الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

August 2024

أرامكو السعودية
saudi aramco

Saudi Aramco

Cautionary near-term macro-outlook but Aramco is uniquely placed with its diversification drive and unmatched fundamentals

Initiation Coverage Report

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Saudi Aramco: Near-term market headwinds, yet strong business fundamentals and attractive valuation at a 52-week low

Aramco has set on a journey to diversify its oil and upstream dependency. It enjoys a competitive moat with the lowest global oil extraction cost, enabling unmatched margins and returns profile. In the near-term, the oil market faces challenge of oversupply, as global supply to rise marginally in 2024 driven by non-OPEC nations despite OPEC+ cuts. Whereas demand is pressured by weaker economic growth and higher interest rates but continues to be resilient. However, current inventory levels are at a five-year low, while expected interest rate cuts could weaken the US dollar. Both these factors could support the surge in oil demand, particularly from emerging markets (EMs). Aramco's long-term prospects are supported by supply uptick from OPEC+ as voluntary cuts start to phase out gradually from October 2024, untapped potential in gas business, diversification in downstream operations, and competitive positioning in blue ammonia. Aramco's total production could rise from 12.9mnboed in FY23 to 14.1 mnboepd by FY28e (1.9% CAGR), with gas production outpacing oil by growing at 4.8% CAGR versus 1.2%. Current actions in natural gas and downstream operations could drive total revenue from SAR 1,856bn in FY23 to SAR 2,081bn in FY28e, while net profit to record 3.1% CAGR. Operating margins could expand ~330bps over FY23-28e to reach 50.1% at the back of operational efficiencies and probable reversal of refining margins. Its robust FCF helps Aramco maintain a dividend yield of 5.5-7.2%. The healthy dividend limits downside risk in the stock at current valuation. The stock is currently trading at a 52-week low level, down ~24% from the recent peak in September. Thus, we initiate our coverage on the stock with a TP of SAR 32.1/ share and "Overweight" rating, implying 19.8% upside and a dividend yield of 7.2%, thereby taking the total return to 27.0%.

Global oil demand resilient but recovery slower than expected, while supply to rise marginally despite voluntary cuts from OPEC+; prices to be aided geopolitical risk premium: Global oil demand has been resilient, but demand growth is likely to slow down in 2024 on weak global consumption amid sluggish economic growth and higher interest rate environment, but to accelerate in 2025 as emerging market's economies recover, population grow, mobility/air travel increased, and inventories start to build up from five-year low levels. Despite voluntary production cuts from OPEC+, EIA expects global supply to rise 0.6% Y/Y in 2024 driven by healthy supplies from USA, Canada and Brazil. Aramco's oil production to decline significantly in 2024 due to KSA's voluntary production cuts. We expect a 6% Y/Y production decline to 9.04 mnbpd in FY24e. However, post the production cut expiration and gradual unwinding of cuts from October 2024 to September 2025 and result in a 5% Y/Y production growth to 9.49 mnbpd. However, we believe average oil prices in 2024 to be higher at USD 83.5/bbl due to supply fears arising from heightened tension in the Middle East and continued conflict between Ukraine and Russian. As the market gradually builds inventories after the expiration of production cuts, we expect the oil prices to momentum to moderate to the average of USD 82.0/bbl in 2025. Over the medium term, we expect supply-demand dynamics to stabilize with a consistent growth in demand, keeping a modest upward movement in the oil prices.

Diversification and higher focus into natural gas led by Jafurah oil field project to enable faster production growth for gas versus oil: To reduce its dependency on oil, Aramco increased its focus on natural gas, as it believes there is an untapped potential in the natural gas business in KSA given the abundant proven reserves. Accordingly, Aramco targets increasing natural gas by 60% by FY30E over FY21 levels. The upcoming commencement of Jafurah gas fields production by FY25E and other gas production expansion projects coupled with growing domestic demand are expected to boost the natural gas production in next few years. Accordingly, we expect the total production to increase from 12.9 mnboepd in FY23 to 14.1 mnboepd by FY28e. Gas productions is likely to outpace the oil production by growing at 4.8% CAGR to reach 2.7 mnboepd by FY28e. Meanwhile, oil production could increase at 1.2% CAGR to reach 10.2 mnboepd by FY28e.

Competitive positioning in blue ammonia and strategic focus on expanding downstream operations: Globally downstream operations for peers are influential with 65-85% of total revenues, versus 54% for Aramco. This made Aramco invest SAR 179bn of capex on downstream operations (23% of total capex) over FY18-23e. Enhanced focus on downstream is likely to aid Aramco in placing crude oil in larger offtake volumes and grow its liquids-chemicals volume to 4.0 mnbpd by 2030e. Moreover, Aramco is competitively positioned to benefit from foray into blue ammonia due to its access to internally available methane feedstock. Thus, production cost of blue hydrogen for Aramco is lower at USD 1.34/kg compared to USD 2.45/kg in US and USD 3.5/kg in UK. Additionally, as the operations scale up production costs could fall further.

Recommendation	**Overweight**
Target Price (SAR)	**32.1**
Upside / (Downside)*	**19.8%**

Source: Tadawul *prices as of 5th of August 2024

Key Financials

SARbn (unless specified)	FY23	FY24E	FY25E	FY26E
Revenues	**1,856**	**1,828**	**1,867**	**1,946**
Growth %	-18.1%	-1.5%	2.2%	4.2%
EBIT	868	883	908	952
Net Income	**453**	**457**	**465**	**485**
Growth %	-24.2%	1.0%	1.7%	4.4%
EPS	1.87	1.89	1.92	2.01
DPS	1.92	1.93	1.46	1.51

Source: Company reports, Aljazira Capital

Key Ratios

	FY23	FY24E	FY25E	FY26E
EBIT Margin	46.8%	48.3%	48.6%	48.9%
Net Margin	24.4%	25.0%	24.9%	24.9%
ROE	29.5%	30.3%	28.9%	28.3%
ROA	18.5%	18.7%	18.3%	18.2%
PE (x)	17.6	14.2	14.0	13.4
PB (x)	5.2	4.3	4.0	3.8
EV/EBITDA (x)	8.2	6.6	6.3	6.0
Dividend Yield	5.8%	7.2%	5.5%	5.6%

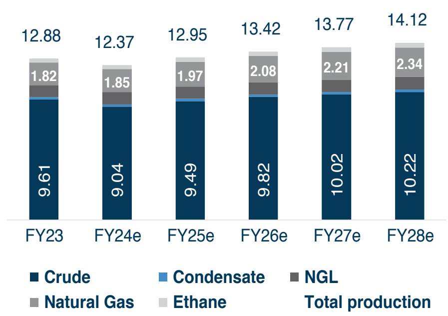
Source: Company reports, AlJazira Capital

Key Market Data

Current market price (SAR per share)	26.8
Market Cap (SAR bn)	6,485.6
Share Outstanding (mn)	242,000

Source: Company reports, Aljazira Capital

Production volumes (in mnboepd)



Source: Company Reports, AlJazira Capital research

Scale, oil-geared and advantaged geology acts as moat, driving unmatched margin and return profile versus global IOC peers: With ~13 mnbpd of total production (~10% of world supply), 251bn boe of hydrocarbon reserves, Aramco is the single most important player in the global O&G industry. Its massive size, economies of scale, unique geology of oil fields and high production reservoirs give it the lowest cost production of the peers (USD 3.2/bbl lifting cost and USD 6.3/bbl capex cost). This acts as moat for Aramco and enables it to generate EBITDA margins which are almost 2x times greater than its global IOC peers. Margin accretive strategy for Aramco and defensive royalty structure aids it in higher visibility on earnings and cash flow generation during cyclical oil price downturns. This translates into 3-5x times greater RoCE profile than its global peers.

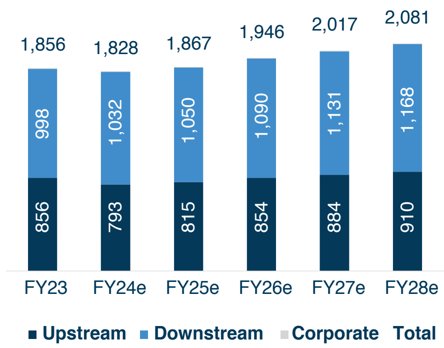
Operational efficiency and probable reversal of refining margins to drive margin expansion: We believe that the chances of economies of scale and operating are very high for Aramco, given the size of its productions and hydrocarbon reservoirs in the global context. Accordingy, we expect the operating margins to expand 330bps over FY23-28e, to reach 50.1% due to operating leverage, cost efficiencies and reversal of refining margins. A likely decline in finance costs with the anticipated rate cuts could boost Aramco's net profits. Net profit is forecasted to post a 3.1% CAGR over FY23-28e to reach SAR 526.3bn in FY28e from SAR 452.7bn in FY23.

Additional debt required for near-term CAPEX but to ease with capex in long term: Despite the USD 40bn capex savings over FY23-28e arising out of maximum sustainable capacity (MSC) expansion cancellation, Aramco maintained the FY24e capex between SAR 180bn and SAR 220bn and raised the natural gas production target from 50% to 60% of FY21 levels, by FY30e. Basis this we believe the capex will remain elevated over FY24-26e, with expected peak in FY25e with primary focus on i) increase in natural gas production ii) expansion of downstream operations iii) new energy projects like blue hydrogen iv) maintenance and expansion of upstream facilities. Despite a robust CFO, we expect Aramco to raise additional debt. We estimate a requirement of SAR 40.0bn debt till FY26e, post which we don't see further requirement of raising loan as of now.

Sustainability of dividends attractive for long term investors, limits downside risk: Incorporation of special dividends in Q3-23 (50-70% FCF net of base dividend) has raised the 2024 dividend yield to 7.2%. We view this as justified at the back of its unmatched returns and capacity to defend its distributions under lower oil price scenarios through best-in-class pre-dividend cash breakeven, deep capex flexibility. Consistent and healthy dividend payments add to the attractiveness of the stock and limit the downside risk. Given Aramco's ability to generate robust CFO and FCF, we expect a DPS of SAR 1.93 in FY24e. However, over FY25-26e we expect the DPS to reduce to SAR 1.46 and SAR 1.51 per share due to higher capex. Post FY26e, we expect an uptick in the DPS and to reach SAR 1.72 per share by FY28e.

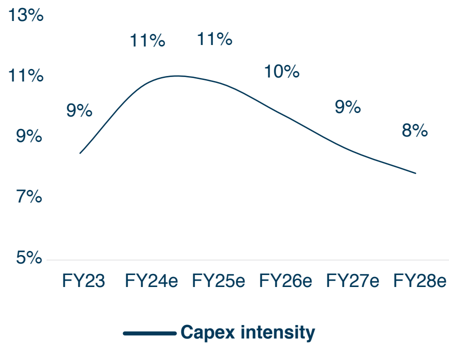
Investment thesis and Valuation: Aramco's long-term prospects are supported by i) aggressive downstream investments, ii) expansion of gas production, and iii) competitive positioning in the blue ammonia market. The current impact of supply cuts could could have limited short-term impact on Aramco's performance. We expect the total production to increase from 12.9 mnboepd in FY23 to 14.1 mnboepd by FY28e. This increase in production volumes could help the topline reach SAR 2,081bn by FY28e from SAR 1,856bn in FY23. EBIT margins could expand 330bps over FY23-28e, to reach 50.1% due to operating leverage, cost efficiencies and probable reversal of refining margins. Net profit is forecasted to compound at a 3.1% CAGR over FY23-28e to reach SAR 526.3bn in FY28e from SAR 452.7bn in FY23. We value Aramco with 50% weightage to DCF (WACC=8.7%, terminal growth rate=2.0%) and 50% weight to FY25E EV/EBITDA (8.0x) to arrive at a TP of **SAR 32.1/share**, implying 19.8% upside and a dividend yield of 7.2%, thereby taking the total return to 27.0%. Hence, we recommend an "**Overweight**" rating on the stock.

Revenue segmentation (in SARbn)



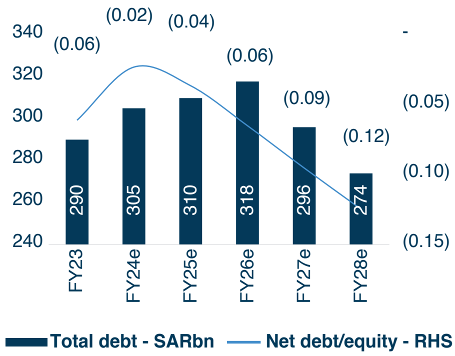
Source: Company Reports, AlJazira Capital research

Capex intensity



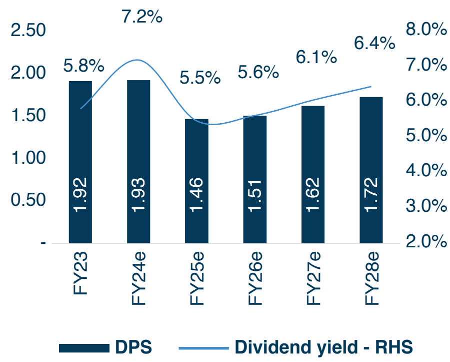
Source: Company Reports, AlJazira Capital research

Debt levels



Source: Company Reports, AlJazira Capital research

DPS and Dividend yield



Source: Company Reports, AlJazira Capital research

Company Overview

Saudi Aramco is the world's largest integrated energy and chemicals company, having presence in KSA for 90+ years. It is considered as the behemoth of O&G industry as it accounts for ~33% of OPEC+ total crude output and ~10% of the world production. The size, economies of scale, and unique geology of its fields allow it to extract oil at only USD 3.2/bbl lifting cost and USD 6.3/bbl capex costs, which is by far the lowest in the world. It's the most profitable hydrocarbon company in the world, aided by its lowest cost of production and ample reserves (251.2bn boe). Its business encompasses hydrocarbon exploration and production (crude oil, natural gas, condensate, NGL), basic chemicals, and also refining, distribution, and manufacturing of petrochemical products. It operates in three global energy markets in Asia, Europe and North America. Based on our calculations, out of its total hydrocarbon production of 12.8mnboed in 2023, crude oil accounted for 9.6mnboed (75%), Gas accounted for 1.8mnboed (17%), NGL accounted for 0.95mnboed (9%), Ethane accounted for 0.3mnboed (3%) and Condensate accounted for 0.18mnboed (2%).

Business segments

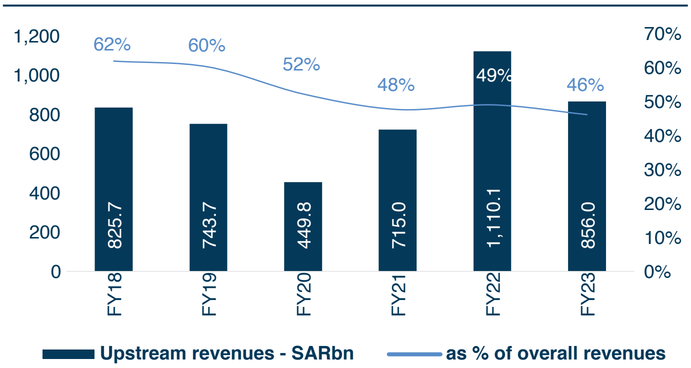
The company's primary operating segments are the upstream and downstream segment, which are supported by the corporate segment. Its upstream operations are predominantly based in KSA, while it operates its downstream business globally.

1. Upstream business:

Activities in the Upstream segment include the process of exploration, development and production of crude oil, condensate, natural gas and NGL. Aramco is the sole natural gas supplier in the Kingdom, with a portfolio rich in liquids including unmixed condensate and NGLs derived from crude oil production. It operates primarily in the Central and Eastern province, from where its extensive network of pipeline connects its oil fields and processing units.

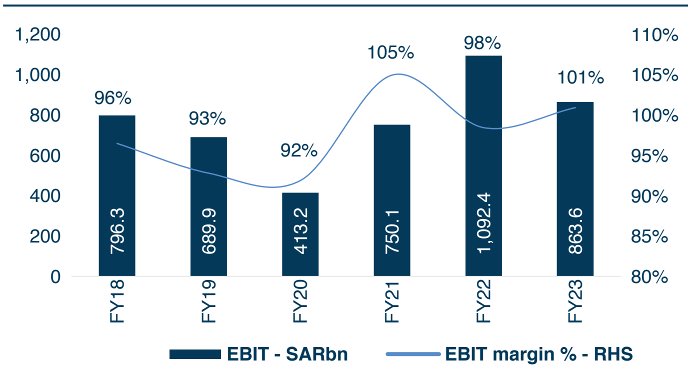
Aramco, historically focused on upstream business but has diversified into downstream activities in response to global oil demand fluctuations. This strategic shift led to a reduction in the revenue contribution from 62% in FY18 to 46% by FY23. Despite this decrease, Aramco maintains a competitive advantage in upstream operations due to its ability to produce a higher percentage of liquids at lower costs, which allows it to achieve higher profit margins and reinforce its position as a leading and efficient producer in the global oil market.

Fig 1. Upstream revenues grew at 0.7% CAGR over FY18-23; Diversification drove reduction in revenue share



Source: Company, AlJazira Capital research

Fig 2. Higher share of liquid production enables upstream business to generate higher margins



Source: Company, AlJazira Capital research

Fig 3. Upstream business segment key financial and operational overview

Parameters	2018	2020	2023
Crude oil output (mnboepd)*	10.53	9.43	9.79
NGL output (mnboepd)*	1.09	1.00	0.94
Gas output (mnboepd)*	1.64	1.67	1.82
Ethane output (mnboepd)*	0.29	0.28	0.32
Total output (mnboepd)*	**13.57**	**12.39**	**12.87**
Revenues per barrel (in SAR)	166.7	99.4	191.7
EBIT per barrel	160.8	91.3	183.8
Capex per barrel	19.5	16.3	26.3

Source: Company, AlJazira Capital research. Note: * Based on our calculations

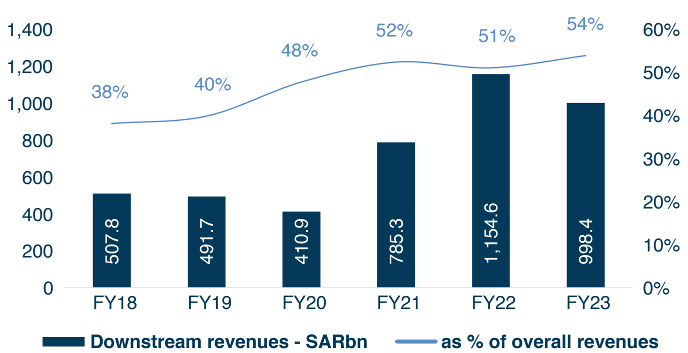
2. Upstream business:

This segment encompasses refining, petrochemical manufacturing, supply, product distribution, trading, marketing, and power generation. Aramco runs its refining business through wholly owned operations and partnerships with global industry refineries. Its refining business in KSA is supported by domestic branches and distribution systems, offering it unique access to the local market as the sole supplier. Beyond the domestic market, it has focused downstream investments in high-growth regions such as China, India, Southeast Asia, USA, and other key demand centers reliant on imported crude oil.

Over the year Aramco has been diversifying its overall revenue by integrating its O&G operations with its refining business in the downstream segment. This has driven the revenue share of downstream business from 38% in FY18 to 54% in FY23. The downstream segment operates on thin margins as compared to the upstream business. Its EBIT margins have been hovering in the -4.9% to 7.9% range over FY18-23.

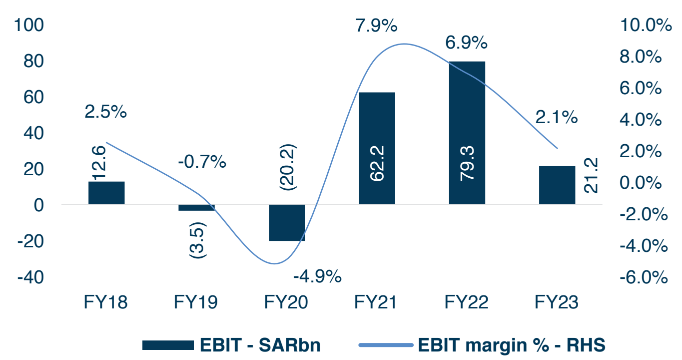
Going forward, the company's focus remains on enhancing its business in key high-growth geographies, increasing the placement of KSA's crude oil in wholly owned or affiliated refineries. Despite the growing focus on this decrease, Aramco maintains a competitive advantage in upstream operations due to its ability to produce a higher percentage of liquids at lower costs, which allows it to achieve higher profit margins and reinforce its position as a leading and efficient producer in the global oil market.

Fig 4. Downstream revenues grew at 14.5% CAGR over FY18-23; Focused approach drove the revenue share



Source: Company, AlJazira Capital research

Fig 5. Downstream operates at thin margins compared to the upstream business



Source: Company, AlJazira Capital research

3. Corporate business:

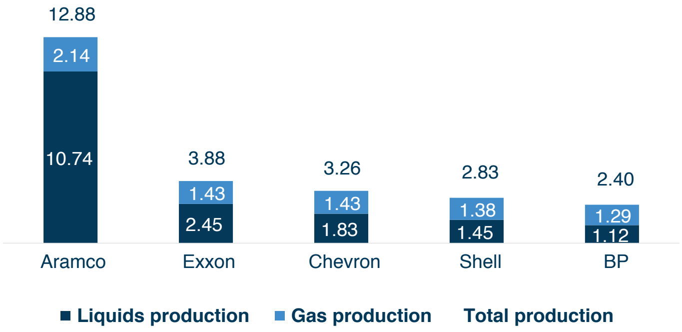
The corporate activities mainly support its Upstream and Downstream business. The company's activities include technical services critical to the success of Aramco's core business, as well as human resources, finance, legal and corporate affairs.

Peer analysis

Product composition skewed to liquids vs global IOCs, benefitting Aramco to generate higher return

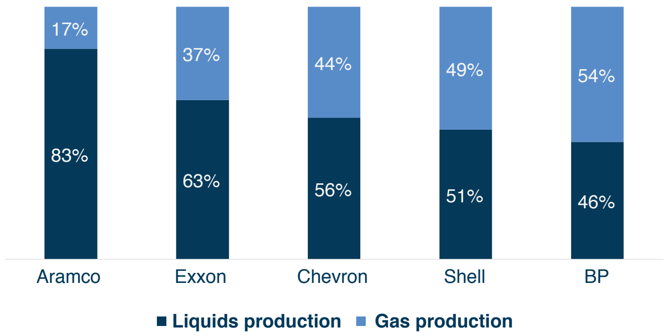
Unlike other global International Oil Companies (IOCs), Aramco's product composition is highly skewed towards liquids, which has a share of 83% of total production, versus a 46-63% % for Exxon, Shell, BP, Total and Chevron. We believe Aramco's higher skew to liquids where it has a moat of being the low-cost producer is the key differentiator between other global IOCs. This enables Aramco to benefit by generating higher returns for each BoE.

Fig 6. Aramco is the largest hydrocarbon producer among its global peerset



Source: Visible Alpha, AlJazira Capital research. Note: Based on 2023 data

Fig 7. Higher skew to liquids enables Aramco to generate higher return per boe due to lowest-cost producer

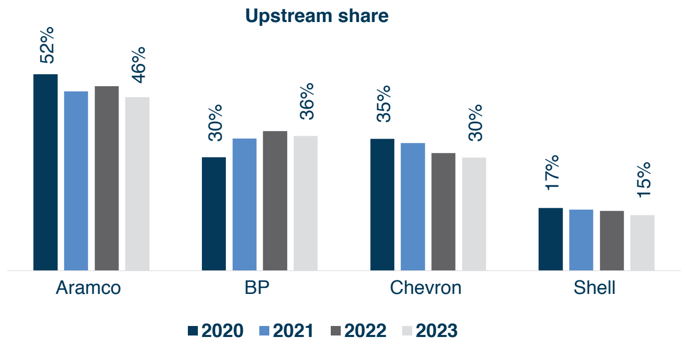


Source: Visible Alpha, AlJazira Capital research. Note: Based on 2023 data

Downstream is influential for Aramco's global IOC peers

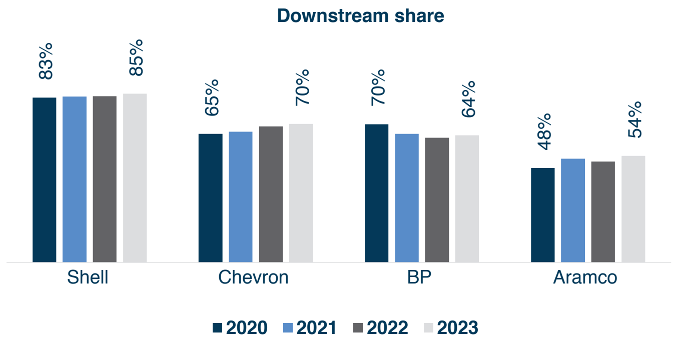
Over the years, Aramco has diversified its business by expanding into downstream operations. However, it is still primarily used as a channel for its upstream volumes which is evident from 47% of upstream crude oil production being still used by downstream operations. Aramco's global peers have a higher share (65-85% of total revenues) of downstream business, versus 54% for Aramco. This is because of the mismatch between the IOCs' liquid production, their respective refining capacities, and the liquids supplied to this captive system. Moreover, Aramco's downstream EBIT only contributes 5-9% of total EBIT, in comparison to its global peers whose downstream EBIT accounts for 15-25% of total EBIT.

Fig 8. Aramco's upstream business is the largest globally and towers its downstream operations



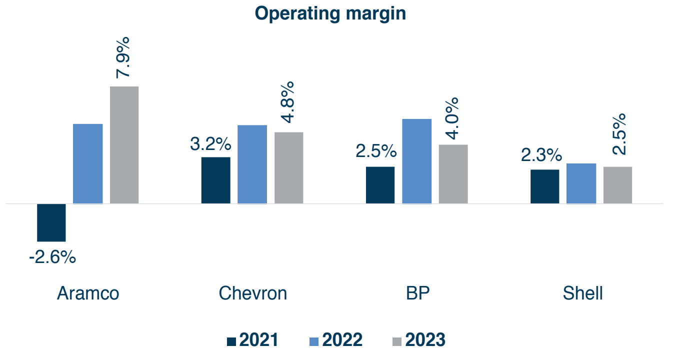
Source: Visible Alpha, AlJazira Capital research

Fig 9. Unlike global peers, Aramco has comparatively lower downstream business



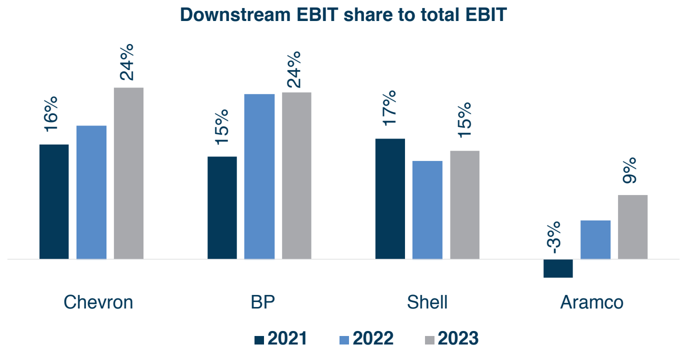
Source: Visible Alpha, AlJazira Capital research

Fig 10. Despite having lower downstream share vs peers, Aramco generates the highest EBIT margins



Source: Visible Alpha, AlJazira Capital research

Fig 11. Lower share of downstream revenues also results in lower EBIT share for Aramco, unlike its peers

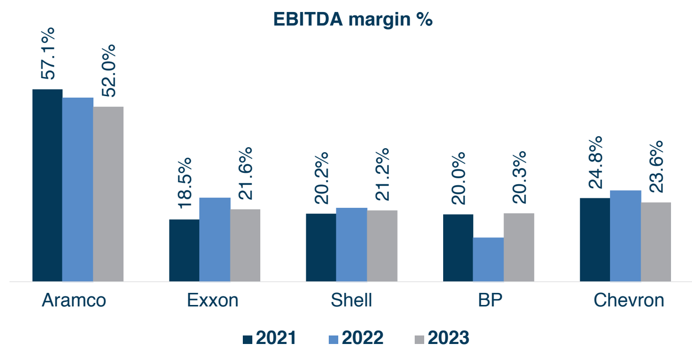


Source: Visible Alpha, AlJazira Capital research

Aramco's unmatched margins and return profile against its global IOC peers

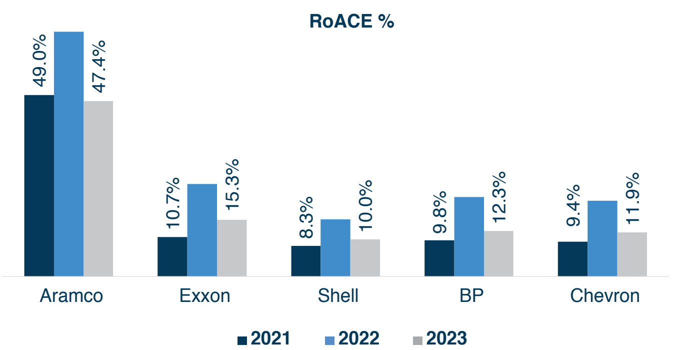
Aramco's size, economies of scale, and unique geology of its fields allow it to extract oil at only USD 3.2/bbl lifting cost and USD 6.3/bbl capex costs, which makes it the lowest cost producer in the world. This acts as moat for Aramco, and enables it to generate stellar EBITDA margins, which are almost 2x times greater than its global peers. Better ability to generate EBITDA margins and defensive royalty structure aids in higher visibility on earnings and cash flow generation, during cyclical oil price downturns. This translates into a better return on capital employed profile, which for Aramco is 3-5x times greater than its peers.

Fig 12. Ability to extract oil at lowest cost drives highest EBITDA margin profile for Aramco



Source: Visible Alpha, AlJazira Capital research

Fig 13. Higher EBITDAM and defensive royalty structure enhance cash flow visibility, driving better return profile



Source: Visible Alpha, AlJazira Capital research

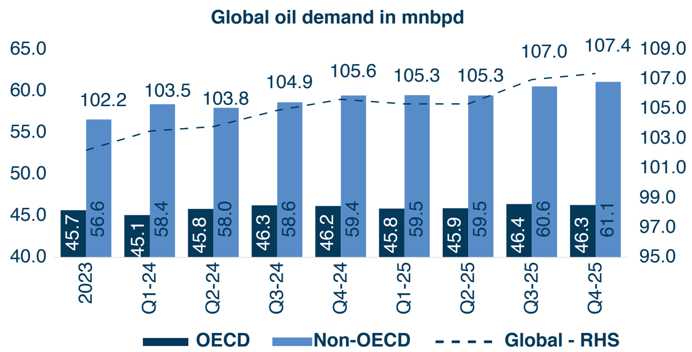
Oil outlook: Near-term sluggish macro impact on demand and oversupply concerns to be offset by geopolitical risk; market to be relatively steady in MT

Sluggish near term global macro outlook weighing on demand, but medium-term outlook unwavering despite increasing adoption of renewable energy and EV

Global oil demand in 2024 is expected to be impacted to some extent by sluggish global consumption given weaker economic growth and higher interest rate environment. The demand from EMs is hit by lower purchasing power. China's share of global demand could reduce from 70% in 2023 to 40% by 2025, as per IEA. OPEC+ in its recent Jul-24 publication expects the global oil demand to grow at 2.2% Y/Y and 1.8% Y/Y in 2024 and 2025 and to reach 104.5mnbpd and 106.3mnbpd of oil demand, respectively. However, this near-term sluggish demand outlook is likely to be offset by a confluence of other positive factors in the medium to long term spanning across expected interest rate cuts and probable weakening of US dollar, economic recovery in the EMs, and increasing energy needs for expanding populations. Despite increasing adoption of renewable energy sources and advancements in EV sector, oil remains a critical component of the global energy mix. Key sectors such as transportation, petrochemicals, and industrial processes continue to rely heavily on oil, underscoring its enduring importance.

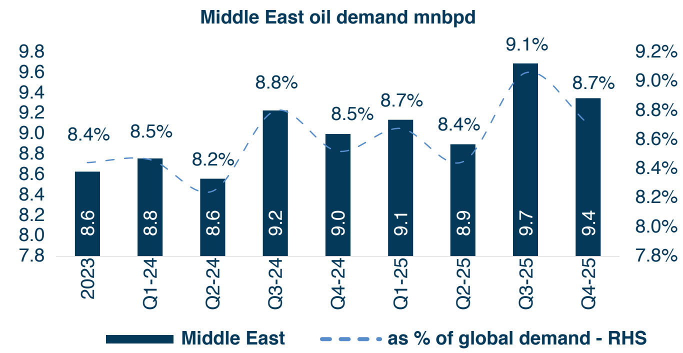
Demand patterns in the Middle East remain promising on contributions from KSA and other counterparts. The inauguration of four new airports and terminals in KSA and UAE earlier this year is expected to bolster air travel in the region, which is likely to support jet/kerosene demand in 2024. Further rising temperatures during summers will increase the demand for air conditioning and thus support demand for diesel, fuel oil and crude. In 2025, increased spending on infrastructure and mega projects in KSA under its Vision 2030 initiative will likely drive the demand for petrochemical sector, transportation fuels and other distillates. Accordingly, the oil demand for the region is expected to grow at 2.96% Y/Y and 4.3% Y.Y in 2024 and 2025, to reach oil demand volume of 8.9mnbpd and 9.3mnbpd respectively.

Fig 14. Global oil demand to continue growth momentum with 2.2% Y/Y and 1.8% Y/Y growth in 2024 and 2025



Source: OPEC+, AlJazira Capital research

Fig 15. Strong demand anticipated in Middle East region driven by uptick in travel, and infra spending



Source: OPEC+, AlJazira Capital research

Strong non-OPEC+ production growth in 2024 to offset the near-term impacts from OPEC+ supply cuts; 2025 supply growth unwavering as OPEC+ voluntary cuts start to unwind

EIA anticipates the global oil production to increase by 0.6 mnbpd to reach 102.4 mnbpd in 2024. OPEC+ members which account for 32% of global supply, have been announcing a series of deep oil output cuts since late 2022, to shore-up the market worries of sluggish demand growth from the top-oil importer China and high interest rates. Despite these recurring output cuts from OPEC+, the global supply is likely to expand 0.6% Y/Y in 2024 at the back of significant growth in the non-OPEC+ nations, driven by countries like US, Canada, Brazil. However, post the production cut expiration and gradual unwinding of cuts from October 2024 to September 2025, inventories could build and thus EIA expects the global oil production to increase by 2.2 mnbpd (2.1% Y/Y growth) in 2025 to reach 104.6 mnbpd in 2025. Considering these aspects, we accordingly forecast KSA's oil production to grow 5% Y/Y to 9.5 mnbpd in FY25e. Whereas, in the longer run a steady increase of 2.3% CAGR between FY25-30e to reach 10.6 mnbpd by FY30e is anticipated.

Fig 16. Production levels with phase-out of only Nov-23 voluntary cuts will be applied starting from Oct-24 until Sept-25

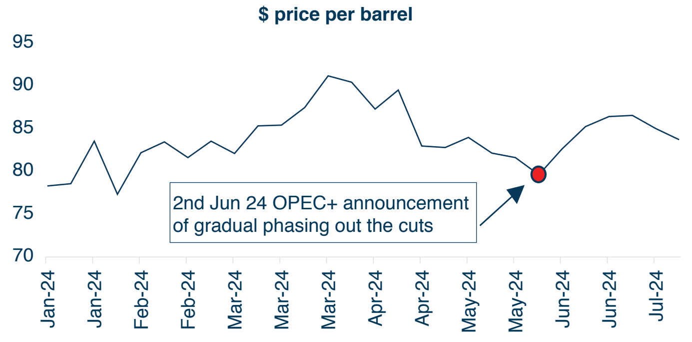
Parameters	Jun-Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct-Dec
Algeria	0.91	0.91	0.92	0.92	0.93	0.93	0.93	0.94	0.95	0.95	0.95	0.96	0.96	0.96
Iraq	4.00	4.02	4.04	4.06	4.07	4.09	4.11	4.13	4.15	4.17	4.18	4.20	4.22	4.22
Kuwait	2.41	2.42	2.44	2.45	2.46	2.47	2.48	2.49	2.50	2.51	2.53	2.54	2.55	2.55
KSA	8.98	9.06	9.15	9.23	9.31	9.40	9.48	9.56	9.65	9.73	9.81	9.90	9.98	9.98
UAE	2.91	2.93	2.94	2.95	3.00	3.05	3.09	3.14	3.19	3.23	3.28	3.33	3.38	3.38
Kazakhastan	1.47	1.48	1.48	1.49	1.50	1.50	1.51	1.52	1.52	1.53	1.54	1.54	1.55	1.55
Oman	0.76	0.76	0.77	0.77	0.77	0.78	0.78	0.78	0.79	0.79	0.79	0.80	0.80	0.80
Russia	8.98	9.02	9.06	9.10	9.14	9.17	9.21	9.25	9.29	9.33	9.37	9.41	9.45	9.45

Source: OPEC+, AlJazira Capital research

Average brent crude prices to be higher in 2024e due to geopolitical risks before easing in 2025e; to see a gradual uptrend post 2025e as the market stabilizes

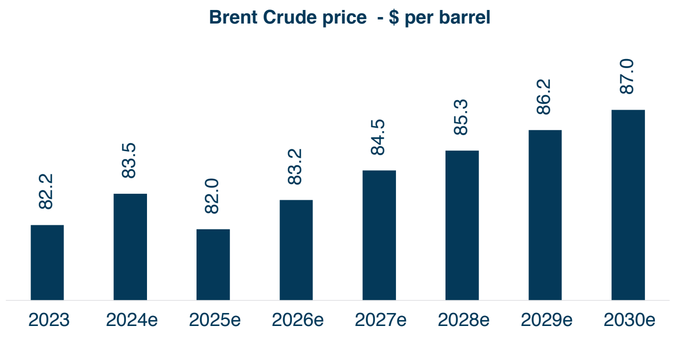
Oil prices were hit after OPEC+'s announcement in June to gradually phase out the production cuts from Oct-24 to Sept-25 due to concerns of oversupply, as demand is still under pressure. On the other hand, the prices are gaining support from heightened tension in the Middle East and Ukraine's attack on Russian refineries raising supply disruption fears. We expect the average oil prices to increase to USD 83.5/bbl in 2024, implying 1.6% Y/Y change. Further in 2025, we anticipate oil price momentum to ease a bit to record 1.8% decrease to the average of USD 82.0/bbl. Over the medium term, we expect supply-demand dynamics to stabilize with a consistent growth in demand, keeping a modest upward movement in the oil prices.

Fig 17. KSA dominates MENA's oil production



Source: AlJazira Capital research

Fig 18. Brent crude price assumptions



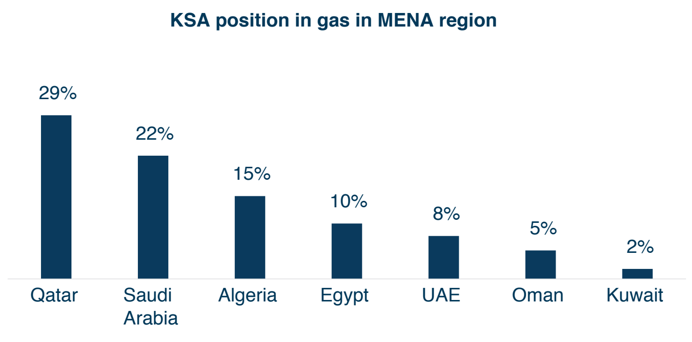
Source: AlJazira Capital research

Planned 60% increase in natural gas production to strengthen the Aramco's position as diversified energy provider

Huge proven gas reserves underline Aramco's potential to emerge as larger gas producer in global market

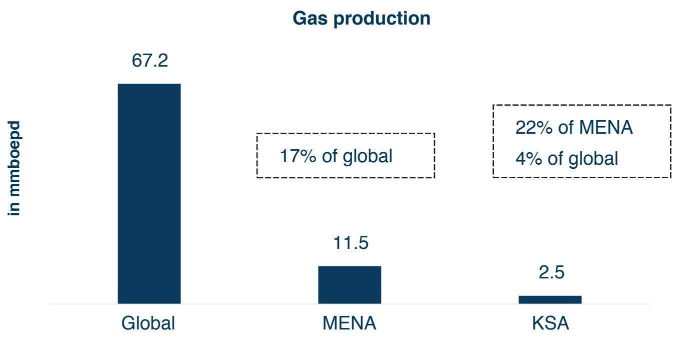
Unlike its dominant position in crude oil production, Saudi Arabia is comparatively a smaller player in terms of natural gas production. The Kingdom stands second among its MENA peers (ex-Iran) accounting for 22% of the region's gas production, while globally KSA contributes only 4% of total gas production. Nevertheless, Saudi Arabia's has huge unconventional gas reserves at the Jafurah Gas Field. It is the largest liquid-rich shale gas reserve in the Middle East with an estimated 229tn standard cubic feet (tscf) of natural gas and an estimated 75bn barrels of condensate (including the discovery of 15 tscf of gas and 2bn barrels of condensate earlier this year). The Kingdom's total proven natural gas reserves are roughly estimated at around 350 tscf, placing it among the top countries with largest natural gas reserves in the world.

Fig 19. KSA is second largest gas producer in MENA (ex-Iran)



Source: Westwood Global Energy, AlJazira Capital research

Fig 20. But accounts for only 4% of global gas production



Source: Westwood Global Energy, AlJazira Capital research

Fig 21. Saudi Arabia is among top countries in the world with natural gas reserves

Country	Natural gas reserves*
Russia	1,688 tscf
Iran	1,201 tscf
Qatar	872 tscf
US	691 tscf
Turkmenistan	400 tscf
Saudi Arabia	**350 tscf#**

Source: EIA, OPEC, World Population Review, AlJazira Capital research; *Russia, Iran and Qatar data as of 2020, US as of 2022, #Saudi Arabia's are based on our rough estimates by adding recent discoveries to latest available data

Natural gas to be in focus for Aramco over the next few years; Jafurah gas field ramp up and other expansion projects to boost production

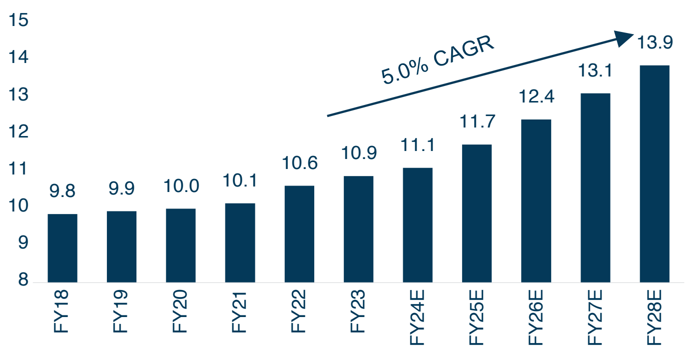
Saudi Arabia is undertaking a significant natural gas expansion project aligned with its Vision 2030 initiative. This strategic move is crucial for Saudi Aramco, as it seeks to diversify its energy portfolio, curb domestic oil consumption, and establish itself as a major player in the international natural gas market. In March 2024, Saudi Aramco raised its target for natural gas production expansion plan to more than 60% increase over FY21 level by FY30e as against earlier target of 50% increase. Based on our calculations, the planned expansion would result in ~5-6 bscfd of additional natural gas production by FY30e. However, the actual gas production growth will also be dependent on the corresponding rise in domestic demand. The gas production is expected to pick up FY25E onwards when Jafurah phase I is scheduled to commence. Aramco aims to ramp up Jafurah field production to a sustainable rate of 2 bscfd by FY30E. Furthermore, other gas expansion projects such as Tanajib Gas Plant (Marjan development program), Hawiyah Gas Plant Expansion, would also support the increase in gas production. We assume a slightly conservative average annual growth of 5.0% in Aramco's total gas production during FY23-28e, accelerating from 5-year historical CAGR of 2%.

Fig 22. Key natural gas expansion projects

Project	Expected additional capacity	Status
Jafurah Gas Plant (phase I)	To gradually increase natural gas deliveries to reach a sustainable rate of **2.0 bscfd** by FY30.	Design and construction activities going on; expected to commence production in FY25
Tanajib Gas Plant	To add **2.6 bscfd** of additional processing capacity from the Marjan and Zuluf fields.	Currently at construction and procurement phase. The plant is expected to be onstream by FY25
Hawiyah Gas Plant expansion	Raw gas processing capacity of the plant rose by **800 mmscfd** (including ~**750 mmscfd** of natural gas capacity).	Successfully commissioned and brought onstream in FY23
South Ghawar	Raw gas processing capacity of **300 mmscfd** and **38 mbpd** of condensate processing capacity	Commenced operations of the first unconventional tight gas production two months ahead of schedule

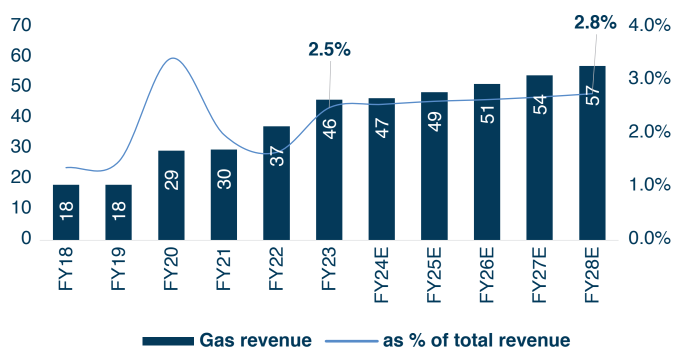
Source: Company Reports, AlJazira Capital research

Fig 23. Expected natural gas production growth (bscfd)



Source: Company Reports, AlJazira Capital research

Fig 24. Natural gas revenue trend (SAR bn)



Source: Company Reports, AlJazira Capital research

Switching from oil to natural gas for domestic energy consumption is likely to make higher amount crude oil available for export; to reflect positively on revenues and margin

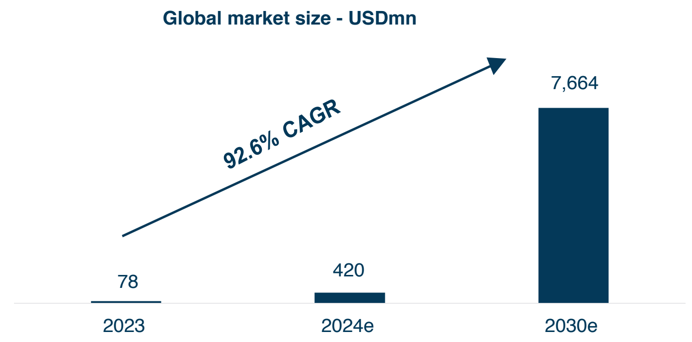
Saudi Aramco's plan to expand gas production aligns well with the Kingdom's efforts to transition from usage of crude oil for energy to natural gas (a cleaner fuel). The country is focusing on increasing electricity generation based on gas as against oil. Moreover, demand from petrochemical and other industries is also expected to drive additional demand for natural gas in KSA. The transition to natural gas is estimated to decrease domestic crude oil consumption by 1 mbpd. Aramco sells oil in the domestic market at subsidized rates, as against higher market driven rates for exports. Moreover, there is an anticipated additional 1 mbpd of liquids associated with gas expansion that will also help increase overall liquids production. Thus, the additional volume available for export will support the company's revenue as well as margins.

Competitive positioning to benefit from blue ammonia foray

To reduce greenhouse gas emissions and reliance on fossil-fuels, countries and industries are shifting to hydrogen gas as a principal source of energy. Blue ammonia is an intriguing fuel for the transition to a hydrogen-based economy. Because of its minimal carbon emissions and many applications, blue ammonia is gaining traction as a potential clean energy carrier and a fuel source. Globally the blue ammonia market is pegged at USD 78mn in 2023 but is expected to grow exponentially to USD 7.6bn by 2030e, implying 92.6% CAGR over 2023-30e. This robust growth will be fueled by increased use-case of low-emission fuels and rising number of countries and industries seeking cleaner energy alternatives.

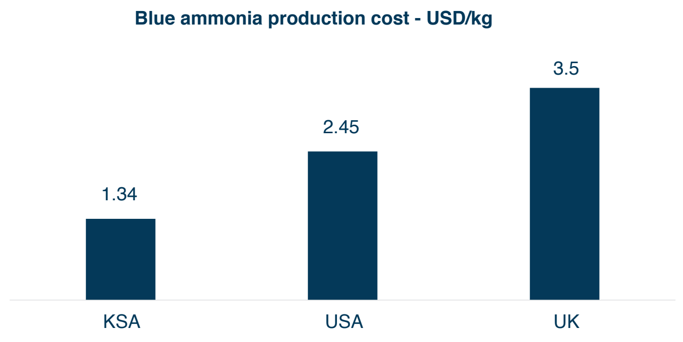
Aramco is competitively positioned to benefit from its foray into blue ammonia due to its access to internally available methane feedstock. Thus, the production cost of blue hydrogen for Aramco at USD 1.34/kg compared to USD 2.45/kg in US and USD 3.5/kg in UK. Additionally, as the operations scale up production costs could fall further.

Fig 25. Rising use of low-emission fuels and adoption of cleaner energy alternatives to drive market size



Source: MarketsandMarkets, AlJazira Capital research

Fig 26. KSA uniquely positioned to others due to its vast production of natural available at low price



Source: KAPSARC, AlJazira Capital research. Note: Average values for USA and UK

Aramco's foray into the blue ammonia market is a part of its strategic focus on developing clean energy solutions and diversifying its energy portfolio. The move in this space is driven by the increasing need for sustainable energy sources to help meet global decarbonization targets and to support the transition to a lower-carbon economy.

Aramco has laid down a roadmap to leverage its existing infrastructure and technological expertise to scale up its production capabilities. Aramco has highlighted plans to produce up to 11mn tonnes per annum of blue ammonia by 2030 (subject to offtake agreements), taking advantage of its gas production increase of >60% by 2030 (vs 2021 levels). Aramco has already made significant strides, having shipped the world's first accredited low-carbon ammonia to Japan for power generation and receiving TÜV Rheinland certification for its blue hydrogen and ammonia products.

Downstream expansion plan

Aramco's downstream business helps it in ensuring a secure and reliable supplier of refined products to its global customers. This is possible due to its ability to facilitate the placement of its crude oil because of integrating its O&G operations. Aramco has laid down a strategic plan to enhance its operations in the downstream business. It intends to strengthen its ability to facilitate the placement of the crude oil in larger offtake volumes and grow its liquids-to-chemicals volumes up to 4mnbpd by 2030. Aramco anticipates leveraging the potential of its existing products to meet the anticipated demand for its petrochemical products and expand in key-growth geographies. Its acquisitive nature has been the key driver in expanding its downstream activities. Its acquisition of a 70% stake in SABIC has provided a pivotal support to the business plans of this segment. Aramco is however seeking to diversify its downstream portfolio with the following recent investments, partnerships and commencement of new refining complexes.

Fig 27. Recent developments undertaken to support its long-term goal of growing liquids-chemicals volumes up to 4mnbpd by 2030

Transaction	Date	Details	Rationale
Stake acquisition in Hengli Petrochemical	Apr-24	10% stake	Expand Aramco's downstream presence in high key markets (China)
Stake acquisition in Esmax	Mar-24	100% stake	Expansion of its retail business in Chile, enabling it to secure outlets for its refined products
Stake acquisition in Rongsheng	Jan-24	10% interest	Expand chemical industrial chain and right to supply 60% of crude oil for SAR 12.8bn
Construction of refinery and petrochemical complex			Commenced construction of refinery and petrochemical as a part of SAR 44.4bn JV between Aramco, North Huajin, and Panjin Xincheng
Stake acquisition in Gas & Oil Pakistan Ltd	Dec-23	40% stake	Foray into the Pakistani fuels retail market, and advancing with the strategy to strengthen downstream value chain globally

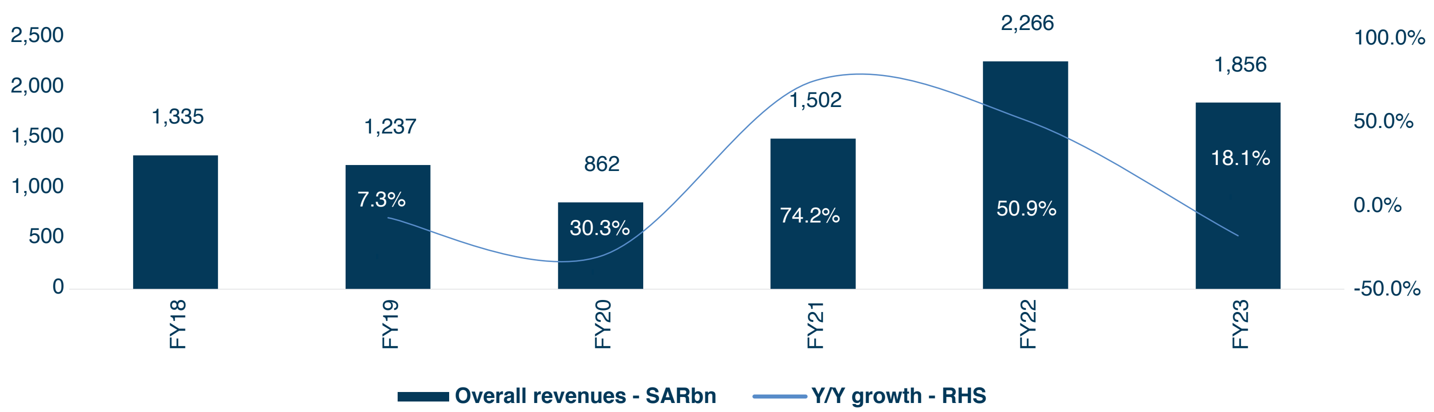
Source: Company, AlJazira Capital research.

Financial analysis

Competitive positioning in blue ammonia, increasing natural gas production and increasing investments to enhance downstream operations to drive revenues

Aramco's revenue has reported decent growth over the past five years, increasing from SAR 1,335bn in FY18 to SAR 1,856bn in FY23, representing a 6.8% CAGR over FY18-23. Sectoral tailwinds, especially post COVID, played a pivotal role in surging oil demand and thereby the oil prices. This enabled Aramco to enhance its upstream operations, by focusing primarily on crude oil and gas fields, and resulting in a 24% revenue CAGR in its upstream business. Simultaneously, Aramco's long-term strategy to diversify its business and integrate its upstream and downstream operations was highlighted during this period through its aggressive expansions in downstream operations which led to a 34% revenue CAGR for its downstream segment.

Fig 28. Revenue growth over the past 5 years driven by sectoral tailwinds and enhancements in the upstream business



Source: Company, AlJazira Capital research

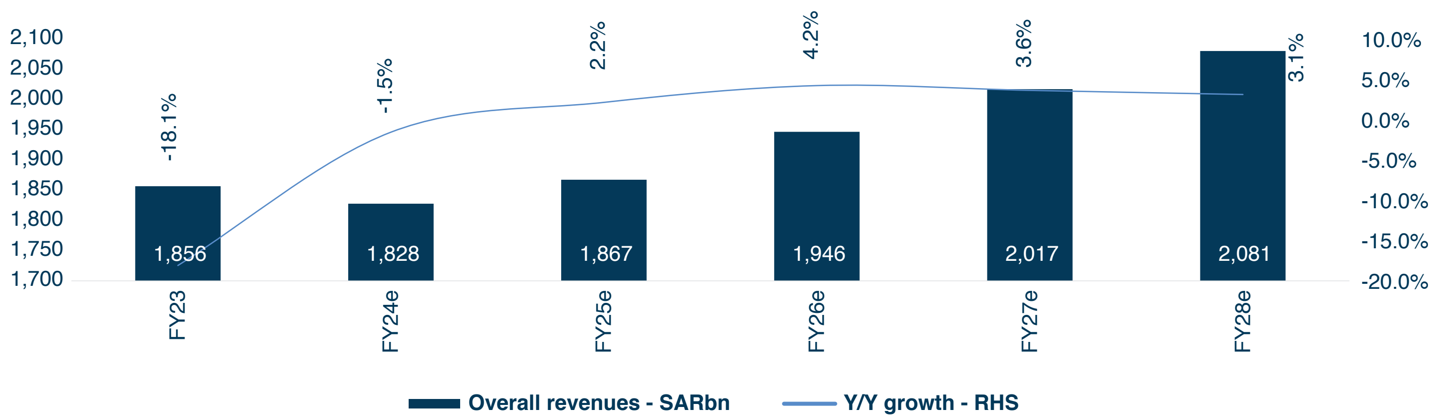
Upstream business to be impacted in 2024 due to sluggish crude oil business (~93% of upstream revenues). We expect upstream revenues to decline from SAR 856bn in FY23 to SAR 793bn in FY24e due to a 6.0% Y/Y decline in production. Near-term outlook for crude oil is cautionary due to a double whammy of sluggish demand from the top importer, China, and KSA's voluntary supply cuts. Accordingly, we expect Aramco's oil production to be impacted significantly in 2024 and we expect it to reduce 6% Y/Y to 9.0mnbpd. However, post the expiration of voluntary cuts, we expect inventories to build-up by end of 2025, and expect the production to revive by registering 5% Y/Y growth to reach 9.5mnbpd levels.

However, the upstream revenue growth will be partially offset by the growth in gas and other products, due to Aramco's increasing intensity at its unconventional Jafurah gas fields and its foray into the blue ammonia market. Higher demand for natural gas from power generation, petrochemicals and industrial sectors to be key drivers for the on-going and planned investments by Aramco in its gas business. The unconventional gas field at Jafurah is expected to commence production by 2025e with intentions of increasing production from 200mmcfd in 2025 to 2.0bcfd by 2030e. We believe there is a potential upside to the gas revenues from higher gas production as it is still significantly below the company's total gas processing capacity.

We expect downstream revenues to be the key driver for Aramco's growth, given its ability to increase the refining capacity both on a gross and equity basis. The acquisition spree and increasing partnerships undertaken are likely to ensure capacity build-up and enable Aramco to meet its long-term goal of growing liquids-chemicals volumes up to 4mnbpd by 2030. We expect the downstream production to increase from 4.0 mnbpd in FY23 to 4.5 mnbod by F28e, thereby driving the revenues from SAR 998.4bn in FY23 to 1,168.4bn by FY28e, implying a 3.2% revenue CAGR over FY23-28e.

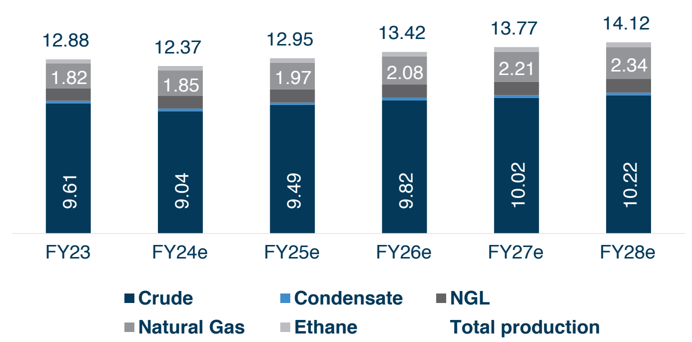
Accordingly, we forecast the overall revenues to grow from SAR 1,856.4bn in FY23 to SAR 2,080.7bn by FY28e, implying a 2.3% revenue CAGR, driven by steady oil revenue growth, expansion of downstream business and gas operations at its unconventional gas field at Jafurah.

Fig 29. Revenue growth over the next 5 years to be driven by steady oil revenue growth, , increasing intensity at Jafurah gas fields and expansions undertaken in downstream operations



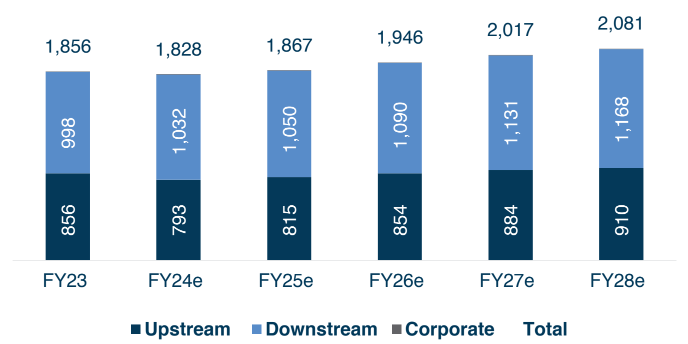
Source: Company, AlJazira Capital research

Fig 30. Oil production to be impacted in FY24e while others to continue growth momentum



Source: Company, AlJazira Capital research

Fig 31. Near-term revenue impacts driven by sluggish upstream revenues

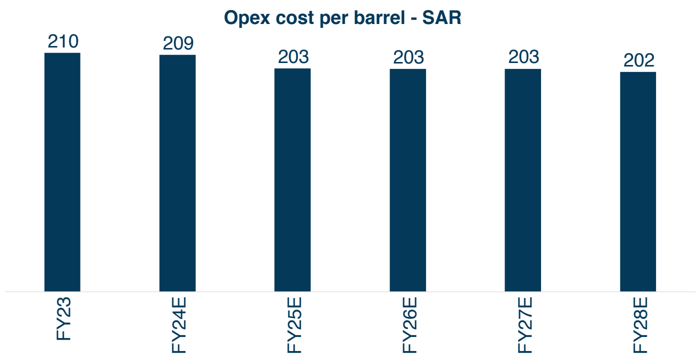


Source: Company, AlJazira Capital research

Operational efficiency and probable reversal of refining margins to aid in EBITDA margin expansion, however gradual flow-through to net income

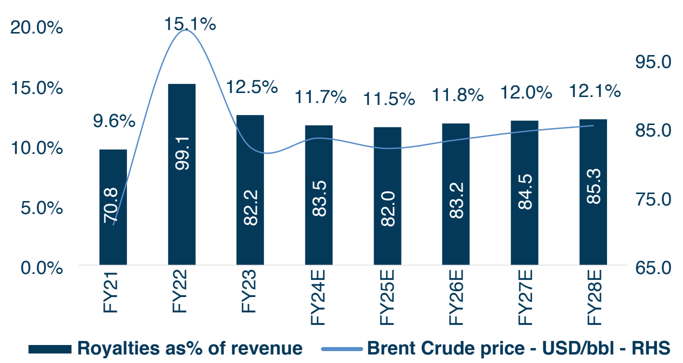
Historically Aramco's EBITDA margins have contracted from 62.9% in FY18 to 52.0% in FY23, impacted by fluctuations in the oil price movement. However, going forward we anticipate EBITDA margin to improve, reaching 56.0% in FY28e from 52.0% in FY23 benefitting from best-in-class operational efficiency due to lowest average lifting cost per barrel globally (USD 3.2/bbl) and probability of refining margins reversing back as petrochemical product prices start to stabilize. In addition, the EBITDA margin will be supported a steady operating cost per barrel decreasing from SAR 210 in FY23 to SAR 202 by FY28e. Further Aramco's defensive royalty structure to act as cushion to its operating costs, in case of any negative surprises in oil price movements. The current royalty structure provides lower effective royalty (15%) to the KSA government, as long as oil prices remain below USD 70/bbl. However, it provides a bigger slice of the pie in case of the upside scenario in the oil price. This structure also limits the payoff on the upside in a bull case scenario, making Aramco more of a defensive name among global IOC peers. In terms of the net margin, we expect it to widen gradually from 24.4% in FY23 to 25.3% in FY28e due to lower finance income. Accordingly, net income is forecasted to expand at 3.1% CAGR from SAR 452bn in FY23 to SAR 526bn in FY28e.

Fig 32. Opex cost per barrel to decrease as production volumes increase over FY23-28e



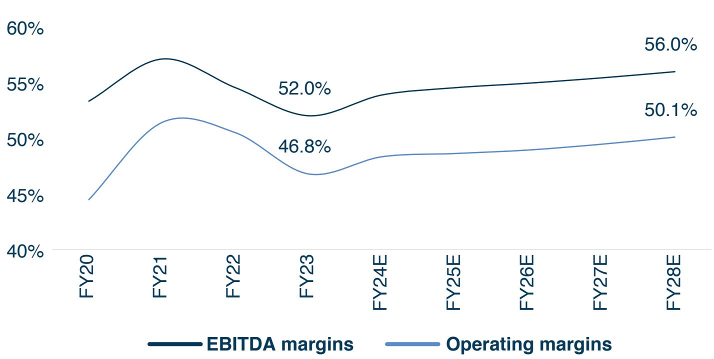
Source: Company, AlJazira Capital research

Fig 33. Defensive royalty structure acting as cushion to opex in case of negative surprises in oil prices



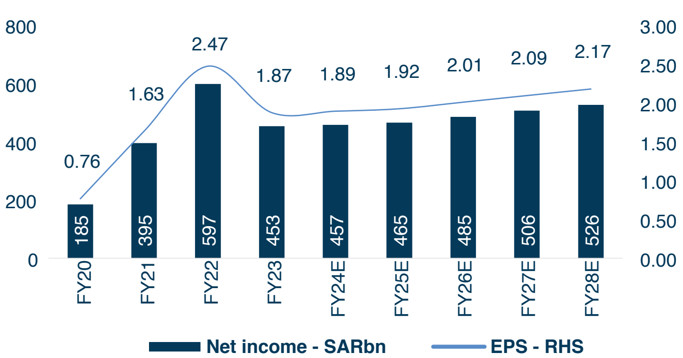
Source: Company, AlJazira Capital research

Fig 34. Operational efficiency and probable reversal of refining margins to aid in margin expansion



Source: Company, AlJazira Capital research

Fig 35. Gradual expansion in net income due to lower finance income



Source: Company, AlJazira Capital research

May need additional debt to fund medium term Capex, but leverage and capex intensity to ease in long term

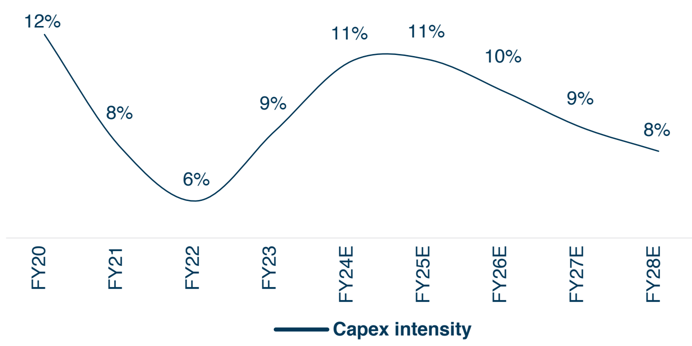
Capex intensity reduced from the highs of 12% in FY20 to 9% in FY23 due to volatility in the global macro environment. Despite the USD 40bn capex savings over FY23-28e arising out of MSC expansion cancellation, Aramco maintained FY24e capex between SAR 180bn and SAR 220bn. Further Aramco's management recently raised its target for natural gas production expansion plan to 60%+ increase over FY21 levels by FY30e, as against the 50% target earlier. Basis this we believe the capex will remain elevated over FY24-26e, with expected peak in FY25e. The capex program will be focusing on:

- A significant portion to be directed towards upstream activities for expansion and maintenance of its production facilities.
- Investments for enhancing the conversion of liquids to chemicals, form a part of the strategic shift of more value-added products.

- 30% allocation for expanding the downstream operations.
- 10% of capex to be allocated to new energy projects such as blue hydrogen, carbon capture.
- For exploring opportunities in LNG markets in USA and Australia.

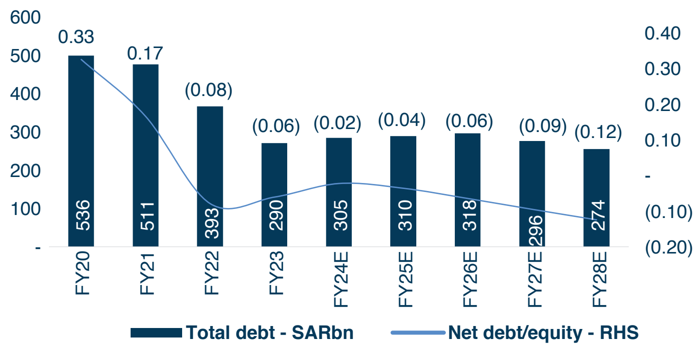
Despite generating robust CFO, we believe Aramco will resort to raising additional debt for undertaking its planned capex program. We estimate a requirement of SAR 40.0bn debt till FY26e, post which the growing CFO being secured with current investments across gas and downstream operations, will be well placed to service the additional debt. In the long term, we expect Capex intensity to ease post FY26e and hence we don't see further requirement of raising loan post that as of now, helping leverage lever to drop to comfortable levels.

Fig 36. Capex intensity to remain elevated over FY24-26e before normalizing to historic levels



Source: Company, AlJazira Capital research

Fig 37. Requirement of additional debt to fund medium term capex, but to ease in the long-term

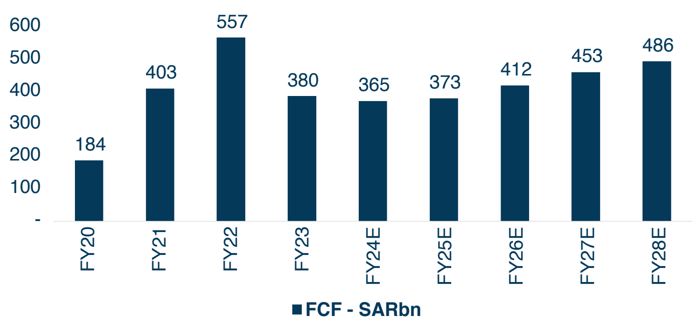


Source: Company, AlJazira Capital research

Ability to generate robust FCF helps Aramco maintain high dividend yield

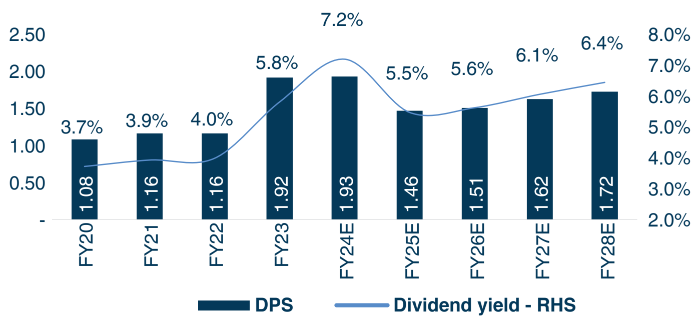
Aramco has maintained strong cash flows throughout different oil price fluctuations, given high levels of flexibility in controlling expenses and capex. In FY20, when oil prices average was USD 44/bbl, Aramco generated healthy CFO of SAR 285bn and FCF of SAR 185bn. In 2021, when the oil prices recovered back to USD 70/bbl, Aramco significantly improved its CFO to SAR 523bn and FCF of SAR 403bn. This ability of Aramco to generate robust cash flows has enabled it to distribute consistent dividends and invest in growing its downstream assets. This consistency in paying out dividends has helped Aramco to enjoy a dividend yield of 4.5% to 6.8% in the past. Incorporation of special dividends in Q3-23 (50-70% FCF net of base dividend) has increased the 2024 dividend yield and thus we expect DPS of SAR 1.93 per share in FY24e. However, over FY25-26e we expect the DPS to reduce to SAR 1.46 and SAR 1.51 per share, respectively, due to higher capex as guided by the management. Post FY26e, we expect an uptick in the DPS and to reach SAR 1.72 per share by FY28e.

Fig 38. Aramco has been consistently generating robust FCF over the last several years



Source: Company, AlJazira Capital research

Fig 39. FY25/26e dividends to be impacted on higher capex, post which an uptick is expected



Source: Company, AlJazira Capital research

Investment Thesis and Valuation

Aramco's long-term prospects are supported by i) largest oil producer and massive hydrocarbon reserves, ii) lowest cost producer supported by economies of scale and unique geology of its fields, iii) untapped potential in the gas business, and iv) diversification of its core business by focusing on downstream operations. Its lowest extraction cost allows it to have generate strong returns (30% RoE) and FCF (27.2% CAGR over FY20-23) which it uses in expanding and diversifying its business and also in paying sizable dividends. Incorporation of special dividends in Q3-23 (50-70% FCF net of base dividend) has increased the 2024 dividend yield of the company to 7.2%.

The current supply cuts could have limited short-term impact on Aramco's performance. Aramco's medium term expansion plans in its downstream operations and natural gas production would further diversify its business and benefit from the high demand in these markets. Accordingly, we anticipate the overall production to increase to 14.1mnboe by FY28e, with crude oil production reaching 10.2mnboe (79% of total) and gas production reaching 2.7mnboe (19% of total) by FY28e. Thus, we forecast the topline to reach SAR 2,081bn by FY28e, growing at 2.3% CAGR over FY23-28e. EBIT margin is expected to expand 330bps over FY23-28e, to reach 50.1% due to operating leverage and cost efficiencies. This along with along with a likely decline in finance expenses with anticipated rate cuts would boost the company's bottom line. Net profit is forecasted to post a 3.1% CAGR over FY23-28e to reach SAR 526.3bn in FY28e from SAR 452.7bn in FY23. We believe dividends will be a key attraction in the coming years, as Aramco will have substantial residual cashflow owing to its outsized FCF generation net cash balance sheet. As the recent investments across i) blue ammonia ii) gas fields (Jafurah) and iii) downstream operations fructify, Aramco will generate substantial FCF of SAR 486bn by FY28e. Thus, accordingly we forecast the total DPS (base dividend + performance linked) to increase from SAR 1.28 per share in FY22 to SAR 1.72 per share by FY28e.

We value the company based on DCF and EV/EBITDA. We have used DCF given the clarity on the future cash flows driven by the on-going investments in the downstream business. Typically, O&G companies have higher dependency on debt, which is captured well by the enterprise value. Since Aramco's CAPEX intensity could increase in the near term, it could raise additional debt. Thus, it is crucial to value Aramco using EV/EBITDA multiple. We have performed 50% DCF and 50% EV/EBITDA based valuation based on our forecasts for the next five years. We assumed risk free rate of 4.25%, a market risk premium of 6.25% and beta of 0.78 to arrive at WACC of 8.7%. Terminal growth rate is assumed at 2.0% (equivalent average oil market growth rate). Our valuation of Saudi Aramco based on DCF yielded an enterprise value of SAR 7,294.9bn and a fair value to equity shareholders of SAR 7,347.8bn, which translated into a value of SAR 30.4 per share. We also have valued Saudi Aramco using a relative valuation method based on FY25e EV/EBITDA multiple (8.0x). Based on the EV/EBITDA valuation our value is SAR 33.9 per share. Further assigning 50% weightage to DCF and 50% to EV/EBITDA based valuation methodology, we have arrived at a weighted target price of SAR 32.1 per share. This implies an expected capital gain of 19.8%, in addition to a dividend yield of 7.2%, thereby taking the total return to 27.0%.

Fig 40. Discounted Cash Flow model

SAR mn	FY24E	FY25E	FY26E	FY27E	FY28E
NOPAT	452,209	464,774	487,620	510,788	533,582
Depreciation & Amortization	101,350	110,265	116,763	120,197	122,285
Change in working capital	21,251	19,213	19,691	15,891	11,305
CFO	**574,810**	**594,253**	**624,074**	**646,876**	**667,172**
Capex	-198,117	-203,370	-191,199	-174,469	-163,665
FCFF	**376,693**	**390,883**	**432,876**	**472,407**	**503,507**
Discounting factor	1.0	0.9	0.8	0.8	0.7
Present value of FCFF	**364,313**	**347,964**	**355,785**	**358,291**	**351,493**
Sum of Present Value					1,778,162
PV of Terminal Value					5,516,779
Enterprise Value					**7,294,941**
Equity Value to common shareholders					7,347,840
No of outstanding share (in mn)					242,000
Fair value per share (SAR)					**SAR 30.4**

Source: AlJazira Capital research

Fig 41. DCF key assumptions

Terminal growth rate		Risk premium				
		5.3%	5.8%	6.3%	6.8%	7.3%
	1.4%	31.3	29.7	28.3	27.0	25.9
	1.7%	32.5	30.8	29.3	27.9	26.6
	2.0%	33.9	32.0	30.4	28.9	27.5
	2.3%	35.4	33.4	31.5	29.9	28.4
	2.6%	37.1	34.8	32.8	31.1	29.5

Source: AlJazira Capital research

Above is an illustration of sensitivity of our DCF based target price to the changes in terminal growth rate (range: 1.4%-2.6%) and risk premium (range: 5.25%-7.25%). The sensitivity analysis indicates valuation in the range between a minimum of SAR 25.9 (at terminal growth rate of 1.4% and risk premium of 7.25%) and a maximum of SAR 37.1 per share (at terminal growth rate of 2.6% and risk premium of 5.25%).

Fig 42. Relative valuation using EV/EBITDA multiple

FY25E EV/EBITDA (x)	8.0
Enterprise value (SAR mn)	8,195,943
TP (SAR per share)	**33.9**

Source: AlJazira Capital research

Fig 43. Weighted valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	30.4	50%	15.2
EV/EBITDA	33.9	50%	16.9
Total			**32.1**

Source: AlJazira Capital research

Alternatively, we have also analysed Aramco's value equating its dividend yield with various scenarios of Murabaha borrowing rate. Basis our FY25e estimated DPS of SAR 1.46, the sensitivity analysis indicates Aramco's valuation in the range between a minimum of SAR 26.63 (at Murabaha borrowing rate of 5.5%) and a maximum of SAR 41.85 (at Murabaha borrowing rate of 3.5%). Thus, the company is expected to command higher valuation as the interest rates decrease.

Fig 44. FY25e TP range basis Murabaha borrowing rate and total DPS

Murabaha borrowing rate %		Total Dividend Per Share				
		1.06	1.26	1.46	1.51	1.56
	3.5%	30.42	36.14	41.85	43.28	44.71
	4.0%	26.62	31.62	36.62	37.87	39.12
	4.5%	23.66	28.11	32.55	33.66	34.77
	5.0%	21.30	25.30	29.30	30.30	31.30
	5.5%	19.36	23.00	26.63	27.54	28.45

Source: AlJazira Capital research

Fig 45. Key upside risks

- Higher than expected oil and gas prices, higher market share gains and weak competitors exit.
- Better than expected economic growth.
- Captive expansion opportunities

Source: AlJazira Capital research

Fig 46. Key downside risks

- Reduction in oil prices driven by slowdown in global economy
- Failure to execute the expansion plans across gas, blue ammonia and downstream business
- Adverse impact of geopolitical conflicts on economic growth and oil and gas production in the Middle East

Source: AlJazira Capital research

Risk Factors

- **Volatile commodity prices:** Commodity prices are determined based on a confluence of macro-economic factors, which makes the prices fluctuate often. Sales from crude oil is the largest component for Aramco's business. Crude oil prices could remain volatile in the future given the recent demand worries and supply constraints imposed by the OPEC+ members and other key supplying nations. Any decline in oil prices could severely affect Aramco's revenues, operating cash flows and thus its ability to pay dividends. Such volatility in commodity prices makes Aramco's operating environment risky.
- **Sluggish production growth:** Aramco's crude oil production is determined by the KSA government and is subject to multiple market factors. In a situation if the global energy market goes north in terms of demand, then it could severely impact Aramco's production levels and the business.
- **Change in the global energy mix:** Cost effective and more environmentally friendly sources of energy like renewable energies are being increasingly adopted in several nations, as an alternative to the traditional sources. If the share of renewable energies increases in the global energy mix, then it could put pressure on the main business of Aramco.
- **Concession agreement:** While the concession agreement cannot be amended, modified, waived, discharged or terminated without the written consent from both the company and the Ministry of Energy, the one exception is if the government decides to change the law, which can be enacted unilaterally by the government.

Key Financial Data

Amount in SARbn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	1,502	2,266	1,856	1,828	1,867	1,946	2,017	2,081
Y/Y	**74.2%**	**50.9%**	**-18.1%**	**-1.5%**	**2.2%**	**4.2%**	**3.6%**	**3.1%**
Royalties	(145)	(342)	(232)	(213)	(214)	(230)	(242)	(253)
G&A expense	(500)	(689)	(659)	(630)	(635)	(648)	(657)	(664)
D&A expense	(86)	(92)	(97)	(101)	(110)	(117)	(120)	(122)
EBITDA	**857**	**1,236**	**965**	**984**	**1,018**	**1,069**	**1,118**	**1,164**
Y/Y	**86.6%**	**44.1%**	**-21.9%**	**2.0%**	**3.4%**	**5.0%**	**4.6%**	**4.2%**
Operating Profit	**772**	**1,144**	**868**	**883**	**908**	**952**	**997**	**1,042**
Y/Y	**101.36%**	**48.21%**	**-24.1%**	**1.7%**	**2.8%**	**4.9%**	**4.8%**	**4.5%**
Financial charges	(12)	(9)	(8)	(7)	(8)	(7)	(7)	(6)
Income before zakat	**770**	**1,153**	**888**	**905**	**926**	**967**	**1,009**	**1,049**
Zakat	(357)	(549)	(433)	(442)	(452)	(472)	(492)	(512)
Net income	**412**	**604**	**455**	**464**	**474**	**495**	**516**	**537**
Minority Interest	17	7	2	6	9	10	11	11
Adjusted Net income	**395**	**597**	**453**	**457**	**465**	**485**	**506**	**526**
EPS (SAR)	**1.63**	**2.47**	**1.87**	**1.89**	**1.92**	**2.01**	**2.09**	**2.17**
DPS (SAR)	**1.16**	**1.16**	**1.92**	**1.93**	**1.46**	**1.51**	**1.62**	**1.72**
Balance sheet	**1,502**	**2,266**	**1,856**	**1,828**	**1,867**	**1,946**	**2,017**	**2,081**
Assets								
Cash & equivalent	327	507	383	339	368	429	468	511
Other current assets	285	351	348	328	320	317	317	320
Total current assets	611	858	732	668	688	745	785	832
Property plant & equipment	1,405	1,463	1,549	1,601	1,685	1,750	1,794	1,825
Total assets	**2,163**	**2,470**	**2,453**	**2,440**	**2,542**	**2,663**	**2,745**	**2,822**
Liabilities & owners' equity								
Trade payables	125	135	152	149	152	159	165	170
Other current liabilities	105	121	102	106	113	123	133	143
Total current liabilities	**229**	**257**	**254**	**255**	**266**	**282**	**298**	**313**
Long term loans	436	318	226	246	256	266	246	226
Total non-current liabilities	**578**	**472**	**399**	**419**	**429**	**439**	**419**	**399**
Total owner's equity	**1,113**	**1,449**	**1,535**	**1,511**	**1,607**	**1,714**	**1,813**	**1,907**
Non-controlling interest	167	217	202	196	187	177	166	155
Total equity & liabilities	**2,163**	**2,470**	**2,453**	**2,440**	**2,542**	**2,663**	**2,745**	**2,822**
Cashflow statement								
Operating activities	523	698	538	563	577	603	627	649
CAPEX	(120)	(141)	(158)	(198)	(203)	(191)	(174)	(164)
Financing activities	(288)	(296)	(455)	(481)	(369)	(379)	(407)	(432)
Change in cash	138	298	(21)	(44)	29	61	39	43
FCF	403	557	380	365	373	412	453	486
Liquidity ratios								
Current ratio (x)	2.7	3.3	2.9	2.6	2.6	2.6	2.6	2.7
Quick ratio (x)	1.2	1.4	1.4	1.3	1.2	1.1	1.1	1.0
Profitability ratios								
EBITDA margin	57.1%	54.5%	52.0%	53.9%	54.5%	54.9%	55.4%	56.0%
Operating margin	51.4%	50.5%	46.8%	48.3%	48.6%	48.9%	49.4%	50.1%
Net profit margin	26.3%	26.4%	24.4%	25.0%	24.9%	24.9%	25.1%	25.3%
Return on assets	18.3%	24.2%	18.5%	18.7%	18.3%	18.2%	18.4%	18.7%
Return on equity	35.5%	41.2%	29.5%	30.3%	28.9%	28.3%	27.9%	27.6%
Leverage ratio								
Debt / equity (x)	0.17	(0.08)	(0.06)	(0.02)	(0.04)	(0.06)	(0.09)	(0.12)
Market/valuation ratios								
EV/sales (x)	4.9	3.1	4.3	3.5	3.4	3.3	3.1	3.0
EV/EBITDA (x)	8.6	5.6	8.2	6.6	6.3	6.0	5.6	5.4
P/E ratio (x)	18.1	11.8	17.6	14.2	14.0	13.4	12.8	12.3
P/BV ratio (x)	6.4	4.9	5.2	4.3	4.0	3.8	3.6	3.4
DY (%)	3.9%	4.0%	5.8%	7.2%	5.5%	5.6%	6.1%	6.4%

Source: Company, AlJazira Capital research

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RESEARCH DIVISION

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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.
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