance cost	1,583	3,658	2,623	2,963	-11.5%	65.7%	-28.3%	10,564	11,492	8.8%
Profit for the period	62,478	52,455	81,440	79,023	3.1%	30.3%	55.3%	183,763	344,204	87.3%
Non Controlling interest	1,054	-709	2,850	2,964	-3.8%	170.4%	-502.0%	1,163	11,649	901.6%
Attributable profit	63,532	53,164	78,590	76,059	3.3%	23.7%	47.8%	184,926	332,555	79.8%

Saudi Aramco-Margins

SAR (MM)	1Q20	4Q20	1Q21	1Q21F	Var	YOY	QOQ	2020	2021F	YOY
GPM	61.2%	60.9%	62.1%	61.5%	67	97	124	59.9%	62.4%	250
EBIT margin	51.8%	42.9%	50.6%	48.4%	224	-122	774	44.5%	51.0%	655
Net margin	25.4%	21.8%	26.2%	28.0%	-177	81	438	21.5%	25.8%	433

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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