



## Decline in oil prices, weaker chemical margins and non-cash one off charges weighed on earnings

Saudi Arabian Oil Company's (Aramco) net income declined 8.0% Q/Q to SAR 98bn in Q3-24 in line with AJC and market estimates of SAR 98bn and SAR 102bn, respectively. The decrease in net income was driven by lower oil prices, weaker chemical margins and contraction of overall EBIT margin. The company realized one-off non-cash charges worth ~SAR 3bn that weighed on the earnings. This was partially offset by a decrease in royalties and income tax & zakat expenses. The revenue fell 1.3% Q/Q to SAR 465bn, above our estimate of SAR 431bn, mainly due to higher than expected total hydrocarbon production. The decline in the topline was primarily on account of a 7.5% decrease in realized crude oil prices. We maintain our TP of SAR 32.1/share and "Overweight" recommendation on Aramco.

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- Revenue decreased 1.3% Q/Q to SAR 465bn, above our estimate of SAR 431bn. Total hydrocarbon production at 12.7 mmbobd was higher than our expectation of 12.4 mmbobd. Whereas a 7.5% Q/Q decrease in realized crude oil prices to USD 79.3 per barrel was in line with our expectation of USD 79.2 per barrel.
- Operating profit declined 6.6% Q/Q to SAR 193bn in Q3-24, as higher operating costs (+2.9% Q/Q), coupled with a decrease in topline, squeezed operating margin. The operating margin contracted ~240 bps to 41.5%, below AJC estimate of 44.2%. Upstream EBIT fell 5.4% Q/Q, downstream EBIT level losses widened to SAR 6.8bn. Downstream segment was impacted by certain non-cash charges, and continued weakness in margins.
- Aramco's CAPEX for the quarter stood at USD 14bn (SAR 53bn) vs. USD 12.5bn (SAR 47bn) in Q2-24. The company narrowed its guidance for FY24 CAPEX to USD 51-54bn (SAR 191-203bn) from USD 48-58bn (SAR 180-218bn) earlier. FCF was strong at SAR 83bn, up 16% Q/Q. Aramco maintained dividend payment SAR 117bn (Base: SAR 76bn; performance linked: SAR 41bn), same as the previous quarter.

**AJC view and valuation:** Aramco's earnings in Q3-24 were mainly affected by decline in crude oil pricing and continued pressure on refining margins. Certain non-cash one-off charges worth ~SAR 3bn also weighed on earnings. However, FCF was strong. We expect weaker oil prices and refining margins to remain as near term headwinds for the company. Moreover, delayed output increase by OPEC+ will impact volumes. However, total hydrocarbon production was up sequentially in Q3-24. Nevertheless, Aramco's long-term prospects are supported by aggressive downstream investments, expansion of gas production, and competitive positioning in the blue ammonia market. Aramco currently trades at an EV/EBITDA ratio of 6.6x and P/E of 14.7x based on our FY25E estimates. FY25E dividend yield is estimated at 5.2%. We maintain our TP of SAR 32.1/share and "Overweight" recommendation on Aramco.

### Results Summary

SAR bn	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	489	471	465	-5.0%	-1.3%	7.8%
EBIT	234	206	193	-17.8%	-6.6%	1.3%
EBIT Margin	48.0%	43.9%	41.5%	-	-	-
Net Profit	124	106	98	-21.0%	-8.0%	-0.6%
EPS	0.51	0.44	0.40	-	-	-

Source: Company Reports, Aljazira Capital Research \*NM: Not meaningful

Recommendation	Overweight
Target Price (SAR)	32.1
Upside / (Downside)*	16.5%

Source: Tadawul \*prices as of 5<sup>th</sup> of November 2024

### Key Financials

SAR bn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	2,266	1,856	1,800	1,855
Growth %	50.9%	-18.1%	-3.0%	3.0%
EBIT	1,144	868	785	890
EBITDA	1,236	965	890	1,004
Net Income	597	453	401	453
Growth %	51.1%	-24.2%	-11.5%	13.0%
EPS	2.47	1.87	1.66	1.87
DPS	1.16	1.92	1.93	1.44

Source: Company reports, Aljazira Capital Research

### Key Ratios

	FY22	FY23	FY24E	FY25E
EBIT Margin	50.5%	46.8%	43.6%	48.0%
EBITDA Margin	54.5%	52.0%	49.4%	54.1%
Net Margin	26.4%	24.4%	22.3%	24.4%
ROE	41.2%	29.5%	27.5%	29.3%
ROA	24.2%	18.5%	16.9%	18.3%
P/E (x)	11.8	17.6	16.6	14.7
P/B (x)	4.9	5.2	4.6	4.3
EV/EBITDA (x)	5.6	8.2	7.5	6.6
Dividend Yield	4.0%	5.8%	7.0%	5.2%

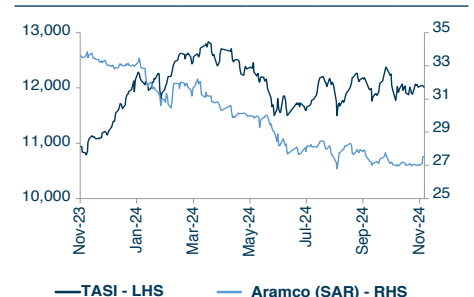
Source: Company reports, Aljazira Capital Research

### Key Market Data

Market Cap(bn)	6,667.1
YTD%	-16.5%
52 week (High)/(Low)	33.9/26.80
Share Outstanding (mn)	242.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital Research

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RATING  
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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