الراجحي المالية
Al Rajhi Capital

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Key theme

With Q2 coming to an end, we present revenue and bottom-line estimates for companies under our coverage in various sectors.

ARC Research coverage

Sector	Rating	Price Target
SABIC	Overweight	SAR125.5
SAFCO	Neutral	SAR127.4
Sipchem	Neutral	SAR34.3
NIC	Neutral	SAR26.3
Yansab	Neutral	SAR52.6
APC	Neutral	SAR59.8
SPC	Neutral	SAR14.1
STC	Overweight	SAR80.0
Mobily	UR*	UR*
Zain	Underweight	SAR10.0
Arabian Cement	Neutral	SAR81.0
Yamama Cement	Overweight	SAR59.4
Yanbu Cement	Overweight	SAR83.3
Saudi Cement	Overweight	SAR117.0
Qassim Cement	Neutral	SAR96.2
Southern Cement	Neutral	SAR120.0
Savola	UR*	UR*
Almarai	Neutral	SAR80.1
Catering	Neutral	SAR194.0
Herfy	Neutral	SAR120.7
Jarir	Neutral	SAR215.0
Extra	UR*	UR*
Alhokair	Neutral	SAR105.0
Alothaim	Overweight	SAR122.0
Dallah	Neutral	SAR125.0
Mouwasat	Neutral	SAR142.0
Care	Neutral	SAR65.0
Hammadi	Neutral	SAR58.0
Ma'aden	Overweight	SAR52.0
Ceramics	Neutral	SAR120.0
Shaker	Overweight	SAR91.0
Astra	Neutral	SAR34.4

Saudi companies' results preview

Q2: Petchem sector to remain sluggish

We anticipate Q2 2015 earnings for the companies under coverage to dip 27% y-o-y, weighed down by the Petrochemical sector. The Petrochemical sector is expected to report ~34% lower earnings y-o-y on account of weak product prices (y-o-y) and shutdowns at various companies. The Retail sector is likely to see the benefits of the two-month bonus paid in Q1 trickling into the second quarter as well. Companies such as Jarir and Alhokair will be the major beneficiaries of the same. The Food sector is expected to register strong growth as Ramadan shifts partly into the second quarter. Cement sector's sales grew 11% (y-o-y) in the first two months of the quarter, indicating revival in construction activities and easing labor conditions. However, the holy month of Ramadan will weaken cement sales in the second half of the quarter's last month, slightly pulling back the sector's revenue growth in Q2 2015. Telecom companies will gradually start seeing the impact of price cuts for domestic calls and increasing competition from MVNOs (Mobile Virtual Network Operators). Earnings of Healthcare companies will slightly be weaker on a y-o-y basis because of the shift in Ramadan as generally surgeries are avoided during this period. TASI has surged 9% YTD as Real Estate (+28.7%), Industrial Investment (+26.5%), Retail (+12.1%), Banking (+8.6%) and Petrochemical (+7%) indices climbed.

Petrochemicals: Despite a 15% surge in average Brent prices (q-o-q) in Q2, crude prices still remain over 40% lower y-o-y. The movement in oil prices has impacted the prices of petrochemical products, on account of a positive correlation. We expect SABIC to post a double-digit y-o-y decline in profits although a jump in product prices q-o-q should improve its earnings sequentially. A similar trend is expected from Sipchem; however, a sharp rise in net income (q-o-q) is expected mainly due to a low base effect in Q1 2015. Lower ammonia and urea prices is likely to negatively impact SAFCO's y-o-y and q-o-q earnings. A prolonged shutdown at Yansab's plants coupled with lower product prices is expected to result in an earnings decline in Q2. NIC is likely continue to face pressure in petrochemicals and TiO2 segments (y-o-y) though a rise in petrochemical prices (q-o-q) should improve the company's earnings sequentially. APC, which resumed operations post shutdown in Q1, is likely to benefit from a jump in polypropylene (PP) prices (q-o-q). We are Overweight on SABIC and Neutral on SAFCO, Yansab, Sipchem, NIC, APC and SPC. We revise our rating on SPC to Neutral as the upside from our target price (which remains unchanged) is within +/- 10% band.

Retail: The benefit from 2 month salary bonus paid in the first quarter is likely to trickle down to Q2 2015 as well. In addition, companies like Al Hokair and Al Othaim will also benefit from the seasonal impact of Ramadan. Jarir's revenues are expected to grow by double digits supported by a healthy same store sales growth and two new store openings during the quarter. On the other hand, Extra which disappointed in the last quarter is likely to continue posting single digit top line growth. The company's recent MoU to buy an apparel retail chain might suggest that the company might be looking for new growth avenues besides their electronics retail business. Al Hokair's growth is expected to slow down to single digits as the impact of the Blanco acquisition wears-off. Al Othaim is witnessing healthy same store sales growth and will mostly see the positive seasonal impact of holy month of Ramadan in Q2 2015.

Food & Agriculture: The food and agriculture sectors are expected to benefit from the holy month of Ramadan, which partly falls in the second quarter this year. In addition, falling global commodity prices would also support margins for most of the companies. Herfy has been adding restaurants at a rapid pace and is expected to witness strong growth this quarter on the back of its aggressive expansion as well as healthy same store sales growth. Almarai is expected to continue posting double digit top line growth supported primarily by strong dairy demand as well as improving operations at its poultry segment. The company's margins are also expected to improve as poultry segment moves towards reaching breakeven and feedstock prices fall. Savola's management had given a net profit guidance of SAR429mn for the quarter. The company's financials will not be directly comparable as the company has sold its packaging business. We expect a net profit of about SAR457mn in Q2 2015 for Savola. Saudi Airlines Catering will benefit from the holiday season in Q2 2015, which is likely to have received a boost from the government's two month salary bonus. Ramadan is expected also to drive growth in the topline. We expect net profit to be around SAR 178mn in Q2 2015.

Cement: The Cement sector in Saudi Arabia is expected to witness another positive quarter in 2015 on the back of revived cement demand. Cement sales volumes rose 11% y-o-y during the first two months of Q2 2015, indicating a strong demand from the construction sector. We expect the trend to continue in June, though at a slower rate given that Ramadan month started on 18th June. As a result, we expect most companies to post decent results in Q2 2015. The current high level of inventories (19.4mn tons at the end of May 2015) will help cater to any unexpected increase in demand. However, fuel supply concerns, declining oil prices and labor shortage will remain an overhang on the sector over the near-term. We are Overweight on Yamama, Yanbu and Saudi Cement. We maintain our Neutral ratings on Qassim Cement, Southern Province Cement and Arabian Cement.

Telecoms: The Telecom sector continues to be one of the weakest performing sectors currently. The first half of 2015 saw the cut in interconnection rates followed by cut in calling prices in the second quarter, initiated by Zain KSA to 19halalas per minute for a domestic call. This was soon followed by Mobily to compete for market share. However, STC has not followed the trend. Being the incumbent, STC has the advantage of having the largest market share of postpaid subscribers and has a relatively sticky set of subscribers. Overall Telecom sector continues to remain highly competitive. The new MVNOs have started to step up their operations by offering attractive tariffs, which are adding to competition. Trading on Mobily has been suspended following CMA's report on Mobily's financial reporting. Q1 was expected to provide a new start for the company and was supposed to be the new base for future financials. However, post CMA's observations, Mobily reported that Q1 profits would be revised by SAR207mn. Q2 2015 will see provisioning of SAR800mn related to the Zain's receivables. Overall we think that there is some way to go before we see stability for Mobily. After Zain's stellar results in Q1 2015, we believe it would continue to do well in Q2 2015. We believe the impact of price cut will largely materialize only from Q3 2015. We believe STC will continue to pay SAR1 per quarter as dividends, which is highly attractive as the annual dividend yields are more than 6%. STC is our top pick in the sector.

Healthcare: The focus in Q2 2015 for the Healthcare sector will be on the impact of Ramadan and the demand and execution of the newly opened hospitals. Almost all of the listed companies have recently expanded or opened new hospitals. Recently Mouwasat opened its first hospital in Riyadh, Hammadi has opened its second hospital in Riyadh (Al-Suwedhi – trial operations), while Dallah has soft-launched its extended clinics. Additionally since the Arabic holy month of Ramadan falls in Q2, the demand for healthcare services such as surgeries will be lower than observed last year during the same period Though Dallah expects full financial impact from its clinics to start from Q4 2015, its meaningful contribution will continue in Q2 2015. Demand and execution of Mouwasat's Riyadh hospital will be important for the company as it is around 25% of its existing capacity. Mouwasat will continue to see top line benefitting from the Riyadh hospital but will achieve breakeven only after Q2 2015. We expect Hammadi to report net profit of SAR35mn. We will revise our target prices and estimates post Q2 earnings. Currently we remain Neutral on all the stocks.

Saudi market: Q2 estimates of the companies we cover

	Revenues (SAR mn)					Net Profit (SAR mn)				
Company	2014Q2A	2015Q1A	2015Q2E	YOY % chg.	QOQ % chg.	2014Q2A	2015Q1A	2015Q2E	YOY % chg.	QOQ % chg.
Petrochemical										
SABIC	48,153	35,564	39,259	-18.5%	10.4%	6,456	3,935	4,485	-30.5%	14.0%
	Sluggish product prices and a weak demand to result in lower revenues and profits y-o-y, although a surge in product prices q-o-q should improve earnings performance sequentially.									
Sipchem	1,159	826	1,022	-11.9%	23.7%	225	81	153	-31.8%	90.0%
	Lower methanol prices and shutdown at acetic acid plants to impact net income (y-o-y) although a sharp surge in product prices (q-o-q) and commencement of EVA/LDPE plant should improve earnings q-o-q.									
SAFCO	936	962	862	-7.9%	-10.5%	639	590	535	-16.3%	-9.3%
	A decline in ammonia and urea prices (q-o-q and y-o-y) coupled with a supply rise from China is expected to weigh on SAFCO's earnings.									
NIC	5,087	3,942	4,073	-19.9%	3.3%	408	(333)	161	-60.6%	NM
	Lower petrochemical and TiO2 prices will be reflected in lower net profit y-o-y. However, a surge in product prices coupled with one-off item in Q1 2015, result in a jump in profit sequentially.									
Yansab	2,409	1,717	1,323	-45.1%	-22.9%	613	285	172	-71.9%	-39.7%
	Impact of a prolonged shutdown and lower product prices will be seen on revenues and net income (y-o-y). On a q-o-q basis, a rise in product prices should be more than offsett by a lengthy shutdown.									
APC	808	468	699	-13.5%	49.3%	185	90	192	4.2%	114.6%
	Lower polypropylene (PP) prices is expected to impact revenues although a steep decline in feedstock prices should result in higher earnings (y-o-y).									
SPC	613	262	313	-48.9%	19.6%	185	(50)	16	-91.2%	NM
	We expect SPC's top and bottom-line to remain under pressure (y-o-y) on account of lower PP prices. However, a rise in product prices is expected to more than compensate for the shutdown at Al Waha and SAMAPCO(q-o-q).									
Petrochemical Sector	**59,166**	**43,741**	**47,550**	**-19.6%**	**8.7%**	**8,711**	**4,598**	**5,715**	**-34.4%**	**24.3%**
Cement										
Arabian Cement	481	453	488	1.5%	7.7%	200	195	211	5.5%	8.2%
	We expect Arabian cement to post marginal top line growth given its depleted clinker stock.									
Yamama Cement	366	339	360	-1.6%	6.2%	207	175	188	-9.2%	7.4%
	Plant will continue to operate at full capacity. However, price pressure due to high competition in the central region is likely to weigh on Yamama's bottom line.									
Saudi Cement	538	551	533	-0.9%	-3.3%	288	303	287	-0.3%	-5.3%
	We expect muted results as sales volumes growth will remain flat y-o-y at 2.0mn tons. The company is still recording very high inventory, but started to cut production to bring it back to normal level.									
Qassim Cement	270	282	296	9.6%	5.0%	161	163	168	4.3%	3.1%
	Top line should grow by 10% y-o-y on the back of strong sales in the first two months of Q2. Losses due to a sale of subsidiary should not affect bottom line.									
Yanbu Cement	446	437	455	2.0%	4.1%	241	207	230	-4.6%	11.1%
	Operating at full utilization rates is expected to continue in Q2 contributing to top line growth. Profits are expected to decline because of one off gain in Q2 of last year.									
Southern Cement	517	559	562	8.7%	0.5%	294	266	304	3.4%	14.3%
	SPCC continued to operate at high utilization rates. Improved conditions and pricing in the company's main markets is a positive sign.									
Cement Sector	**2,618**	**2,621**	**2,694**	**2.9%**	**2.8%**	**1,391**	**1,309**	**1,388**	**-0.2%**	**6.0%**
Telecom										
STC	11,722	12,473	12,428	6.0%	-0.4%	2,803	2,504	2,860	2.0%	14.2%
	After a strong performance in Q1 2015 we expect STC to report a flat q-o-q topline performance and 2% y-o-y net profit growth. STC has not cut its call rates, unlike Mobily and Zain.									
Mobily	3,779	3,613	3,485	-7.8%	-3.6%	412	-199	-771	NM	NM
	Q2 2015 will see a provisioning of SAR800mn which will lead to a SAR770mn net loss for the company as per our estimates. Mobily followed Zain's domestic call price cut to 19Halalas per minute in Q2 2015.									
Zain	1,567	1,678	1,703	8.7%	1.5%	-329	-257	-246	-25.3%	-4.3%
	Zain will continue to deliver good topline performance as seen in Q1 2015. Full impact of the domestic calling price cut is expected to be seen in the coming quarters in our view.									

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Food & Agriculture										
Almarai	3,287	3,037	3,605	9.7%	18.7%	433	306	486	12.2%	58.6%
	The core dairy segment will drive topline, while improving operations of the poultry segment will support margins									
Savola	7,630	6,547	8,087	6.0%	23.5%	513	471	457	-11.0%	-2.9%
	Retail business will drive growth for the company. In addition, the food segment will benefit this quarter from the high demand associated with the holy month of Ramadan.									
Herfy	227	265	279	23.2%	5.4%	52.4	54.5	58.8	12.3%	7.8%
	Aggressive store expansions over the last few quarters will drive the company's top and bottom line.									
Catering	551	560	623	13%	11.2%	164	167	178	8.4%	6.4%
	We expect the top line to grow by 13% y-o-y as a result of the summer and Ramadan period.									
Food & Agri. Sector	**11,694**	**10,410**	**12,595**	**7.7%**	**21.0%**	**1,163**	**999**	**1,180**	**1.4%**	**18.1%**
Retail										
Jarir	1,289	1,910	1,451	12.5%	-24.0%	135	247	156	15.2%	-36.9%
	New store additions and healthy same store sales growth will result in double digit growth rates for the company									
Alhokair	1,665	1,614	1,775	6.7%	10.0%	191	202	225	17.7%	11.6%
	Revenues will be boosted by the holy month of Ramadan, while profit margins are likely to improve as the operations at Blanco stabilize.									
Alothaim	1,511	1,408	1,661	9.9%	18.0%	51.8	48.9	55.4	6.9%	13.3%
	New store openings and increased sales during the Ramadan month will drive top and bottom line for the company									
Extra	984	872	1,029	4.5%	18.0%	53.8	16.1	53.6	-0.3%	233.3%
	Top line growth is likely to remain sluggish, while profit margin is expected to contract									
Retail Sector	**5,450**	**5,803**	**5,916**	**8.6%**	**1.9%**	**432**	**514**	**490**	**13.4%**	**-4.6%**
Healthcare										
Dallah	228	240	258	13.2%	7.2%	34	48	47	36.5%	-2.0%
	The soft launch of the expanded clinics in Northern Hospital will continue to boost help Q2 numbers in our view. As per the company, the full contribution will be seen only from Q4 2015.									
Mouwasat	244	271	277	13.3%	2.3%	59	56	58	-2.6%	3.5%
	Mouwasat's topline will benefit from opening of the Riyadh hospital. However net income growth will be lower owing to the expansion related costs at its Riyadh hospital, till atleast it achieves breakeven.									
NMCC	180	219	214	19.2%	-2.4%	31	28	31	0.7%	12.9%
	We expect NMCC to report the highest top line y-o-y growth among the four listed healthcare players. After revision in salary structure, we expect net profit levels to recover to similar levels achieved over the same period last year.									
Al Hammadi	122	129	132	8.8%	2.3%	36	41	35	-1.8%	-14.7%
	We expect Hammadi to report SAR35mn in net profit. The new hospital at Suweidhi is operational but yet to open for commercial operations.									
Healthcare Sector	**773**	**860**	**881**	**13.9%**	**2.5%**	**160**	**172**	**171**	**6.6%**	**-0.8%**
Other										
Ma'aden	2,386	2,744	3,060	28.3%	11.5%	371	261	354	-4.4%	35.8%
	Alluminum business will improve on slightly higher prices. Although gold prices declined by 7% y-o-y, sales volumes are expected to increase. Phosphate unit is also expected to operate at higher capacity following the maintenance shut down in Q1.									
Saudi Ceramic	438	447	458	4.6%	2.4%	84	84	85	1.1%	0.8%
	Top line growth is expected to be 4.6% y-o-y supported by tiles and sanitary sales, though we expect water heaters sales to drop during summer season.									
Shaker	484	426	494	2.1%	15.9%	382	26	57	-85.2%	116.9%
	Sales of LG ACs during summer time will add to revenue growth. We expect home appliance to grow faster than LG segment supported by last year's acquisition. Net profit will decline due to one off gain booked last year.									
Astra	453	489	475	4.8%	-2.9%	3	42	36	1054.8%	-15.0%
	We expect chemicals and steel sales to grow by 11% and 7% y-o-y, respectively. Steel will continue to book loses because of Iraq suspended operations. On the other hand, we expect pharma business to post flat results y-o-y.									

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": **Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

"Neutral": **We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.**

"Underweight": **Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.**

2. Definitions

"Time horizon": **Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.**

"Fair value": **We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.**

"Target price": **This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.**

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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