

Saudi Arabian Oil Co.

Dividend yield turns attractive after the recent stock price correction

Overweight

Price Target (SAR): 33.0

Current (6th August 2024): 27.20
Upside/Downside: 21% above current

Valuation Multiples	23	24E	25E
P/E (x)	14.5	14.7	14.7
P/B (x)	3.8	3.8	3.6

Major Shareholders

Major Shareholders	% Ownership
Kingdom of Saudi Arabia	81.48

Price Performance

	YTD	3M	1M
Absolute	-3.7%	-7.7%	-14.9%
Relative to TASI	-3.4%	-2.1%	-12.5%

Earnings

SAR(bn)	2023	2024E	2025E
Revenue	1,856	1,804	1,827
Y-o-Y	-17.6%	-0.4%	1.0%
Operating income	868	827	866
Operating margin	46.8%	45.8%	47.4%
EBITDA	965	925	965
EBITDA margin	52.0%	51.3%	52.8%
Net Profit	453	436	448
Net Margin	24.4%	24.2%	24.5%
EPS (SAR)	1.87	1.80	1.85
DPS (SAR)*	1.69	1.93	1.32
Payout ratio	90.6%	106.8%	71.4%
Dividend Yield	6.2%	7.1%	4.9%
P/E (Current)	14.5x	15.1x	14.7x
P/E (Target)	17.6x	18.3x	17.8x

Source: Company data, Al Rajhi Capital * Base+PLD

Q22024 revenues at SAR471mn were a beat of 4% and net income was 6% ahead of our estimates. The numbers were slightly above our expectations led by higher volumes in the downstream, slightly better realized oil prices and lower taxes. Although refined products' volumes increased on both a y-o-y and q-o-q basis, the downstream business continued to be under pressure weighed by a continued weakness in refining margins and inventory valuation losses. In line with expectations, the company announced Q2 total dividends of SAR 0.4815/share (includes PLD of SAR 0.167).

That being said, Aramco's future capital expenditure outlook (\$48-58bn between 2024-2028) still stands robust despite the MSC slated to sustain at 12mmbpd owing to the Ministry's Directive curtailing expansion from 13mmbpd to 12mmbpd. Although the expansion pause led to a reduction in the earmarked capex by USD 40 bn over the same period, the current outlook for capex persists above the amount expended in FY23. The company invested USD 24 bn in H1 2024 (2024 guidance: USD 48-58 bn) and USD 12.5 bn in Q2 2024. The company awarded 16 contracts for Jafurah phase II development with a combined total of around USD 12.4 bn. This underlines the company's unhindered focus on the expansion of the gas business including the development of Jafurah unconventional field. It also aligns well with the company's strategy of improving gas production by 60% by 2030. Moreover, the company's entry into the blue hydrogen space in July 2024 envisages further product portfolio expansion in the new energies segment.

The gradual unwinding of OPEC's voluntary output cut from Q42024 onwards should lead to a rise in crude production volumes thereby underpinning total hydrocarbon production for Aramco from FY25 onwards albeit FY24 production volumes are poised to witness a decline y-o-y. Despite headwinds from lower production, the company's expected dividends for FY24 at SAR1.93/sh (incl. base and PLD) implies an attractive dividend yield of 7.1% at the current price. The high dividend paying ability is backed by the company's solid free cash flow position.

However, we trim our revenue and earnings expectations for the company on account of slightly lower crude oil prices expectations in H2 2024 than before. It is worth highlighting that the PLD from FY25 onwards (based on FY24 Free cash flows net of base dividend) might be lower than the current levels due to the shorter horizon of free cash flows available for calculation. Nevertheless, the dividend yield for FY25 is pegged at the level of 4.8% to 4.9%. The company has sufficient liquidity in the form of internal cash flow generation and is further cushioned by the recent funding of USD 6 bn. All in all, the recent correction in the stock price is pricing in the possibility of weak oil prices to a large extent, thus opening up the possibility of upside from the current levels in absence of any major adverse economic event. Further, the dividend yield of over 7% in 2024 and ~5% in 2025 is attractive and supports the share price. Accordingly, we upgrade our recommendation to Overweight despite slightly adjusting our target price downwards to SAR 33/share from SAR33.5/sh earlier.

Valuations: We value the company based on the blended method of dividend yield and DCF. The DCF approach, based on a 1.5% terminal growth rate and 7.5% WACC implies a fair value of SAR32/sh. We continue to expect solid cash flow generation and stability in the company's performance over the coming years. The company is on-track in terms of its expansion projects and will continue to maintain strong dividends going forward. The current dividend yield of 7.1% in 2024 and 5% in 2025 is substantially higher than the historical average (4.5% between the period 2019-2022), thereby lending support to the share price. With cautiousness around oil price and global uncertainties, for our dividend yield valuation method, we assume some risk premium and value the stock at 4.75% target yield, higher than its historical yield of 4.5%, this yields a fair value of SAR 34/share. An equal weighted mix of both these methods yield a target price of SAR 33/share, that offers an upside of 21% at the current price. Thus, we upgrade our recommendation to "Overweight" from neutral before.

Figure 1 **Valuation Summary**

Dividend Yield Methodology	
Average DPS 2024-2025e	1.62
Target Yield	4.75%
Fair value (SAR/sh)	34.2

Valuation Summary	Fair Value	Weight (%)	Target Price
DCF based fair value	32	50.0	16
Dividend yield based fair value	34	50.0	17
Target Price (SAR/sh)			33.0

Source: Company data, Al Rajhi Capital

Figure 2 **Dividend Summary**

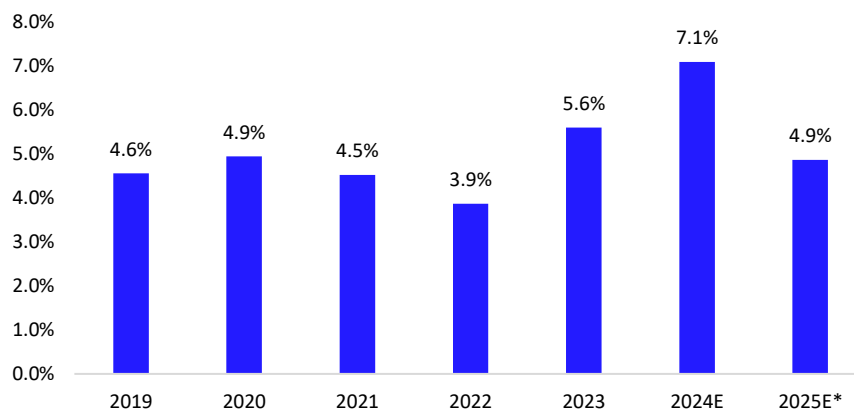
Dividend to be Paid	2024E
PLD @ 70% (\$bn)	43.1
PLD @ 70% (SARmn)	161,625
PLD/share (SAR)	0.67
Base Dividend/sh (SAR)	1.26
Total Dividend/sh (SAR)*	1.93
Dividend Yield#	7.1%

Source: Company data, Al Rajhi Capital; * Total Dividend includes PLD as expected by the company; #Dividend yield calculated based on dividends to be paid in FY24 rather than dividends to be announced

Dividend Calculation 2025E	PLD at 50%	PLD at 60%	PLD at 70%
Cash flow from Operations	518,250	518,250	518,250
Capital expenditure	(188,128)	(188,128)	(188,128)
Free Cash Flow net of Base dividend	25,686	25,686	25,686
PLD (SARmn)	12,843	15,412	17,980
PLD/share (SAR)	0.05	0.06	0.07
Base Dividend/sh (SAR)	1.26	1.26	1.26
Total Dividend/sh (SAR)*	1.31	1.32	1.33
Dividend Yield#	4.8%	4.9%	4.9%

Source: Company data, Al Rajhi Capital; *Dividends for 2025 is calculated based on cash flows of FY24; #Dividend yield calculated based on dividends to be paid in FY25 rather than dividends to be announced

Figure 3 **Dividend Yield (FY19-FY25E)**



Source: Company data, Al Rajhi Capital; Dividend Yield for Historical years based on average market price for the particular year;
*Assumed PLD @ 60% for calculating Dividend Yield of FY25

Financials

Figure 4 Income Statement

(SARbn)	2023	2024E	2025E
Revenue	1,653	1,647	1,664
Other income related to sales	203	157	163
Revenue and other income related to sales	1,856	1,804	1,827
Production royalties and excise and other taxes	(232)	(199)	(187)
Purchases	(471)	(487)	(474)
Producing and manufacturing	(97)	(94)	(100)
Selling & General Administrative expenses	(77)	(84)	(85)
Other expenses	(112)	(114)	(115)
Operating profit	868	827	866
Interest expense	(8)	(13)	(19)
Other income	28	21	11
Profit before zakat and income tax	888	834	858
Zakat and income tax	(433)	(400)	(414)
Net income before minority	455	434	444
Non controlling interest	(2)	2	4
Profit for the period after minority interest	453	436	448

Source: Al Rajhi Capital estimates

Figure 6 Cash Flow Statement

(SARbn)	2023	2024E	2025E
Cash from operating activities	538	518	549
Cash from investing activities	(54)	(83)	(96)
Cash from financing activities	(511)	(419)	(299)
Net change in cash and cash equivalents	(27)	16	154
Cash and cash equivalents, end of the period	199	215	369

Source: Al Rajhi Capital estimates; investing activities assumes further redemption of short term investments

Figure 7 Key Ratios

KPIs	2023	2024E	2025E
Operating margin	46.8%	45.8%	47.4%
EBITDA margin	52.0%	51.3%	52.8%
Net margin	24.4%	24.2%	24.5%
ROA (%)	18.3%	17.5%	16.9%
ROE (%)	26.1%	25.6%	24.8%
D/E (x)	9.1%	11.5%	13.1%

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

(SARbn)	2023	2024E	2025E
Assets			
Cash & cash equivalents	199	215	369
Inventories	86	87	88
Trade receivables	164	157	159
Other current assets	267	187	107
Total current assets	716	646	724
Property plant and equipment	1,385	1,475	1,565
Intangibles	165	165	165
Investment in joint venture and associates	69	65	62
Other non-current assets	127	127	127
Total non-current assets	1,746	1,832	1,919
Assets held for sale	15	15	15
Total assets	2,478	2,493	2,658
Liabilities			
Accounts payables	152	138	140
Government obligations	97	97	97
Borrowings	64	64	64
Total current liabilities	312	299	300
Long term debt	226	286	346
Other non-current liabilities	197	197	197
Liabilities associated with assets held for sale	6	6	6
Total non-current liabilities	429	489	549
Shareholders' equity			
Share capital	90	90	90
Additional paid in capital	27	27	27
Treasury shares	(1)	(1)	(1)
Retained earnings	1,419	1,389	1,497
Non controlling interest	202	200	196
Total equity	1,737	1,705	1,809
Total liabilities	2,478	2,493	2,658

Source: Al Rajhi Capital estimates

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