Saudi Arabian Oil Co.

Investment Update

Economic headwinds and weaker oil fundamentals to weigh on performance; but placed well to capitalize on potential opportunities arising from trade war

Saudi Arabian Oil Company (Aramco) is expected to face pressure on its topline over the near-term amid a challenging global backdrop marked by declining oil prices, trade tensions, and lack of significant recovery downstream demand. The company's revenue is projected to contract by 3.5% in FY25E to SAR 1.74tn, primarily driven by lower average oil prices (forecasted ~12% Y/Y decline) and muted product demand across downstream segments. Dividend payouts are also expected to moderate, with a total estimated distribution of SAR 1.32 per share in FY25E and SAR 1.34 per share in FY26E, reflecting constrained free cash flow. Nevertheless, current market dynamics may offer short-term opportunities for Saudi crude, as additional global sanctions and tariffs on key oil exporters like Russia, Iran, and Venezuela could re-route demand in favor of Aramco. Moreover, disruption of supply chains due to US-China trade war could potentially create an opportunity for Saudi crude oil in Asia. Over the longer horizon, Aramco remains well-positioned for growth, supported by strategic drivers including the rollback of OPEC+ production cuts, expansion of gas production (notably Jafurah Phase I and II), and incremental downstream capacity. We forecast revenues to gradually recover, reaching SAR 2.05tn by FY29E, implying FY24–29E CAGR of 2.7%. Operating and EBITDA margins are projected to improve from 43.0% and 48.7% in FY24 to 46.7% and 52.6% by FY29E, respectively, supported by anticipated normalization of oil fundamentals in the long term and increased production efficiency. Net income is expected to grow at a CAGR of 4.1% over the same period, with net margins expanding from 21.9% in FY24 to 23.5% in FY29E, underscoring Aramco's resilient long-term fundamentals despite near-term volatility. We cut our TP on Aramco to SAR 29.6/share (from SAR 32.1/share) but keep the "Overweight" recommendation.

Q1-25 net profit growth to be aided by operating margin expansion following one-off impact in the prior quarter; revenue likely to be steady Q/Q amid flat oil prices: Aramco's net profit is expected to increase by 8.3% Q/Q in Q1-25 to SAR 94.0bn primarily driven by a better operating margin and slightly higher revenue. Revenue is forecasted to inch up 0.3% Q/Q to SAR 429.7bn. The marginal improvement in average crude oil prices (Brent: +0.5% Q/Q) is likely to support a slight growth in upstream revenue (+0.6%), as we expect volumes to be flat with oil output maintained at same level due to extension of cuts by OPEC+ and gas production at Jafurah phase I is anticipated to start in H2-25. The downstream revenue is expected to be largely steady (-0.4% Q/Q). Operating profit is expected to show a growth of 7.5% Q/Q to SAR 186.3bn, attributable to 300bps expansion of operating margin (43.4%) as the previous quarter was impacted by one-off non-cash impairment of downstream assets ~SAR 8bn. We expect the downstream segment to reach close to break-even level with absence of one-off along with anticipated stable revenue and refining margins.

Weakened oil price outlook amid tariff war and persistent pressure in downstream business key headwinds in the medium term: Aramco is expected to witness pressure on topline in both upstream and downstream businesses. Upstream business is likely to be hit by oil demand concerns due to growing global economic uncertainties fueled by trade war which has dragged oil prices to the lowest level since 2021. Thus, we expect oil prices to be weighed down by global macroeconomic factors. We forecast average oil prices to be ~12% lower Y/Y in FY25E and a sustained pressure in FY26E. Moreover, we believe the downstream business topline will also be pressured as anticipated slower economic growth is likely to lead to sluggish product demand and prices across the industries. We forecast total downstream revenue to decline 0.2% in FY25E, before gradually recovering from FY26E onwards. Overall, we expect Aramco's topline to contract by 3.5% in FY25E to SAR 1.74tn. However, anticipated start of recovery in FY26E and growth in the coming years driven by factors such as 1) roll back of oil production cuts 2) improvement in oil fundamentals 3) expansion of gas production and 4) expansion of downstream capacity. Thus, revenue is estimated to reach SAR 2.05tn by FY29E, implying FY24-29E CAGR of 2.7%.

Recommendation	Overweight
Target Price (SAR)	29.6
Upside / (Downside)*	14.8%

Source: Tadawul *prices as of 23rd of April 2025

Key Financials

in SAR bn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenues	1,856	1,802	1,739	1,808
Growth %	-18.1%	-2.9%	-3.5%	4.0%
Operating Profit	868	775	768	820
EBITDA	965	878	880	937
Net Income	453	394	388	414
Growth %	-24.2%	-13.0%	-1.6%	6.7%
EPS	1.87	1.63	1.60	1.71
DPS	1.52	1.93	1.32	1.34

Source: Company reports, Aljazira Capital

Key Ratios

	FY23	FY24	FY25E	FY26E
Operating Margin	46.8%	43.0%	44.2%	45.3%
EBITDA Margin	52.0%	48.7%	50.6%	51.8%
Net Margin	24.4%	21.9%	22.3%	22.9%
ROE	29.5%	27.0%	25.8%	26.2%
ROA	18.5%	16.4%	15.9%	16.4%
P/E	17.6	17.2	16.1	15.1
P/B	5.2	4.7	4.1	4.0
EV/EBITDA (x)	8.2	7.8	7.2	6.7
Dividend Yield	4.6%	6.9%	5.1%	5.2%

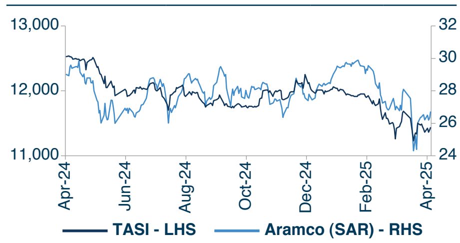
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	6,232
YTD%	-8.2%
52 weeks (High)/(Low)	30.25/24.60
Share Outstanding (mn)	242.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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Expected growth in upstream volumes could be a silver lining during challenging environment; a potential opportunity Saudi crude amid additional sanctions and tariffs on other producers: In FY24, Saudi Arabia's crude oil export to China decreased ~9% to 1.6mbpd (decline for a third consecutive year). China imported the highest crude oil from Russia, while Iranian supply re-routed through Malaysia also increase significantly in FY24. However, with additional rounds of sanctions by the US on crude oil supplies from Russia and Iran may result in China moving to other options for crude oil imports. Saudi Arabia still being second largest provider of crude oil to China is likely to benefit. Moreover, another decision by the US to impose tariffs on buyers of crude from Venezuela may create an opportunity for other suppliers including KSA. Furthermore, the ongoing disruption of global supply chains resulting from the US-China trade war has the potential to open new avenues for Saudi crude oil in the Asian markets, particularly China. Thus, in our view Saudi Arabia's crude oil production to move in line with recent OPEC+ plan for unwinding of output cuts. We expect crude oil production to average at 9.3 mbpd in FY25E, with total liquids production reaching 10.5 mbpd in FY25E from 10.3 mbpd in FY24. Gas production is also expected to increase with the start of Jafurah Phase I. We forecast total hydrocarbon production to reach 12.7 mmboed in FY25E from 12.4 mmboed in FY24. In the long term, planned expansion of gas production and gradual improvement in liquids output is expected to increase total hydrocarbon production for Aramco to 14.6 mmboed at FY24-29E CAGR of 3.3% (Liquids: 2.6% CAGR and Gas: 6.2% CAGR.

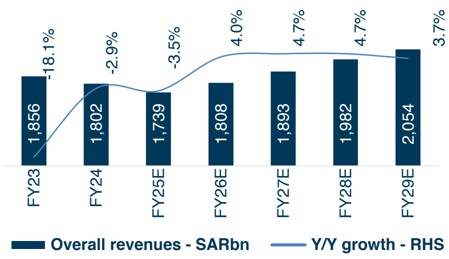
Blended valuation summary

	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Brent crude price (USD/bbl)	79.9	70.2	70.6	72.3	74.1	75.2
Realized oil price (USD/bbl)	80.2	70.9	71.3	73.0	74.9	76.0
Total hydrocarbon production (mmboed)	12.4	12.8	13.4	13.8	14.2	14.6

Source: AlJazira Capital research

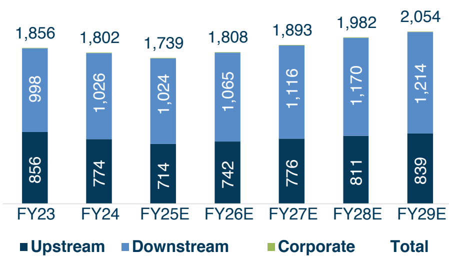
Lower royalites and higher production to support margin this year; consistent improvement anticipated over a longer horizon: We expect Aramco's EBITDA and operating margins to improve to 50.6%/44.2% in FY25E from 48.7%/43.0% in FY24, despite a fall in revenue, mainly on account of lower royalties amid lower oil prices. Royalites as percentage of topline is expected to decrease from 11.1% in FY24 to 8.6% in FY25E. Moreover, higher production would also support operating efficiencies. These two factors are likely to counteract the negative impact anticipated from refining margins and higher depreciation and amortization. In the long run, we believe growing production level and improvement in operating environment would support margin expansion. EBITDA and operating margins are expected to reach 52.6%/46.7% by FY29E. Net margin is forecasted to expand from 21.9% in FY24 to 23.5% in FY29E, leading to a net income CAGR of 4.1%.

Fig.1 Revenue (SAR bn) and Y/Y growth



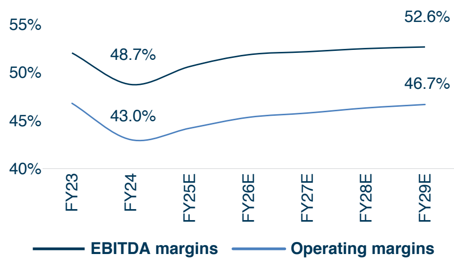
Source: Company reports, Aljazira Capital

Fig.2 Revenue by segments (SAR bn)



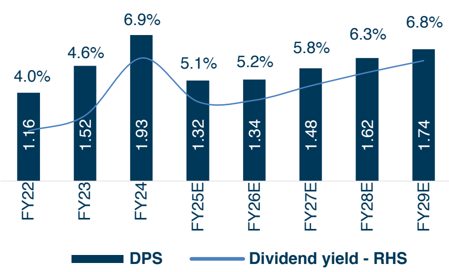
Source: Company reports, Aljazira Capital

Fig.2 Margins trend



Source: Company reports, Aljazira Capital

Fig.3 DPS and dividend yield



Source: Company reports, Aljazira Capital

AJC view and valuation: Aramco's earnings are expected to be hit by unfavorable global macro environment and weakened oil fundamentals in the near to medium term. We expect revenue to contract by 3.5% in FY25E to SAR 1.74tn, primarily driven by lower average oil prices (forecasted ~12% Y/Y decline) and muted product demand across downstream segments. Dividend payment is also likely to be lower at ~SAR 1.32 per share for FY25E and SAR 1.34 per share in FY26E. Nonetheless, market shifts driven by sanctions and tariffs on other key oil exporters could boost demand for Saudi crude, offering short-term upside for Aramco. Over the long term, the company remains well positioned for steady growth, backed by the rollback of OPEC+ cuts, expansion of gas output (including Jafurah Phase I & II), and increased downstream capacity. We forecast revenue to reach SAR 2.05tn by FY29E (2.7% CAGR), with EBITDA and operating margins expanding to 52.6% and 46.7%, respectively. Net income is expected to grow at 4.1% CAGR, with net margins rising from 21.9% in FY24 to 23.5% in FY29E, reinforcing confidence in Aramco's structural strength. We value Aramco assigning 50% weight to DCF (2.0% terminal growth and 8.2% WACC), while we assign 50% weight to EV/EBITDA (8.0x) multiple applied to average FY25-26E estimates. We cut our TP on Aramco to **SAR 29.6/share** (from SAR 32.1/share). We maintain our "**Overweight**" rating on the stock.

Risks to valuation: Higher than expected oil and gas prices, higher market share gains due to change in oil supply chain amid trade war, better economic growth, less severe impact of trade war are key **upside risks** to our valuation. On the other hand, potential increase in oil supply due to resolution of Russia-Ukraine war and decisive outcome of US-Iran nuclear talks, prolonged pressure on oil prices and demand, sluggish economic growth, failure to execute the expansion plans across gas and downstream business, trade war inducing global recession are key **downside risks** to our valuation.

Blended Valuation

Valuation Summary	Fair Value	Weight	Weighted Average
DCF	29.5	50%	14.7
EV/EBITDA (8.0x average FY25-26E)	29.7	50%	14.8
Weighted average 12-month TP			**29.6**
Current market price (SAR /share)			25.8
Expected Capital Gain			**14.8%**

Source: Aljazira Capital Research, prices as of 23rd April 2025

ALJAZIRA CAPITAL الجزيرة كابيتال الجزيرة للأسواق المالية

Key Financial Data

Amount in SAR bn, unless otherwise specified	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement									
Revenues	1,502	2,266	1,856	1,802	1,739	1,808	1,893	1,982	2,054
Y/Y	**74.2%**	**50.9%**	**-18.1%**	**-2.9%**	**-3.5%**	**4.0%**	**4.7%**	**4.7%**	**3.7%**
Royalties	(145)	(342)	(232)	(201)	(149)	(156)	(170)	(186)	(198)
General administrative expenses	(500)	(689)	(659)	(723)	(710)	(716)	(736)	(756)	(776)
Depreciation & Ammortization	(86)	(92)	(97)	(103)	(111)	(118)	(120)	(122)	(123)
EBITDA	**857**	**1,236**	**965**	**878**	**880**	**937**	**987**	**1,039**	**1,081**
Y/Y	**86.6%**	**44.1%**	**-21.9%**	**-9.1%**	**0.2%**	**6.5%**	**5.3%**	**5.3%**	**4.0%**
EBITDA margin	**57.1%**	**54.5%**	**52.0%**	**48.7%**	**50.6%**	**51.8%**	**52.1%**	**52.5%**	**52.6%**
Operating profit	**772**	**1,144**	**868**	**775**	**768**	**819**	**866**	**917**	**958**
Y/Y	**101.4%**	**48.2%**	**-24.1%**	**-10.8%**	**-0.8%**	**6.6%**	**5.7%**	**5.9%**	**4.5%**
Operating margin	**51.4%**	**50.5%**	**46.8%**	**43.0%**	**44.2%**	**45.3%**	**45.8%**	**46.3%**	**46.7%**
Financial charges	(12)	(9)	(8)	(11)	(12)	(11)	(11)	(10)	(9)
Income before zakat	**770**	**1,153**	**888**	**782**	**770**	**820**	**865**	**914**	**956**
Zakat	(357)	(549)	(433)	(384)	(378)	(402)	(424)	(448)	(469)
Net income	**412**	**604**	**455**	**398**	**391**	**418**	**441**	**466**	**487**
Minority interest	17	7	2	5	4	4	4	5	5
Adjusted income	**395**	**597**	**453**	**394**	**388**	**414**	**436**	**461**	**482**
Net profit margin	**26.3%**	**26.4%**	**24.4%**	**21.9%**	**22.3%**	**22.9%**	**23.0%**	**23.3%**	**23.5%**
EPS (SAR)	1.63	2.47	1.87	1.63	1.60	1.71	1.80	1.90	1.99
DPS (SAR)	1.16	1.16	1.52	1.93	1.32	1.34	1.48	1.62	1.74
Balance sheet									
Assets									
Cash & equivalent	327	507	383	230	230	278	272	243	196
Other current assets	285	351	348	336	310	307	311	320	323
Total current assets	**611**	**858**	**732**	**565**	**540**	**585**	**583**	**563**	**519**
Property plant & equipment	1,405	1,463	1,549	1,659	1,734	1,786	1,817	1,836	1,845
Total assets	**2,163**	**2,470**	**2,453**	**2,396**	**2,438**	**2,529**	**2,554**	**2,548**	**2,508**
Liabilities & owners' equity									
Trade payables	125	135	152	157	152	158	165	173	180
Other current liabilities	105	121	102	84	86	94	104	114	119
Total current liabilities	**229**	**257**	**254**	**242**	**238**	**252**	**270**	**288**	**298**
Long term loans	436	318	226	262	272	282	262	242	222
Total non-current liabilities	**578**	**472**	**399**	**446**	**456**	**466**	**446**	**426**	**406**
Total owners' equity	**1,113**	**1,449**	**1,535**	**1,458**	**1,503**	**1,576**	**1,609**	**1,612**	**1,588**
Non-controling interests	167	217	202	193	189	185	181	176	171
Total equity & liabilities	**2,163**	**2,470**	**2,453**	**2,396**	**2,438**	**2,529**	**2,554**	**2,548**	**2,508**
Cashflow statement									
Operating activities	523	698	538	509	513	543	568	594	616
Capex	(120)	(141)	(158)	(189)	(197)	(180)	(163)	(152)	(143)
Dividends	(288)	(296)	(455)	(639)	(343)	(341)	(403)	(458)	(506)
Change in cash	138	298	(21)	(183)	1	48	(6)	(29)	(48)
FCF	403	557	380	320	316	363	405	442	473
Liquidity ratios									
Current ratio (x)	2.7	3.3	2.9	2.3	2.3	2.3	2.2	2.0	1.7
Quick ratio (x)	1.2	1.4	1.4	1.4	1.3	1.2	1.2	1.1	1.1
Profitability ratios									
EBITDA margin	57.1%	54.5%	52.0%	48.7%	50.6%	51.8%	52.1%	52.5%	52.6%
Operating margin	51.4%	50.5%	46.8%	43.0%	44.2%	45.3%	45.8%	46.3%	46.7%
Net profit margin	26.3%	26.4%	24.4%	21.9%	22.3%	22.9%	23.0%	23.3%	23.5%
Return on assets	18.3%	24.2%	18.5%	16.4%	15.9%	16.4%	17.1%	18.1%	19.2%
Return on equity	35.5%	41.2%	29.5%	27.0%	25.8%	26.2%	27.1%	28.6%	30.4%
Leverage ratio									
Net Debt / equity (x)	0.17	(0.08)	(0.06)	0.06	0.06	0.03	0.02	0.03	0.04
Market/valuation ratios									
Market price (SAR)	29.60	29.18	33.00	28.05	25.75	25.75	25.75	25.75	25.75
Market capitalization	7,163	7,062	7,986	6,788	6,232	6,232	6,232	6,232	6,232
EV/sales (x)	4.9	3.1	4.3	3.8	3.6	3.5	3.3	3.2	3.1
EV/EBITDA (x)	8.6	5.6	8.2	7.8	7.2	6.7	6.4	6.0	5.8
P/E ratio (x)	18.1	11.8	17.6	17.2	16.1	15.1	14.3	13.5	12.9
P/BV ratio (x)	6.4	4.9	5.2	4.7	4.1	4.0	3.9	3.9	3.9
DY (%)	3.9%	4.0%	4.6%	6.9%	5.1%	5.2%	5.8%	6.3%	6.8%

Source: Aljazira Capital Research, prices as of 23rd April 2025

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. 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.
3. 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.
4. 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.

Disclaimer