

# Saudi Aramco Base Oil Co.

Materials  
LUBEREF AB: Saudi Arabia  
11 March 2024



US\$7.80bn Market Cap. 30.00% Free Float US\$19.94mn Avg. Daily Value traded

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## Neutral

### Price Target (SAR): 164.0

Current (10<sup>th</sup> March 2024): 176.20  
Upside/Downside: 5.5% below current

Valuation Multiples	23	24E	25E
P/E (x)	19.4	18.7	17.4
P/B (x)	6.0	5.8	5.4

Major Shareholders	% Ownership
The Saudi Arabian Oil Company	70.00

Price Performance	YTD	3M	1M
Absolute	19.4%	24.9%	7.8%
Relative to TASI	14.5%	14.6%	5.0%

## Earnings

(SARmn)	2023	2024E	2025E
Revenue	9,489	10,172	10,244
Y-o-Y	-10.6%	7.2%	0.7%
Gross profit	1,858	2,001	2,115
Gross margin	19.6%	19.7%	20.6%
Net profit	1,510	1,562	1,684
Y-o-Y	-23.7%	3.5%	7.8%
Net margin	15.9%	15.4%	16.4%
EPS (SAR/sh)	8.9	9.3	10.0
DPS (SAR/sh)	10.0	8.0	8.0
Payout ratio	112%	86%	80%

P/E (Current)	19.4x	18.7x	17.4x
P/E(Target)	18.3x	17.7x	16.4x
ROE	31.0%	30.7%	31.1%

Source: Company data, Al Rajhi Capital

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## Growth outlook firm, TP raised to SAR164/sh

Q42023 revenues for Luberef came in at SAR2,530mn, reporting an almost flat trend sequentially primarily driven by a rise in base oil revenues which was entirely offset by a fall in by product revenues. The q-o-q rise in base oil revenues was on the back of a 3.7% rise in base oil volumes coupled with a 2.8% rise in crack oil margins. The company reported base oil crack margins for Q4 2023 at SAR1,810/mt vis a vis a margin of SAR1,761/mt in Q3 2023. On the other hand, the crack margins for FY23 came in at SAR2,068mt (~\$550/mt) substantially lower than FY22 margins of SAR2,484/mt (~\$660/mt). Despite a fall in FY23 revenues on a y-o-y basis due to compression in margins in line with the fall in oil prices, the company managed to deliver robust free cash flows for the full year validating its ability to adequately reward shareholders (SAR10/sh announced for FY23). Evaluating the current spreads in the base oil segment, we reckon that the crack margins have reverted to more normalized levels as of Q4 2023. In our view, the current spreads are sustainable with the possibility for slight enhancements as well. Reiterating from our previous note, we expect spreads between base oil realized prices and feedstock costs to hover around \$500/mt in the near-medium term. Additionally, the company's upcoming Growth II expansion in the Yanbu facility shall potentially ramp up its overall base oil production capacity from 1.3 million tons to 1.6 million tons by 2026. This shall enable remarkable earning growth from 2026 onwards, aiding net margin expansion, net-margins for FY24 shall be a little subdued. However, we expect the stability in oil prices anchored by improving consumption metrics to support the bottom-line growth for Luberef in FY24. Besides, resilient earnings will bolster the company's ability to sustain the generation of robust free cash flows allowing scope for maintaining a consistently strong dividend payout over the coming years. We believe the company will be able to maintain an average dividend of SAR8/sh over the near-medium term as free cash flows will be reasonably above SAR1.6bn. Moreover, stable oil prices will also curtail volatility in feedstock prices. Overall, post Q4FY23, we revise our target price for the company from the earlier TP of SAR140/sh to SAR164/sh implying a "Neutral" rating.

**Q4 2023 Results:** Luberef reported Q4 2023 revenues at SAR2,530mn, registering a 39.8% y-o-y increase aided by a 18% improvement in base oil sales volume despite a sharp drop in base oil crack margins (SAR1810/mt in contrast to SAR2,871/mt in Q4 2022). However, the gross profits fell by 52.3% y-o-y and 8.5% sequentially primarily driven by an increase in cost of sales arising out of higher feedstock costs in Q4 2023 versus Q4 2022. In line with this, operating margins inched lower to 11.1%. Overall, net profit came in at SAR269mn owing to shrinking base oil margins y-o-y. Sequential net profits were down by 21.1% as the general and administrative expenses for Q4 were reported in line with the normal run rate unlike Q3 2023 which had an impact of provision reversal.

Figure 1 Earnings Summary Q4 2023

(SAR mn)	Q4 2023	Q3 2023	Q4 2022	ARC est.	Cons Est.	q-o-q	y-o-y	vs ARC	vs Cons
Revenue	2,530	2,549	1,809	2,465	2,531	-0.8%	39.8%	2.6%	-0.1%
Gross Profit	360	393	754	395	NA	-8.5%	-52.3%	-9.0%	NM
G. margin	14.2%	15.4%	41.7%	16.0%	NA				
Operating Profit	281	356	642	338	NA	-21.1%	-56.3%	-16.9%	NM
Op. Margin	11.1%	13.9%	35.5%	13.7%	NA				
Net Profit	269	340	763	322	406	-21.1%	-64.8%	-16.6%	-33.9%
Net Margin	10.6%	13.4%	42.2%	13.1%	16.1%				

Source: Company data, Al Rajhi Capital

**Valuations:** We value the company based on an equally weighted average of DCF and Dividend Yield methodologies. The DCF approach, based on a 2.0% terminal growth rate and WACC range of 10.81%-11.22% during the forecasted period implies a target price of SAR168/sh. The Dividend yield based methodology at a yield of 5.0% on 2024e DPS (SAR8/sh) implies a target price of SAR160/sh. Thus, we revise our target price for the company to SAR164/sh from SAR140/sh earlier, implying a downside of 5.5% at the current market price, and accordingly maintain our rating at "Neutral".

**Risks:** The key downside risks to our valuation assumptions are i.) unplanned shutdowns in existing facilities, ii.) delayed commencement of Group 3 production facilities, iii.) adverse movement in Group 1 and Group 2 base oil prices or feedstock prices and iv.) adverse movement in oil prices.

## Financials

Figure 2 Income Statement

(SAR mn)	2023	2024E	2025E
<b>Revenue</b>	<b>9,489</b>	<b>10,172</b>	<b>10,244</b>
Cost of revenues	(7,630)	(8,171)	(8,130)
<b>Gross profit</b>	<b>1,858</b>	<b>2,001</b>	<b>2,115</b>
Selling and distribution expenses	(37)	(42)	(44)
General and administrative expenses	(231)	(247)	(249)
Other (expenses) / income - net	0	0	0
Fair value (loss) gain on derivative instruments	0	0	0
<b>Operating profit</b>	<b>1,590</b>	<b>1,711</b>	<b>1,821</b>
Finance income	131	27	16
Finance costs	(142)	(105)	(76)
<b>Profit before zakat and income tax</b>	<b>1,579</b>	<b>1,634</b>	<b>1,761</b>
Zakat and income tax	(69)	(72)	(77)
<b>Profit for the period</b>	<b>1,510</b>	<b>1,562</b>	<b>1,684</b>
<b>EPS (SAR/sh)</b>	<b>8.95</b>	<b>9.26</b>	<b>9.98</b>

Source: Company Data, Al Rajhi Capital

Figure 4 Cash Flow Statement

(SAR mn)	2023	2024E	2025E
Cash from operations	2,322	1,949	2,086
Cash from investing	(1,691)	(290)	(267)
Cash from financing	(1,997)	(1,666)	(1,665)
<b>Net change in cash and cash equivalents</b>	<b>(1,366)</b>	<b>(8)</b>	<b>155</b>
<b>Cash and cash equivalents, end of the period</b>	<b>546</b>	<b>538</b>	<b>692</b>

Source: Company Data, Al Rajhi Capital

Figure 3 Balance Sheet

(SAR mn)	2023	2024E	2025E
<b>Assets</b>			
Cash and cash equivalents	546	538	692
Inventories	623	627	624
Trade receivables	1,054	1,059	1,067
Prepayments and other assets	27	29	30
Short-term deposit	1,635	1,635	1,635
<b>Total current Assets</b>	<b>3,885</b>	<b>3,888</b>	<b>4,047</b>
Property, plant and equipment	4,771	4,756	4,714
Right-of-use assets	167	154	141
Intangible assets	15	14	12
Employees' home ownership receivables	0	0	0
Loans to employees	18	18	18
<b>Total non-current assets</b>	<b>4,971</b>	<b>4,942</b>	<b>4,886</b>
<b>Total assets</b>	<b>8,856</b>	<b>8,830</b>	<b>8,934</b>
<b>Liabilities</b>			
Trade payables	1,174	1,119	1,114
Accrued expenses and other liabilities	227	243	245
Current portion of long-term borrowings	198	225	259
Lease liabilities	22	21	19
Zakat and income tax payable	79	79	79
<b>Total current liabilities</b>	<b>1,701</b>	<b>1,688</b>	<b>1,716</b>
Long-term borrowings	1,744	1,520	1,261
Lease liabilities	164	151	139
Employee benefit obligations	329	341	353
Deferred tax liabilities	0	0	0
Other non-current liabilities	50	50	50
<b>Total non-current liabilities</b>	<b>2,286</b>	<b>2,061</b>	<b>1,803</b>
<b>Shareholders' equity</b>			
Share capital	1,688	1,688	1,688
Statutory reserve	506	506	506
Treasury shares	(49)	(49)	(49)
Retained earnings	2,724	2,937	3,271
<b>Total equity</b>	<b>4,869</b>	<b>5,081</b>	<b>5,415</b>
<b>Total liabilities</b>	<b>8,856</b>	<b>8,830</b>	<b>8,934</b>

Source: Company Data, Al Rajhi Capital

Figure 5 Key Ratios

KPIs	2023	2024E	2025E
<b>Gross margin (%)</b>	19.6%	19.7%	20.6%
<b>EBITDA margin (%)</b>	20.1%	20.0%	20.9%
<b>Operating margin (%)</b>	16.8%	16.8%	17.8%
<b>Net margin (%)</b>	15.9%	15.4%	16.4%
<b>ROA (%)</b>	17.0%	17.7%	18.8%
<b>ROE (%)</b>	31.0%	30.7%	31.1%
<b>D/E (x)</b>	0.4x	0.4x	0.3x
<b>Net debt/EBITDA (x)</b>	0.8x	0.7x	0.5x

Source: Company Data, Al Rajhi Capital

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