Saudi Aramco
Energy
ARAMCO AB: Saudi Arabia
24 March 2025

alrajhi capital الراجحي المالية

US$1.67trn	18.51%	US$70.49mn
Market Cap.	Free Float	Avg. Daily Value traded

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Saudi Arabian Oil Co.

Long-term growth engines in place despite near-term headwinds

Overweight

Price Target (SAR): 31.00

Current (24th March 2025): 25.95
Upside/Downside: 19.5% above current

Valuation Multiples	24	25E	26E
P/E (x)	15.9	16.5	15.6
P/B (x)	3.8	3.7	3.5

Major Shareholders	% Ownership
Kingdom of Saudi Arabia	81.48

Price Performance	YTD	3M	1M
Absolute	-7.5%	-8.1%	-4.6%
Relative to TASI	-5.3%	-7.0%	-0.2%

Earnings

SAR(bn)	2024	2025E	2026E
Revenue	1,802	1,737	1,814
Y-o-Y	-2.9%	-3.6%	4.4%
Operating income	775	755	806
Operating margin	43.0%	43.5%	44.4%
EBITDA	878	864	923
EBITDA margin	48.7%	49.8%	50.9%
Net profit before minority	398	384	406
Net Profit after minority	394	380	402
EPS (SAR)	1.63	1.57	1.66
DPS (SAR)*	1.78	1.32	1.29
Payout ratio	109.1%	84.4%	77.7%
Dividend Yield	6.8%	5.1%	5.0%
P/E (Current)	15.9x	16.5x	15.6x
P/E (Target)	20.3x	21.0x	19.9x

Source: Company data, Al Rajhi Capital; * DPS is base+PLD

Saudi Aramco's 4Q24 earnings were dragged by lower crude oil prices, slightly lower production compared to last year and persisting pressure in the downstream business. Oil production in the Kingdom averaged around 8.95mmbpd for Q42024 while Crude oil prices averaged around $74.0/bbl in Q42024 (company realized prices: $73.1/bbl) vis-à-vis $78.7/bbl in Q32024 (realized: $79.3/bbl) and $82.9/bbl in Q42023 (realized: $85.9/bbl). Brent prices edged lower in Q42024 owing to no major recovery in demand on the macro front and lingering overhang of geopolitical tensions. Hence, the upstream business was affected by lower realized prices. Given the weak demand, lower spreads and sluggish pricing for petroleum products, refinery margins also continued to be soft during the quarter. Accordingly, 4Q24 top-line registered a decline of 7.8% q-o-q and 6.7% y-o-y. The aforementioned reasons also lead to lower full year revenues for FY24 at SAR 1801.7bn (-2.9% y-o-y).

The capex story- The stock price has corrected recently due to the concern around weak oil prices and the company's guidance for smaller PLD for FY25 due to the investments required for its ongoing growth capex. For FY24, the company's capital outlay at $53.3bn was well within the guided range ($48-58bn). To pivot its growth strategy, the capital expenditure for FY25 has been pegged between $52-58bn. The investment guidance remains strong, despite the MSC being slated to sustain at 12 mmbpd with the capex construct expected to be divided as 60% for upstream, 30% for downstream and 10% for new energy. The upstream segment will focus significantly on gas as the key area for capex, that should result in 60% growth in the sales gas production capacity by 2030 and incremental associated liquids up to 1mmbpd should be available by 2030. Based on the company's growth plan, if we consider only the downstream and gas related growth trajectory, Aramco targets incremental cash flows in the range of $17-20bn over the base level of 2021. We anticipate the capital expenditure to peak in 2026 and investment outlay to gradually reduce post 2026. This would eventually boost free cash flows and push the FCF notably by 2030. Accordingly, there is a possibility that base dividend may increase in the medium term as incremental cash flows start accruing and the growth capex starts normalizing.

Macro view- On the other hand, we are slightly cautious on oil prices for FY25 given the push for accelerated production in the US besides the US tariffs on China, Canada and Mexico. There is also a persisting overhang on the supply dynamic as a result of OPEC+'s decision to pursue its planned output hike from April'25 onwards leading to gradual restoration of output. Although demand is projected to grow, but production ramp-up may lead to surplus supply. Therefore, in the current backdrop, any significant upside in oil prices appears limited. The YTD average for Brent is around $75/bbl and we assume oil prices to average around $70-80/bbl in FY25. Hence, in our view, the higher hydrocarbon production by Aramco will fully be offset by subdued Brent leading to lower revenues for the oil giant in FY25. Moreover, the downstream business will continue to be under pressure in the near term unless there is a meaningful improvement in refining margins. Overall, Aramco's robust earnings will lead to resilient base dividends of approximately $84.6bn in FY25 (SAR 0.3278/sh per quarter).

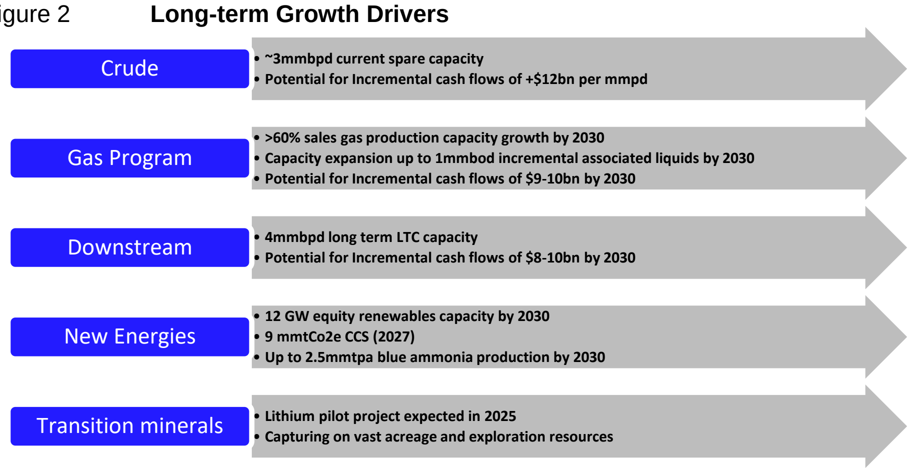
Owing to a shorter time horizon of cash flows available for PLD calculation (single year cash flow) as well as higher capex requirement, PLD payout for FY25 will largely be shy of the FY24 payout. Despite this, we continue to remain positive on the company given the i) strong balance sheet and healthy cash flow generation, ii) progress towards Jafurah gas field project and robust capex outlay with respect to its gas endeavours, and iii) incremental cash flow materialization having the potential to push base dividends in the long-term.

Figure 1 **Earnings Summary 4Q24**

(SAR bn)	Q4 2024	Q3 2024	Q4 2023	y-o-y	q-o-q	FY24	FY23	y-o-y
Revenue (Incl. other income)	428.6	464.6	459.3	-6.7%	-7.8%	1801.7	1856.4	*-2.9%*
Revenue (ex. other income)	392.9	416.6	409.2	-4.0%	-5.7%	1637.3	1653.3	*-1.0%*
Operating profits	**173.3**	**192.8**	**199.1**	**-13.0%**	**-10.1%**	**774.6**	**868.3**	***-10.8%***
Operating margin	*40.4%*	*41.5%*	*43.4%*			*43.0%*	*46.8%*	
Net Profit before minority	**83.8**	**103.4**	**100.2**	**-16.4%**	**-19.0%**	**398.4**	**454.8**	***-12.4%***
Net margin	*19.5%*	*22.2%*	*21.8%*			*22.1%*	*24.5%*	

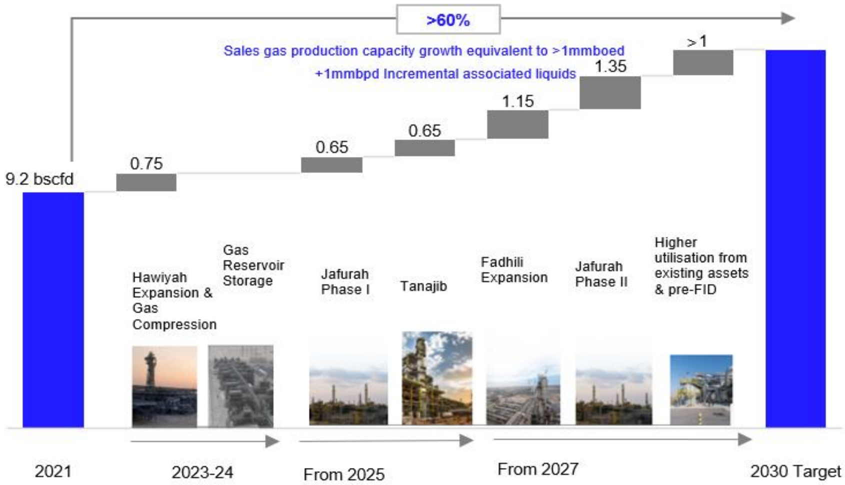
Source: Company data, Al Rajhi Capital

Figure 2 **Long-term Growth Drivers**



Source: Company data, Al Rajhi Capital

Figure 3 **Sales gas capacity expansion plan**



Source: Company data, Al Rajhi Capital

Valuations: We value the company based on the DCF methodology. The DCF approach based on a 1.5% terminal growth and 8.6% WACC implies a fair value price of SAR31/sh. The company's ability to generate strong cash flows provides a solid foundation for sustaining and potentially increasing its base dividend payout. Despite the lower PLD for FY 2025, the estimated dividend yield is at 5.1%, higher than the historical average of 4.5% between 2019-2022 (pre-PLD phase) and also higher than the average for global peers of 4.7%. Although muted PLDs in the near-term is a headwind for the company, the fair value from the DCF methodology underscores the medium-term growth outlook. We maintain our rating 'Overweight' for the company with a TP of SAR31/sh (compared to SAR33/sh earlier), implying an upside of 19.5% at the current price.

Figure 4 **Valuation Summary**

DCF Valuation Model (in SAR'bn)	2024A	2025E	2026E	2027E	2028E	2029E	2030E
Free Cash Flow to Firm	**300**	**283**	**309**	**371**	**396**	**431**	**465**
Enterprise value	**7,742**						
Add: cash	321						
Less: Debt	(319)						
Less: Minorities	(193)						
Less: Employee benefit obligations	(27)						
Equity value	**7,524**						
No. of shares outstanding (mn)	242,000						
Target Price (SAR/sh)	**31**						

Source: Company data, Al Rajhi Capital; #Net debt is based on 4Q24

Figure 5 **Peer Analysis**

Peers	2025 Dividend Yield
Chevron Corp	4.21%
Shell PLC	4.20%
BP PLC	5.77%
Exxon Mobil Corp	3.50%
Total Energies SE	5.76%
Mean	**4.69%**

Source: Bloomberg, Al Rajhi Capital

Risks: The key downside risks to our valuation assumptions are steep correction in crude oil prices, lower-than expected production volumes and lower-than-expected dividends.

Financials

Figure 6 **Income Statement**

(SARbn)	2024	2025E	2026E
Revenue and other income related to sales	**1,802**	**1,737**	**1,814**
Production royalties and excise and other taxes	(201)	(153)	(153)
Purchases	(509)	(500)	(506)
Producing and manufacturing	(110)	(118)	(127)
Selling & General Administrative expenses	(89)	(87)	(90)
Other expenses	(118)	(123)	(131)
Operating profit	**775**	**755**	**806**
Interest expense	(11)	(13)	(10)
Other income	18	10	1
Profit before zakat and income tax	**782**	**752**	**797**
Zakat and income tax	(384)	(368)	(391)
Net income before minority	**398**	**384**	**406**
Non controlling interest	(5)	(4)	(4)
Profit for the period after minority interest	**394**	**380**	**402**

Source: Al Rajhi Capital estimates

Figure 8 **Cash Flow Statement**

(SARbn	2024	2025E	2026E
Cash from operating activities	509	500	535
Cash from investing activities	(3)	(122)	(221)
Cash from financing activities	(488)	(334)	(322)
Net change in cash and cash equivalents	18	44	(8)
Cash and cash equivalents, end of the period	**217**	**261**	**253**

Source: Al Rajhi Capital estimates

Figure 9 **Key Ratios**

KPIs	2024	2025E	2026E
Operating margin	43.0%	43.5%	44.4%
EBITDA margin	48.7%	49.8%	50.9%
Net margin	21.9%	21.9%	22.2%
ROA (%)	16.3%	15.3%	15.6%
ROE (%)	23.9%	22.2%	22.2%
D/E (x)	0.16x	0.16x	0.15x

Source: Al Rajhi Capital estimates

Figure 7 **Balance sheet**

(SARbn)	2024	2025E	2026E
Assets			
Cash & cash equivalents	217	261	253
Inventories	84	87	89
Trade receivables	168	165	156
Other current assets	94	14	14
Total current assets	**562**	**527**	**512**
Property plant and equipment	1,494	1,602	1,711
Intangibles	165	165	165
Investment in joint venture and associates	65	61	56
Other non-current assets	134	134	134
Total non-current assets	**1,858**	**1,961**	**2,066**
Assets held for sale	3	3	3
Total assets	**2,424**	**2,491**	**2,581**
Liabilities			
Accounts payables	157	162	158
Government obligations	84	84	84
Borrowings	58	58	58
Total current liabilities	**299**	**304**	**300**
Long term debt	262	262	262
Other non-current liabilities	211	211	211
Liabilities associated with assets held for sale	-	-	-
Total non-current liabilities	**473**	**473**	**473**
Shareholders' equity			
Share capital	90	90	90
Additional paid in capital	27	27	27
Treasury shares	(4)	(4)	(4)
Retained earnings	1,345	1,405	1,494
Non controlling interest	193	197	201
Total equity	**1,651**	**1,715**	**1,808**
Total liabilities	**2,424**	**2,491**	**2,581**

Source: Al Rajhi Capital estimates

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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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