

Key themes

As Q3 ended, we present revenue and bottom-line estimates for companies under our coverage in various sectors.

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Saudi Arabian Equities Q3 2023 earnings preview

The overall outlook for Q3 2023 earnings is mixed, with a few sectors witnessing pressure on earnings due to lower prices, higher operating expenses, higher interest expenses and weaker demand (petchem and cement), etc. On the other hand, sectors such as healthcare, pharmaceutical, insurance, etc are expected to show improvement in earnings on a y-o-y basis. The petrochemicals sector is still expected to face earnings pressure in Q3 2023 due to lower product prices and higher costs driven by higher oil prices, impacting the aggregate earnings of companies. The retail sector expects revenues to grow y-o-y on back of improved demand with marginal growth seen in profitability (excluding one-off) for some players. The construction industry faces challenges as cement volumes fluctuate, and realizations are expected to trend lower, causing financial pressure. Telecoms may see improved performance, and the food sector expects improved margins. Healthcare companies is expected to witness some sequential growth after seeing a muted 2Q23 as September is expected to see jump in patient visits. The pharmaceuticals sector projects overall sales growth due to capacity ramp-up, new product launches, and overall market growth. Although Insurance sector is expected to strong earnings however profitability may see a decline sequentially. Varied results are expected in the energy, IT, utility, industrial, media, and wires and cables sectors.

Petrochemicals

The earnings pressure in Saudi Petrochemical's sector is expected to continue driven by lower product prices and higher feedstock costs. Brent prices have increased 5.6% YTD (as of 2nd Oct 2023) pushing upward pressure on key feedstock prices like Naptha etc. Additionally, key polymer product prices (like PP, LDPE, HDPE, MEG) on an average declined in the range of 2-4% sequentially. Prices for key fertilizers namely Ammonia and Urea increased by 7.3% and 7.0% respectively on a q-o-q basis but the benefit may be partially offset by rise in feedstock costs. Furthermore, the latest global PMI (JPM) data for September came in at 49.1 suggesting no major recovery in global demand. Although, the China PMI showed some signs of recovery in September but uncertainty in demand continues to prevail.

Consequently, we expect companies under our coverage to show mixed performance sequentially at the back of fall in prices for most products barring some fertilizers. However, margin pressure is expected to sustain across key players amid lower prices and weak demand. Overall, the aggregate earnings of all petchem companies under our coverage is projected to decline on a y-o-y basis.

Retail

As per our research, we are seeing improvement in demand for the retail sector with gradual easing of pressure, which leads us to expect marginal improvement in profits in the second quarter for some players. That being said, we expect Jarir profits to grow y-o-y by 3.1%, reaching SAR 282mn, eXtra profits to grow y-o-y by 3.6%, reaching SAR 98mn driven by higher sales from the white goods. However, for Cenomi retail, we believe the performance will be weaker than last year, mainly driven by decline in the sector sales during the period and the number of closures the company made over the past year.

Leejam: The Q3 2023 revenues are expected to increase by 1.9/16.3% q-o-q/y-o-y to SAR307mn. The main driver behind growth is the opening of new centers, which has resulted in an increase in new members on a y-o-y basis. The net income, however, is expected to decline by 4.5% y-o-y with the net margin shrinking to 21.1% compared to 25.7% in Q2 2023. The likely reason for the expected lower net profit margin is the burgeoning finance costs.

Construction

Cement volumes registered an improvement in volumes by 4.5% in July 2023 y-o-y followed by a 11.2% decline in volumes in August 2023 in line with the continuing mortgage decline. We expect realizations to trend lower for Q3 2023 for companies under our coverage. Although volumes might recover sequentially due to the low base effect in Q2 (on account of seasonality), margins are likely to remain under pressure due to subdued realizations. For non-cement companies the pressure on financial performance is expected to continue owing to weak demand and pricing pressure. Based on our estimates, the companies under our coverage are expected to report a 11.6% y-o-y drop in revenues. Besides the bottom line is expected to decline by 45.4% y-o-y due to higher financing burden.

Telecoms

The enterprise segment to continue providing companies with growth as the demand for telecom services is expected to remain strong over the coming years. The consumer telecom sector experienced somewhat slower growth. We expect that STC will report the proceeds from the sale of its land in Al Khobar, which has a SAR1.37 billion market value, in its 3Q23 earnings. The sale of the land supports the possibility of a special dividend in addition to the money that the company is expected to receive from the collection of receivables and sale of assets. STC's capacity to pay a special dividend at year's end should be higher.

Food

The major food (FAO) continued declining in the last reporting August, reaching a level last seen early 2021. Year to date, corn prices declined by 29% which we believe will reflect positively on companies relying on corn for their raw materials, Wheat prices down by 38%, Soybean fell by 8%. However, Sugar prices spiked, rising more than 40% year to date on lower supply due to unseasonal rainfall. We anticipate seeing some improvement in the cost for food companies in the coming 3 to 6 months which should reflect in higher margins. When it comes to our estimates, we believe in aggregate profits will increase supported by better mix of lower cost and higher prices than last year.

Healthcare

The healthcare sector earnings should improve a bit sequentially as we believe the month of September, which had impact of flu (school reopening) should offset the weak demand in July/August (due to travel). On a sequential basis, we expect topline to improve by 1.1% q-o-q, with net income to decline 1.6% q-o-q, hurt by the margin pressure expected for Habib due to costs related to the opening of its two large hospitals, and elevated finance costs pressure for highly levered names, such as Saudi German and Dallah. On a y-o-y basis, the revenue growth is strong at 13.6% supported by sharp growth in the insured lives over the last 12 months and implementation of table of benefits, awareness of insurance, etc. Hammadi (+47.6%) and Mouwasat's (+25.8%) strong net income growth on a y-o-y basis is primarily due to the low base last year. Mouwasat's contribution from the expansion at Dammam and Madinah was seen in Q4 2022, while Hammadi's hospital revenues were much weaker in Q3 2022 (last year base). Additionally, Hammadi's bottom line growth is also aided by reversal of provisions related to insurance, that was absent last year.

O&M Service providers

SMEH: SMEH earnings performance so far has been much weaker than our expectations this year. The topline is expected to improve in H2 2023 as execution of the order picks up. However, pressure on gross margins as well as rising finance costs have been our concern. We prefer to be conservative and despite expecting 10.0% y-o-y growth in revenues, net income is estimated at around SAR 6mn versus SAR 9mn in Q3 2022.

Pharmaceuticals

Post the strong Q2 numbers, the pharma companies, SPIMACO and Jamjoom, raised their guidance for the year 2023. Thus, on a y-o-y basis, the growth is expected to remain strong. The revenues are expected to grow by 8.4% y-o-y supported by ramp up of capacity, launch of new products and overall growth in the pharma market. However, sequentially the profits should drop as we enter into seasonally weak quarters. We estimate revenues to decline sequentially by 4.0% and bottom line to decline much higher by 22.8% as bulk of the costs are fixed in nature such as staff costs, R&D costs,

etc. In our view, in addition to seasonality, the weak Q2 earnings from the hospitals could weigh on the pharma products demand in the near term, which should reflect in Q3 as well as Q4 of this year.

Insurance

In 1H 2023, the insurance industry's earnings benefitted from the repricing of policies in two of its largest segments, medical and motor. Moreover, two Eid holidays in Q2, that led to lesser activity (lower hospital visits, lesser road accidents), also aided the profitability. Insurance companies are expected to maintain the strong earnings momentum in Q3 as well; however, the profitability would drop a bit compared to Q2 2023, mainly in the motor segment as the month of September is typically very high in terms of road traffic (reopening of school after the summer break). On the positive side, the regulation related to the enforcement of the motor insurance policy should growth the motor market size notably and the recoveries should improve. On a y-o-y basis, the insurance revenues are expected to grow by 19.2% y-o-y, mainly led by pricing, and net income to grow by 23.6% y-o-y (last year base unadjusted for IFRS 17).

Energy

Aldrees: Revenue for Q3 2023 is forecasted to come in at SAR 3,682mn, resulting in a growth of 2.8/13.1% q-o-q/y-o-y due to the opening of new stations (+13.4% y-o-y), which would be partly offset by lower throughput per station (-3.2% y-o-y). The net income is expected to grow at 3.1/17.3% q-o-q/y-o-y to SAR 72mn with a net margin of 2.0%, the same as Q2 2023 margins.

Arabian Drilling: The top-line for Arabian Drilling is expected to increase marginally by 4.5% q-o-q supported by the deployment of new jack-up rigs. The day rates are expected to be stable, and consequently the net profit is projected to increase by 11.7% q-o-q to SAR 157mn. However, the net income is expected to fall by 26.6% y-o-y due to cost pressures.

Luberef: Luberef's earnings for Q3 2023 are expected to be marginally lower due to drop in base oil revenues at the back of a fall in base oil prices. Revenues for Q2 2023 are expected to come in at SAR 2,588mn (-1.0% q-o-q). Additionally, the company's net profit is projected to drop to SAR 251mn (-44.7% q-o-q) as a result of higher feedstock costs. Overall, Luberef is expected to witness margin compression owing to lower revenues and revised oil prices.

Information and Technology (IT)

MIS: The company's top line is expected to increase by 2.3x y-o-y and by 23.2% q-o-q to SAR459mn, driven by data center development fees. The core business revenue is expected to grow by 41.1% y-o-y. We expect the bottom line to come in at SAR53mn (EPS: SAR1.78/sh) up by +7.8% q-o-q; 2.1x y-o-y, while the net margins are expected to clock in at 11.6%.

Solutions: Arabian Internet and Communications (Solutions) is expected to report a top line of SAR2,729mn with a growth of 1.0/22.5% q-o-q/y-o-y in Q3 2023. The core ICT segment is expected to drive growth with the help of recently acquired Giza, supported by IT Managed Services. The net income is expected to grow by 1.7/15.2% q-o-q/y-o-y.

2P: Perfect Presentation (2P) is expected to record 15.0/36.6% q-o-q/y-o-y top line growth in Q3 2023. We believe the growth should come from the conversion of a strong SAR1.7bn backlog. Majority growth is expected to come from operations and maintenance services and software and development services, supported by the new segment management services, as call center services may continue to be moderate. We expect the bottom line to grow at 15.2/9.8% q-o-q/y-o-y with a net profit margin of 12.5%.

Utility

AWPT: Alkhorayef Water and Power Technologies (AWPT) is expected to record a profit of SAR38mn (EPS: SAR 1.50/sh) in Q3 2023, representing an increase of 33.4% y-o-y. In Q3 2023, we expect revenues to grow by 2.1x y-o-y as the company may continue to recognize its massive backlog at a higher rate. The gross profit is expected at SAR64mn at a margin of 15.5% higher than 14.8% in Q2 2023. The net profit margin is expected to improve to 9.1%, compared to 8.5% in Q2 2023.

Industrial

SISCO: We estimate SISCO's top line (ex. construction revenue) to grow at 1.9/24.1% q-o-q/y-o-y to SAR266mn in Q3 2023. The growth should be driven by higher container volumes (+10.0% y-o-y) and increased gateway revenues (+41.3% y-o-y). We expect a higher gross margin of 52.4% compared to 52.0% in Q2 2023 (adjusted for construction revenue). We expect the group to record a net profit (ex. minority interest) of SAR21mn (EPS: SAR 0.26/sh).

Media

AlArabia: Arabian Contracting Services (Al Arabia) is expected to grow its top line by 1.9/16.3% q-o-q/y-o-y in Q3 2023 to SAR300mn. The growth is likely to be driven by existing contracts and the conversion of static billboards to digital. We forecast the net income at SAR87mn (EPS: SAR 1.74/sh) with a margin of 29.0%, similar on a sequential basis.

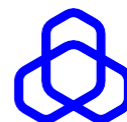
Wires and Cables

Riyadh Cables: Riyadh Cables is expected to report a profit of SAR118mn (EPS: SAR0.79/sh) in Q3 2023, resulting in a growth of 27.7% y-o-y but declining by 6.8% on a q-o-q basis. The top line is expected to be at SAR1,973mn, up 11.5% y-o-y, driven largely by higher volumes. At the gross level, we expect margins to decrease by 0.9pps to 11.4%.

Saudi Equities – Q3 Earnings Preview

ARC Coverage Universe

05 October 2023



Saudi market: Q3 2023 estimates

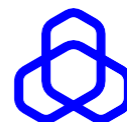
Company	Revenues (SAR mn)					Net Profit (SAR mn)				
	2022Q3A	2023Q2A	2023Q3E	YOY % chg.	QOQ % chg.	2022Q3A	2023Q2A	2023Q3E	YOY % chg.	QOQ % chg.
Petrochemical										
SABIC	46,868	37,167	36,318	-22.5%	-2.3%	1,836	1,178	522	-71.6%	-55.7%
	Lower end product prices and higher feedstock costs to impact financial performance									
Sipchem	2,939	1,702	1,803	-38.6%	6.0%	774	313	433	-44.0%	38.5%
	Performance to improve on account of turnaround after shutdown in Q2									
SABIC Agri-Nutrients	4,417	2,629	2,676	-39.4%	1.8%	2,331	651	705	-69.8%	8.2%
	Improvement in Urea and Ammonia prices to help the sequential financial performance									
Yansab	1,595	1,323	1,102	-30.9%	-16.7%	(61)	27	(97)	NM	NM
	Key performance metrics to be hurt due to the emergency shutdown									
APCC	657	582	560	-14.8%	-3.8%	27	60	52	94.2%	-13.2%
	Continued lower PP prices to impact revenues and losses from associates to impact profitability									
Petrochemical Sector	56,476	43,402	42,458	-24.8%	-2.2%	4,907	2,230	1,615	-67.1%	-27.6%
Construction										
Arabian Cement	241	197	211	-12.2%	7.4%	59	28	25	-58.0%	-11.5%
	Top-line and net profit to be impacted due to lower realizations and volumes									
Yamama Cement	253	219	246	-2.8%	12.5%	101	98	48	-52.4%	-51.0%
	Volumes to improve, but fall in realizations to weigh down earnings									
Saudi Cement	328	356	295	-10.1%	-17.2%	81	85	46	-42.6%	-45.6%
	Fall in domestic sales volume and drop in realizations to impact financial performance									
Qassim Cement	167	137	146	-12.4%	6.4%	23	38	36	57.4%	-5.2%
	Lower volumes and realizations to impact revenues but higher investment income to offset the impact on earnings									
Yanbu Cement	262	174	206	-21.5%	18.6%	69	35	48	-31.1%	35.3%
	Fall in volumes and prices to impact earnings									
Southern Cement	323	226	292	-9.8%	29.1%	89	19	40	-54.7%	110.9%
	Revenue and profitability to be impacted on account of lower volumes and prices									
Najran Cement	128	101	116	-8.9%	14.8%	28	7	14	-50.6%	87.0%
	Pressure on prices and lower sales volume to hurt financial performance									
Bawan	813	768	744	-5.5%	-3.2%	38	25	30	-22.1%	18.8%
	Pressure in the steel segment to weigh down revenues but lower costs to aid profitability on a sequential basis									
Saudi Ceramics	367	253	292	-20.3%	15.4%	43	33	3	-93.4%	-91.5%
	Impact on sales volumes across sectors to hurt financial performance									
Construction Sector	2,881	2,431	2,548	-11.6%	4.8%	531	370	290	-45.4%	-21.6%
Telecom										
STC	16,468	18,327	17,801	8.1%	-2.9%	3,541	3,011	4,030	13.8%	33.9%
	Land sales to boost earnings in Q3									
Mobily	3,828	4,248	4,146	8.3%	-2.4%	373	497	499	33.9%	0.4%
	B2B business driving the growth.									
Zain KSA	2,287	2,392	2,431	6.3%	1.6%	85	124	96	13.3%	-22.4%
	Continued improvement in earnings driven by better product mix and sales									
Telecom Sector	22,582	24,967	24,378	8.0%	-2.4%	3,999	3,632	4,625	15.7%	27.4%
Food & Agriculture										
Almarai	4,769	4,792	4,924	3.2%	2.7%	475	557	621	30.9%	11.6%
	Improved margins to aid earnings in the third quarter									
SADAFCO*	694	679	724	4.2%	6.6%	86	108	124	44.2%	15.4%
	Higher market share, product mix, and lower cost to support earnings in Q3									
Savola	7,072	6,093	6,660	-5.8%	9.3%	164	132	199	21.6%	50.7%
	Sales decline driven mainly by the lower prices in the oil segment, however, margins improved.									
NADEC	703	786	733	4.3%	-6.8%	28	65	69	147.6%	5.5%
	Continued improvement in performance driven by higher selling prices and lower costs.									
Tanmiah food	560	499	528	-5.7%	5.8%	32	11	16	-49.9%	39.4%
	Lower subsidy and higher frozen imports to impact the company earnings in Q3									
Food & Agri. Sector	13,798	12,849	13,567	-1.7%	5.6%	784	873	1,029	31.3%	17.9%

* Follows April-March financial year. ** Insurance numbers for the year 2022 are not adjusted for IFRS 17, ^Numbers include one-off items.

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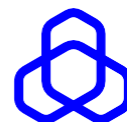
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Retail										
Jarir	2,517	2,436	2,688	6.8%	10.3%	274	156	282	3.1%	81.2%
	improvement in overall retail sector likely to result in enhanced performance in 3Q									
CENOMI Retail	1,373	1,613	1,236	-10.0%	-23.4%	22	167	14	-34.5%	-91.3%
	Sales to decline on y-o-y basis, driven by stores closure and lower demand									
AlOthaim^	2,348	2,420	2,572	9.5%	6.3%	745	139	50	-93.2%	-63.8%
	Continued stores expansions to aid sales growth, while profit decline is due to sales of an asset in 3Q22									
Extra	1,373	1,750	1,480	7.8%	-15.4%	94	62	98	3.6%	58.2%
	Higher sales driven by more demand on white goods									
BinDawood Holding	1,183	1,412	1,356	14.7%	-3.9%	(48)	66	60	NM	-8.6%
	New stores to push sales, earnings to show significant improvement y-o-y									
Leejam	264	302	307	16.3%	1.9%	68	72	65	-4.5%	-10.4%
	New centers to drive growth while higher finance costs to impact bottom line									
Retail Sector	9,058	9,932	9,638	6.4%	-3.0%	1,155	662	570	-50.7%	-14.0%
Healthcare and O&M Service providers										
Dallah	601	670	677	12.7%	1.0%	44	53	52	18.9%	-1.5%
	Recovery in sales to flow through the topline, but offset by finance costs									
Mouwasat	549	627	634	15.4%	1.0%	122	151	154	25.8%	2.2%
	Strong cost control to aid in managing relatively weaker sequential growth in the topline									
NMCC	238	245	250	4.9%	2.0%	43	48	50	17.6%	4.8%
	Higher referrals from GOSI coupled with improved pricing from MoH to aid profitability									
Al Hammadi	247	277	280	13.4%	1.2%	57	82	84	47.6%	3.0%
	Improved utilisation in Suwaidi to aid topline									
Sulaiman Al Habib	2,052	2,272	2,298	12.0%	1.2%	421	487	470	11.8%	-3.4%
	Higher operating costs related to ramp up of the new facilities to weigh on the profitability									
Middle East Healthcare	512	624	630	23.0%	0.9%	11	40	36	221.3%	-11.4%
	Higher utilization to boost topline partially offset by higher financing expenses									
Healthcare (Ex. Middle East Healthcare)	3,687	4,092	4,139	12.3%	1.2%	686	820	811	18.1%	-1.1%
Healthcare Sector	4,200	4,716	4,769	13.6%	1.1%	698	860	846	21.3%	-1.6%
Pharmaceuticals										
SPIMACO	357	409	396	11.0%	-3.1%	(45)	22	(8)	NM	NM
	Restructuring efforts to drive improvements in the bottom-line results									
Jamjoom Pharma	238	298	272	14.6%	-8.7%	46	86	71	56.5%	-17.3%
	Repricing to benefit overall results supported by new launches									
Astra Industrial	622	667	651	4.6%	-2.5%	71	115	109	53.8%	-5.0%
	Ex-pharma segments to see improvement									
Pharmaceuticals Sector	1,217	1,374	1,319	8.4%	-4.0%	71	223	172	141.5%	-22.8%
O&M Service provider										
SMEH	186	191	205	10.0%	7.3%	9	2	6	-31.3%	211.1%
	Topline to be supported by order execution, but weak margins and finance costs weigh on the bottomline									
Insurance										
Bupa Arabia**	3,361	3,885	4,034	20.0%	3.8%	321	371	327	2.0%	-11.9%
	Growth in GWP to offset pressure from rising loss ratios									
Tawuniya**	2,661	3,697	3,244	21.9%	-12.3%	116	246	210	82.1%	-14.4%
	Diversified business exposure and better motor pricing to aid profitability									
GIG SA**	349	388	318	-8.9%	-18.0%	26	40	34	29.0%	-14.1%
	Company is focusing on profitability than topline growth									
Insurance Sector	6,372	7,971	7,596	19.2%	-4.7%	463	657	572	23.6%	-13.0%

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Energy										
Aldrees	3,256	3,581	3,682	13.1%	2.8%	62	70	72	17.3%	3.1%
	Growth to be driven by opening of new stations while partly offset by lower throughput per station									
Arabian Drilling	702	791	826	17.7%	4.5%	213	140	157	-26.6%	11.7%
	Earnings to be aided by the deployment of 3 new jackup rigs but costs to weigh on profitability									
Luberef	2,722	2,613	2,588	-4.9%	-1.0%	475	455	251	-47.1%	-44.7%
	Financial performance to be impacted due to higher feedstock costs and lower base oil prices									
Energy Sector	6,680	6,984	7,096	6.2%	1.6%	750	665	480	-35.9%	-27.8%
IT										
MIS	199	373	459	131.0%	23.2%	25	50	53	112.7%	7.8%
	Data Center development fees to drive growth supported by core business									
Solutions	2,227	2,701	2,729	22.5%	1.0%	300	340	345	15.2%	1.7%
	Giza acquisition expected to drive growth y-o-y supported by IT managed services									
2P	207	246	283	36.6%	15.0%	32	31	35	9.8%	15.2%
	Backlog conversion to drive growth									
IT Sector	2,633	3,320	3,471	31.8%	4.5%	357	420	434	21.6%	3.4%
Utility										
AWPT	194	416	411	112.5%	-1.3%	28	36	38	33.4%	5.5%
	Continued higher backlog conversion rate to drive growth									
Industrial										
SISCO	215	261	266	24.1%	1.9%	14	21	21	45.6%	-1.3%
	Higher gateway revenues to keep gross margins elevated									
Media										
ALARABIA	258	294	300	16.3%	1.9%	65	85	87	33.4%	2.2%
	Revenues to rise y-o-y owing to conversion of static billboards to digital									
Wires and Cables										
Riyadh Cables	1,769	1,918	1,973	11.5%	2.9%	93	127	118	27.7%	-6.8%
	Higher sales volume to increase profitability y-o-y									

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