

Neutral

Price Target (SAR): 33.50

Current (17th March 2024): 31.15
Upside/Downside: 7.5% above current

Valuation Multiples	23	24E	25E
P/E (x)	16.6	16.8	16.5
P/B (x)	4.4	4.3	4.0

Major Shareholders	% Ownership
Kingdom of Saudi Arabia	82.19

Price Performance	YTD	3M	1M
Absolute	-5.6%	-5.3%	-2.5%
Relative to TASI	-12.2%	-15.3%	-4.6%

Earnings

SAR(bn)	2023	2024E	2025E
Revenue	1,653	1,656	1,688
Y-o-Y	-17.6%	0.2%	1.9%
Operating income	868	867	890
Operating margin	52.5%	52.4%	52.8%
Net Profit	453	449	456
Net Margin	27.4%	27.1%	27.0%
EPS (SAR)	1.87	1.86	1.88
DPS (SAR)*	1.22	1.21	1.21
Payout ratio	65.3%	65.1%	64.2%
Dividend Yield	3.9%	3.9%	3.9%
P/E (Current)	16.6x	16.8x	16.5x
P/E (Target)	17.9x	18.0x	17.8x

Source: Company data, Al Rajhi Capital; *base dividend

Saudi Aramco

Steady capex plans, Neutral view

Saudi Arabian Oil Company's Q4 2023 revenues (SAR459) came broadly in line with our expectations of SAR453bn. However, revenues dropped by 3.5% sequentially as oil prices edged lower post the spike in prices in Q3 2023 supported by OPEC+ extension of production cuts and other macroeconomic developments. Brent crude settled around \$82.4/bbl in Q4 2023. The company's reported revenues for FY23 came in significantly lower than FY22 (-18.1%) driven by the correction in crude prices, lower oil production averaging around 9mmbpd in contrast to the existing capacity of 12mmbpd aligned with OPEC+ production cut strategy. Besides, chemical refining margins in the downstream segment also inched lower on account of the fall in product prices.

On the other hand, despite the recent directive from Ministry of Energy to sustain the MSC at 12mmbpd instead of the earlier targeted expansion to 13mmbpd by the company, the future capital expenditure stream is poised to be strong owing to the company's sustained investment in both upstream and downstream expansion. Aramco's capex outlay has been pegged by the management in the range of \$48-58bn for FY24 and even higher for FY25 onwards underpinned by the company's ambitious endeavors for natural gas extraction and the development of Jafurah oil field besides maintaining a healthy oil recovery rate. Incremental natural gas production shall also enable the company to release additional quantities of oil for export.

Outlook- Furthermore, we opine that oil prices will continue to average above \$80/bbl over the coming years due to reasons ascertained in our latest oil report (Jan'24). The pace of incremental oil supply in the Permian region has been witnessing a slowdown on a y-o-y basis over the past few months shedding light on the uncertainties surrounding the rate of growth in supply. Moreover, international agencies' higher forecast for oil demand in 2024 vis-à-vis 2023 validates that the oil market would continue to be balanced. As a result, our expectation for oil prices over the coming years is slightly higher than that of consensus. We expect the revenues to be flat in FY2024 supported by firm oil prices despite the extended production cut in the current year. Moreover, the compression in refining margins would reverse as petchem product prices start to stabilize. Additionally, the company's ability for robust free cash flow generation remains intact thereby allowing the possibility for PLD (although with a shorter horizon for free cash flow calculation) to continue besides strong base dividends. However, we taper our estimates for revenues and earnings for FY24 owing to OPEC+ extension of production cut through the second quarter of 2024 which would keep revenues subdued. Moreover, in our view, the world oil consumption for FY24 might fail to exceed 103mmbpd on account of the persisting sluggishness in the global economy as the global PMI has only recently snapped its sub 50 trend. Hence, the current demand predictions do not imply the need for higher supply. Overall, post updating FY23 financials, we revise our target for the company from the earlier TP of SAR35/sh to SAR33.5/sh implying a "Neutral" rating.

Q4 2023 Results: Q4 2023 revenues including other income for Aramco was reported at SAR459bn registering a decrease of ~5.7% y-o-y on the back of drop in Brent prices and lower refining margins. Although revenues were modestly in line with our estimates, the profitability metrics missed estimates. Operating profit at SAR199bn was 10.5% lower than our estimates. The net profit for Q4 2023 came in at SAR100bn, lower by 13% y-o-y. However, some bit of decline in net profit was partially offset by lower production royalties as a result of lower oil revenues.



Figure 1 Earnings Summary Q4 2023

(SAR bn)	Q4 2023	Q3 2023	Q4 2022	ARC Est.	Cons Est.	y-o-y	q-o-q	vs ARC	vs Cons
Revenue	459	489	487	453	453	-5.7%	-6.1%	1.4%	1.4%
Revenue excluding other income	409	424	434	404	NA	-5.8%	-3.5%	1.2%	NM
Op. costs	-260	-254	-246	-231	NA	6.0%	2.2%	12.9%	NM
Op. Profit	199	234	242	222	NA	-17.6%	-15.1%	-10.5%	NM
Op. margin	43.4%	48.0%	49.6%	49.1%	NA				
Net Profit*	100	122	115	112	106	-13.0%	-18.0%	-10.6%	-5.5%
Net margin	21.8%	25.0%	23.7%	24.8%	23.4%				

Source: Company data, Al Rajhi Capital

Valuations: We value the company based on the DCF methodology given the consistent growth in the company's free cash flow generation. The DCF approach, based on a 2.0% terminal growth rate and 7.9% WACC implies a target price of SAR33.5/sh. We expect the company to exhibit earnings resilience and stability over the coming years. The company is on-track in terms of its expansion projects and will continue to maintain strong dividends going forward. Thus, we reduce our TP for the company from the earlier TP of SAR35.0/sh to SAR33.5/sh maintaining a "Neutral" rating implying an upside of 7.5% at the current price.

Risks: The key downside risks to our valuation assumptions are sharp fall in crude oil prices, delayed onstream expansion, lower-than expected dividends and intensifying geopolitical tensions.

Financials

Figure 2 Income Statement

(SARbn)	2023	2024E	2025E
Revenue	1,653	1,655	1,687
Other income related to sales	203	165	167
Revenue and other income related to sales	1,856	1,821	1,854
Production royalties and excise and other taxes	(232)	(203)	(195)
Purchases	(471)	(475)	(483)
Producing and manufacturing	(97)	(93)	(96)
Selling & General Administrative expenses	(77)	(72)	(73)
Other expenses	(112)	(110)	(116)
Operating profit	868	867	890
Interest expense	(8)	(7)	(8)
Other income	28	16	9
Profit before zakat and income tax	888	876	891
Zakat and income tax	(433)	(423)	(430)
Net income before minority	455	453	461
Non controlling interest	(2)	(4)	(5)
Profit for the period after minority interest	453	449	456

Source: Al Rajhi Capital estimates

Figure 4 Cash Flow Statement

(SARbn)	2023	2024E	2025E
Cash from operating activities	538	540	560
Cash from investing activities	(54)	(101)	(112)
Cash from financing activities	(511)	(401)	(251)
Net change in cash and cash equivalents	(27)	38	198
Cash and cash equivalents, end of the period	199	237	434

Source: Al Rajhi Capital estimates

Figure 5 Key Ratios

KPIs	2023	2024E	2025E
Operating margin	46.8%	47.6%	48.0%
EBITDA margin	52.0%	52.9%	53.5%
Net margin	24.4%	24.7%	24.6%
ROA (%)	18.3%	17.9%	16.7%
ROE (%)	26.1%	25.9%	24.1%
D/E (x)	9.1%	11.4%	12.7%

Source: Al Rajhi Capital estimates

Figure 3 Balance sheet

(SARbn)	2023	2024E	2025E
Assets			
Cash & cash equivalents	199	237	434
Inventories	86	79	81
Trade receivables	164	146	149
Other current assets	267	197	127
Total current assets	716	659	791
Property plant and equipment	1,385	1,481	1,575
Intangibles	165	165	165
Investment in joint venture and associates	69	65	61
Other non-current assets	127	127	127
Total non-current assets	1,746	1,838	1,927
Assets held for sale	15	15	15
Total assets	2,478	2,512	2,734
Liabilities			
Accounts payables	152	127	130
Government obligations	97	97	97
Borrowings	64	64	64
Total current liabilities	312	288	291
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	1,415	1,570
Non controlling interest	202	205	209
Total equity	1,737	1,736	1,894
Total liabilities	2,478	2,512	2,734

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.

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