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ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Investors’ Guide to FY25

Strategy Report - January 2025

Global Economy Overcame Recession Fears, but Uncertainties for 2025 Persist; Saudi Market Exhibits Promising Earnings Outlook, Yet Near-Term Pressures Remain

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Key Highlights

Global economy: Global growth is projected at 3.2% for 2024-2025, supported by easing inflation and monetary policy normalization. However, risks have intensified following Donald Trump's re-election, with policy uncertainty, protectionist trade measures, and geopolitical tensions. Key challenges include delayed investments, volatile commodity prices, higher inflation, and slower rate cuts globally. While the US growth is set to decline to 2.2% in 2025, the Eurozone and GCC may see improvements amid domestic demand and stabilizing oil production, though trade tensions and China's slowdown remain critical risks.

Inflation: Inflation has eased globally, with advanced/emerging economies projected to drop to 2.0%/5.9% in 2025. In the U.S., inflation slowed to 2.7% in November 2024 but remains above the Federal Reserve's 2% target, with core inflation showing stubbornness at 3.3%. Projections for 2025/26 inflation have been revised upward due to expected inflationary policies under Trump. In the Eurozone, disinflation is progressing, but global risks from tariffs, climate change, and geopolitical conflicts remain.

Interest rates: The US Federal Reserve has revised its 2025 rate cut expectations, now forecasting two 25bps cuts, down from four previously anticipated. This change reflects stronger growth and higher inflation projections, as well as concerns over potential policy changes under the new US administration. The Fed's 2025 inflation forecast has been raised to 2.5%, and the labor market remains strong, reducing the urgency for further rate cuts. We reckon upside risks to inflation are a key to interest rate estimates.

Oil: Brent and WTI are down 4.7% YTD and 1.5% YTD, respectively. Oil prices in 2025 are expected to remain under pressure from oversupply and weaker demand. On the supply side, factors like US and other non-OPEC production growth, potential unwinding of OPEC+ cuts, and resolution of geopolitical conflicts may increase global output. On the demand side, OPEC has lowered its 2025 global demand forecast. Moreover, weaker global economic outlook, compounded by US protectionist policies, adds to concerns.

KSA Macroeconomics: Saudi Arabia's economy is set to grow 4.6% in FY25, driven by higher oil output and a growing non-oil sector. Despite a higher deficit, low debt levels (29.3% of GDP) offer fiscal flexibility. The economy's resilience is strengthened by strong foreign reserves, ongoing diversification through Vision 2030, and the riyal's USD peg, which shields against forex risks. The well-capitalized banking system further supports stability, positioning Saudi Arabia to weather global economic challenges.

TASI fair value and top picks: We see decent upside potential for TASI in FY25, mainly driven by earnings growth. Our base case fair value estimate is 12,741, based on an 18.5x P/E multiple applied to our FY25 earnings forecast, suggesting a 7.1% upside from current levels. We have a positive outlook on the Banking, Telecom, and Travel, Tourism and Car Rental sectors. Our top picks include **Aramco, ADES, Al Rajhi, Alinma, Mobily, Extra, Yamama Cement, Dallah Healthcare, Theeb, Solutions, AlMajed and Seera**.

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Global Macroeconomics

A world mired by wars & slow recovery in China faces more uncertainty after elections in US

Global growth faces downside risks; inflation can exceed expectations which could slow easing cycle

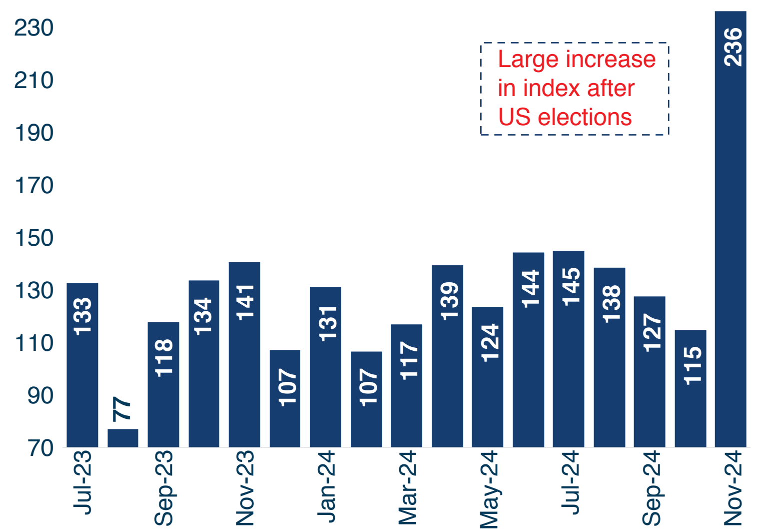
- Despite record high interest rates, world managed to avoid recession in 2024. According to IMF's world economic outlook (which was released before the US elections) global economy is expected to grow by 3.2% in 2024 and 2025. Moreover, IMF expects global headline inflation to slow down to 4.3% in 2025 from 5.8% in 2024; this decline is expected to pave way for further easing of monetary policies around the world. The US Federal reserve board members project that they will make two 25bps rate reductions in 2025.
- However, President Trump's new economic policy in 2025 is expected to have significant implications for the global economy. With a focus on trade restrictions and protectionist measures, there may be increased tensions in international trade relations, leading to potential trade wars and economic uncertainty. This could result in disruptions to global supply chains, increased inflation, and slower economic growth worldwide. On the other hand, if the policies succeed in boosting US domestic production and employment as intended, there could be positive outcomes for the U.S. economy, leading to increased consumer spending and investment.
- **Economic Policy Uncertainty Index**, shot up from 115 in Oct-24 to 236 in Nov-24 (after US elections). reflecting heightened market concerns following the US elections and the ambiguity surrounding the implementation of Trump's economic agenda.
- The potential implications of President Trump's multifaceted economic policies on global trade tariffs, tax cuts, immigration, oil drilling, climate change, and technology have engendered a climate of uncertainty. While the precise implementation of his electoral promises remains ambiguous, even partial realization thereof can exert profound effects on the world economy.
- There are multiple **downside risks to global economic growth,** including anticipated delays in investments as the international community adopts a wait-and-see approach, pending clarification of the Trump administration's key policy stances. Furthermore, the protectionist trade measures could be a threatens to the growth in emerging market economies reliant on exports, while escalating inflation, heightened commodity price volatility, and geopolitical tensions further compound these challenges. Moreover, with this backdrop of multiple downside risks China's path of recovery and effectiveness of economic stimulus becomes more unclear.
- Conversely, the enactment of Trump's proposed measures such as import taxes, sizable tariffs on Chinese goods, deportation of undocumented immigrants, could carry **significant upside pressures on inflation**, not only within the US but also globally. This could be magnified by the Federal Reserve's possible deceleration of monetary easing, potentially resulting in a strengthened US dollar, which could impact the emerging markets burdened by substantial dollar-denominated debt.

Key economic projections

(%)	2023	2024P	2025P
World GDP growth	3.3	3.2	3.2
Advanced Economies inflation	4.6	2.6	2.0
EM & Dev economies inflation	8.1	7.9	5.9
Federal funds rate Median	4.4	3.9	3.4

Source: IMF, Fed, Aljazira Capital Research

Economic uncertainty index



Source: Policyuncertainty.com, Aljazira capital research

Global economic growth is expected to stay at 3.2% in 2024 & 2025, and decline to 3.1% by 2029

World economy to be supported by gradual decline in real interest rates; however uncertainty will be in abundance

Global GDP growth is expected to remain resilient in 2025, but there will be uncertainty in abundance. US is likely to outperform other developed economies; increasing protectionism by US would be a major headwind for Euro zone and China, plus it might even spark a trade war. GCC is expected to see easing off disturbances in oil production and shipping.

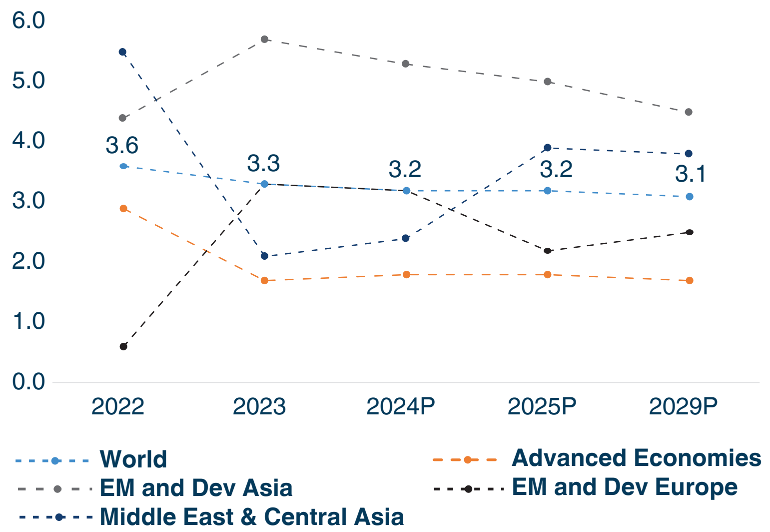
- According to IMF world economic outlook, global GDP growth is likely to stay at 3.2% in 2024 and 2025, supported by gradual normalization of real interest rates to optimal levels, due to decline in inflation. In the long run growth is forecasted to descend to 3.1% by 2029. While overall advanced economies are estimated to see stable growth of 1.8% in 2025, US is expected to see a decline in economic growth to 2.2% in 2025, from 2.8% in 2024. The slowdown in growth in US is mainly owed to tightening of fiscal policy and slowing down of consumption due to cooling labor market.
- Euro area is expected to see an increase in growth to 1.2% in 2025 from 0.8% in 2024, due to strong domestic demand, increase in consumption due to improving real wages (declining inflation) and loosening of monetary policy. However, import tariffs by US, political instability in key economies (Germany & France), and low consumer confidence can weigh in on output. Growth in Emerging Europe is expected to decline to 2.2% in 2025 from 3.2% in 2024, driven primarily by sharp slowdown in Russia, due to soaring defense expenditure, high interest rates and inflation.
- After declining from 4.4% in 2023 to 4.2% in 2024, emerging markets and developing economies are projected to post stable GDP growth of 4.2% in 2025. In emerging Asia growth is expected to slowdown to 5.0% in 2025 from 5.3% in 2024, one of the key reasons being the persistent slowdown in real estate market in China. Chinese recovery would depend on how it handles, challenges of stabilizing property sector (20% of GDP), funding the fiscal gap and higher import duties by US. Continuing the stimulus package & making structural reforms would be vital.
- Growth is expected to pick up in middle east and central Asia from 2.4% in 2024 to 3.9% in 2025. The improvement is mainly owed to fading away of temporary disturbances in oil production and shipping.
- Key risks to growth estimates include disruptive policy changes in US (deportations, taxation changes, tariffs etc. that might shoot-up inflation prompting central banks to slowdown interest rate cuts), global trade war (as other countries respond aggressively to US), worsening geo-political conditions in Euro area and middle east (with conflicts spreading to more countries in the region).

Economic growth projections

GDP growth (%)	2023	2024P	2025P
World Output	**3.3**	**3.2**	**3.2**
Advanced Economies	**1.7**	**1.8**	**1.8**
United States	2.9	2.8	2.2
Euro Area	0.4	0.8	1.2
EM & Dev Econ	**4.4**	**4.2**	**4.2**
China	5.2	4.8	4.5
India	8.2	7.0	6.5
Saudi Arabia	-0.8	1.5	4.6

Source: IMF, Fed, Aljazira Capital Research

Long term economic growth trend



Source: IMF, Aljazira Capital Research

Global Inflation

Inflation has come down in both advanced and emerging economies

US inflation is showing signs of stubbornness; economists have revised up projections

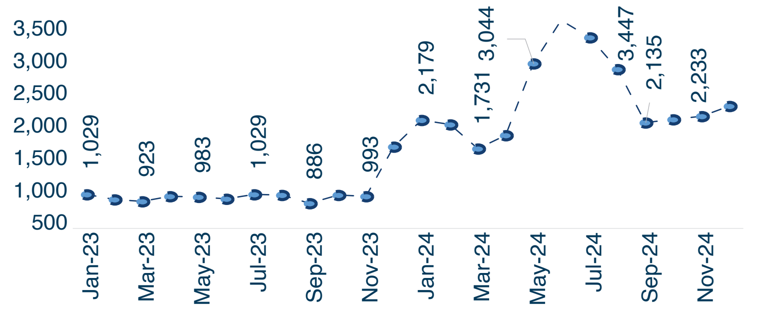
Inflation is expected to continue its downtrend in 2025; albeit recent developments might slow down the pace of the descend. Economists expect the economic effects of Trumps policies to be inflation boosting. In Euro zone disinflation process is solidly in place.

- Price increases have eased substantially in both Advanced and emerging economies; IMF projects inflation in advanced/emerging economies to drop from 4.6/8.1% in 2023 to 2.6/7.9% in 2024 and 2.0/5.9% in 2025, respectively.
- Inflation has come down due to synchronized tightening of monetary policies throughout the world, faster decline in energy prices, improvement in sectoral bottlenecks and supply imbalances. On the flip side, rise in shipping freights and wage increases have supported consumer prices (we highlight that despite better labor flow, workers are demanding higher raises to counter the increase in cost of living).
- US inflation eased to 2.7% in Nov-24 (3.1% Nov-23) significantly improving from the peak of 9.1% in FY22. Core inflation is also on the descend; as it stood at 3.3% in Nov-24 vs 4% in Nov-23.
- Although there is significant improvement in inflation numbers they are still above the targets of the central bank (US Fed: 2.0%) and recent outturns suggest that progress is stalling and inflation is showing signs of stubbornness (core inflation stood at 3.3% for the fourth consecutive month). Price increases have continued to be high in services, rents, restaurant meals, and insurance.
- US Inflation projections for 2025/26 have seen an increase recently. According to Fed, inflation is not coming down as fast as earlier expected. Federal reserve members in their latest economic projections revised up 2025/26 end PCE inflation expectations by 0.4/0.1 ppts to 2.5/2.1% respectively.
- Several FOMC members are looking at economic effects of Trumps policies to be inflation boosting. Key themes affecting US inflation in 2025 are likely extension in 2017 tax cuts, import tariffs, deportation of immigrants and less regulatory burden.
- In Eurozone disinflation process is solidly in place, wage increases, are likely to slow however should continue to outpace inflation, restoring real purchasing power.
- Key risks to global food and energy prices are the probable imposition of duties on imports (especially China), climate change, and escalation of ongoing Russia-Ukraine and middle-east conflict.

Inflation Outlook (%)	2023	2024P	2025P
Advanced Economies	**4.6**	**2.6**	**2.0**
United States	4.1	3.0	1.9
Euro Area	5.4	2.4	2.0
Emerging Market and Dev	**8.1**	**7.9**	**5.9**
EM & Dev Asia	2.4	2.1	2.7
EM & Dev Europe	17.1	16.9	11.1
Middle East & Central Asia	15.6	14.6	10.7

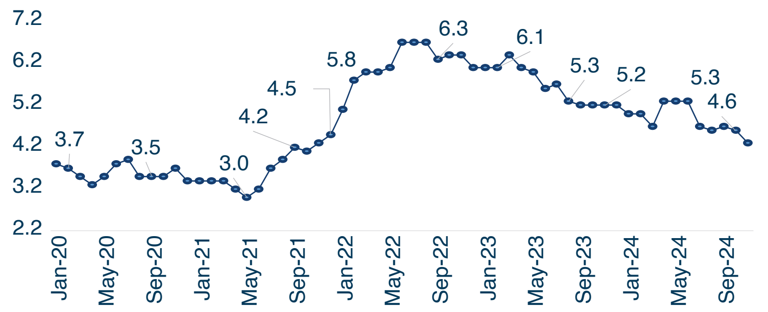
Source: IMF, Fed, Aljazira Capital Research

Containerized freight Index



Source: Bloomberg, Aljazira Capital Research

Wage growth tracker (%)



Source: BLS, Aljazira Capital Research

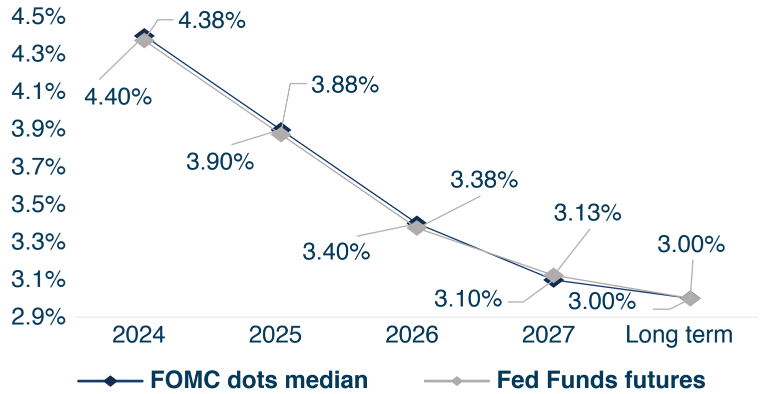
Fewer rate cuts are likely to happen in 2025 than initial expectations

Fed makes major changes to key economic projections; is likely to cut rates by 50bps in 2025

Stronger economic growth and inflation projections have impacted the expectations around the extent and timing of rate cuts. US Central bankers now see only two 25bps cuts in interest rates in 2025; moreover, there is growing concern on the impact of likely policy changes under new US administration.

- The US Fed began its much anticipated monetary policy loosening drive in Sept-24 with a 50bps cut in interest rates. Overall, Fed has slashed interest rates by 100bps in 2024 bringing them down to 425-450bps range. The key driver behind the change in Fed's direction was the slowdown in inflation outturns; inflation started loosing steam and moving towards Feds target.
- However, expectations around rate cuts have materially changed over the last one month. Market is assigning a 91.4/54.9% probability that interest rates will remain unchanged in Jan-25/Mar-25 meeting as compared to just 54/39.9% chance of rates being maintained at current range a month and a half ago.
- Fed made an inline with market's expectations cut of 25bps in Dec-24 meeting, however made significant changes to economic projections for 2025 and 2026. Federal reserve members have increased 2025 end PCE inflation forecast to 2.5% (against 2.1% in Sept-24). Core PCE inflation has been increased to 2.5% (against 2.2% in Sept-24). Fed has lowered its unemployment expectation by 0.2/0.1% to 4.2/4.3% for 2024/25 respectively. While real GDP growth has been revised up by 0.5/0.1% to 2.5/2.1% for 2024/25 respectively.
- According to Fed chair they are evaluating impact of Trumps proposals, however not incorporating them in decisions yet, because the extent of implementation is still unclear. Fed chair stated that central bank would be looking at the progress on inflation; moreover, he said labor market is not cooling in a way that raises concerns. Implying there is no rush to cut interest rates.
- Overall, the Fed now expects two 25bps cuts in 2025, against four cuts in Sept-24 meeting. Our expectations on interest rates are inline with Fed. Due to the currency peg we expect SAMA to follow Fed and cut Repo rate by 50bps to 4.5% in 2025. We reiterate that inflation risks mentioned on aforementioned slides are a key risk to interest rate estimates.

Interest rates likely to be cut by 50bps in 2025



Source: IMF, Aljazira Capital Research

FOMC members have made major chances to projections

Fed Median proj. (%)	2024	2025	2026	2027	long run
Change in real GDP	2.5	2.1	2.0	1.9	1.8
September Proj.	2.0	2.0	2.0	2.0	1.8
Change	*0.5*	*0.1*	*0.0*	*-0.1*	*0.0*
Unemployment rate	4.2	4.3	4.3	4.3	4.2
September proj.	4.4	4.4	4.3	4.2	4.2
Change	*-0.2*	*-0.1*	*0.0*	*0.1*	*0.0*
PCE inflation	2.4	2.5	2.1	2.0	2.0
September proj.	2.3	2.1	2.0	2.0	2.0
Change	*0.1*	*0.4*	*0.1*	*0.0*	*0.0*
Core PCE inflation	2.8	2.5	2.2	2.0	
September proj.	2.6	2.2	2.0	2.0	
Change	*0.2*	*0.3*	*0.2*	*0.0*	*0.0*
Federal funds rate	4.4	3.9	3.4	3.1	3.0
September proj.	4.4	3.4	2.9	2.9	2.9
Change	*0.0*	*0.5*	*0.5*	*0.2*	*0.1*

Source: Fed, Aljazira Capital Research

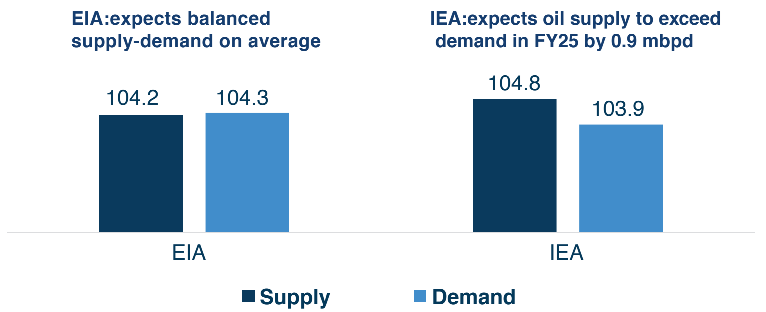
Oil market: Oversupply concerns and demand uncertainties to keep prices in check

OPEC+ extension of supply cuts to be mitigated by anticipated increase in non-OPEC production

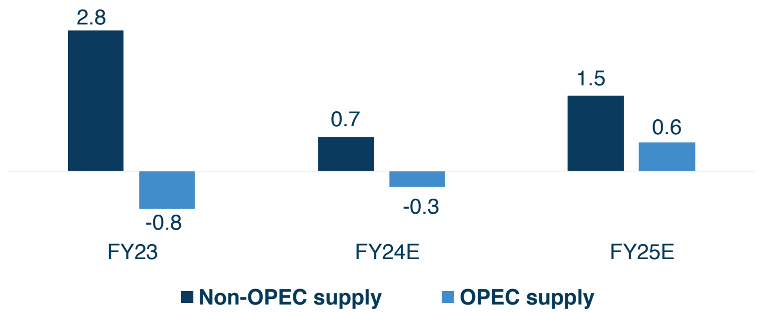
Oil market is most likely to see oversupply and a softer demand. The oil price trajectory will hinge on the interplay between supply-side expansion and demand-side recovery. Key variables to watch include OPEC+ production strategies, the pace of non-OPEC supply growth, the resolution of geopolitical conflicts, and global macroeconomic developments. Nevertheless, China's economic stimulus and lower interest rates may drive demand growth to some extent.

- Brent and WTI are **down 4.7% YTD** and **1.5% YTD,** respectively. Brent prices are estimated to average at **USD 80 per barrel in FY24**.
- In FY25, there are high expectations of oversupply which is likely to weigh on prices. EIA expects Brent crude prices to average at **USD 74 per barrel in FY25**, falling from an estimated average of USD 80 per barrel in FY24.
- **Factors driving higher supply and potential risks that could lead to supply glut:** The oil market in 2025 is set to face a challenging environment characterized by increasing supply and subdued demand. On the supply front, non-OPEC production, driven by the US, Canada, Brazil, Argentina, and Ghana, is expected to play a pivotal role in boosting global output. U.S. production alone is projected to rise from 13.2 mbpd to 13.5 mbpd, supported by lenient environmental policies introduced under the Trump administration, which could incentivize higher-than-expected production. Additionally, the anticipated unwinding of OPEC+ production cuts from April 2025 is likely to release more oil into the market. A resolution to the Russia-Ukraine conflict could add further barrels to global supply, potentially eroding the geopolitical premium on oil prices. However, new sanctions imposed by the EU on Russia and Iran may offset some of these pressures by constraining their export capacity.
- **Demand outlook is waning continuously over the last six months:** On the demand side, the outlook has progressively weakened over the last six months. OPEC has consistently revised its 2025 demand forecast downward, from 104.5 mbpd in July to 103.8 mbpd in December, reflecting softening global consumption trends. The IMF's projection of below-average global GDP growth over the medium term adds to concerns, with anticipated protectionist trade policies under the US president-elect further threatening global economic activity. While China's economic stimulus measures and accommodative monetary policies may drive localized demand growth, these factors are unlikely to fully counterbalance the broader demand slowdown. As a result, the risk of supply outpacing demand looms large, raising concerns about a potential supply glut.

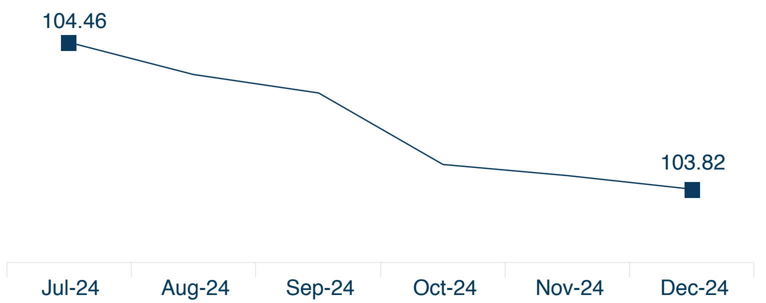
World oil supply-demand in FY25 (in mbpd)



Non-OPEC and OPEC supply change (mbpd)



Weakening oil demand (mbpd) outlook

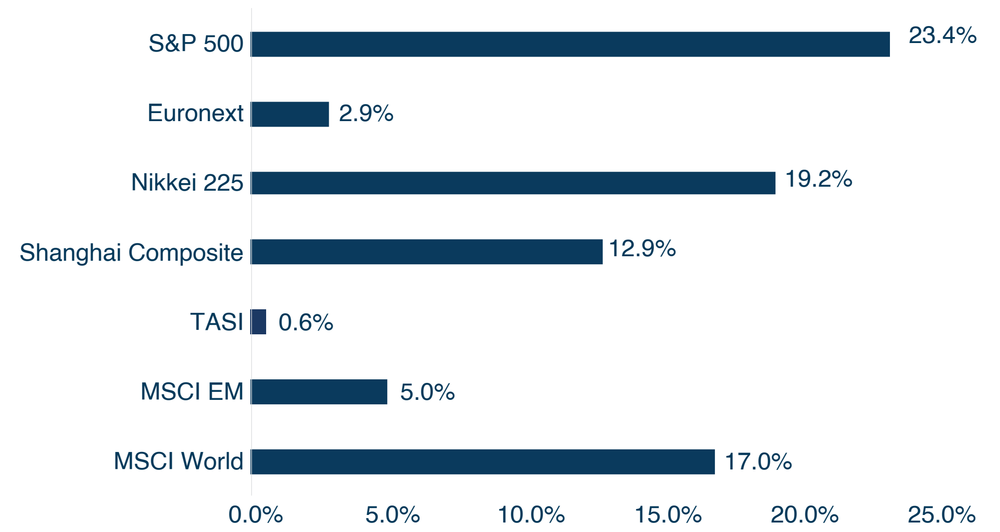


Source: Bloomberg, EIA Short Term Energy Outlook December 2023, IEA, Aljazeira Capital Research, *Oil prices as of December 18, 2024

Global equity market sentiments poised for bullish year in 2025

Most major banks call for strong returns for the S&P in 2025 due to various aspects of the economic cycle

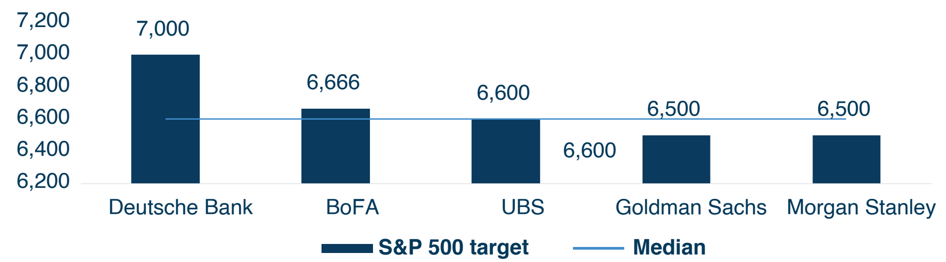
Global equity indices performance in FY24 (YTD returns)



Global indices current PE vs. 10-year historical average

	Current P/E	Average P/E	Premium/Discount
S&P	26.9x	21.4x	26%
Nikkei	19.1x	21.9x	-12%
Shanghai Composite	16.2x	15.6x	4%
TASI	19.1x	19.5x	-2%
MSCI EM	13.7x	14.3x	-4%
MSCI World	22.1x	19.7x	12%

Market consensus: S&P 500 target for 2025



- In FY24, equities in developed markets (DM) outperformed equities in emerging markets (EM). Among developed economies, Nikkei (+19.2% YTD returns), S&P 500 (+23.4%) generated impressive returns. Euronext depicted sluggish performance with the index being up just 2.9% this year. MSCI EM index generated modest returns of 5.0% YTD, while Shanghai Composite gained 12.9%, and TASI was up 0.6%.
- Most major banks call for strong returns for the S&P 500 in the year 2025, offering a bullish signal for the investors. Various aspects of the economic cycle could support a further advance including increased capital expenditures outside of big technology, boost from overseas economic recovery, lower interest rates, and higher labor market productivity. However, potential uncertainty added by the recent election outcomes, could act headwinds.
- Within the global indices, S&P 500 index's current P/E trades the highest in terms of premium (26%) to its 10-year historical average, followed by MSCI World Index at 12% premium, and Shanghai Composite at 4% premium. Whereas Nikkei index trades at 12% discount, followed by MSCI EM at 4% discount and TASI at 2% discount.
- According to, market consensus based on forecast from leading global banks, S&P is estimated to end 11-19% higher by end of FY25 from the current level.

Source: Bloomberg, Reuters, Aljazira Capital Research, Prices as of December 31, 2024

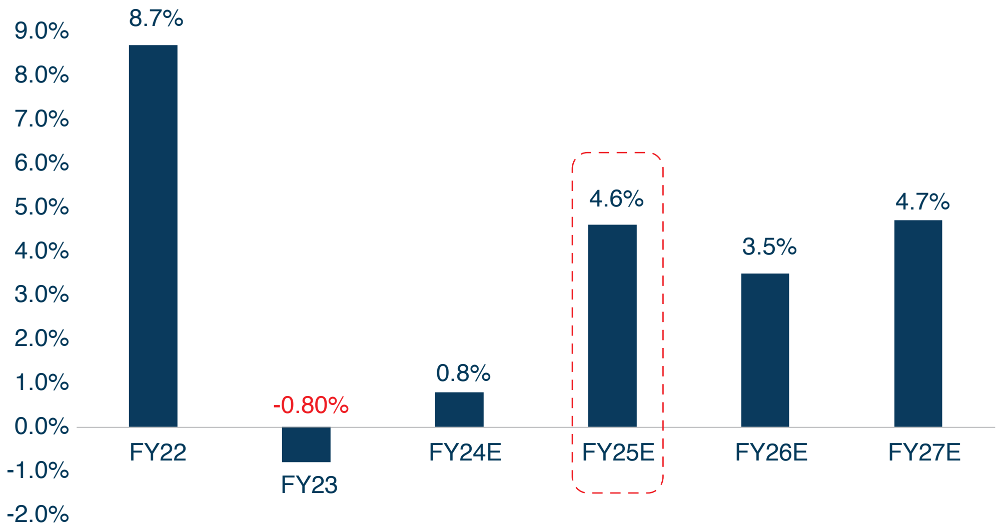
KSA Macroeconomics

KSA Macroeconomics

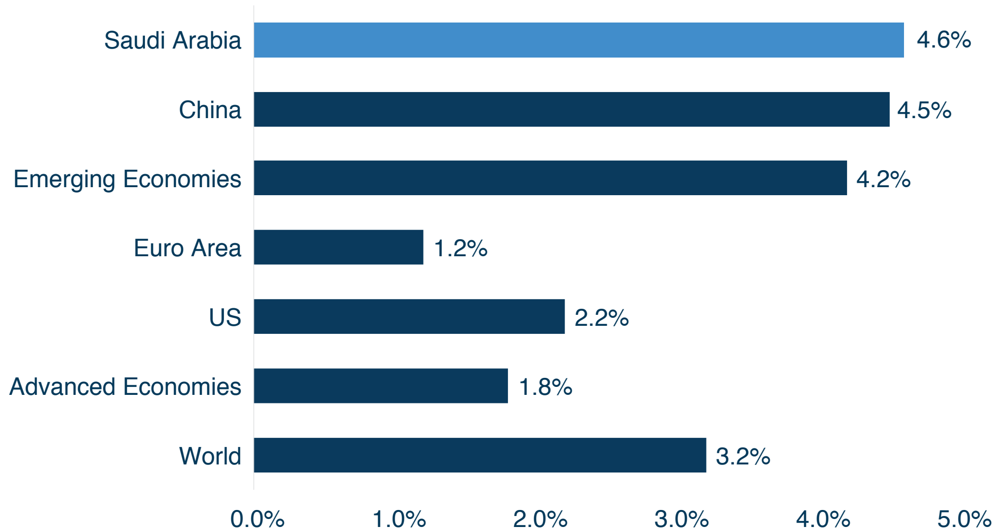
Anticipated higher oil output and robust non-oil sector to lead to faster FY25 GDP growth

MoF anticipates KSA's GDP to expand by 4.6% Y/Y in FY25E as compared to 0.8% growth estimated in FY24E

Saudi Arabia GDP growth rate (%)



KSA GDP growth forecast (FY25) vis-à-vis other economies



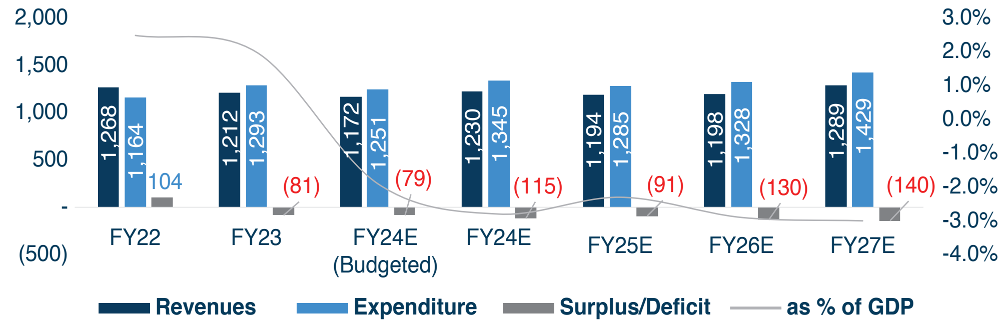
- Saudi GDP expanded 2.8% Y/Y in Q3-24 due to a sharp rise in non-oil GDP. The non-oil activities increased by 4% Y/Y in Q3-24, mitigating the 0.05% Y/Y growth in oil activities. The Ministry of Finance expects Saudi Arabia's GDP to expand by 0.8% in FY24E driven by increase in non-oil activities which could grow at 3.7%.
- The GDP is expected to grow robustly by 4.6% in FY25 on the back of anticipated higher oil production, increasing private sector contribution and expansionary fiscal policy with healthy government spending on infrastructure. Although the budget doesn't provide for a breakdown in oil and non-oil GDP, but assuming the projections incorporate a rebound in oil production in line with the OPEC+ plan, then the forecast of 4.6% real GDP growth would imply real non-oil GDP growth of around 4.5%.
- The IMF has marginally decreased its global growth forecast in FY24E at 3.2% and expects it to stay unchanged in FY25E led by weakening growth for China and the Eurozone. On the other hand, IMF projects Saudi Arabia's economy to grow at 1.5% in FY24E and 4.6% in FY25E, indicating Saudi GDP growth to be better than most of the major advanced and emerging economies.

Source: IMF, MoF, GASTAT, Aljazira Capital Research

Despite higher deficit, spending is rising with low debt levels which is lower vs other economies

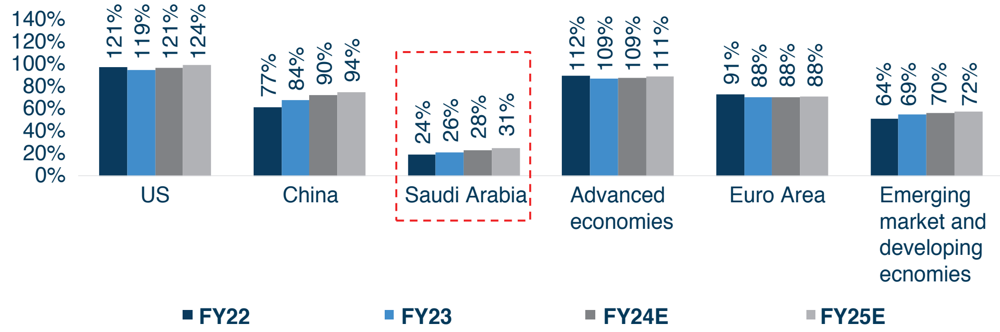
Excluding the one-off of SAR 40bn in FY24 expenditures, the FY25 expenditures could increase significantly,

Saudi Arabia Fiscal Surplus/Deficit (SAR bn)



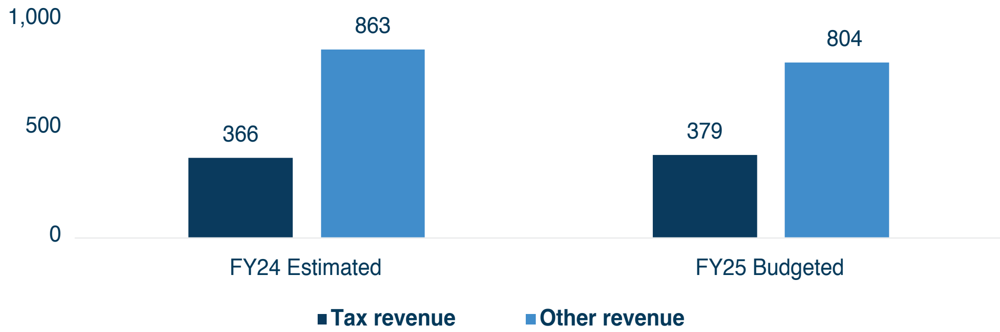
FY24E revenues and expenditures are expected to be SAR 1,230bn and SAR 1,345bn, implying a budget deficit of SAR 115bn. Whereas in FY25E the revenues could reach SAR 1,184bn, while expenditure could touch SAR 1,285bn, resulting in a deficit of SAR 101bn, and further increase, to deficit of SAR 130bn/140bn in FY26/27E due to significant increase in the expenditures.

Gross Government Debt (as % of GDP)



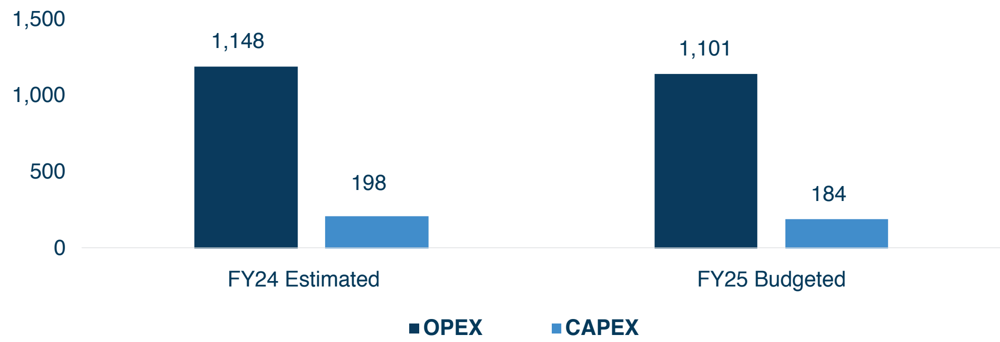
Saudi Arabia's debt levels are moderate and remain comfortable (30.6% of GDP in FY25) compared to other economies. The lower debt level will enable the Kingdom to fund Vision 2030 requirements and manage the budget deficit. Despite expansionary spending plans KSA's debt to GDP ratio is expected to remain below 35% by FY27E.

Revenue bifurcation (SAR bn)



Tax revenue could grow to SAR 379bn in FY25 from SAR 366bn in FY24, as the increase in economic activity will reflect in higher taxes being collected. While Other revenue could decline from SAR 863bn in FY24 to SAR 804bn in FY25 due to anticipated lower oil production.

Expenditure bifurcation (SAR bn)



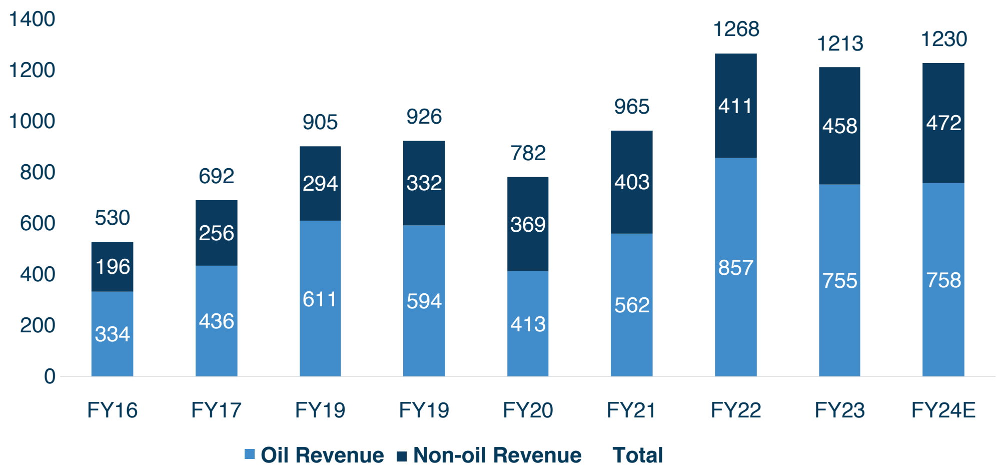
Opex to decline from SAR 1,148bn in FY24 to SAR 1,101bn in FY25 due to lower goods and services allocation and higher spending in FY24 for initial giga project phases. FY25 capex could decline 6.9% Y/Y to reach SAR 184bn. However, FY24 capex included SAR 40bn as one-off, excluding which FY25 capex could increase significantly by 18.3% Y/Y.

Source: Gastat, SAMA Open Market data, MoF, Argaam, Aljazira Capital Research

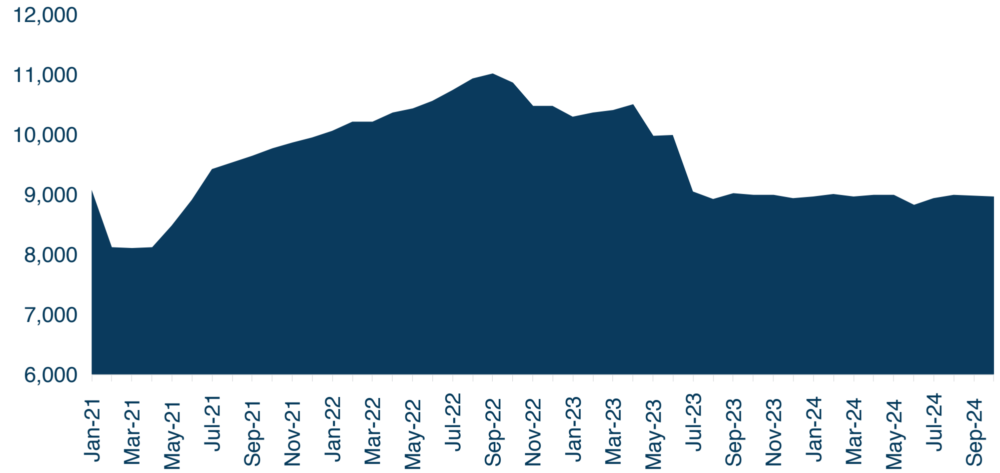
Sluggish oil revenue to be offset with robust non-oil revenues, which could drive Saudi's economy

PIF investment in a group of companies across sectors to support the growth in non-oil activities

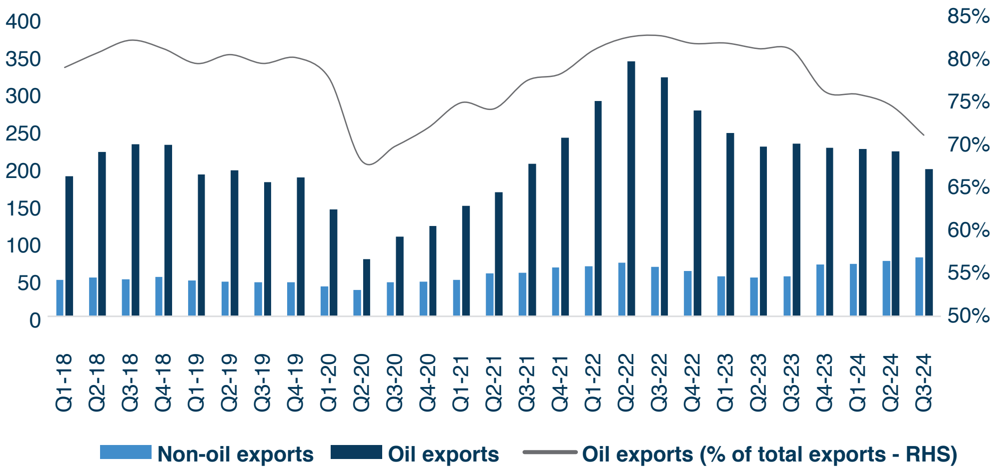
Saudi Arabia Oil and Non-oil Revenues (SAR bn)



Saudi Arabia Crude Oil Production, tb/d



Saudi Arabia Oil and Non-oil Exports (SAR bn)



Source: IMF, GASTAT, OPEC Monthly Reports, Aljazira Capital Research

- Oil revenues are projected to increase marginally to SAR 758bn in FY24E from SAR 755bn in FY23 supported by healthy performance-linked dividend received from Aramco. On the other hand, expected expansion in non-oil revenues to SAR 472bn in FY24E from SAR 458bn in FY23 is driven by the government's efforts to diversify the economy from oil related activities. Non-oil revenue growth to be robust and will be the main support area to Saudi Arabia's economy.
- In FY25, oil revenue could face pressure from lower oil prices, lower dividends, partially offset by higher production; whereas non-oil momentum expected to remain intact.
- Expansionary spending by the government over the medium-term through PIF will support non-oil activity GDP growth and help mitigate sluggish oil revenues due to voluntary production cuts. Oil exports declined 14.8% Y/Y in Q3-24 to SAR 197bn. Oil exports as a % of total exports reflects 71.3% in Q3-24 compared to 81.2% Q3-23.

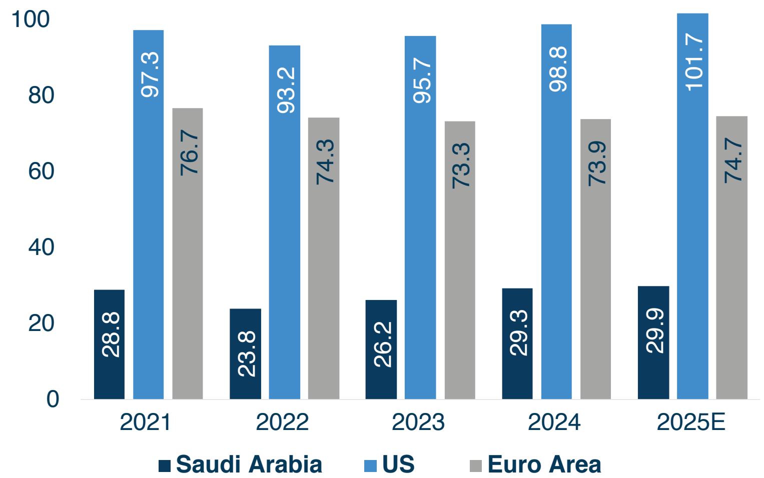
Saudi economy is more resilient to global macro challenges

Nonhydrocarbon activities, lower debt levels and currency peg to help weather uncertain times

While the Saudi economy and equity market is not completely shielded to rising global macroeconomic uncertainties and challenges, there are several factors that make it more resilient than others, especially during times of heightened regional geo political risk due to the ongoing war in the middle east.

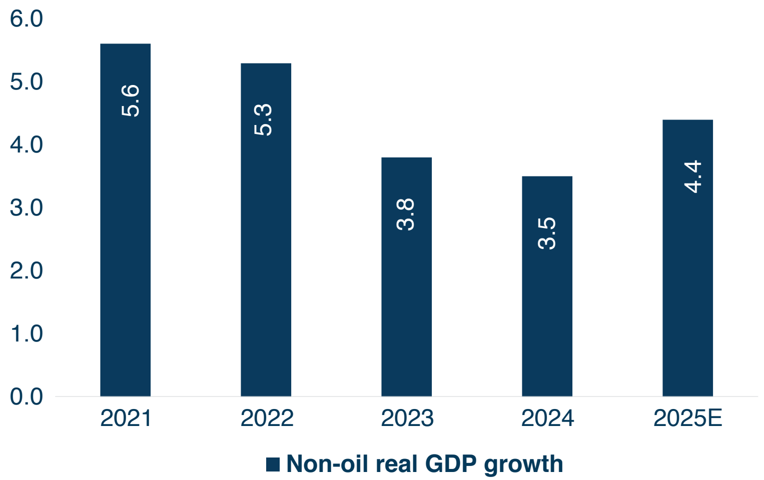
- **Lower debt level and strong import cover:** Unlike many developed countries Saudi Arabia benefits from low debt levels, 29.3% of GDP as of 2024 (IMF expectation) as compared to 98.8/73.9% for US and euro area. Additionally, total foreign exchange reserves cover more than 20 months of imports as compared to 1.7 months for US and world median of ~4.5 months. Given the strong fiscal position Saudi Arabia has the flexibility to run deficits in the short term and achieve investment goals even during low oil price environment.
- **Growing diversification towards non-hydrocarbon activities:** While voluntary oil production cuts will put a temporary pressure on growth and fiscal balance, Saudi's ambitious plans to diversify economy, through the vision 2030 mega and giga projects, would reduce dependence on hydrocarbon activities. The aforementioned will reduce volatility and be the main growth driver for the economy. Since the start of 'Vision 2030' in 2016 contribution of non-oil activities in GDP has increased from 46.1% to 52.2% in Q3-24, where the non-oil revenue jumped from SAR 186bn in 2016 to almost SAR 472bn in 2024.
- **Currency peg to USD:** Saudi riyals peg to USD provides additional resilience to economy against forex shocks, especially during prevailing time where world faces heightened forex risk and anticipates stronger USD due to likely policy changes by new US administration. USD peg helps bring stability, set interest rate expectations and investor confidence. For equity markets there is less risk of capital outflows.
- **Banking system can weather shocks relatively well:** Kingdom has a strong banking system which remains well capitalized, deposits contribute most of funding and funding costs remain low due to large non-remunerative deposit base. Asset quality remains pristine as sector NPL ratio stood at 1.32% in Q3-24, while coverage is at a healthy 135.1%.

Debt to GDP well below developed economies (%)



Source: IMF, Aljazira Capital Research

Non-oil GDP growth (%)

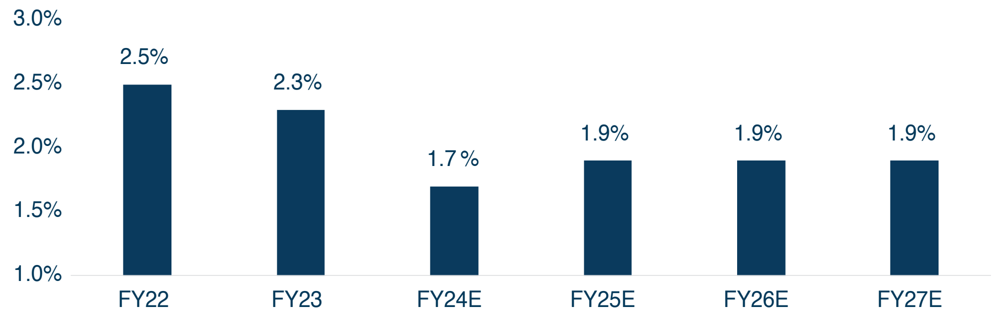


Source: IMF, Aljazira Capital Research

Economic indicators point towards favorable economic condition for the Kingdom

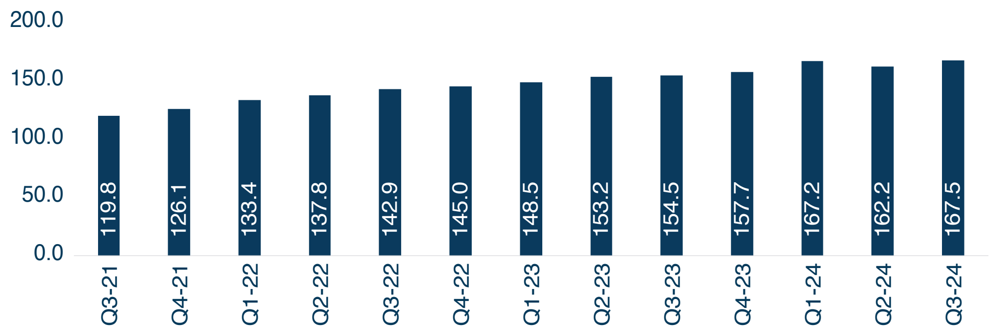
In control inflation levels, increase in consumer spending, low unemployment levels and expansion in non-oil rivate sector activity

Saudi Arabia Consumer Price Index (Y/Y)



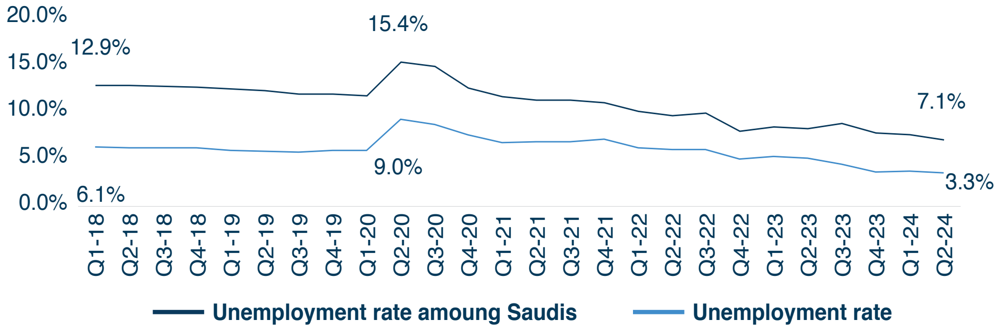
Saudi Arabia's inflation level has been decreasing consistently, despite the global pressures. It is expected to moderate to 1.7% in FY24 and then remain stable at 1.9% over FY25-27

Saudi Arabia Consumer Spending (POS Sales in SAR bn)



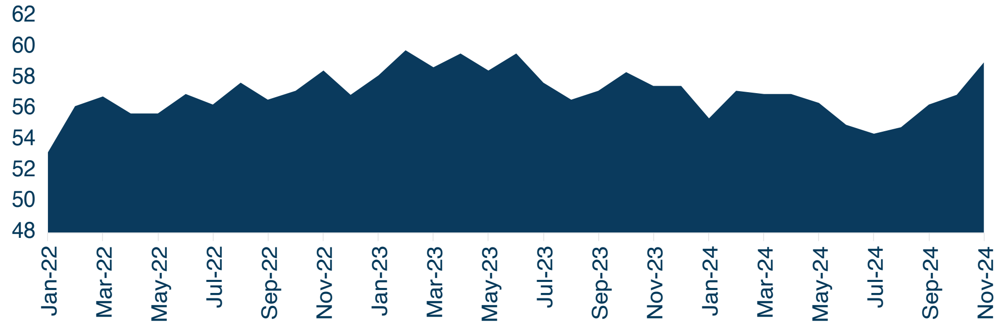
POS sales increased 8.4% Y/Y to SAR 167.5bn in Q3-24. The increase was driven by following sectors- Misc Goods & Services (+19.1% Y/Y), Telecom (+18.7% Y/Y), Others (+13.3% Y/Y).

Saudi Arabia Unemployment Rate (%)



Unemployment rate among Saudis declined to 7.1% in Q2-24 vs 7.6% in Q1-24. Overall, unemployment rate among working age population reached 3.3% vs 3.5% during the same period.

Saudi Arabia's Manufacturing PMI



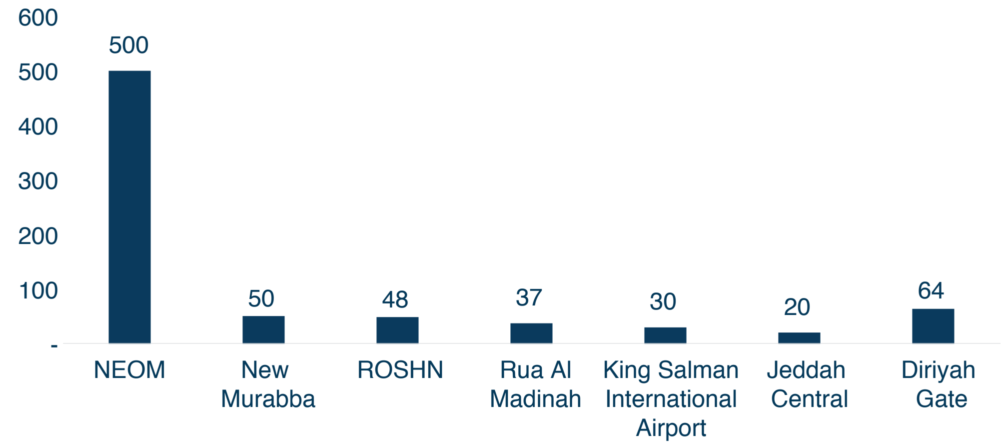
Seasonally adjusted Riyad Bank Saudi Arabia PMI stood at 59.0 level in November 2024 compared to 56.9 in October. There was a substantial improvement in non-oil private sector, partially offset a lower rate of employment and inventor.

Source: Gastat, SAMA Open Market data, MoF, Argaam, Aljazira Capital Research

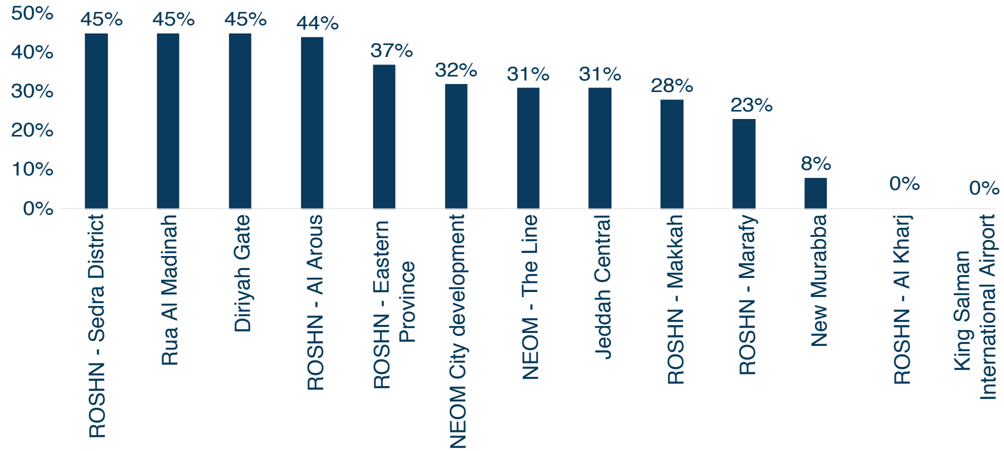
Mega-projects planned by the Kingdom at the center stage over the medium to long term

Mega projects to help promote economic growth and diversify the economy in-line with Vision 2030

Giga Projects estimated budget (USD bn)



Giga Projects Execution Progress till date



- **NEOM City Development:** A greenfield project with estimated budget of USD 350bn
- **NEOM Line:** A greenfield construction sector related project in Tabuk with estimated budget of USD 150bn, which aims to develop a vertical city for the residents with zero carbon emissions
- **New Murabba:** A greenfield project in Riyadh with an estimated budget of USD 50bn, which aims to develop the world's largest modern downtown
- **ROSHN:** Affordable residential housing project for the nationals, which is dedicated to support KSA's goal of 70% homeownership by 2030. It has an estimated budget of USD 47.5bn
- **Rua Al Madinah:** Project aiming to enhance tourism and cultural development, with an estimated budget of USD 37bn
- **King Salman International Airport:** Project aiming to undertake development of King Salman International Airport powered by renewable energy, in Riyadh with an estimated budget of USD 30bn
- **Jeddah Central:** Project to revamp Jeddah's waterfront corniche which would help in creating a unique tourist, residential and commercial destination. It has an estimated budget of USD 20bn
- **Diriyah:** Project aiming to develop a new culture and lifestyle tourism destination in Riyadh, with an estimated project value of USD 63.9mn
- PIF has committed to inject SAR 150bn annually into the domestic economy through FY25, while contributing a cumulative of SAR 1.2tn to non-oil GDP. It aims to exceed SAR 4tn in AUM by the end of FY25.

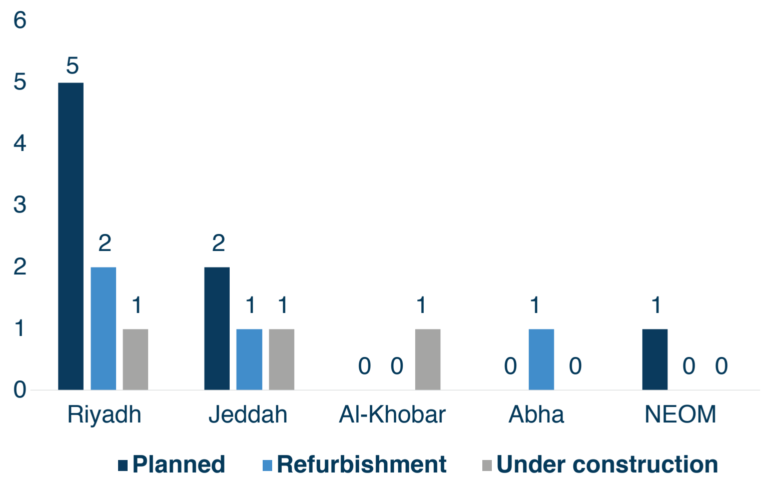
Source: FY25 Budget report, MEED, Aljazira Capital Research

FIFA World Cup 2034 to be an inflection event for bolstering Saudi Arabia's economic prospects

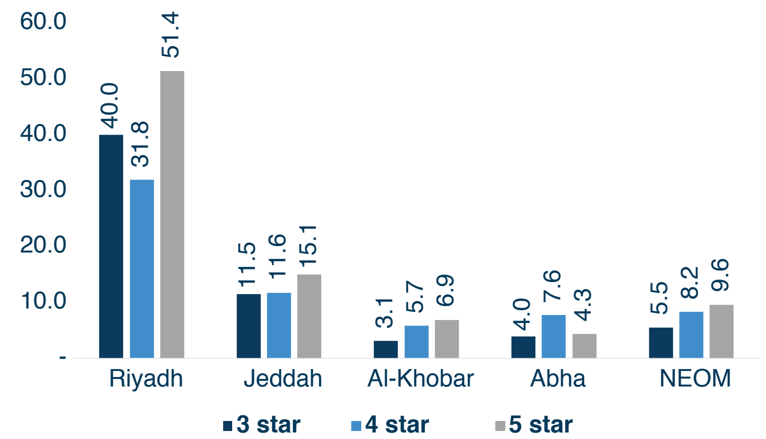
FIFA World Cup 2034 impact to extend for years and boost the non-oil growth

- FIFA formally announced that Saudi Arabia will host FIFA World Cup 2034, as Saudi Arabia's bid received the highest score on record of 419.8 out of 500. This will enable KSA to position as a major international hub for tourism, trade and business; which aligns with its ambitions to diversify the economy away from oil under Vision 2030.
- FIFA World Cup 2034 will be the 3rd mega global event to be hosted over the next 10 years, following Asian Cup 2027 and Expo in 2030. This shall aid KSA in developing the country as tourism hub and enhance its position as destination for leisure activities.
- The tournament is proposed to be hosted in 5 cities (Neom, Riyadh, Jeddah, Abha and Al-Khobar) and 15 stadiums. The participating teams would be able to take the benefit of the 134 team training facilities spanning across 15 cities.
- The expected footfall in terms of fans is around 5.1-7.5mn. Thus, hosting the World Cup 2034 is expected to have a significant impact on the economy, and support the government's commitment towards diversifying the economy driven by growth across sectors.
- As the event nears, we expect significant investments to be directed towards the development and refurbishment of the assigned 15 stadiums, ensuring they meet FIFA standards. Additionally, substantial resources will be allocated to expand and upgrade the existing transportation infrastructure to accommodate increased demand and ensure smooth connectivity for both the visitors and locals. Investments could also be made for expanding existing hotel accommodations and the healthcare infrastructure.

Status of stadiums required to host



Expected inventory rise by 2034 in Host city accommodations



Source: Saudi 2034 bid, Aljazira Capital Research

FIFA World Cup 2034 to be an inflection event for bolstering Saudi Arabi's economic prospects

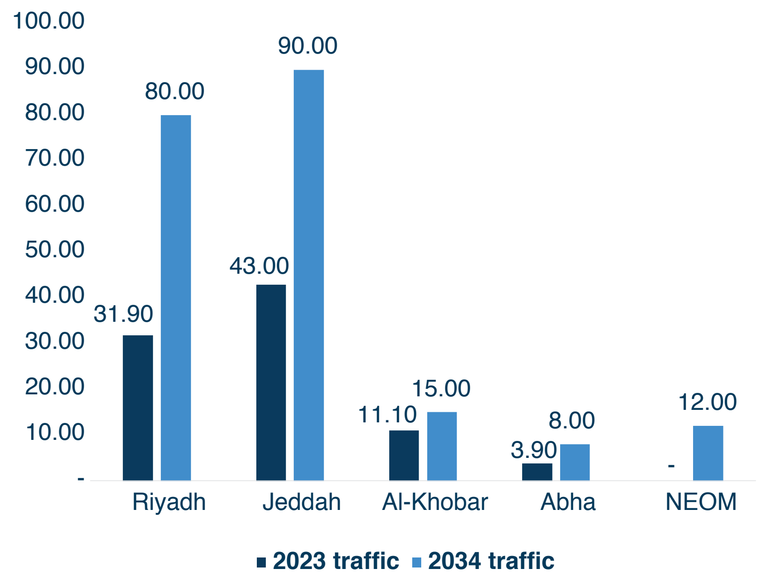
FIFA World Cup 2034 impact to extend for years and boost the non-oil growth

- Saudi Arabia's FIFA World Cup 2034 bid strategy comprehensively highlights the need for additional room keys in the country's hotel portfolio. To meet the anticipated surge in accommodation demand by the tourists, the Kingdom is planning an additional inventory of 185K rooms, of which around 127K rooms are to be added in Riyadh.
- Furthermore, the Kingdom plans to increase the airport capacity by 151%, in order to accommodate 128% increase in the projected traffic growth. Riyadh's airport is expected to witness an increase in traffic to the tune of 8.7% CAGR over 2023-34. Whereas Jeddah and Abha could witness 6.9% and 6.7% rise, respectively in the airport traffic.
- We believe these investments for hosting the event will prove to be a significant fiscal multiplier and have positive-long term impact on Saudi Arabia's economy.
- FIFA World Cup 2034 could positively impact the Construction sector. Entire cement, cables producers such as **Riyadh Cable**, steel and other construction related companies could directly benefit.
- The event is also expected to benefit the F&B and Telecommunication services sector. Companies like **Americana, Almarai, Tanmiah, STC, Zain and Mobily** could be direct beneficiaries. Further the Transportation and Commercial & Professional services sector could also benefit from the FIFA World Cup 2034. Companies like **Budget, Theeb, Lumi, Catrion and SGS** could be at the forefront of the tailwinds from the event. Media, Software and Healthcare sectors too are poised for significant benefit. Companies like **AlArabia, Elm, Solutions, Sulaiman Alhabib and Fakeeh** could be direct beneficiaries. Moreover, manpower service providers such as **AlMawarid, SMASCO**, **Maharah** are set to benefit from expected demand for workers particularly in construction and tourism.

Tournament room key in host cities

Host cities	Population (in mn)	Proposed stadiums	Tournament room keys (in 000s)
Riyadh	7.0	8	127
Jeddah	3.8	4	43
Al-Khobar	2.7	1	17
Abha	1.1	1	19
NEOM*	0.3	1	24

Expected annual airport traffic in host cities (in mn)



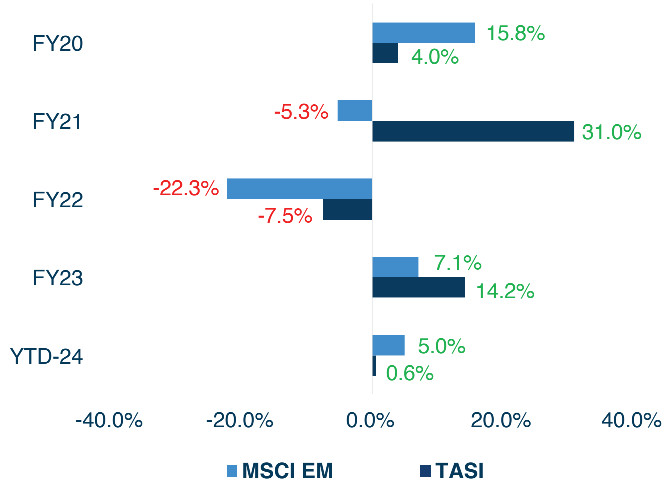
Source: Saudi 2034 bid, Aljazira Capital Research. Note: NEOM population is expected by 2030

KSA Equity Market Outlook

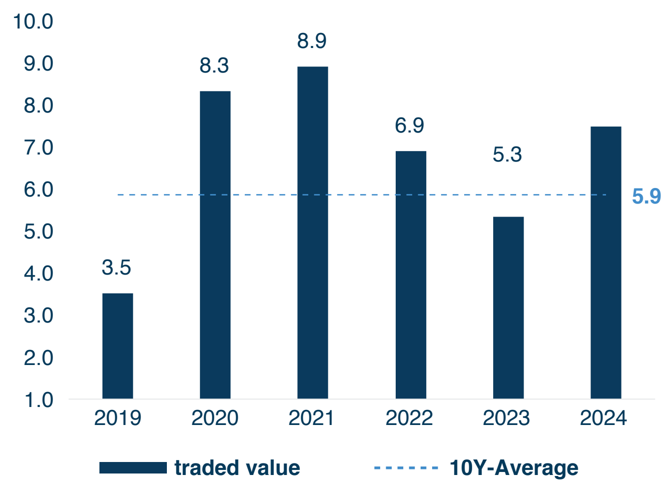
Summary of Saudi Arabia’s market performance in FY24

TASI increased 0.6% YTD in FY24; Capital Goods, Utilities and Media posted the highest sector returns

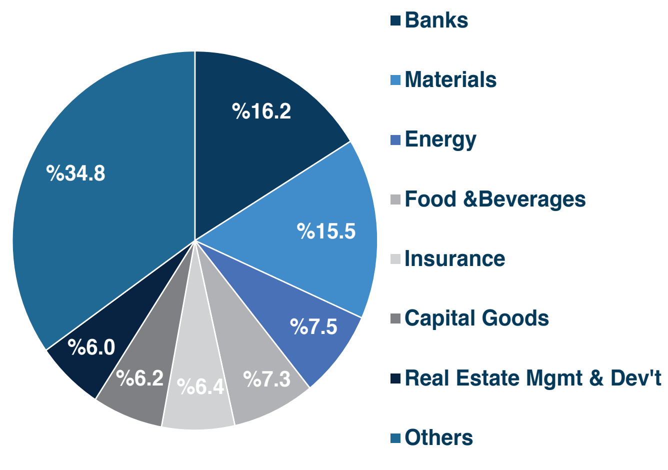
TASI Vs MSCI EM returns



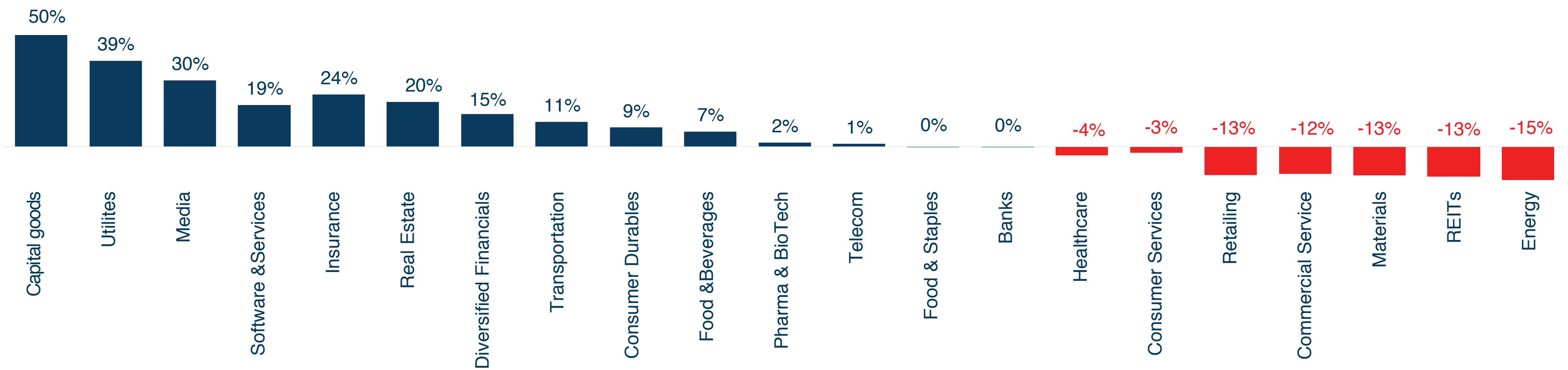
TASI avg. daily value traded (SAR bn)



Sector market share for avg. traded value



Sectors perfomance

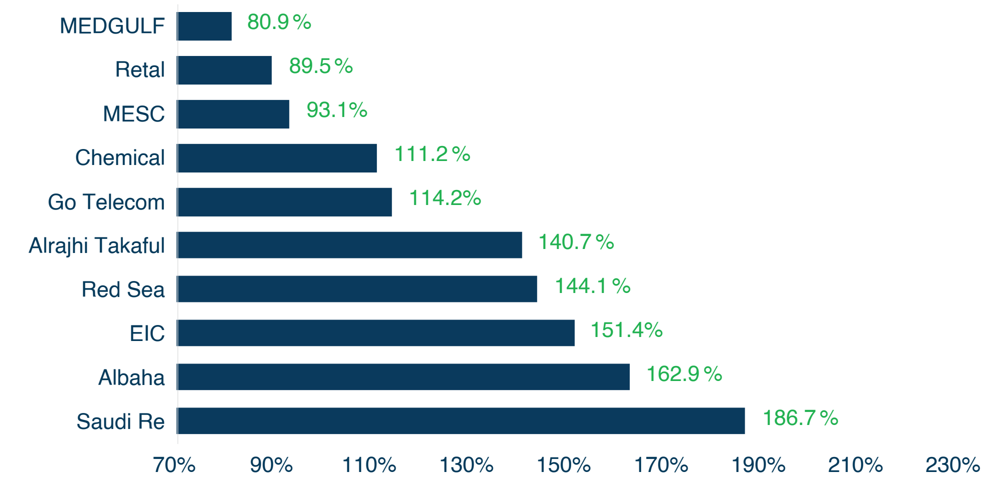


Source: Tadawul, Argaam, Aljazira Capital Research. Note: Prices for calculating sector performance are as of December 31, 2024. Sector market share based on Nov-24

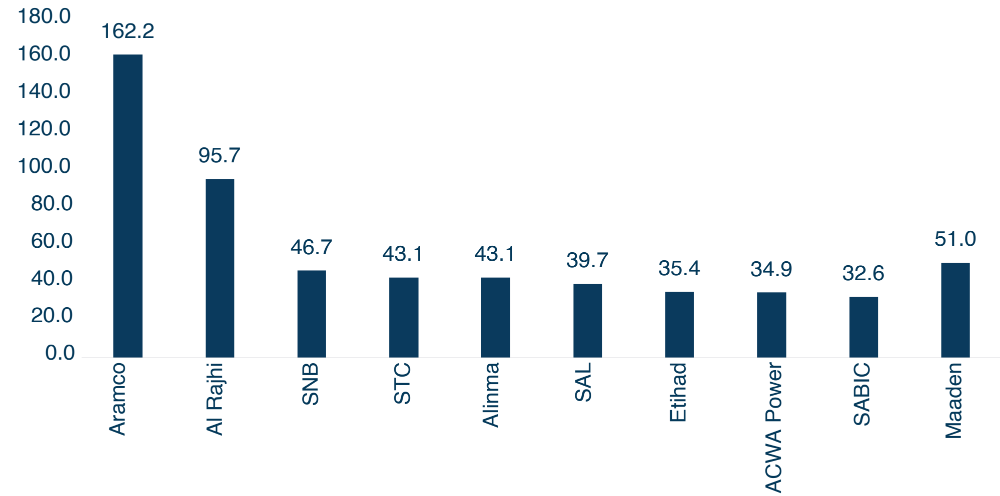
Best and worst performing companies

Saudi Re gained the most YTD, while Aramco has the highest value traded, followed by AlRajhi

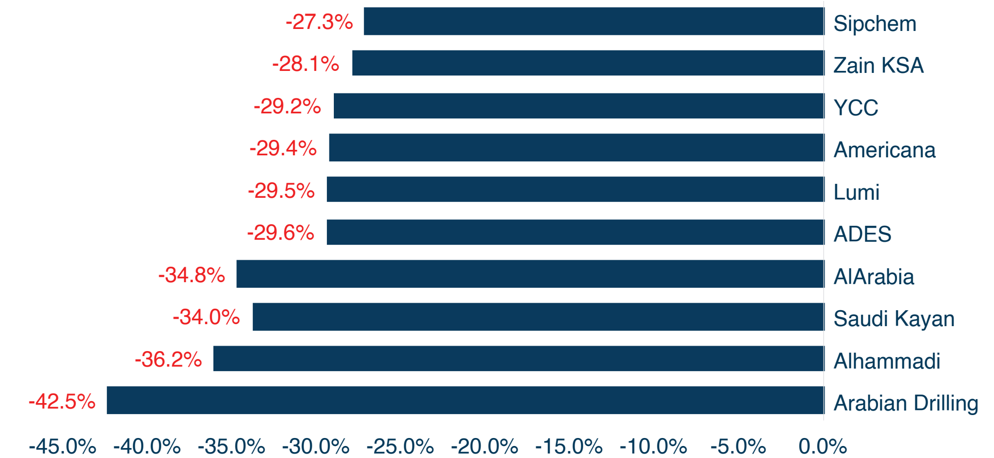
Top 10 performing companies in YTD-24



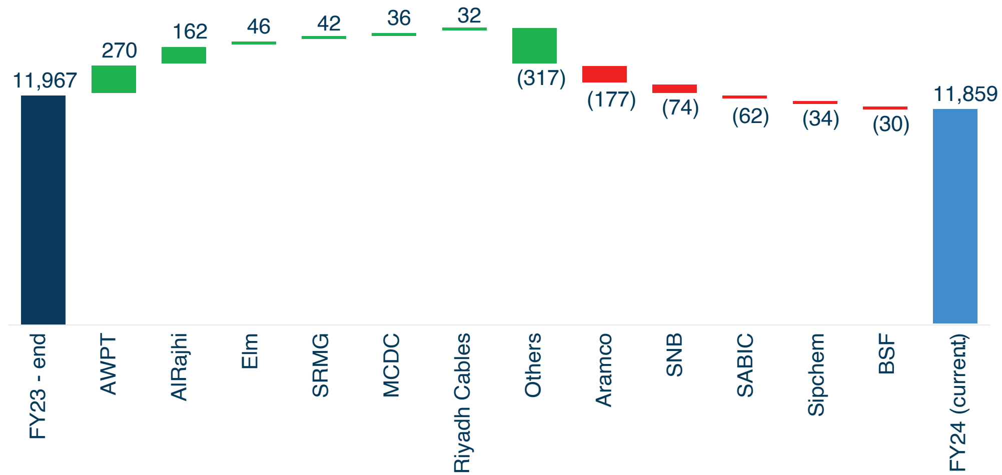
Top 10 companies by average value traded (SAR mn)



Worst 10 performing companies in FY23



Index point contributors



Source: Argaam, Tadawul, Aljazira Capital Research. Note: Prices as of December 31, 2024

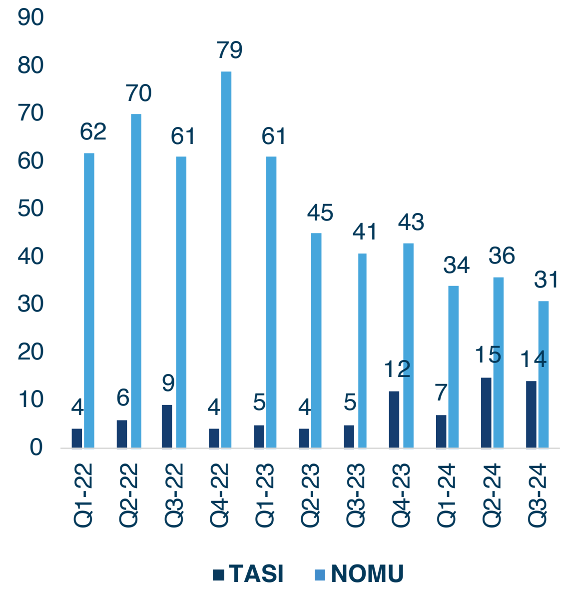
IPO Momentum

IPO Momentum to maintain rhythm into next year in a sign of an emerging equity market

IPOs listed on TADAWUL exchange in YTD-24

Sector	Company	IPO shares (mn)	Offer price (SAR)	Offering size (SAR mn)	Institutional investors coverage	First Day Change (%)	Current market price (SAR)	Change from offer price%
Media	**MBC Group**	33.25	25	831.25	66.0x	30.0%	53.6	114.4%
Pharma	**Avalon Pharma**	6.0	82.0	492.0	138.7x	30.0%	118.8	44.88%
Financial Svc	**UIH Co.**	7.5	132.0	990.0	132.0x	30.0%	175.2	32.6%
Healthcare	**Fakeeh Care**	49.8	57.5	2863.5	119x	10.1%	66.9	16.4%
Utilities	**Almoosa**	13.29	127	1,687.8	103x	-	-	-
Insurance	**Miahona**	48.28	11.5	555.2	170x	30.0%	27.05	135.2%
Capital Goods	**Rasan**	22.7	37.0	839.9	129.1x	30.0%	81.8	90.3%
Household & Person-al Prod	**TALCO**	12.0	43.0	516.0	68.5x	14.2%	55.3	28.1%
REITs	**Alistithmar**	18.5	10	180	135%	-5.00%	8.2	-18.00%
Food & Beverages	**Arabian Mills**	15.39	66.0	1,015.7	132.0x	-0.3%	49.15	-26.14%
	Fourth Milling	162.0	5.3	858.6	119.0x	0%	4.03	-23.77%
	Modern Mills	24.55	48.0	1,178.4	127.0x	30.0%	40.7	-15.21%
Commercial & Pro-fessional Svc	**Tamkeen**	7.95	50.0	397.5	138.2x	30.0%	64.7	33.2%
	SAMASCO	120	7.5	900.0	128x	20.7%	7.50	0 %

IPOs under review by CMA



- In FY24 YTD, total 15 companies were listed on TASI, and 27 on Nomu; as compared to 8 & 29, respectively, in FY23. The IPO activity came from a range of companies across several sectors. The total value of IPOs this year till date stood at SAR 13.8bn. Almajed Oud and Avalon pharma had highest institutional coverage of 156x and 139x respectively. While Miahona and MBC group have given the highest returns of 135.2% and 114.4% from offer price, respectively. Arabian Mills and Fourth milling are worst performing IPOs, down 26.1% and 23.8% from offer price, respectively.
- There are 100 announced IPOs, currently, intending to list to the main market. Some key names are government owned King Fahad International Airport, Saudia Airlines, Saudi Global Ports as well as household names such as IKEA and Tabby.
- Sector wise, most announced listings fall under the Real Estate Management Sector (15 announcements), and 10 under Transportation and Consumer Services, each. As of Q3-24, there were 14 stocks under review by the CMA for a main market listing (and 31 for Nomu) in a sign of an expansionary rhythm for the Saudi equities market.
- Recent IPOs have been oversubscribed many times, showcasing investor confidence, strong liquidity and market's ample appetite for upcoming IPOs. Moreover, there is growing interest from companies outside of GCC to dual list in Saudi. According to news reports, five companies (in energy and natural resource sectors) from outside of GCC are expected to list in Saudi Arabia. Additionally, first Chinese listing might happen soon, as exchanges are exploring cross listing to increase market liquidity and access to capital.

Source: Argaam, Aljazira Capital Research Note: Prices as of December 26, 2024

Finance Expense

Lower interest rates to ease finance expense burden for TASI universe by SAR 3.1bn

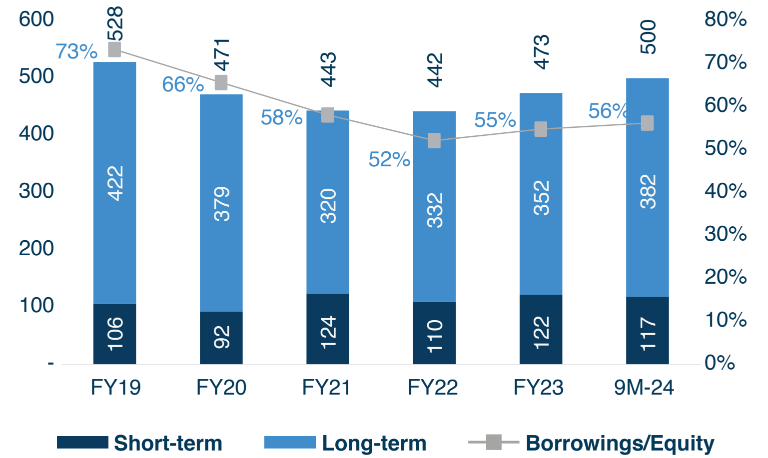
Utilities the most leveraged sector followed by Energy and Consumer Discretionary

- SAMA decreased interest rates by 100bps in FY24. Thus, SAIBOR 6M and 3M are down 85bps and 98bps YTD to 5.5% and 5.6%, respectively.
- Total debt (borrowings) for listed companies (excluding Banking, Insurance, REITs and Saudi Aramco) rose from SAR 473bn in FY23 to SAR 500bn as of September 2024. The borrowings reached the highest level post the pandemic. Saudi Aramco's total debt rose to SAR 242bn as of September 2024 from SAR 233bn in FY23.
- Overall leverage in terms of Debt-to-equity ratio also increased to 56% in 9M24 from 55% in FY23, which was up from the low of 52% in FY22.
- Based on our calculations, expected rate cuts are likely to reduce finance expenses for TASI listed companies by SAR 3.1bn Y/Y in FY25E compared to FY24E. Most companies are likely to see a high-single-digit decline in their finance costs.
- Utilities (145%), Energy (129%) and Consumer Discretionary (124%) are the most leveraged sectors. Thus, these sectors are most likely to benefit from lower finance expenses amid interest rate cuts reflecting positively on their earnings.
- In absolute terms, we expect interest rate cuts might potentially boost earnings of Utilities and Materials sector by more than SAR 700mn each, while Energy sector can potentially benefit by slightly less than SAR 400mn.

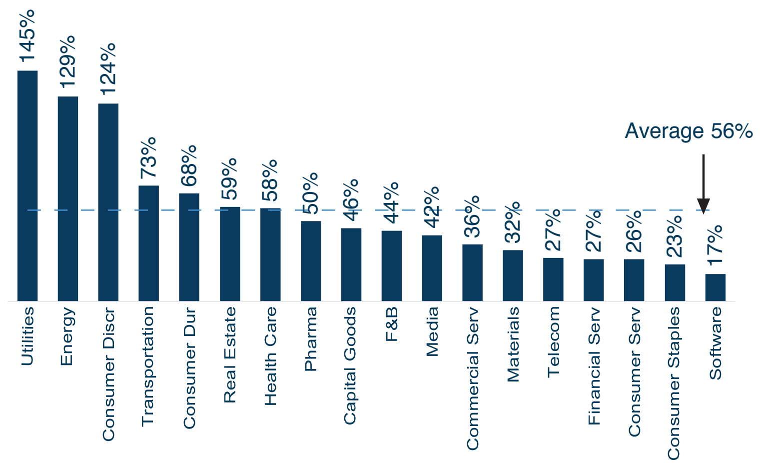
*Exclude lease liabilities
*Banking, Insurance, REITs and Saudi Aramco not included

Source: Argaam, Aljazira Capital Research

TASI Borrowings Trend (SAR bn)*



Leverage Level by Sector*



*As of September 2024, borrowings do not include lease liabilities excluding Saudi Aramco

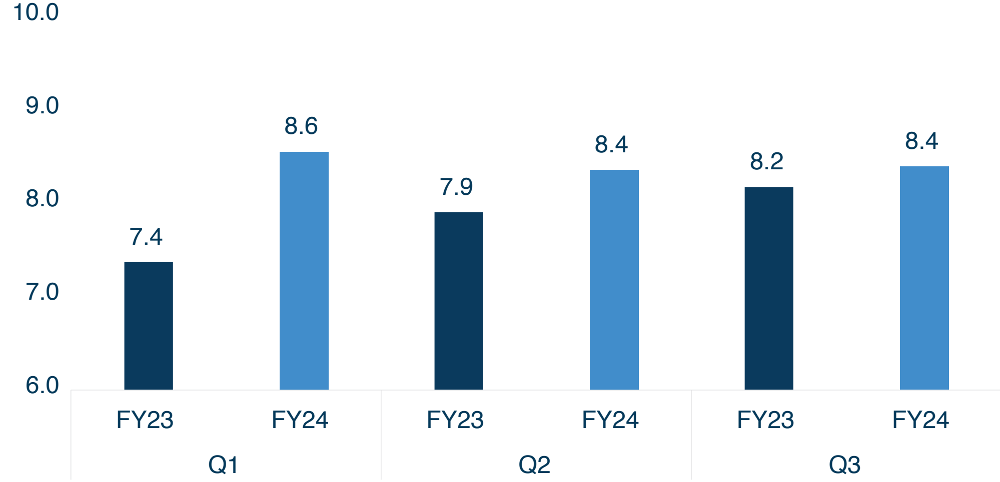
ALJAZIRA CAPITAL الجزيرة كابيتال الجزيرة للأسواق المالية

9M24 finance expenses jumped for TASI listed firms; moderation of expenses to follow

Lower interest rates to provide respite to high leverage companies

- Finance expenses for TASI universe (excluding Banking, Insurance and Saudi Aramco) rose in Q1-24 by 16.1% Y/Y. The increase continued but at lower rate in Q2-24 and Q3-24 (+5.8% Y/Y and +2.7% Y/Y), as interest rates were steady until September, while total debt increased 6% YTD.
- In Q3-24, total finance expenses were stable vs. Q2-24, as borrowing costs were mostly stable, while absolute borrowings decreased slightly.
- A total 100bps interest cuts were announced since September 2024. The rate cuts are expected to gradually translate into lower finance expenses in 2025. However, recent hawkish stance by the US Fed is likely limit easing of finance expense to lower than earlier expected. Based on our assumption we expect finance cost to decrease from an estimated SAR 32.8bn in FY24E to SAR 29.7bn in FY25E and decline further to SAR 27.2bn FY26E

TASI Rising Finance Expenses (SAR bn)



Most leveraged TASI-listed companies

Company	Borrowings (SAR mn)	Equity (SAR mn)	Borrowings/Equity
RED SEA	373	26	1452%
ZAMIL INDUST	2,179	448	487%
LAZURDE	1,407	301	467%
MODERN MILLS	643	211	305%
NAMA CHEMICALS	537	200	268%
NASEEJ	165	66	250%
PETRO RABIGH	26,179	10,581	247%
ADVANCED	7,859	3,212	245%
MIS	954	417	229%
SPPC	784	370	212%

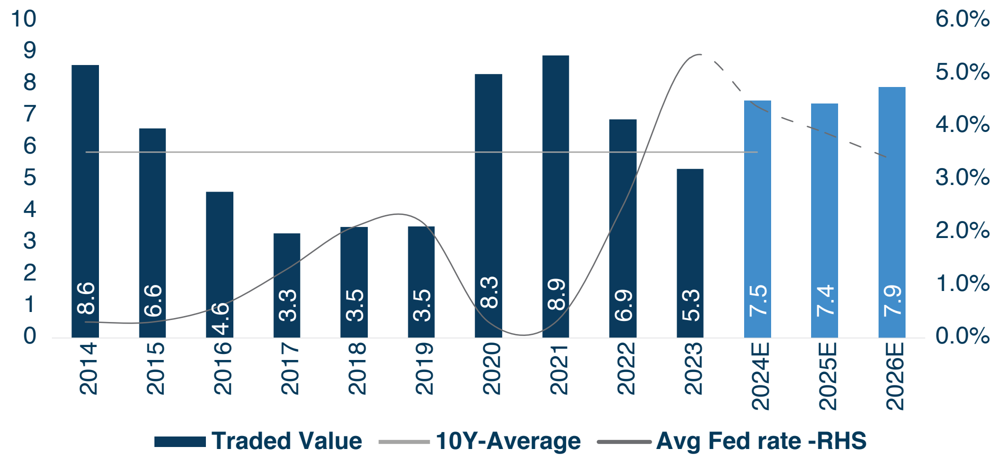
Company	Borrowings (SAR mn)	Equity (SAR mn)	Debt/Equity
BAAN	461	221	208%
SASCO	1,621	842	192%
RETAL	1,425	755	189%
ADES	11,321	6,194	183%
THEEB	1,265	801	158%
ALYAMAMAH STEEL	909	585	155%
SAUDI ELECTRICITY	142,428	92,725	154%
EMAAR EC	7,892	5,244	150%
LUMI	1,708	1,161	147%
SAPTCO	1,344	915	147%

Source: Argaam, Aljazira Capital Research

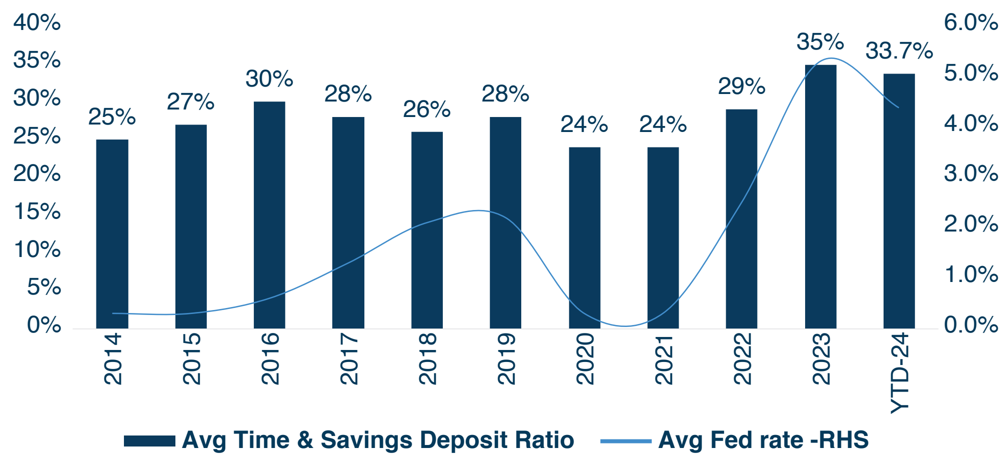
Liquidity

Inverse relationship between equity trading activity and interest rates to unlock more traded value in Saudi equities in FY25

Lower interest rates in FY25 to free up equity liquidity in KSA



Funds parked at FY24's higher yield Time & Saving deposits expected to begin channeling elsewhere by FY25's end



- FY24's average daily traded value (ADTV) is expected to average at SAR 7.5 bn (up 41%Y/Y). The ADTV was high in H1-24 due to i) FPO of Aramco which received above average demand, ii) more liquidity from QFIs and iii) inclusion of few companies in the MSCI index. However, the liquidity (ADTV) is down to SAR 5.17bn in Dec-24 (SAR 6.01bn in Dec-23), due to heightened uncertainty around US economic policies under Trump 2.0 and increasing regional security risks.
- We expect the normalized ADTV to be at SAR 7.2bn in 2024, after excluding the impact of Aramco's secondary offering. We expect the ADTV in 2025 to increase to SAR 7.4bn, implying a 2.7% Y/Y increase. Furthermore, we expect the ADTV to reach SAR 7.9bn by 2026. Normalization of regional geo-political issues and declining interest rates are likely to drive the recovery in participation levels. We highlight that, quarterly total traded values during low, or falling interest rate environments are observed to be 50.1% higher, on average, as compared to a rising interest rate economy.
- Time & savings deposits grew at a CAGR of 20% over the last four years (Q3-20 to Q3-24) and saw their share in total deposits increase from 24.0% to 34.8%; over the same period demand deposits increased at a CAGR of just 4.2%. This robust upsurge in Time & savings deposits was mainly driven by the massive 500bps cumulative increase in interest rates to 6.0%. We expect this trend to reverse as interest rates move down and some liquidity to flow into equity market.

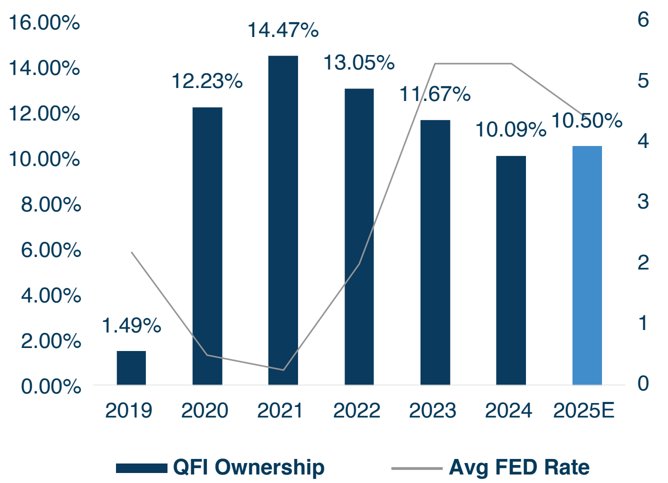
Source: Argaam, Aljazira Capital Research

Trading activity & QFIs

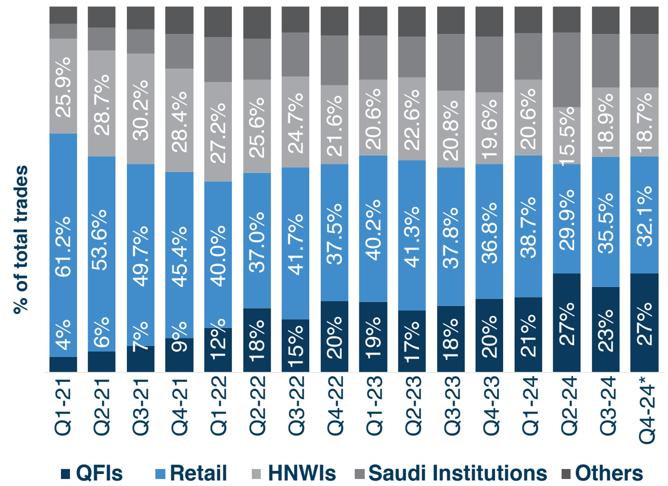
QFI and Institutional Investor presence in Saudi Equity market to intensify

Enhancing market liquidity depth, price stability & discovery

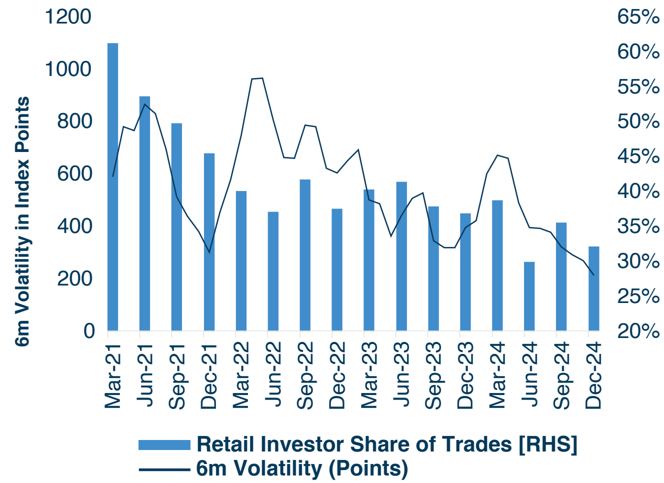
QFI presence



Saudi Arabia market participation



Index Volatility



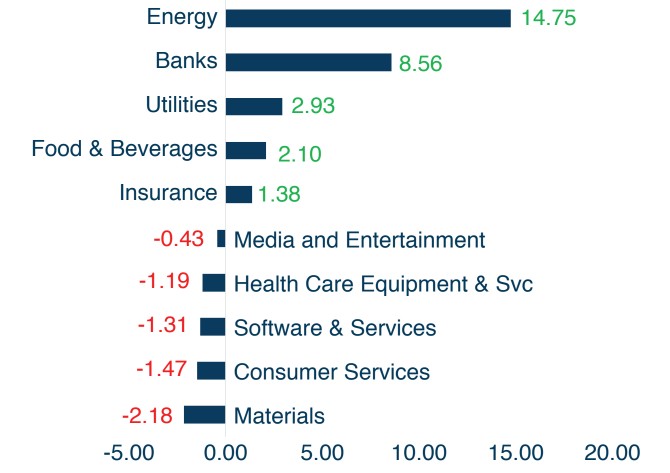
- QFI ownership of free float market cap surged from only 1.49% during FY19 to reach 10.09% as of 26 December 2024. Since 2019, the number of listed firms increased from 191 stocks to 247 stocks, with the inclusion of Aramco decreasing QFI's share in the total market. However, while the share of free float has lessened as a result of a larger market - QFIs total holding value increased sequentially per year from FY19's SAR 134.5bn to reach SAR 335.0bn by December-24.
- The Saudi Equity market participation has been shifting to constitute more trading activity from QFI's and Saudi Institutions in a long term trend, and away from retail investors; collectively QFIs and Institutions reached as high as 47.4% of all quarterly trades in FY24, as compared to a four years ago low of 8.3%, where retail investors reached as high as 61.2% of all trades in a quarter. Consequentially, volatility in the market has winded down from an annual average 3m standard deviation of 304 points on the main market to 230 points throughout the same period.
- The trend is expected to persist next year as QFI presence emerges with lesser interest rates forecasted into next year. Along with the increased participation in Saudi institutional investors, more price stability and efficient price discovery is expected with larger institutional trading orders. Institutional (& QFI) presence is further expected to support the liquidity for the IPO pipeline going forward. More QFIs are expected to allocate towards Saudi Arabia with 1) easing of access to the market, 2) GDP and country level profile attractiveness going forward, 3) potential for idiosyncratic, market neutral, plays for international investors from domestically focused equity offerings, 4) wider market offerings and opportunities.

Source: Bloomberg, Tadawul, Aljazira Capital Research. Note: *FY25 FED rate taken as upper bound of Dot Plot range

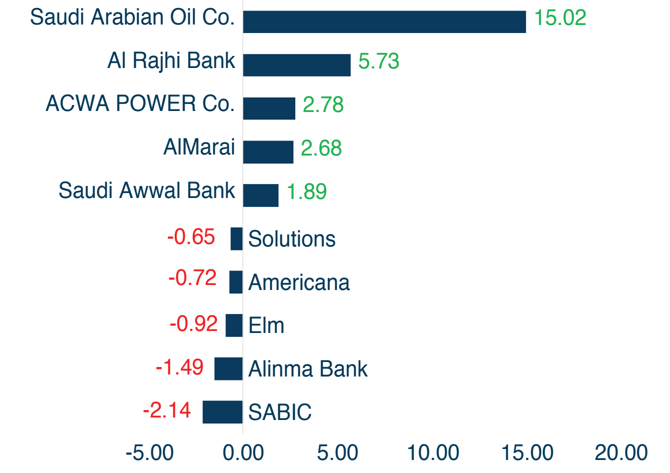
QFI activity reflect active participation towards changing rates and Aramco offering

Active style of stock picking displayed in QFI equity preference expected to carry forward to FY25 themes

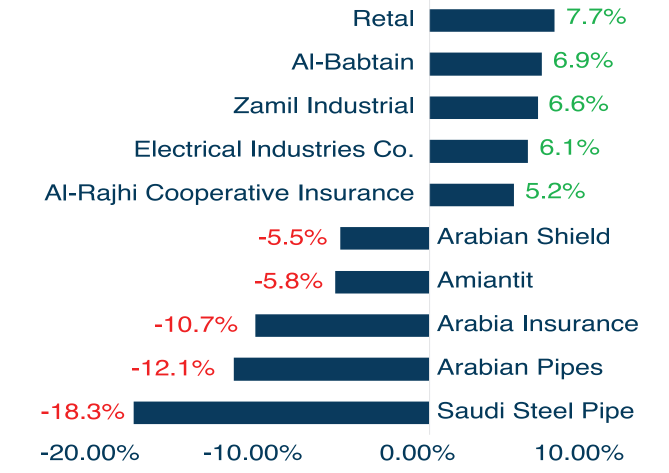
Net QFI flow per sector (in SAR bn)



Net QFI flow per company (in SAR bn)



Most QFI ownership changes (%)



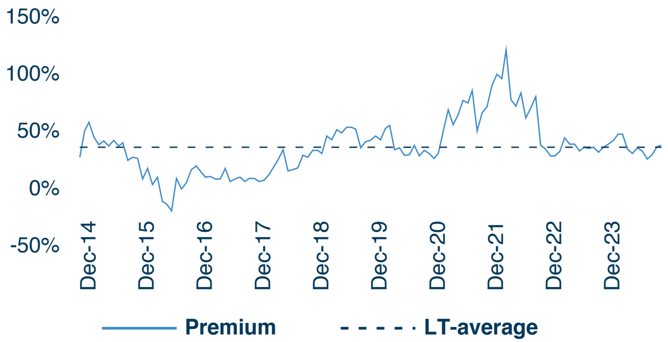
- Foreign investor inflows stood at an estimated net SAR 25bn in YTD-24 an increase from SAR 10.2bn compared to the same period last year. On a sectoral basis, Energy and Banks saw the highest inflows of SAR 14.8bn and SAR 8.6bn, respectively. On the flip side, materials and consumer services saw the largest QFI net outflows of SAR 2.2bn and SAR 1.5bn, respectively.
- Stock wise, QFI flows for FY24 were centered towards Aramco, as the stock offered 1.55bn shares during the year to become the largest secondary offering in EMEA since 2000 (largest equity capital market offering in the Middle East since its own IPO). Alrajhi saw the second highest inflow of SAR 5.7bn, as the bank offered attractive valuations and is positively geared towards declining interest rates. On the other hand, highest foreign selling of SAR 2.1bn and SAR 1.5bn was seen in SABIC and Alinma Bank, respectively.
- QFI trading activity is expected to remain actively agile towards themes at play in FY25, and changes in the Saudi Equity market scope, from rate changes to sector specific developments.

Source: Bloomberg, Tadawul, Aljazira Capital Research. Note: *Based on AJC Estimates, excluding IPOs

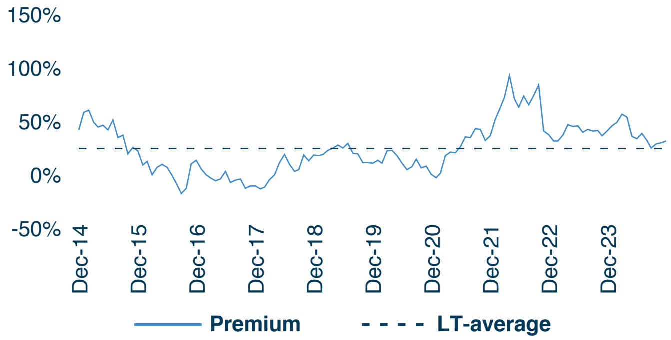
TASI absolute and relative performance

On an absolute basis TASI seems fairly valued on PE and PB; undervalued on DY

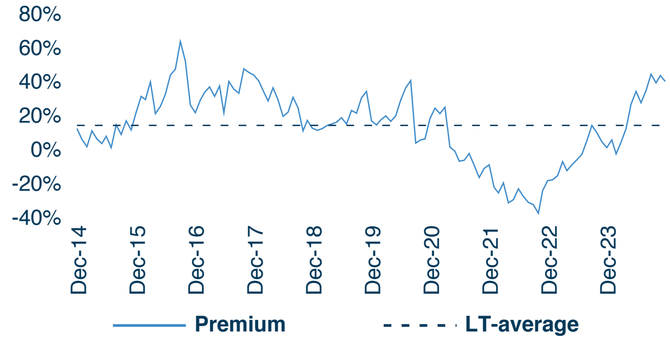
TASI PE premium over MSCI EM



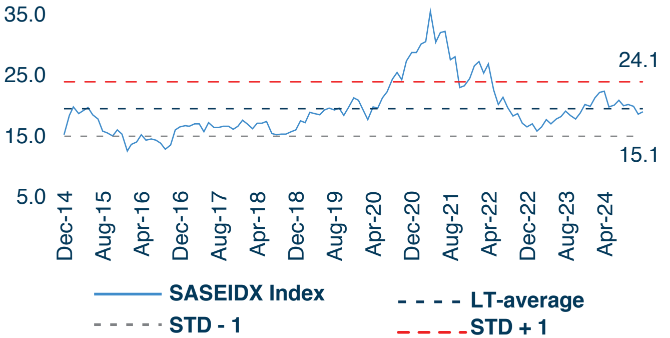
TASI PB premium over MSCI EM



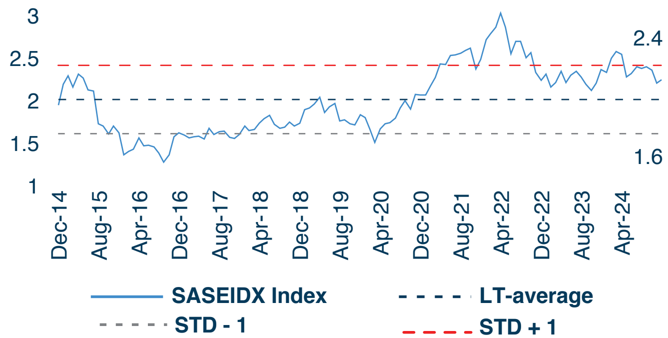
TASI DY premium over MSCI EM



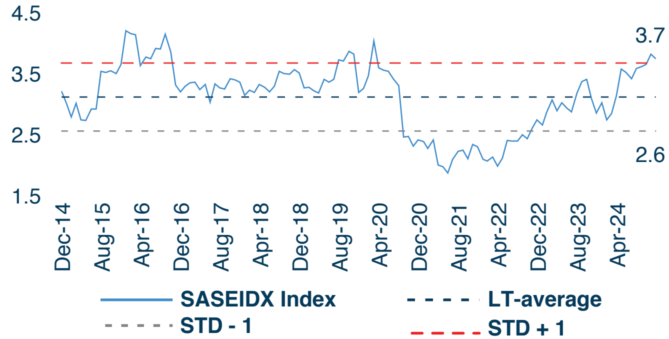
TASI PE vs historical average



TASI PB vs historical average



TASI DY vs historical average



- On a relative basis TASI is fairly valued as it trades at a 38% premium to MSCI-EM vs historical average premium of 36%.
- On an absolute basis, at 19.1x TASI is trading at 2.4% discount to historical PE of 19.6x, hence it seems fairly valued.

- On PB basis, TASI is trading at a 33% premium to MSCI EM, higher than historical premium of 27%.
- Compared to its own long-term average TASI trades at 11.4% premium on PB basis, hence it seems fairly valued.

- TASI's DY is at a premium of 43% over to MSCI EM, which is higher than the historical average premium of 18%.
- While current DY of 3.8% is at a premium of 20ppts to TASI's own long term DY of 3.15%, which implies undervaluation.

Source: Bloomberg, Aljazira Capital Research, as of December 26

Strategy 2025: An attractive EM despite 2025 global macro headwinds

Index target 12,741 points driven by 12.5% expected earnings growth (ex-Aramco)

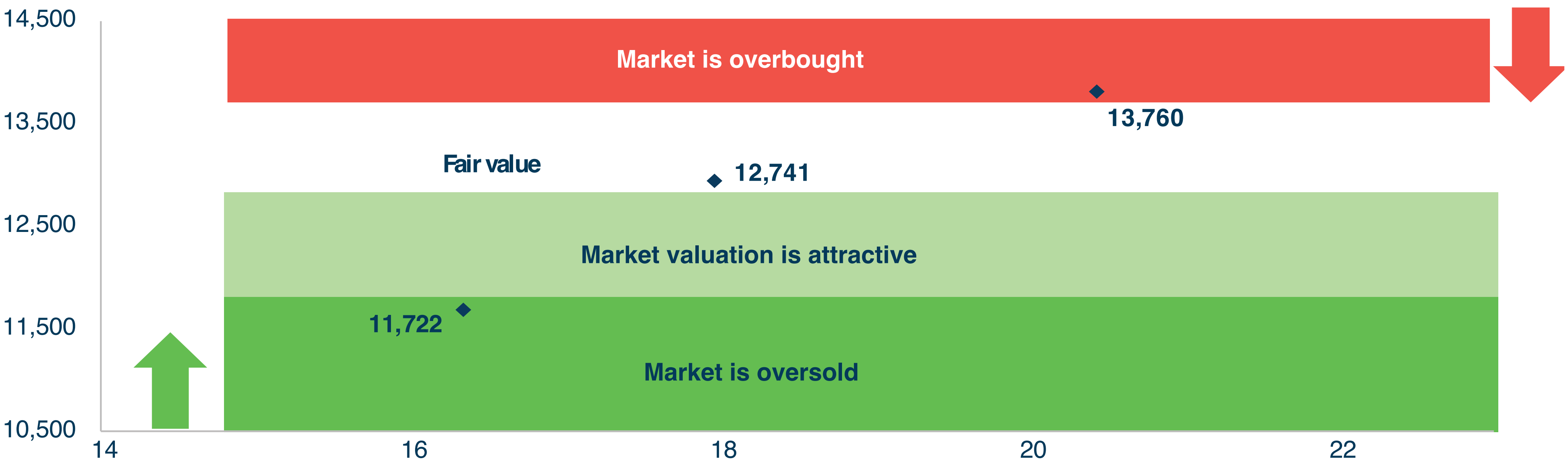
Saudi Arabia's economy is poised for an accelerated growth in 2025, supported by a resilient non-oil sector, expansionary fiscal policies, and a solid fiscal position supported by low debt level. While the oil economy faces challenges from weaker demand and potential oversupply, increased production could offset some pressures. High earnings quality growth stock will remain in play, expect some rotation towards blue-chip value players, while growth stocks with extended valuation may face valuation challenges with the market volatility. Key sectors likely to drive performance include banking, technology, tourism, and construction, with cautious sentiment around petrochemicals and cement. Despite global economic uncertainties, the domestic economy's resilience and robust earnings growth should support equity market momentum. We estimate a fair value of 12,741 points for TASI in FY25, implying upside of 7.1% from the current level.

- **KSA Expansionary spending to support growth, while low debt level help manage fiscal deficit amid weak oil market dynamics:** Saudi Arabia's GDP is expected to grow robustly by 4.6% in 2025 on the back of increasing private sector contribution, this estimate implies real non-oil GDP growth of around 4.5%. However, subdued oil prices will negatively impact Saudi oil revenue but planned unwinding of supply cuts by OPEC+ from April 2025 will lead to higher oil production in FY25, providing some support. Government would continue its expansionary fiscal policy in 2025-27, where expenditures are budgeted at SAR 1,285bn and to reach SAR 1,429bn by 2027. The budget deficit (SAR 101bn) can easily be met by borrowings, note that Saudi Arabia's debt levels are moderate and remain comfortable (30.6% of GDP in FY25) compared to other economies. Global economic uncertainty would remain high; however, Kingdom is likely to remain resilient due to strong fiscal position, growing non-oil activities and currency Peg.
- **High earnings quality growth stock will remain in play, expect some rotation towards blue-chip value players:** High-quality earnings growth stocks will remain a focal point, with a potential shift towards blue-chip value stocks. As blue-chip value stocks have underperformed since uptrend in interest rates, to see improved momentum in 2025, due to strong dividend yields, declining interest rates, attractive valuations and more stable earnings outlook. Growth stocks with stretched valuations may face obstacles amid ongoing market volatility. Meanwhile, cyclical sectors such as petrochemicals and energy have been among the hardest hit, eagerly awaiting clear signs of recovery. Companies that will benefit from Vision 2030, government's increased focus logistics, travel & tourism activities in the Kingdom and that are demographics plays would outperform the market. Highly leveraged companies that would benefit from rate cuts would see sizable improvement in margins and growth over the next two years as US Fed and SAMA ease interest rates. We estimate positive impact of SAR 3.1bn on TASI FY25E earnings due to decrease in finance expense. Our preferred sectors are Banking, software & services, tourism & transportation and construction. We are cautious on Petrochemicals and cement.
- **Index to track earnings growth, with Tasi's fair value estimated at 12,741 points:** We estimate a fair value of 12,741 for TASI in FY25, implying upside of 7.1% from the current level. Expected earnings growth of 12.5% (excluding Aramco) would drive the index upward despite global macro headwinds. Materials, Banking, Healthcare, and Utilities sectors are likely to contribute the most to the growth in the market earnings in FY25E. We see 15 out of 22 sectors recording earnings growth in FY25E, Energy sector will be a key laggard, followed Telecom, Capital goods, Media and Insurance. Potential risks to our index target in H1-25 include oil price pressure, oil production delays, global trade disruptions like tariffs, and heightened tensions in Europe and the Middle East. Thus, although global factors/oil prices may weigh on TASI in the near-term, earnings growth and the resilience of domestic economy would support upward movement in H2-25. Based on our evaluation, TASI below 11,700 would be an attractive, while above 13,760 level market would be overpriced.

TASI's fair value for FY25 estimated at 12,741; implying 7.1% upside potential

Double-digit earnings growth (12.5% Y/Y) to drive market returns, while global macro challenges to keep pressure

TASI fair value



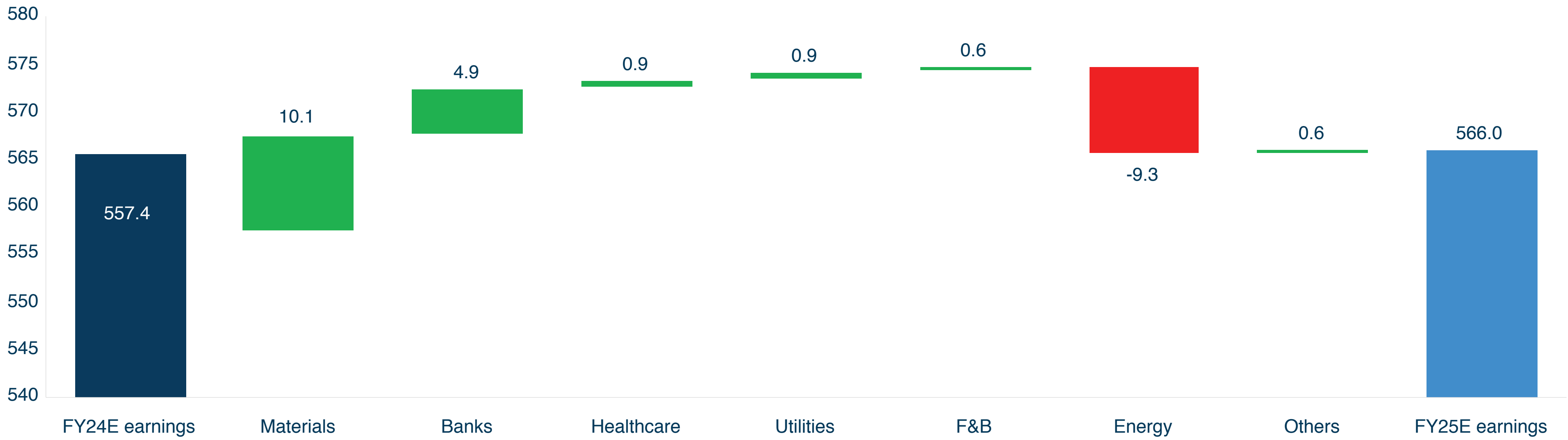
Source: Bloomberg, Aljazira Capital Research

- We estimate TASI's earnings to jump 12.5% Y/Y in FY25E (excluding Aramco), while earnings are expected to grow 1.5% Y/Y including Aramco. Materials, Banking, Healthcare, and Utilities sectors are likely to contribute the most to the growth in the market earnings in FY25E. We see 15 out of 22 sectors recording earnings growth in FY25E, Energy sector will be a key laggard, followed Telecom, Capital goods, Media and Insurance.
- We believe acceleration in GDP growth in FY25E, led by continued strength non-oil economy driven by further progress in mega/giga projects and other Vision 2030 initiatives, expansionary fiscal policy, and expanding tourist activity coupled with expected higher oil production will drive the earnings growth across the sectors. Moreover, monetary easing would bolster the earnings through increased consumption and lower finance expenses. These factors are likely to offset impact of lower oil prices and global macroeconomic concerns, including trade tariffs and geopolitical issues.
- TASI is currently trading at 19.1x. We value TASI at P/E of 18.5x (slight discount to historical average of 19.3x, accounting for global macro uncertainties) based on our earnings estimates for FY25E. Our earnings estimate for FY25E translate into an EPS of SAR 688 and a fair value of 12,741 for TASI, implying upside of 7.1% from the current level. We reckon TASI below 11,722 would be an attractive, while above 13,760 level market would be overpriced.

Materials and Banks to be the major contributors to TASI's earnings growth

Most of the sectors expected to register growth while would be a key drag on earnings in FY25

TASI earnings analysis (FY24E, SAR bn)



Source: Bloomberg, Aljazira Capital Research

- Combined earnings for the TASI listed companies are estimated at SAR 566bn in FY25E vs. estimated earnings of SAR 557bn in FY24E, up 1.5% Y/Y. The earnings growth would 12.5% excluding Aramco, as Aramco is expected to post a decline of ~2.6% due to anticipated lower oil prices. On the other hand, Materials, Banking, Healthcare, and Utilities are expected to exhibit growth and contribute the most to the TASI earnings growth.
- Materials sector is estimated to be the largest contributor to the earnings growth, mainly driven by recovery in Petrochemical earnings attributed to better operating rates, improvement in prices of some products and higher margins due to anticipated lower feedstock prices. Moreover, Maaden is also likely to see healthy earnings growth on account of favorable commodity prices and lower finance cost.
- Banking is also likely to be one of the major contributors to TASI earnings with an estimated 6.2% Y/Y growth in FY25E driven by corporate and MSME credit growth and easing pressure on NIMs. The mega infrastructure projects will keep the credit demand momentum intact, while lower interest rates will support NIMs due to high exposure to fixed rate assets.
- Healthcare and Utilities with 18.4% Y/Y and 13.6% Y/Y growth in earnings in FY25E are also expected to be among top contributors to the growth.
- Whereas Energy sector earnings will fall 2.3% Y/Y mainly due to lower oil prices impacting Aramco's bottom-line by 2.6% Y/Y.

Sector Outlook & Top Picks

Sector Outlooks: Ongoing economic transformations and macro factors driving developments bottom-up in FY25

ENERGY *Neutral*	Energy sector is expected to be impacted by weak oil fundamentals and uncertain global economic outlook due to risk of trade tariff impositions in FY25, impacting Aramco's prospects. Subdued refining margins are expected to continue next year as well. However, expected increase in oil production with OPEC+ plans to start the unwinding of cuts from April 2025 onwards likely to aide volume growth for Aramco. Moreover, KSA's focus on increasing natural gas production will be another key driver for drilling companies such as ADES and Arabian Drilling. **Aramco** and ADES are our top picks from the sectors. We are positive on Aramco due to its long-term prospects supported by downstream investments, expansion of gas production and attractive dividend yield. **ADES** is better placed with dominance in offshore market, geographical diversification and expansion plans.
BANKS *Overweight*	We maintain our positive rating on the banking sector, our investment thesis is premised on the following (1) banks are better positioned for a downtrend in interest rates due to higher weight of remunerative deposits, and long-term loans & investments, (2) strong outlook for Corporate and MSME loans owed to Vision 2030 infrastructure projects and Shareek program, and (3) double-digit (14.9% Y/Y for 2025) medium-term earnings growth for banks under our coverage. Our investment thesis is further supported by the limited NPL risk (sector NPL ratio stood at 1.32% in Q3-24, while coverage is at a healthy 135.1%), strong credit demand (~12% loan growth expected in 2025), and positive NIMs outlook. Sector capital adequacy remains sizably above regulatory requirement, with CAR/Tier-1 ratio for the sector at 19.21/17.72%, hence we see limited risks on this front in 2025. Moreover, we expect sector to remain well within regulatory LDR limits in 2025. **AlRajhi** and **Alinma** are our top picks in the sector
PETCHEM *Cautious*	Petrochemical market is entangled with weak demand, capacity additions, lower utilization rates and compressed margins. In FY25, global macro uncertainties related to global economic growth, subdues manufacturing activity, potential imposition of tariffs by the US and geopolitical tension are most likely to restrict any major revival in demand. However, we see potential for a limited improvement with consumption supported by lower interest rates, Chinese stimulus and certain product specific dynamics. The expected easing of feedstock prices may support the spreads. We are cautious on the petrochemical sector. However, we prefer a few names which we believe are favorably placed in terms of growth, valuation and could generate healthy returns once the economic cycle turns around viz. SABIC, Sipchem and Advanced.
TELECOM *Overweight*	The Saudi telecom sector is experiencing strong growth in the B2B segment, driven by increased digitalization, data-intensive operations, and higher internet usage. Both large enterprises and SMEs are actively adopting digital solutions. Additionally, government initiatives to enhance the digital economy's GDP contribution are fueling demand for ICT services. Additionally, Consumers segment has also shown some sign of recovery, but competitive pressure will limit the growth. **Mobily** is our top pick in the telecom sector, as we expect company to maintain its traction in B2B segment and gain market share. Furthermore, the improving operating efficiency will support healthy margins and cash flow generation.
CEMENT *Cautious*	The Saudi cement sector is recovering with improving local sales supported by mega/giga projects and mortgage growth recovery, with FY25E sales expected to rise 4.5% Y/Y. However, record-high inventories (~94% of annual production) and possibility of further increase in feedstock methane and HFO prices, pose risks to margins and pricing. While competitive pressures remain, selective dividend-paying stocks and Yamama and Eastern Cement's strong fundamentals offer investment opportunities. **Yamama Cement** better placed fundamentally with it market leading position, strong foothold in the Central region and its dependence on methane as feedstock. **Eastern Cement** will benefit due to exposure to oil and gas with high margins and exposure to natural gas feedstock, while its low FY25E P/E of 12.2x makes it lucrative valuation wise.

Sector Outlooks: Ongoing economic transformations and macro factors driving developments bottom-up in FY25

HEALTHCARE *Neutral*	Demographic trends and sector transformations in favor towards the sector continue to prompt healthcare providers to expand to meet demand. FY25 will be a display of growth as expansionary activities take place to increase the sector's capacities by an estimated 14%, and as providers brace and prepare for the next rounds of scheduled expansions. Beyond FY25, we estimate that the listed sector will seek to expand capacities by almost 35% over FY24 capacities; hiring's, debt on taking, and preparations for future expansions past FY25 will also weigh down margins while revenues expand. Our neutral outlook reflects a cautious view while expansions ramp up and profitability is weighed by heightened costs of operations for new capacities. The TASI HC index came down from highs of 14,151 points in FY24 by 16% as impacts were seen in some providers' cost profiles (Hammadi & Mouwasat), while more is expected amid as other providers undergo heavy capacity expansions. We do however believe the wellness in the sector, along with the temporary effects of expansions, could make a case for a come back for large providers and other stocks to turn around once expansions mature. **Dallah Healthcare** is our pick in the sector.
RETAIL *Neutral*	Momentum in retail sector remains strong as reflected by the 8.9/16.2% Y/Y increase in POS sales/transactions in YTD Oct-24, respectively. We like selective quality stocks with good growth outlook backed by expansions, store ramp ups and broadening product portfolio. Normalization of freight costs and declining commodity prices are likely to favor the sector in 2025. Moreover, the sector is well placed to benefit from favorable demographics of large young population, increasing disposable income, rising leisure and religious tourism, innovations in product offerings and Vision 2030 initiatives. Despite the positives, we have a Neutral stance on Retail sector, primarily due to increase in competition (especially in consumer discretionary segment) and limited valuation upside. **Extra** and **AlMajed** are our top picks in the sector.
SOFTWARE *Overweight*	Ongoing Vision 2030 initiatives ranging from digitalization, tourism, infrastructure, e-gov developments, smart city initiatives, and preparations for world class sports and entertainment events will directly benefit the Software & Services sector as an average of almost 50% of revenues from the sector are sourced from government demand. Health is seen in the sector with an average project backlog to FY23 revenues of 1.2x, large cash and murabaha holdings for the large players, and economic activities supporting demand on services, support organic and potential inorganic growths for the fragmented sector. Cyclicality seen in FY24 from extended sales cycles and delays in recognitions are expected to fare well for FY25 performances. We expect the delayed project cycles to benefit Solutions and 2P, while Elm is expected to benefit from increased economic activities raising demand for its wide use services. The Software & Services index outperformed the main market by almost 21% as momentum in Elm weighed up the sector over anticipation of its diversified role in the Saudi economic activity (tourism, shipping, e-gov among others). **Solutions by STC** is our pick in the sector.
TOURISM *Overweight*	Saudi tourism sector is experiencing strong growth with passenger traffic and number of tourists surpassing their pre-covid levels. This is driven by enhancements of new and existing tourist destinations and government's zeal to diversify its tourism offering. Further the car rental industry offers promising opportunities underpinned by ambitious initiatives to enhance entertainment industry, and proactive government policies aimed at fostering business growth, coupled with the influx of new enterprises into the region. **Theeb** and **Seera** are our top picks in the sector.
REITs *Overweight*	KSA REITs faced challenges over past two years as post-pandemic recovery was slower than expected. Spike in interest rates during this period stressed REITs' by limiting their portfolio expansion and lowered dividend payments. As Fed began its monetary policy loosening drive with a 100bps cut in 2024, interest rates are expected to be lower in 2025 but with fewer rate cuts. This could ease the pressure for REITs by providing more room for expansion. KSA REITs are well-positioned to benefit from demand in sectors like commercial real estate, retail, and hospitality fueled by Vision 2030 initiatives. Population expansion, tourism development, and large-scale urban projects are expected to sustain demand and drive the sector's future growth. **Alinma Hospitality REIT**, **Jadwa Saudi REIT**, **Alinma Retail REIT** and **Bonyan REIT** could report highest dividend yields in FY25E.

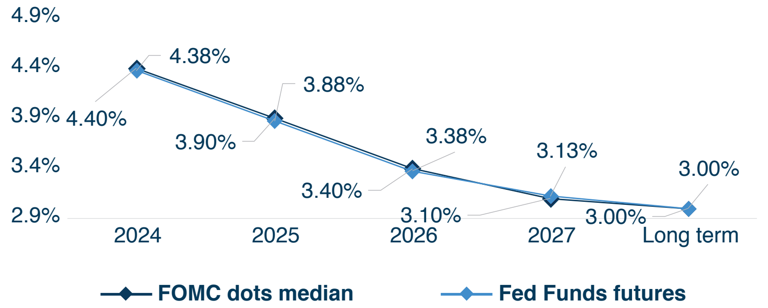
Banking Sector Outlook

Rate cuts would support credit growth and NIMs; earnings momentum would continue

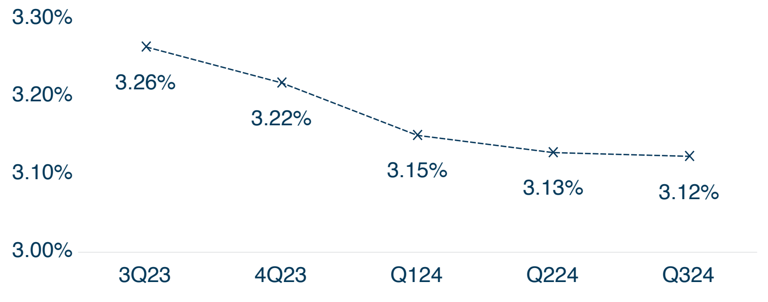
We have an overweight recommendation on banking sector, based on 2025E earnings growth of 14.9%, limited NPL risk, strong credit demand and positive NIMs outlook. We expect loan growth to stand at 12.0% in 2025 driven by corporate and MSME segment.

- most notably, they have increased their 2025 end Core PCE inflation expectation to 2.5% from 2.2% in projections released in Sept-24. In this backdrop, Fed is now projecting two 25bps cuts in 2025.
- Banking sector, despite a 15bps Y/Y contraction in NIMs, has **posted record high earnings** in 9M-24 on the back of double digit growth in earning assets (up 13.4% Y/Y) and increase in non-funded income (up 12.5% Y/Y).
- We expect earning's **momentum to continue** into 2025 as credit growth is likely to remain strong (12.0% 2025E) during declining interest rates and pressure on NIMs is expected to ease due to high fixed rate asset exposure, that will cushion the decline in asset yields.
- Further support to NIMs would come from increased weight of rate-sensitive saving deposits and interbank borrowings (cumulatively ~51.4% of total liabilities in Q3-24 vs ~37.9% in Q1-19) that are going to cause **a larger downwards adjustment in cost of funds**, when rates move further down, as compared to previous rate down cycles.
- Deposits are likely to see some reversal in flows from demand to saving accounts, moreover lower interest rates would incentivize switching to other asset classes (such as equities) that might offer better returns.
- Mortgages issuances will remain strong in 2025, however growth will be much slower than seen in recent past due higher home ownership levels. Rate sensitive non-mortgage retail loans are expected to increase by **8.4%** in 2025. Demand for corporate and MSME loans is likely to be supported by the mega infrastructure projects under Vision 2030 and Shareek program, we forecast 12.5% Y/Y and **19.7%** Y/Y growth in corporate and MSME loans in 2025 respectively.
- Sector's asset quality continues to progress; gross NPL ratio of the sector improved by **31bps Y/Y** (4bps Q/Q) to 1.32% in Q3-24, while coverage stood at a healthy **135.1%** (up 745bps and 242bps Y/Y and Q/Q). Moreover, CoR has improved to **35bps** in 9M-24, from 40bps in 9M-23.

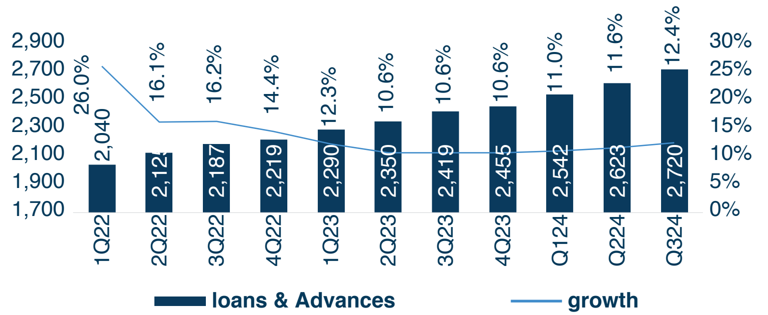
Interest rates likely to be cut by 50bps in 2025



NIMs have contracted by 14bps Y/Y



Loans and Advances



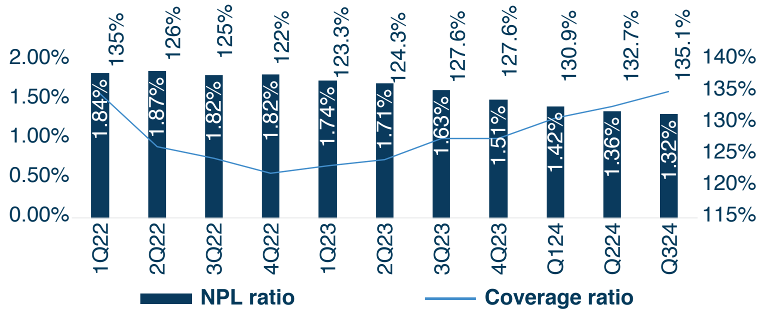
Source: IMF, Aljazira Capital Research

Banking Sector Outlook

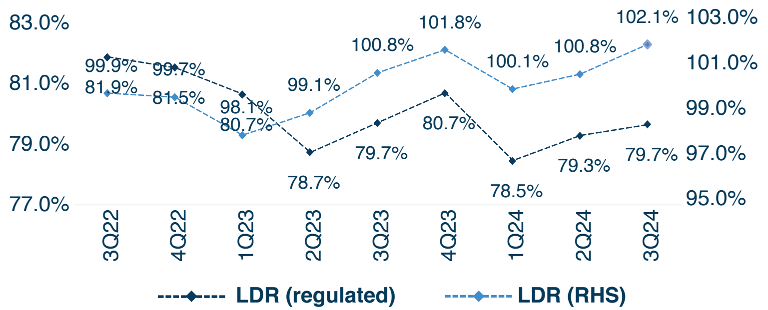
Sector to remain well within the liquidity and capital limits; offers limited NPL risk. Overweight on Alrajhi and Alinma

- We expect asset quality matrices to remain around current levels in 2025. The high proportion of salary-linked fixed-rate mortgages are likely to keep retail bad loans under control. Moreover, due to increased non-oil economic activity, corporate asset quality is likely to see minimal deterioration even in a low oil price environment (unlike past cycles).
- Normal Loan-to-deposit (LDR) ratio increased by 131bps Q/Q (up 124bps Y/Y) to reach 102.1% in Q3-24; as credit growth picked up. Regulatory LDR saw a decline of 5bps Y/Y (+37bps Q/Q), as it receded to 79.7%.
- The reduction in regulated LDR is owed to change in SAMA rules related to sukuk and other debts. Beginning from June 2023 the LDR guidelines were updated by SAMA permitting banks to apply weights on long-term debt (Sukuks/ Bonds, Syndicated debts, Subordinated debts, Other Debts), in addition to deposits. We expect sector to remain well within regulatory LDR limits in 2025. Sector capital adequacy remains sizably above regulatory requirement, with CAR/Tier-1 ratio for the sector at 19.21/17.72%, hence we see limited risks on this front in 2025.
- We like **AlRajhi** and expect a notable increase in ROE over the next three years as interest rates come down. We see a strong decline in funding costs in 2025, unlike what bank underwent in the previous rate down cycle, due to higher time deposits and bank borrowings, while we expect yields on earning assets to come down at a much slower rate, due to high long-dated mortgage and fixed rate sukuk exposure. We see NIMs expanding by 8/23bps in 2024/25, respectively, because of the asset liability duration mismatch. We forecast AlRajhi to deliver medium term (2023-27) earnings CAGR of 12.0% and best in class average ROE of 20.0%.
- With declining interest rates, **Alinma** is expected to see compression in NIMs, however, we expect limited impact on the bottom-line due to robust asset growth (bank's strong project finance franchise) and better balance sheet mix (higher weight of term deposits and increase in fixed rate investments). Moreover, recent decline in stock price has opened up valuations. The Federal Reserve's cautious stance suggests fewer rate cuts and higher interest rates than earlier expectation, benefiting corporate focused banks like Alinma (less than expected NIM compression). Overall, we forecast EPS to grow by 18.5/10.3% Y/Y to SAR 2.20/2.43 in 2024/2025 respectively (2023-27 CAGR 13.1%).

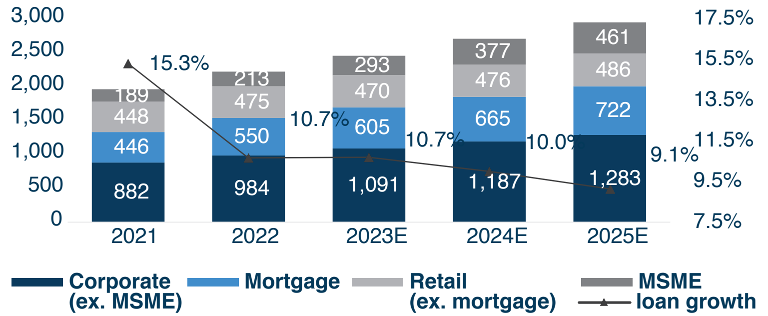
Asset quality improves further



LDR is down from recent highs



Loans breakup



Source: IMF, Aljazira Capital Research

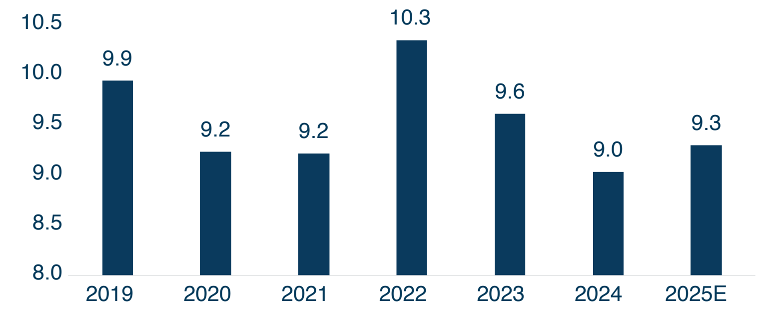
Energy Sector Outlook

Weak macro and oil outlook to keep pressure in 2025 but valuation indicates limited downside risk in certain names

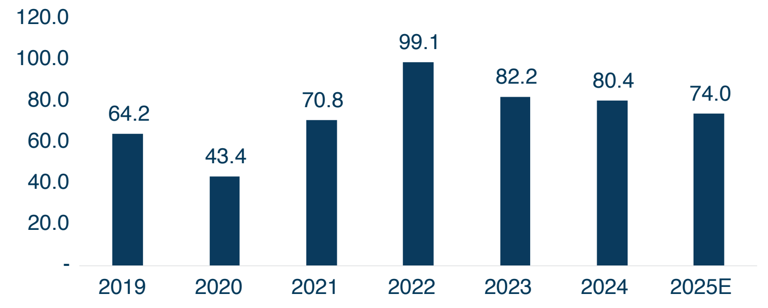
Energy sector is expected to be impacted by weak oil fundamentals and uncertain global economic outlook due to risk of trade tariff impositions in FY25, impacting Aramco's prospects. Subdued refining margins are expected to continue next year as well. However, expected increase in oil production with OPEC+ plans to start the unwinding of cuts from April 2025 onwards are likely to aide volume growth for Aramco. Moreover, KSA's focus on increasing natural gas production will be another key driver for drilling companies such as ADES and Arabian Drilling.

- Global oil demand outlook is waning continuously over the last six months. OPEC has slashed its demand forecast for 2025 every month since July-24 from 104.5mbpd to 103.8mbpd. Factors like unwinding of OPEC+ production cuts from April 2025 onwards, resolution of Russia-Ukraine conflict can potentially add to the global supply. Amidst these events at the backdrop, we expect Saudi Aramco's oil productions to rise by 2.9% Y/Y to 9.3mbpd in 2025.
- In 2024 the Brent Crude Oil price declined 2.2% Y/Y due to multiple factors. Such as oversupply concerns due to increasing non-OPEC supply, expected rollback of OPEC cuts and expectation of weaker demand amid economic uncertainties. We expect the crude oil prices to stay impacted in 2025 due to high expectations of oversupply which could weigh on the prices. Thus, we forecast Brent Crude Oil Prices to average at USD 74.0 per barrel in 2025. The lower prices will be partially mitigated by higher production as we expect crude oil production at 9.3mbpd in FY25. However, delay in unwinding of OPEC+ supply cuts may result in lower-than-expected output for Aramco.
- The drilling companies could be a direct beneficiary of the growth in Aramco. The intensified gas exploration at Jafurah field and sustenance of Aramco's capex outflows over the coming years could drive drilling expenditure. ADES and Arabian Drilling could be the key beneficiaries of these attractive industry fundamentals and resilient market growth.
- **Limited downside risk and long-term prospects support investment thesis:** We are neutral on the Energy sector due to macro level headwinds. However, we believe certain names are placed well at their current market valuation and have limited downside risk. Aramco and ADES are our top picks from the sectors. We are positive on Aramco due to its long-term prospects supported by downstream investments, expansion of gas production and attractive dividend yield amid declining interest rates. ADES is better placed due to its strong foothold in an attractive offshore market, geographical diversification and ongoing expansion which makes its current valuation compelling.

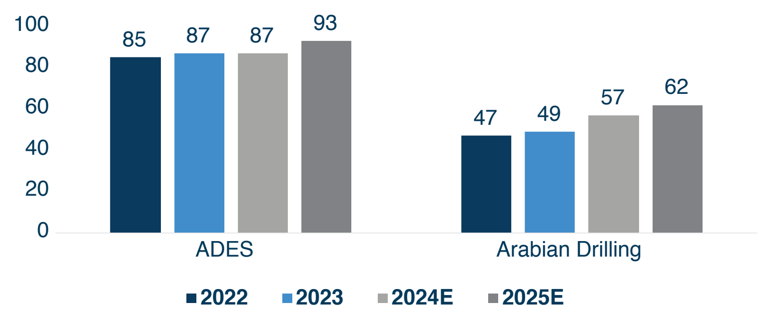
KSA oil production (mbpd)



Brent Cude Oil Price (USD / barrel)



Total rigs



Source: Bloomberg, Argaam, Aljazira Capital Research

Petrochemicals Sector Outlook

Cautious stance on the sector amid uncertain outlook; recovery may start but significant improvement unlikely

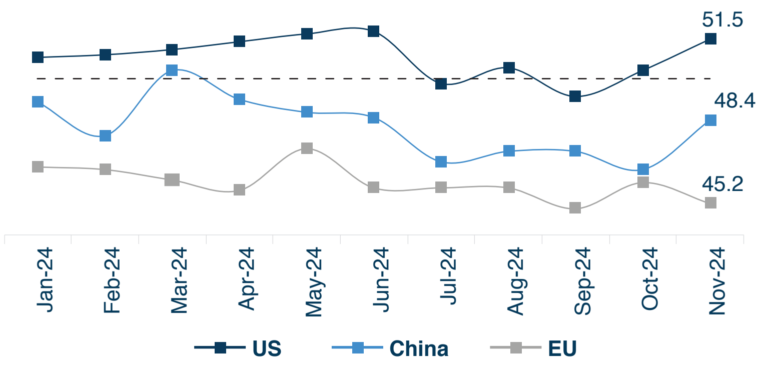
Petrochemical market is entangled with weak demand, capacity additions, lower utilization rates and compressed margins. In FY25, global macro uncertainties related to global economic growth, subdued manufacturing activity, potential imposition of tariffs by the US and subsequent conflicts, and geopolitical tension are most likely to restrict any major revival in demand. However, we see potential for a limited improvement with consumption supported by lower interest rates, Chinese stimulus and certain product specific dynamics. Moreover, expected easing of feedstock prices may support the spreads.

- **The stalled demand recovery remains a key concern for the petrochemical sector.** The IMF forecasts global growth to be 3-3.2% in the medium term, below the historic average. Furthermore, the potential reimposition of trade tariffs between major economies, particularly the US and China, could disrupt supply chains and dampen global trade, weighing on petrochemical demand. Persistent oversupply in key product markets (such as PE and PP), put pricing pressures, driving utilization rates to multi-year low (utilization rates estimated below 80% for key products in FY24). China's self sufficiency drive coupled with other capacity expansions in the Middle East and Asia are expected to exacerbate the oversupply issue. Manufacturing activity continues to struggle in the US and EU, while lacks consistent recovery in China. Despite these challenges, China's recent stimulus efforts and interest rate cuts in advanced economies could support downstream industries and marginally improve demand in FY25. Thus, some products may see slight improvement in prices.
- Against this backdrop, we remain cautious on the petrochemical sector, given the absence of clear recovery signals. However, Saudi petrochemical stocks are trading at valuations that appear to factor in most of the downside risks, creating an attractive entry point for long-term investors. Selected stocks with robust balance sheets, exposure to diversified end-markets and expansion plans could generate healthy returns once demand improves and recovery pathways become visible.
- **Key product and feedstock outlook for FY25E:** The pressure due to increased supply from China's capacity expansions will remain in H1-25 on PP but demand recovery in key end-use sectors due to lower interest rates could provide some support to prices in the second half. trade specific demand drivers will remain intact in **PE** with LDPE continuing the momentum in FY25. Other grades might also see some recovery in demand, while oversupply concerns would remain. **Methanol** could see a moderate improvement in prices in FY25 driven by supply shortage owing to maintenance turnarounds and expected demand from certain downstream products. **MEG** prices are expected to be aided by tight supply owing to maintenance shutdowns and demand driven by declining inventories in China. The export ban from China on **fertilizers** might keep markets tight supporting the prices.
- **Feedstock prices and shipping costs** are expected to ease in FY25 after an uptick in FY24. The easing of prices will be led by anticipated decline in oil and the potential of easing of global geopolitical risk. However, in KSA, there is a possibility of another hike in feedstock prices of regulated feedstocks such as Methane and Ethane to be in line with global prices and as part of the Kingdom's efforts to reform energy subsidy policy, while other feedstock propane and butane are less likely to see any hike. Nevertheless, the impact of the potential hike in methane and ethane will be mitigated by expected easing of other feedstocks and shipping costs and anticipated slight recovery in product prices.

Price outlook (average prices USD/ton)

	FY23	FY24	FY25E	FY25E Y/Y change
Naphtha	648	676	648	-4.20%
Propane	576	610	576	-5.60%
Butane	577	608	562	-7.50%
HDPE	969	939	959	2.20%
PP	889	905	916	1.10%
Ammonia	435	364	396	8.90%
Methanol	283	291	302	3.50%
MEG	490	539	580	7.60%
MTBE	944	831	812	-2.30%
Acetic Acid	509	472	461	-2.20%
VAM	969	851	818	-3.90%
EVA	1,565	1,212	1,207	-0.40%
Polycarbonate	1,822	1,790	1,852	3.50%
Urea	352	340	354	4.10%

Manufacturing PMI trend



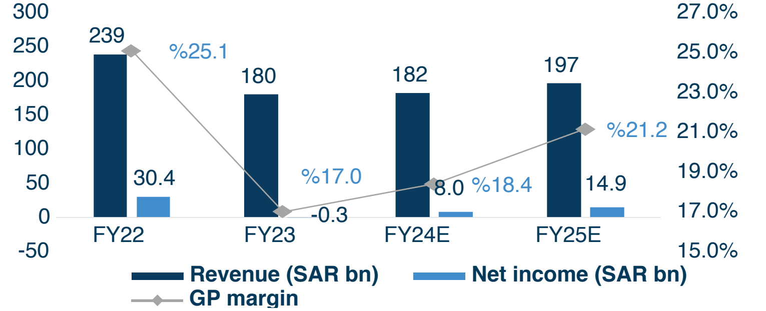
Source: ICIS, Reuters, S&P Global, IMF, Argaam, Aljazira Capital Research

Petrochemicals Sector Outlook

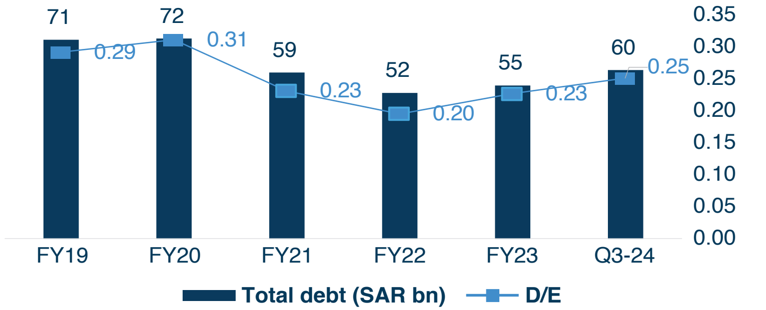
Saudi Petrochemical earnings to improve in FY25E; capacity expansion to drive long term growth

- The topline of Saudi petrochemical sector (under our coverage) was broadly flat Y/Y in 9M-24, as increase in Yansab due to recovery in volumes from the last year's turnarounds was offset by decline in SABIC's revenue. However, gross margin improved ~160 bps Y/Y, despite increase feedstock prices, due to higher operating rates and improvement in prices of certain products. The sector earnings jumped to SAR 5.7bn in 9M-24 from SAR 1.0bn in 9M-23, as the last year SABIC realized one-off losses related to Hadeed sale while it recognized reversal of some the losses. Moreover, Yansab returned to profit and Kayan reduced its losses. We forecast sector's FY24E earnings at SAR 8.0bn vs. a loss of SAR 0.3bn in FY23.
- For FY25E, we estimate a topline growth of 7.7% for the sector to SAR 197bn, led by Advanced due to start of production at new PDH plant and better operating rates across the sector after multiple maintenance shutdowns in FY24. The higher prices of products such as PP, PE, MEG, Urea and PC are also likely to support the revenue growth. The gross margin is also expected to improve with higher revenue and expected lower feedstock prices. Consequently, earnings are forecasted to grow to SAR 14.9bn in FY25E from SAR 8.0bn in FY24E.
- **Capacity expansion to drive growth, leverage levels up but still room for further expansion:** Saudi petrochemical firms have capacity expansion plans that are expected to drive the sectors profits in the long term. Some of the major expansion plans include Advanced Petrochemicals 800k mtpa new PDH plant which expected to reach full capacity of operations next year. SABIC's JV with Fujian Petrochemical in China (expected commissioning in H2-26), Alujain's 600k mtpa expansion of PP capacity (expected commissioning in H1-27). Sipchem's Al Waha plant expansion increasing PP capacity by 72k mtpa, expansion of EVA plant to increase capacity by 70k mtpa and blue ammonia project with 1.2mn mtpa capacity. SABIC Agri's planned facility in Jubail Industrial City to produce 1.2 mn mtpa of blue ammonia along with 1.1mn mtpa of urea. Saudi Petrochemical sector's total debt and leverage (D/E) increased over the past two years to SAR 60bn and 0.25x as of Q3-24 from SAR 52bn and 0.20x in FY22, respectively. The increased in debt by Advanced to fund capacity expansion and increase in SABIC's debt for its upcoming projects drove the sector's leverage levels higher.
- **A potential dividend play in low interest rate environment, while waiting for sector recovery:** Dividend-focused investors in the Saudi petrochemical sector can benefit from attractive yields at current valuations and considering a declining interest rate environment, while also positioning for potential capital gains as the sector recovers. SABIC (5.1%), SABIC Agri (5.9%), Sipchem (5.2%) and Yansab (5.4%) are expected to deliver lucrative dividend yields in FY25E.
- Overall, we are cautious on the petrochemical sector with no clear sign of sustainable recovery yet and uncertain economic global environment ahead. However, we prefer a few names which we believe are favorably placed in terms of growth prospects, valuation and could generate healthy returns in the long-term once the economic cycle turns around. We see SABIC, Sipchem and Advanced as good options for investors looking for petrochemical exposure.

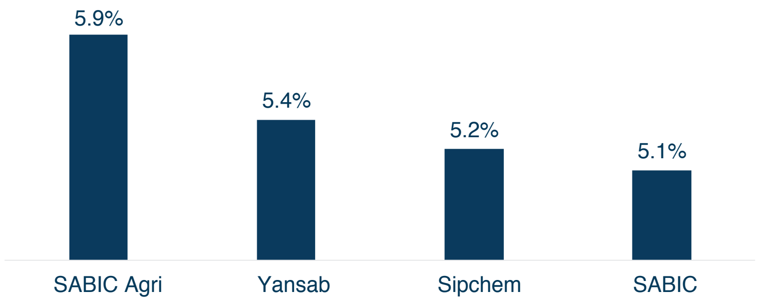
Petchem sector financial performance



Total debt (SAR bn) and leverage trend



Dividend yields (FY25E)



Source: Bloomberg, Argaam, Aljazira Capital Research

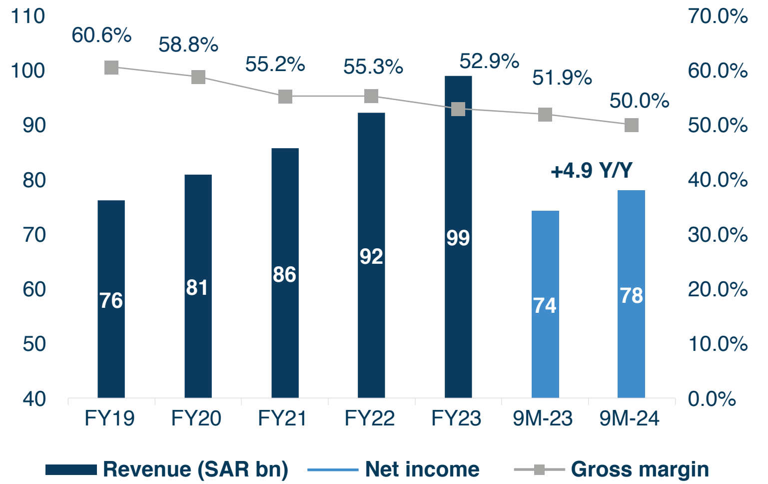
Telecom Sector Outlook

Expanding ICT market, recovery in consumer segment and healthy dividend yield

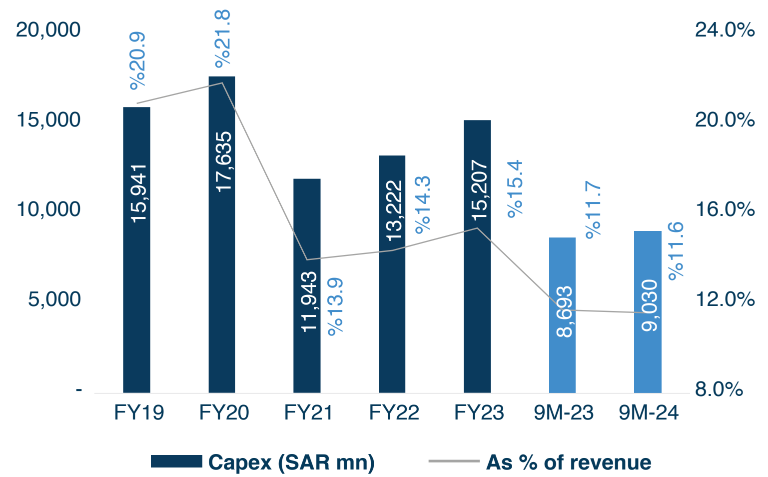
The Saudi telecom sector is experiencing strong growth in the B2B segment, driven by increased digitalization, data-intensive operations, and higher internet usage. Both large enterprises and SMEs are actively adopting digital solutions. Additionally, government initiatives to enhance the digital economy's GDP contribution are fueling demand for ICT services. Additionally, Consumers segment has also shown some sign of recovery, but competitive pressure will limit the growth

- Saudi telecom sector's (STC, Mobily and Zain KSA) topline growth moderated to 4.9% Y/Y in 9M-24 vs. an increase of 7.3% Y/Y in FY23, as B2B segment growth eased due to higher base last year and impact of cost optimizations measure by government entities. The consumer segment showed some recovery after staying stagnant last year.
- We expect sector to deliver mid-single-digit revenue growth in FY25. B2B segment still expected to remain key growth driver due to growing digitization demand across businesses spanning from large corporates to SMEs. The rising penetration of ICT services particularly in SMEs that contribute 50% of the GDP would be the key to the growth in the upcoming years. Additionally, demand will arise from mega-giga projects.
- Consumers segment is likely to grow steadily with rising 5G adoption and increasing data traffic, while competitive pressure will restrict the growth.
- **Margins are under pressure; CAPEX steady:** GP margins of the sector are consistently under pressure over the past few years (down almost 2ppts in 9M-24) mainly due to growing contribution of B2B, competitive pressure and investments in subsidiaries (for STC) across different domains of ICT which are currently at low margins.
- The CAPEX in the telecom sector was steady in 9M-24 at 11.6% as percentage of revenue. We expect CAPEX to be in the range of 14-16% for FY24E and FY25E, and will be focused on investment in modern technologies, further expansion of 5G network and expansion of the business into integrated ICT service.

Telecom sector revenue and Y/Y growth



Sector capex as % of revenue



Source: Company reports, Aljazira Capital Research

Positive

Telecom Sector Outlook

Tower consolidation to bring efficiency in the long term; dividend yields attractive amid declining interest rates

Leverage at comfortable level expected to ease further

- Telecom sector's debt spiked in FY23 as STC's raised debt to finance its acquisitions which led to increase is debt of the sector to SAR 38bn from SAR 26bn. D/E increased to 0.35x from 0.26x. As of September 2024, total debt level is down to SAR 29bn and D/E of 0.27x, mainly due to transfer of liabilities related to TAWAL into 'Held for sale".
- Deleveraging efforts from Mobily and cash generated from sale of assets are likely to help further deleveraging in the sector. Zain KSA might have to keep its debt level to fund its operations as well as CAPEX, in our view.
- **Big step towards tower consolidation:**

◊ PIF agreed to acquire a 51% stake in Telecommunication Towers Company Limited (TAWAL) from STC Group, valuing TAWAL at USD 5.85bn. Following the acquisition, PIF and STC plan to merge TAWAL with Golden Lattice Investment Company (GLIC; owns towers earlier held by Zain KSA), in which PIF holds a majority shareholding.

◊ By merging TAWAL and GLIC, the new entity seeks to drive operational efficiencies and support the development of a more efficient business environment in the telecommunications sector.

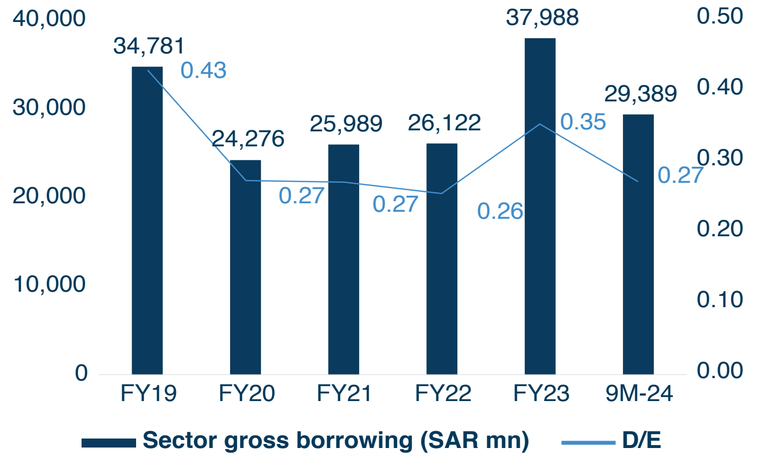
- **Dividend yield attractive with increased dividends at current valuation:**

◊ STC increased its minimum quarterly payment in its new dividend policy by 37.5%.

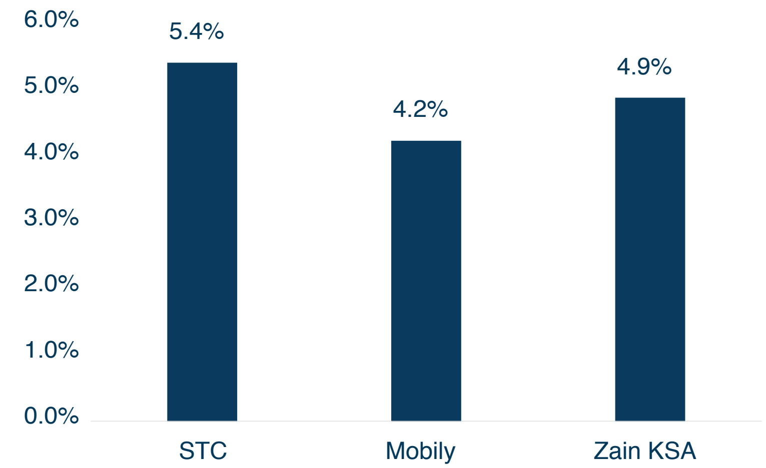
◊ Mobily with its improving cash flows has consistently increased dividend payments, while Zain KSA has started paying dividends.

- **Mobily** is our top pick in the telecom sector, as we expect company to maintain its traction in B2B segment and gain market share. Furthermore, the improving operating efficiency will support healthy margins and cash flow generation.

Sector gross borrowing (SAR mn) and leverage



Expected dividend yield for FY25E



Source: Company announcements, Company reports, Aljazira Capital Research

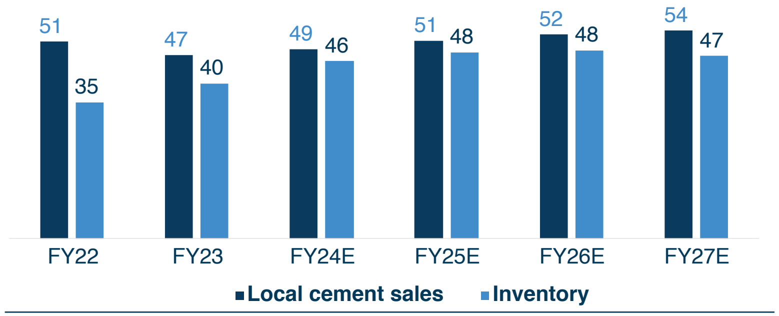
Cement Sector Outlook

On the path to recovery but structural and regulatory challenges ahead such as high inventory level and feedstock hike

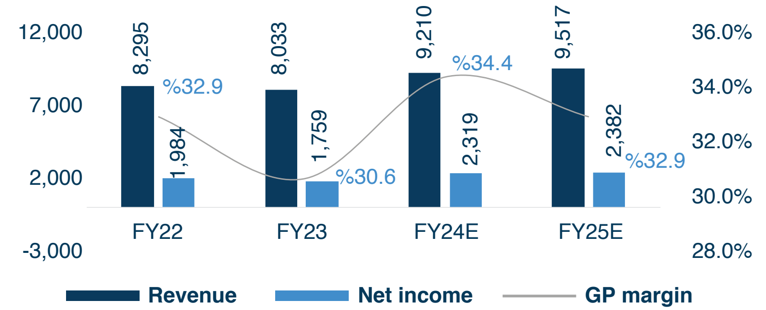
The Saudi cement sector is recovering with improving local sales supported by mega/giga projects and mortgage growth recovery, with FY25E sales expected to rise 4.5% Y/Y. However, record-high inventories (~94% of annual production) and possibility of further increase in feedstock methane and HFO prices, pose risks to margins and pricing. While competitive pressures remain, selective dividend-paying stocks and Yamama and Eastern Cement's strong fundamentals offer investment opportunities.

- The Saudi cement sector has witnessed a recovery with local cement sales till November 2024 rising 2.8% Y/Y after last two years of decline. The rebound in local sales is driven by positive market sentiment largely attributed to the government's ambitious Vision 2030 infrastructure projects, which have boosted demand for construction materials. Moreover, upcoming global events will also drive demand. Additionally, the recent uptick in mortgage loans, supported by lower interest rates, has further strengthened demand. These factors point to a continuation of the recovery trajectory in FY25, with government spending and economic initiatives acting as key tailwinds for the sector. Thus, we estimate local sales to grow 3.2% Y/Y in FY24E to 48.8mn tons and accelerate further to 4.5% growth in FY25E to 51.0mn tons and then increase steadily to 53.5mn tons by FY27E.
- The positive momentum in the sector was also reflected in selling prices with average prices in 9M-24 rising 19.3% above average in H2-23 when the sector witnessed competitive pressure. However, the sector still faces **a significant risk from record-high inventory levels**. Currently, inventory stands at ~94% of annual sales reaching 45.2mn ton in November. Such elevated stock levels are likely to sustain competitive pressures risk in the near term.
- Moreover, the government's ongoing **review of energy subsidies** could pose an additional challenge. Methane and heavy fuel oil (HFO) prices, which were already raised in FY24E, still remain below global averages. Any further hike in these feedstock costs will compress margins for cement companies. While producers may attempt to pass on these higher costs through price increases, the elevated inventory levels and competitive market dynamics may limit their ability to fully transfer the burden to customers.
- After the successful merger of Qassim Cement and Hail Cement, we see there is room for further consolidation in the sector. As smaller players could succumb to potential rising costs and competitive pressure, while larger player may look at inorganic growth to grab market share.
- We are cautious on the sector in the short term as the Saudi cement sector will need to balance between leveraging the opportunities and managing the risks from high inventories and rising feedstock costs. The overcapacity in the sector makes it more sensitive to any negative surprise. Nevertheless, long term growth driver are still intact. The investors can look at certain high dividend paying stocks such as Riyadh Cement, Saudi Cement, Qassim Cement, City Cement and Yanbu Cement; whereas we see **Yamama Cement** better placed fundamentally with it market leading position, strong foothold in the Central region and its dependence on methane as feedstock. We forecast average selling price for the company to rise 32.7%/3.0% in FY24/FY25, leading net income growth of 33.3%/2.9%. **Eastern Cement** will benefit due to exposure to oil and gas with high margins and exposure to natural gas feedstock, while its low FY25E P/E of 12.2x makes it lucrative valuation wise.

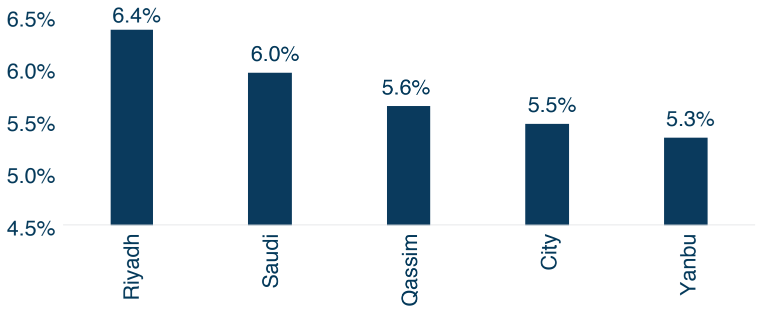
Sale and inventory (mn tons)



Financial performance (SAR mn)



Highest DY in the sector (FY25E)



Source: Argaam, Aljazira Capital Research

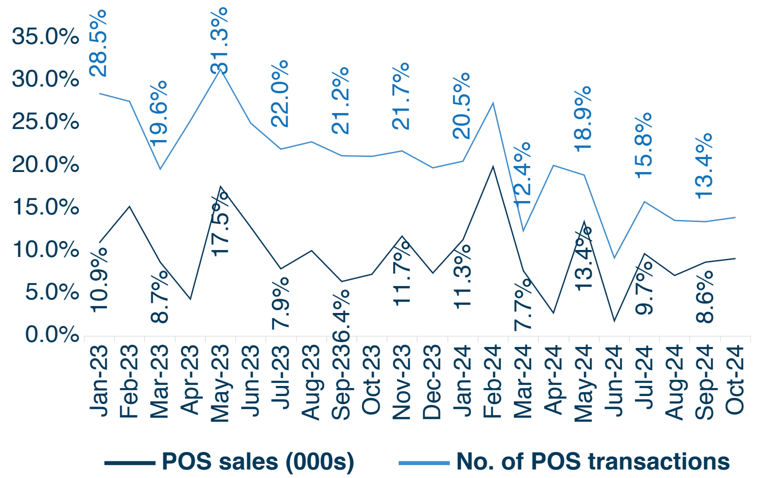
Retail Sector Outlook

Mega expansions to drive profitability growth and cost normalization to support margins

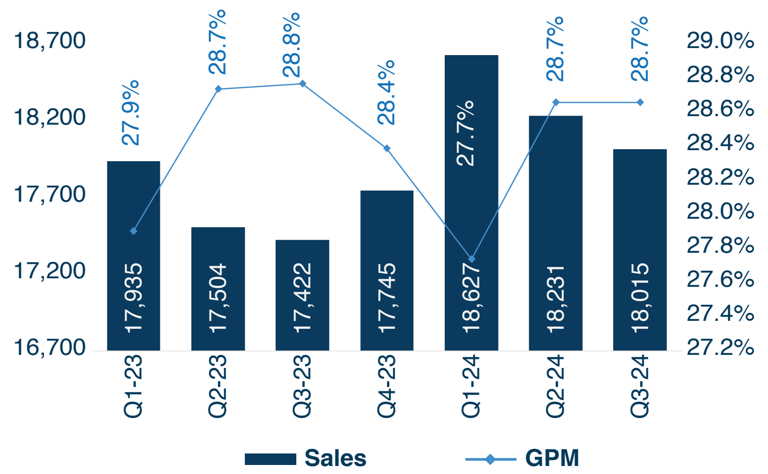
Momentum in retail sector remains strong as reflected by the 8.9/16.2% Y/Y increase in POS sales/transactions in YTD Oct-24, respectively. The sector is poised to benefit from favorable demographics of large young population, increasing disposable income, rising leisure and religious tourism, innovations in product offerings and Vision 2030 initiatives.

- The performance of clothing and footwear segment remained upbeat as reflected by the 9.1% Y/Y increase in POS sales in Q3-24 (up 4.1% Y/Y in 9M-24). POS sales for restaurant and café segment were also robust as they grew by 8.2% Y/Y in Q3-24. However, recent outturns for electronic and electric devices have been weak (POS sales down 10.0% Y/Y in Q3-24), moreover beverage and food segment also posted nominal growth of 3.8% Y/Y in sales in Q3-24.
- E-commerce sales using MADA card stayed healthy as they grew by 23.7% Y/Y in YTD Oct-24. POS transactions using mobile are up 33.3% Y/Y, while POS sales using mobile are up 41.3% Y/Y respectively in YTD Oct-24.
- Our retail coverage saw a 3.4% Y/Y increase in sales and a 68bps Y/Y expansion in gross margins in Q3-24, due to increase in store network, expansion in production facilities, easing commodity prices and more supplier support. Net income for the sector expanded by 4.9% Y/Y in Q3-24, despite a 16.1% increase finance expenses. We expect momentum in sales to extend into 2025, for Tanmiah, Almajed, Leejam and Othaim due to expansions, and for Extra due to its partnership with Panda.
- Margins are forecasted to improve further in 2025 and in the medium term as freight costs normalize, stores ramp up to full utilization & finance cost comes down due to lower interest rates.
- We are Overweight on **Almajed**, as its two-pronged strategy, 1) expanding domestic and international store presence, and 2) broadening its product portfolio, could lift revenue per store from SAR 2.7mn in FY23 to SAR 3.5mn by FY28e, thereby driving a revenue CAGR of 11.4% over FY23-28e. Store maturity, higher revenue per store, and operational leverage would aid in margin expansion across gross, operating, and net levels. Accordingly, we expect 13.3% bottom-line growth over 2023-28e and the company to maintain strong dividend yield of 3.1% in FY25e.
- We also like **EXTRA**, our investment thesis is premised upon, strong growth in lucrative (NIMs: ~23%) consumer finance segment, positive outlook of consumer electronic business (supported by partnership with Panda stores & favorable demographics), fast expanding online store sales, attractive 2025E PE of 13.2x and strong FY25E DY of 4.9%

POS sales and transactions



Sales and GPM trend



Source: SAMA, Company disclosures, Aljazira Capital Research

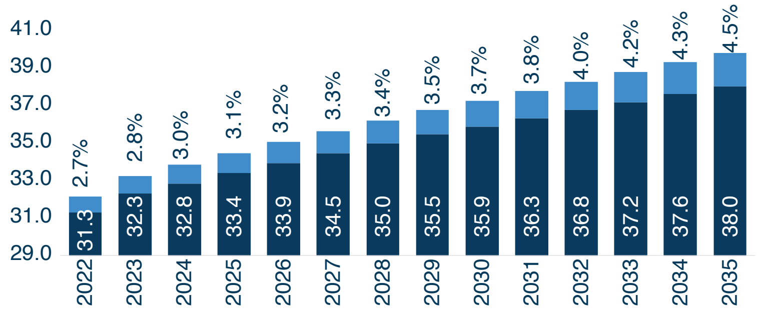
Healthcare Sector Outlook

Wellness for the sector found in demographic drivers and government initiatives; fundamentals face pressures of expansions

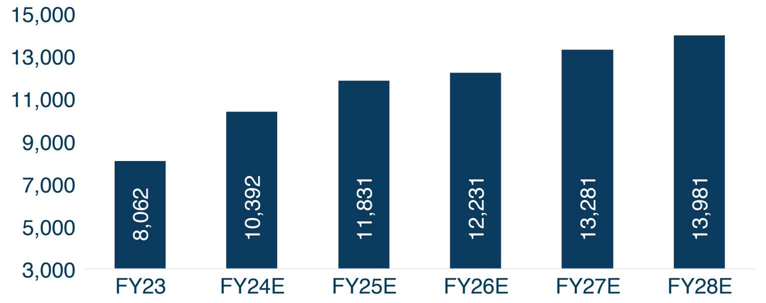
Demographic trends and sector transformations in favor towards the sector continue to prompt healthcare providers to expand to meet demand. FY25 will be a display of growth as expansionary activities take place to increase the sector's capacities by an estimated 14%, and as providers brace and prepare for the next rounds of scheduled expansions. However, profitability is expected to be stunned temporarily during large expansions while new facilities ramp up; yet larger scale providers are also expected to fare better in absorbing expansionary effects then their smaller counterparts during times of scaling up their capacities.

- Long term demographic trends in KSA favor the sector, as growing and aging population requires more healthcare services. Population could grow at 1.9% CAGR over 2022-30, while the portion of the population aged 65+ could grow at 5.0% CAGR during the same period, thereby indicating aging population. KSA has prevalence of lifestyle diseases which require long term treatment. As per CHI 2024 statistics, 30% of Saudi's are more likely to have diabetes than other nationalities, while 45.1% of adults (15+) are classified as overweight according to GASTAT's 2024 statistics. Along with population and health demographic trends, Vision 2030 plans under the Health Sector Transformation Plan intends to increase life expectancy to 80 years which could further intensify health service needs.
- Vision 2030's Health Transformation plan supports the demand for private healthcare through a universal healthcare insurance coverage, which could raise private insurance coverage by almost threefold from 37.5% via CNHI. Furthermore, the Transformation plan puts the private sector at center-stage as the MoH intends to cease its role as a provider and redefining its role just as a regulator. This opens up space for private sector to take on patient volumes, as well as manage MoH assets as a partner or via a public-private-ownership. Population demographics, along with the regulatory reshaping of the healthcare sphere then prompts private HC providers to expand their capacities to absorb the potential.
- In an answer to changing dynamics in the sector, private providers under our coverage are amidst expansionary campaigns with scheduled expansion plan of over 70%. With recent health seen in ramping up of new facilities' utilization rates; we expect the expansions, along with sector wide demand, to drive revenue growth, at the cost of margins while providers scale up in capacity. Impacts on costs, and further expected costs of expansions (hiring's, debts taken on and debts no longer capitalized), have brought the Healthcare index from highs of 14,151 points to 11,898 (-16%) in FY24 as the market reflects the temporary impacts of expansions. Expansions can take up to two to three years to mature to net income positive. The contraction of multiples sector wide, did open up an opportunity for **Dallah Healthcare**; as the company is scheduled to expand to become the second largest listed provider, as the premium provider diversifies geographically, and trades at a forward PE of 21.4x over FY26E earnings (post normalization of its recent acquisition).

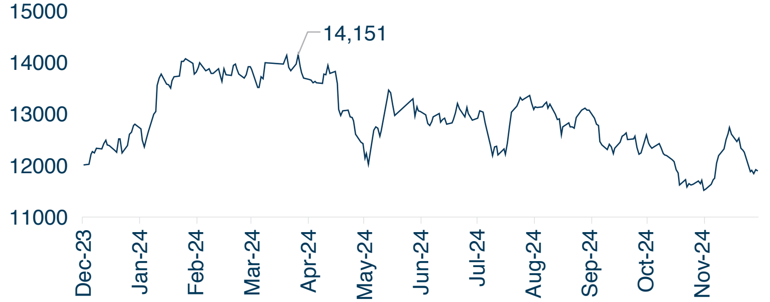
% of 65+ years out of total population (in mn)



70%+ capacity addition for listed providers



TASI HC Index coming down from highs



Source: GASTAT, World Bank, Company disclosures, Bloomberg, Aljazira Capital Research

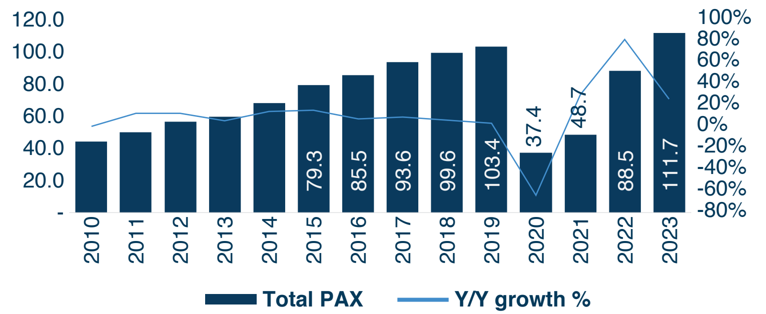
Travel, Tourism and Car Rental Sector Outlook

Significant pick up in tourism activity, ample of opportunities ahead

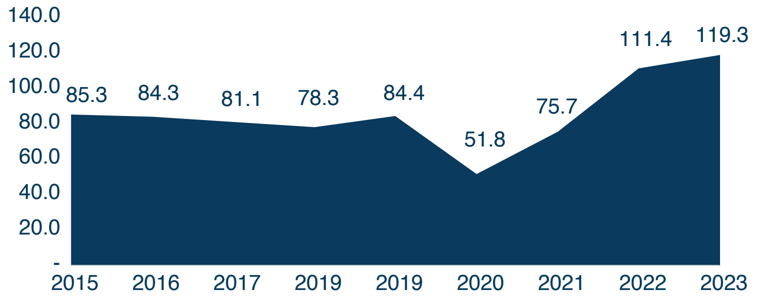
Saudi tourism sector is experiencing strong growth with passenger traffic and number of tourists surpassing their pre-covid levels. This is driven by enhancements of new and existing tourist destinations and government's zeal to diversify its tourism offering. Further the car rental industry offers promising opportunities underpinned by ambitious initiatives to enhance entertainment industry, and proactive government policies aimed at fostering business growth, coupled with the influx of new enterprises into the region.

- Saudi Arabia's tourism sector has demonstrated a robust recovery over the past two years by surpassing the pre-covid levels in terms of passenger traffic. This resurgence can be attributed to combination of strategic initiatives by the KSA government. Key drivers of this growth include significant development of new and existing tourist destinations, government's commitment to diversify its tourism offering. Further hosting of series of high-profile international events has played a pivotal role in attracting tourists.
- Following the decline in tourist numbers caused by the global pandemic, Saudi Arabia's tourism sector has seen a remarkable recovery, with the total number of tourists increasing by nearly 1.4x versus 2019. The growth has been driven by both domestic and international tourism, with domestic tourism experiencing a notable increase of 14.4% from 2019 to 2023. Domestic tourist numbers surged from 47.8mn in 2019 to 81.9mn in 2023, reflecting a strong demand for local travel and leisure activities. Meanwhile, inbound tourism also saw impressive growth, rising by 11.8% during the same period. The number of international visitors grew from 17.5mn in 2019 to 27.4mn in 2023. These trends underscore KSA's continued commitment to enhance tourism sector and positioning it as a leading destination in the region and globally.
- Moreover, the total expenditure by tourists reached SAR 292.6bn by 2023 and thus surpassed the pre-covid levels of SAR 232.5bn in 2019. The total expenditure by tourists grew at 5.9% CAGR over 2019-23, which was led by 17.0% CAGR by domestic tourists, whose spending reached SAR 114.5bn by 2023, while the spending by inbound tourists grew at 8.1% CAGR to reach SAR 141.2bn levels.
- Saudi Arabia is strategically advancing its tourism sector as a cornerstone of Vision 2030, an ambitious initiative aimed at diversifying the nation's economy and reducing its dependence on oil revenues, and this would bode well for our top pick Seera. The company's travel and ticketing business is witnessing a solid upsurge on the back of robust tourist activity in Saudi Arabia. the company's revised strategy with more focus on healthy, growing businesses with high potential would help it deliver strong performance in future.

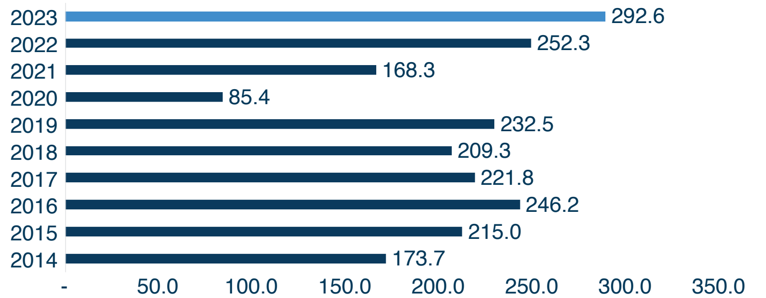
Saudi Arabia total passengers (in mn)



Saudi Arabia total tourists (in mn)



Tourist spending (in SAR bn)



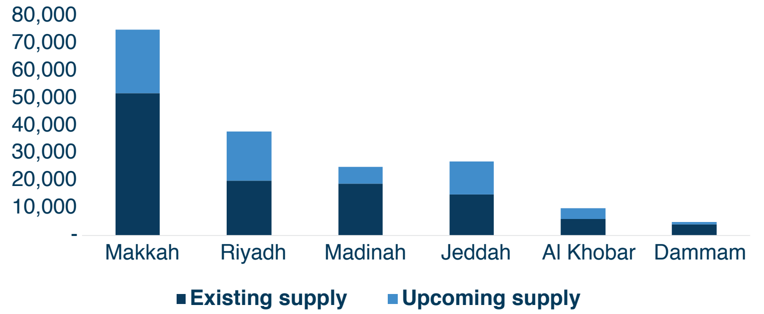
Source: Argaam, Aljazira Capital Research

Travel, Tourism and Car Rental Sector Outlook

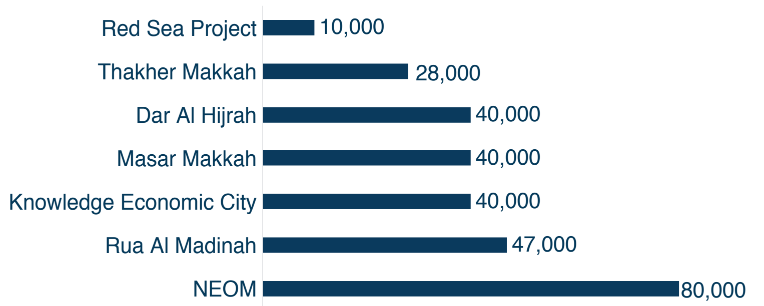
Significant pick up in tourism activity, ample of opportunities ahead

- Central to this Saudi's Vision 2030 are transformative projects such as NEOM, the Red Sea Project, and Qiddiya, which are poised to position Saudi Arabia as a global tourism hub. These projects are expected to attract millions of tourists annually, thus increasing the need for hospitality infrastructure such as hotels and resorts.
- Saudi Arabia is poised for a significant transformation in its hospitality sector, driven by the anticipated surge in tourist arrivals in the coming years. This growth aligns with the objectives of Vision 2030, which seeks to establish the country as a premier global tourist destination.
- According to global property consultancy Knight Frank, an impressive 315,000 hotel keys are either under construction or in the planning stages, set to be delivered by the fiscal year 2030.
- This substantial pipeline reflects the government's commitment to meeting the growing demand for accommodation and enhancing the overall tourism infrastructure. Consequently, the total inventory of hotel rooms across the Kingdom is projected to reach approximately 450,000 by FY30e, signaling a remarkable expansion of the hospitality sector to cater to both domestic and international travelers.
- Transportation sector in Saudi offers promising opportunities especially within car rental industry. The optimism is underpinned by the ambitious initiatives to enhance the entertainment industry. Development of world-class attractions and infrastructure could drive the demand for car rental services, benefiting our top pick **Theeb** significantly. We believe the long-term leasing business is likely to be the key performance driver for the company. Moreover, the growing car rental market in Saudi Arabia will support the expansion of overall business in the future.
- An additional factor contributing to the industry's expansion is the rising participation of women in the car rental market, following the historic lifting of the ban on women driving. This policy change has not only empowered women but also created a new segment of customers, driving sustained demand for rental services.
- Furthermore, the Kingdom's proactive government policies aimed at fostering business growth, coupled with the influx of new enterprises into the region, are likely to stimulate demand for vehicle leasing services. These trends collectively underscore the strong growth potential of the car rental and leasing market in Saudi Arabia, positioning it as a key driver of the broader transportation sector's development.

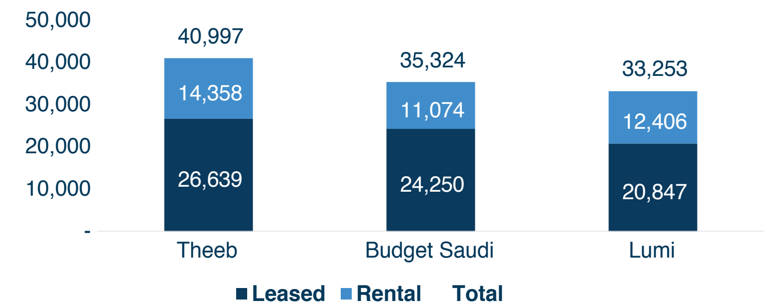
Saudi Arabia hotel supply



Giga projects with upcoming hotel keys



Car rental companies fleet size



Source: Knight Frank, Argaam, Aljazira Capital Research. Note: The fleet size for car rental companies is as on FY23

Positive

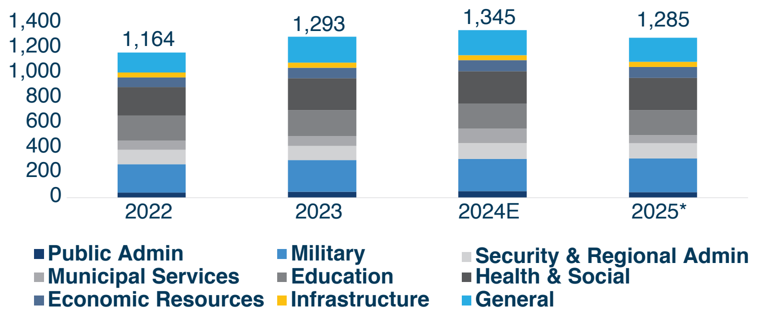
Software & Services Sector Outlook

Driving the Kingdom's digital transformation across several facets of the economy

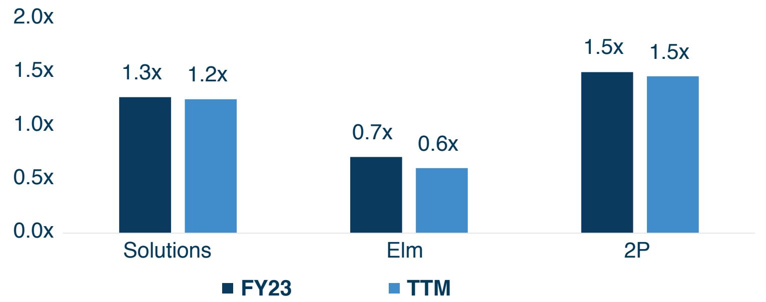
Government demand on projects and services to facilitate Vision 2030 initiatives deadlined around the corner to directly benefit the listed Software & Services sector. Infrastructure, digitalization, smart-city initiatives, as well as organizational are all within the horizon for the sector to service; alongside government demand, economic activities are in favor of the large players to service non-oil sector and other areas of the economic machine. With a project backlog averaging to 1.2x of FY23 revenues, and negative net debts for large players, the sector is financially attractive and able to expand inorganically and support dividends in the meantime.

- With Vision 2030 in rhythm, we expect that major upsides exist for the sector as initiatives roll out with further potentials for mega contract and project awards towards the listed firms while an average of 50% of revenues for the sector are government sourced. S&S providers services government projects across several economic fronts from government administrations and E-Gov, to MEGA & GIGA projects, Smart-City initiatives, tourism and pilgrimage, and Ministries from Healthcare to Investments. Highlighting the scale of some projects awarded are the recent projects seen in FY24; Elm's partnership with Al-Ahsa city Development Authority for digital transformation, its contract with General Authority for Aviation for air cargo services, as well as the framework agreement with the Ministry of Interior for future projects, sets the momentum for quicker project cycles in the future. 2024 also saw Solutions by STC build, manage, and operate Riyadh's smart parking across the city in a 10-year contract, as well as a JV with Jeddah Development to develop digital solutions and ITC infrastructure. Throughout the year, 2P secured a contract up to SAR 500mn a year to service the Ministry of Investments, as well as nearly SAR 450mn in projects from the MoH. We see the government demand to be the key growth driver for the sector as Vision 2030 initiatives are in swing and as non-oil economy grows by 4.7% in FY25E (IMF, 2024).
- Some key government projects announced for FY25 provide a wider revenue target for firms, including plans to: adopt AI technology for Zakat Authority's portal, digitalize real estate wealth archive documents with the Justice Authorities, activating digital automated systems for enforcement courts, extended crowd management system for Hajj and Umrah visitors, to attract 127mn tourists by FY25, Foreign affairs project to launch international jobs portals to represent citizens on the global job market, and a call center for the Ministry of Foreign Affairs- all of which are a sample of the high value initiatives.
- The listed sector comes with full plates as it offers investors a project backlog-to-revenue of almost 1.2x over FY23 revenues, as well as potentials from digital services expansions. While the S&S index outperformed TASI by almost 21% due to Elm's momentum reflecting its anticipated role in the KSA economy next year (tourism, e-gov, shipping, among others); **Solutions by STC** is our top pick for the sector as we believe its cash and deposit holdings of c. SAR 2.8bn (-0.15x net D/E) will come into play for another key acquisition should the deposit market become more unattractive next year. Furthermore, its backlog of SAR 14bn, IT & Managed services contracts deploying in H2-24, delayed sales cycles to stretch to FY25, and communicated deliverables for FY25 provide some visibility for growth for the stock which trades at a forward FY25E PE of 19.9x. Atop the visibility in growth, the firm's balance sheet health and cashflow generation has historically consistently been able to provide investors with a dividend payout of c. 60%.

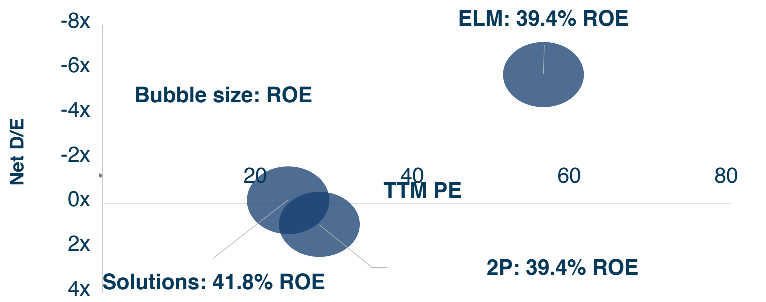
FY25 government expenditure (in SAR bn)



Project backlog to revenues



Sector RoE, Net D/E, TTM P/E



Source: MoF, Company financials, Aljazira Capital Research. Note: * refers to as Budgeted

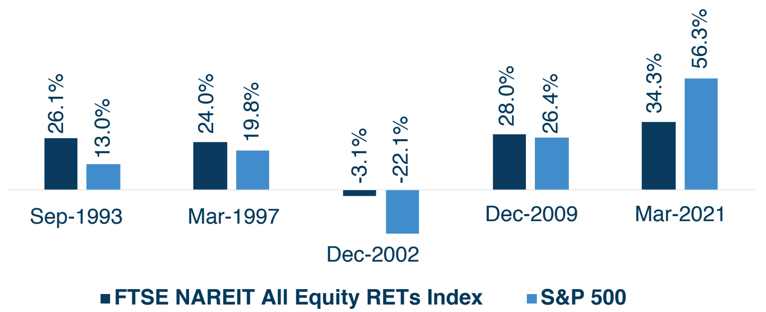
REITs Sector Outlook

High dividend yields, expected lower interest expense and favorable valuations lucrative for long-term investors

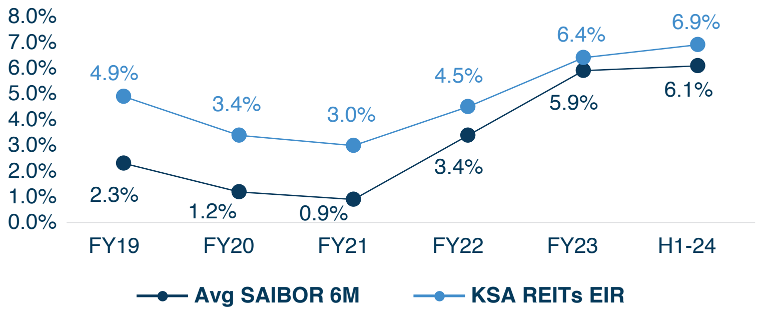
Saudi REITs faced few challenges over the past two years as the post-pandemic recovery in the sector was slower than expected. The spike in interest rates during this period stressed the REITs' by limiting their portfolio expansion and lowered the dividend payments. As Fed began its much-anticipated monetary policy loosening drive with a 100bps cut in 2024, interest rates are expected to be lower in 2025 but with fewer rate cuts. These anticipated rate cuts could ease the pressure for REITs by providing more room for expansion. KSA REITs are well-positioned to benefit from demand in sectors like commercial real estate, retail, and hospitality fueled by Vision 2030 initiatives. Population expansion, tourism development, and large-scale urban projects are expected to sustain demand and drive the sector's future growth

- Reduction in interest rates could be highly favorable for KSA REITs, as they often depend on debts for expansion. Lower interest rates will decrease borrowing expenses and thus enhance the profitability. The financing costs for the sector could fall in FY25 as the SAIBOR could decrease in-line with Fed rate cut expectations.
- Historically, US REITs outperformed equities during most post-rate cut cycles, with notable gains in 1993, 1997, 2002, and 2009, except during the COVID-19 era due to rent delays and lockdowns. Based on these historical trend US REITs are more likely to perform well in mature economic conditions, unless there is exceptional weakness in the real estate sector. Although Saudi REITs sector dynamics are different from the matured markets such as the US, investors can look at REITs as one of the investment options during monetary easing that could potentially generate healthy returns over the long-term considering expected decline in yields on fixed income assets
- During a rate-cut cycle, the dividend yields offered by REITs become more competitive compared to lower-yielding fixed-income products, which can attract more investors. This shift in demand could result in price increases as income-seeking investors gravitate toward REITs.
- Saudi REITs have historically depicted a strong dividend yield track record typically between 6% and 8%. Despite the current pressure on their financials, dividend yields of Saudi REITs are higher comparatively (H1-24 annualized DY: 5.3% for TASI REITs). With the possibility of future interest rate reductions, these yields could become even more appealing in a low-rate environment, making REITs a preferred choice for investors looking for steady income. Furthermore, robust non-oil economy and sectoral growth drivers are expected to maintain robust dividend payouts in the long term. Accordingly, we expect average FY24E dividend yields to be 5.3% and 5.8% in FY25E. **Alinma Hospitality REIT**, **Jadwa Saudi REIT, Alinma Retail REIT** and **Bonyan REIT** could report highest dividend yields in FY25E.
- The sector has faced valuation pressure recently; however, it currently offers attractive opportunity for long-term investors. Many REITs are trading below their NAVs reflecting a cautious market sentiment. This undervaluation could be temporary, as improving economic conditions and reduction in interest rates might drive valuations upward. The combination of high dividend yields, expected lower finance expenses and favorable current valuations offers investors the potential for both income and capital gain appreciation.

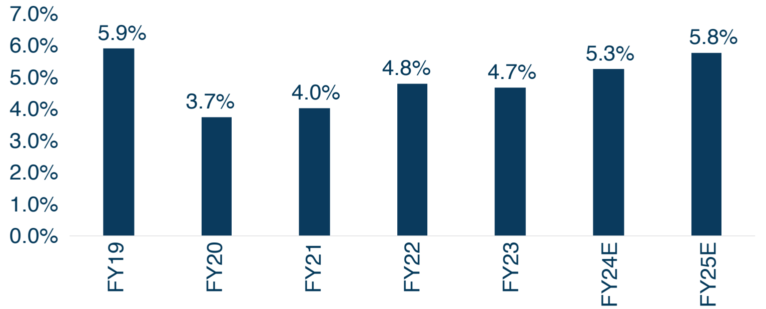
REITs vs Equity 1yr perf post rate cuts in US



Effective Interest Rates and SAIBOR 6M



Dividend yields



Source: Bloomberg, Argaam, Aljazira Capital Research. Note: For REITs vs Equity data measured for mature periods of 4 quarters of rate pauses, post a cut of four or more cuts

Top Picks

	Company	TP	Up/Down	P/E (x)	P/B (x)	RoE (%)	PE (x) FY25E	YTD (%)
	Aramco	32.1	14.60%	16.5	4.5	27.50%	15	-15.30%
	ADES	24.3	43.30%	21.5	3.1	12.30%	19.1	-31.20%
	AlRajhi	102	11.00%	20	3.9	19.40%	17.5	5.90%
	Alinma	35.5	25.20%	12.6	2.2	17.40%	11.7	-11.20%
	Mobily	62.6	18.10%	14.6	2.3	16.10%	14.2	6.00%
	Extra	111	21.70%	15.6	5.4	35.60%	13.3	-1.50%
	Yamama	41.7	21.90%	20.8	1.4	7.40%	16.6	0.70%
	Dallah	183	21.50%	31.2	4.3	13.80%	30.7	-11.60%
	Theeb	82	11.90%	18.9	3.9	20.80%	16.2	11.90%
	Solutions	331	23.00%	25.6	8.8	38.90%	18.9	-22.70%
	AlMajed Oud	171.3	18.30%	20.1	8.1	39.50%	17.2	18.50%
	Seera	29.2	29.80%	50.5	1	3.60%	24.7	-17.40%

Source: Tadawul, Aljazira Capital Research, Price as of December 26, 2024

Dividend play picks for 2025

Strong dividend yield potential stocks for 2025, which can be a good value addition for investors

- We present our preferred dividend stocks from AJC coverage that offer 2025E dividend yields of at least 5.0% as compared to market yield that currently stands at 2.71%. The average 2025E DY of our portfolio is 5.6%. We highlight that yields for cement companies are amongst the highest, but we recommend a more diversified exposure to lower the risk profile. Our portfolio consists of cement, petrochemical, retail, energy and telecom companies. We believe that these stocks have good re-rating potential due to expected decline in interest rates. Amongst our recommended stocks SABIC, SABIC AGRI and STC are expected to make higher payouts in 2025 as compared to 2024. Aramco on the other hand is expected to make a lower payment in 2025. Note that decline in Extra's 2025E dividend is mainly due to one-off extraordinary SAR 5 per share dividend paid in 2024.

Company	Stock Price	DPS		DY %		P/E	YTD return
	(in SAR)	FY24E	FY25E	FY24E	FY25E	FY25E	(% in)
Riyadh Cement	31.5	2	2	6.40%	6.40%	13.7	-7.50%
SABIC Agri	109.2	6	6.5	5.50%	6.00%	14.7	-21.70%
Saudi Cement	42.5	2.5	2.5	5.90%	5.90%	15	-18.90%
Al Othaim	10.6	0.6	0.6	5.70%	5.70%	20	-19.70%
Jarir	12.7	0.7	0.7	5.50%	5.50%	17.1	-18.50%
STC	40.2	1.6	2.2	4.00%	5.50%	14.5	-0.60%
Yansab	37.3	2	2	5.40%	5.40%	26.5	-2.10%
Aramco	28	1.93	1.46	6.90%	5.20%	15	-15.20%
SABIC	67.2	3.4	3.5	5.10%	5.20%	21.4	-19.70%
Extra	90.9	9	4.5	9.90%	5.00%	13.3	-1.50%

Source: Tadawul, Aljazira Capital Research. Note: CMP as on December 26, 2024

AJC Coverage Universe Overview

Bird's eye view of our coverage universe

Company	CMP	TP	Recommendation	Upside/ (Downside)	TTM			Net Income (in SAR mn)		P/E		YTD ret
					P/E (x)	P/B (x)	RoE (%)	FY24E	FY25E	FY24E	FY25E	(in %)
Aramco*	28	32.1	Overweight	14.60%	16.5	4.5	27.50%	400.7	452.7	16.9	15	-15.30%
Arabian Drilling	111.8	142.5	Overweight	27.50%	18.5	1.7	7.40%	376.6	515.2	26.4	19.3	-42.40%
ADES	17	24.3	Overweight	43.30%	21.5	3.1	12.30%	824.2	1,006.90	23.2	19.1	-31.20%
Banks:												
AlRajhi	91.9	102	Overweight	11.00%	20	3.9	19.40%	17,649.00	21,017.00	20.8	17.5	5.90%
Alinma	28.4	35.5	Overweight	25.20%	12.6	2.2	17.40%	5,499.00	6,064.00	12.9	11.7	-11.20%
Albilad	37.2	43.2	Neutral	16.30%	17.7	2.9	16.30%	2,695.00	3,081.00	17.2	15.1	2.30%
Telecom:												
STC	40.2	45.5	Overweight	13.30%	16.6	2.5	17.00%	13,183.70	13,721.40	15.2	14.6	-0.60%
Mobily	53	62.6	Overweight	18.10%	14.6	2.3	16.10%	2,778.90	2,870.90	14.7	14.2	6.00%
Zain	10.3	11.9	Neutral	15.30%	NEG	0.9	2.60%	366.6	450.1	25.2	20.5	-27.90%
Retail:												
Al Othaim	10.6	14.6	Neutral	37.70%	24.9	9.2	39.00%	427.6	476.7	22.3	20	-19.60%
Jarir	12.7	16.5	Overweight	29.90%	15.7	8.6	54.60%	901	889	16.9	17.1	-18.70%
Bindawood	6.4	7.4	Neutral	15.80%	25.5	5.1	19.90%	268	315	27.3	23.2	3.60%
Almunajem	95.5	114.1	Overweight	19.50%	19.1	5.4	28.00%	310	371	18.5	15.4	29.60%
Leejam	186	219	Neutral	17.70%	25.9	7.8	38.50%	492.1	421.9	19.8	23.1	-8.60%
SACO	31.6	33	Neutral	4.60%	NEG	3.5	NEG	-20.5	-10.4	NEG	NEG	-20.00%
Extra	91.2	111	Overweight	21.70%	15.6	5.4	35.60%	505.5	550	14.4	13.3	-1.50%
Seera	22.5	29.2	Overweight	29.80%	50.5	1	3.60%	208.2	273.7	32.4	24.7	-17.40%
Americana	2.3	-	Under Review	-	34	14	41.30%	NA	NA	NA	NA	-29.70%
Almarai	56.9	62	Neutral	9.00%	25.3	3.1	12.10%	2,287.00	2,534.00	24.9	22.5	2.50%
Modern Mills	40.9	-	Under Review	NA	16	15.8	98.90%	NA	NA	NA	NA	-34.50%

Source: Tadawul, Argaam, Bloomberg, Aljazira Capital Research. Note: CMP as on December 26, 2024. Aramco Net income is in SAR bn

AJC Coverage

AJC Coverage Universe Overview

Company	CMP	TP	Recommendation	Upside/ (Downside)	TTM			Net Income (in SAR mn)		P/E		YTD ret
					P/E (x)	P/B (x)	RoE (%)	FY24E	FY25E	FY24E	FY25E	(in %)
Materials:												
SABIC	67.2	84	Overweight	25.00%	53.3	1.2	1.00%	4,814.00	9,419.00	41.9	21.4	-19.70%
Tasnee	10.1	12.7	Neutral	26.00%	75	0.7	0.50%	132.2	470.9	51	14.3	-18.70%
Yansab	37.3	42.5	Neutral	13.90%	44.3	1.8	4.00%	580.7	792.9	36.1	26.5	-2.10%
SABIC Agri	109.2	123	Neutral	12.60%	14.9	2.8	18.00%	3,252.00	3,539.00	16	14.7	-21.70%
SIPCHEM	24	32	Overweight	33.30%	56.6	1.1	3.60%	576	1,086.40	30.6	16.2	-29.80%
Advanced Petro	32.4	45.7	Overweight	41.00%	163.1	2.6	1.60%	49	74.3	172.1	113.3	-16.90%
Saudi Kayan	6.9	10	Overweight	44.90%	NEG	0.9	NEG	-1,490.50	-648.5	NEG	NEG	-37.00%
Alujian	38.2	52.5	Overweight	37.40%	NEG	0.7	0.00%	85.1	169	22.2	11.2	-7.50%
Ma'aden	49.9	46.9	Neutral	-5.90%	56.8	3.9	7.90%	4,197.00	6,310.00	47.8	31.8	0.10%
Cement:												
Yamama	34.2	41.7	Overweight	21.90%	20.8	1.4	7.40%	405.7	416.8	17.1	16.6	0.70%
Saudi Cement	42.5	49.4	Neutral	16.20%	16.1	3.1	19.10%	416.8	433.4	15.6	15	-18.90%
Southern Cement	33.2	31.5	Neutral	-5.10%	23.5	1.4	6.70%	190	167.4	24.5	27.8	-21.90%
Qassim Cement	52.9	58.5	Neutral	10.60%	24	2.1	9.50%	336.7	402	17.4	14.5	-17.10%
Arabian Cement	25.9	31.6	Neutral	22.00%	18	1	6.40%	166.6	159	15.6	16.7	-24.70%
Yanbu Cement	23.4	27.2	Neutral	16.10%	25	1.4	5.50%	188.8	175.8	19.6	21	-31.70%
City Cement	18.2	20.5	Neutral	12.80%	19.8	1.5	7.30%	141.7	153.9	18	16.5	-10.40%
Eastern Cement	34.3	41.5	Overweight	21.00%	11.7	1.2	9.00%	236.4	243.4	11.8	11.5	-9.90%
Riyadh Cement	31.5	36.7	Neutral	16.70%	15.2	2.2	16.00%	306.5	275.7	12.3	13.7	-7.50%
Comm & Prof Srv:												
Catrion	121	115	Neutral	-5.00%	31.2	7.3	23.90%	307.5	415.6	32.3	23.9	-6.50%
Al Mawarid	105	136	Overweight	29.50%	17.9	4.2	23.30%	105.1	125	15	12.6	-15.50%
Utilities:												
Alkhorayef	146.4	166	Neutral	13.40%	25.4	7.3	27.20%	357.1	523.1	18.7	14.4	2.70%

Source: Tadawul, Argaam, Bloomberg, Aljazira Capital Research. Note: CMP as on December 26, 2024

AJC Coverage Universe Overview

Company	CMP	TP	Recommendation	Upside/ (Downside)	TTM			Net Income (in SAR mn)		P/E		YTD ret
					P/E (x)	P/B (x)	RoE (%)	FY24E	FY25E	FY24E	FY25E	(in %)
Healthcare:												
Mouwasat	86.9	110	**Neutral**	26.60%	26.4	4.9	18.60%	730.2	818.7	23.8	21.2	-24.30%
Care	171	202	**Neutral**	18.10%	31.2	5	17.80%	310.5	340.8	24.7	22.5	-6.00%
Dallah	150.6	183	**Overweight**	21.50%	31.2	4.3	13.80%	479.7	497.4	31.9	30.7	-11.60%
HMG	284.4	266	**Neutral**	-6.50%	45.9	14.2	31.90%	2,196.00	2,572.00	41.8	38.7	-1.30%
Saudi German	68.1	92	**Overweight**	35.10%	32.6	3.7	12.40%	239.6	313.4	26.2	20	-24.70%
Fakeeh Care	67.4	64	**Neutral**	-5.00%	54.3	5.4	10.00%	225	309	69.5	50.7	6.50%
Hammadi	38.5	52	**Neutral**	35.20%	23.3	3.2	16.80%	300.1	287.7	20.5	21.4	-36.10%
Transportation:												
Budget	76.3	96	**Neutral**	25.80%	21.4	2.3	10.80%	291.4	371.3	20.5	16.1	-5.70%
Theeb	73.3	82	**Overweight**	11.90%	18.9	3.9	20.80%	177.6	194.5	17.8	16.2	11.90%
Lumi	70.6	81.2	**Neutral**	15.00%	23.3	3.3	13.50%	171	196	22.6	19.8	-30.10%
SAL	250.2	205	**Neutral**	-18.10%	28.6	14.5	50.90%	735.1	822.1	27.2	24.3	29.40%
SGS	49.3	48.6	**Neutral**	-1.40%	32.7	3.9	12.30%	306.5	381	30.2	24.3	35.80%
Software & Srv:												
Solutions	269	331	**Overweight**	23.00%	25.6	8.8	38.90%	1,603.00	1,709.00	20.1	18.9	-22.70%
2P	13.7	13	**Overweight**	-4.80%	29.2	8.1	33.00%	181.5	180.2	22.4	22.8	9.60%
Elm	1,136.00	923	**Neutral**	-18.80%	54.9	19	34.60%	1,721.30	1,999.00	52.8	45.5	39.30%
Household & Prod:												
Almajed Oud	144.8	171.3	**Overweight**	18.30%	20.1	8.1	39.50%	185	210	19.6	17.2	18.50%
Media:												
AlArabia	147	-	**Under Review**	-	34.8	6.2	21.00%	NA	NA	NA	NA	-34.00%
Capital Goods:												
Riyadh Cables	135.2	139.4	**Neutral**	3.10%	28.5	7.7	26.40%	756.1	884.6	26.5	22.9	42.90%
Financial Srv:												
Tas'heel	175	181.9	**Overweight**	3.90%	20.5	4.2	20.40%	213	295	20.5	14.8	2.00%

Source: Tadawul, Argaam, Bloomberg, Aljazira Capital Research. Note: CMP as on December 26, 2024

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer