

# ▶ Saudi Sapphires – Hidden opportunity in beaten stocks

## ▶ Filtered by risk

Tadawul All Share (TASI) 10,412

P/E 16.6x Div yield 2.8%

Mcap \$ 2,648 bn YTD -0.6%

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# JARIR MARKETING (4190)

CONSUMER CYCLICAL – RETAILER OF BOOKS, STATIONERY, ELECTRONICS

LAST TRADED: SAR 145

CONSENSUS TARGET: SAR 184 (+27%)

**Profile:** Jarir Marketing sells books, office supplies and electronic goods through stores / online in the KSA and the GCC. It has a track record of strong FCF generation enabling a high dividend payout (around 90% payout ratio) and excellent working capital management.

Fundamentals		Outlook
<b>Mcap</b>	SAR 17.4 bn	Supply chain disruptions in electronic goods had affected Jarir's
<b>P/E (TTM)</b>	18x	financial performance in 2022 which are expected to ease in the
<b>Year end</b>	December	current year. The company reported a slight drop in net profit of
<b>EPS 2024E</b>	SAR 9.75	2.2% while revenue grew 3.3% yoy in 2022. The drop in net profit
<b>EPS 2023E</b>	SAR 8.80	is due to a one-off gain in 2021 and a higher promotional spending
<b>Operating margin (TTM)</b>	10.7%	Net store growth was two in 2022. The company is a major retailer
<b>Next earnings day</b>	May 09, 2023	of Apple devices in the Kingdom, which is expected to recover
<b>Div yield</b>	5.3%	In 2023 after supply chain disruptions due to the pandemic.
<b>ROE</b>	54%	It has an asset light business model that focuses on profitability and
<b>Institutional holding</b>	8%	Shareholder return instead of aggressive growth.

Source:  
Refinitiv/Zawya

# STC (7010)

COMMUNICATION SERVICES - TELECOM

LAST TRADED: SAR 36.30

CONSENSUS TARGET: SAR 45.20 (+24%)

**Profile:** STC is the market leader in telecom services in Saudi Arabia owing to its strong linkage with the government, being 64% owned by the PIF.

Fundamentals		Outlook
Mcap	SAR 178 bn	STC revenue grew 4.7% yoy in Q3 2022 while net profit rose 21% yoy.
P/E (TTM)	14.9x	The group has been investing heavily into digital ecosystem which
Year end	December	led Enterprise segment revenue post a robust 12.4% yoy growth in
EPS 2023E	SAR 2.64	9M 2022. Its other business segments also saw a 7%-8% growth in
EPS 2022E	SAR 2.45	revenue. The group is involved in a major undersea and land data link
Operating margin (TTM)	21.5%	to meet high data connectivity demand in Asia and Europe
Next earnings day	Feb 20, 2023	STC has a lower leverage compared to Emirates
Div yield	4.4%	Telecommunication, its closes competitor and also trades at a
ROE	17%	lower P/E of 14.9x compared to 24x multiple of the latter.
Institutional holding	68%	This is a good value buy at its current level.

Source:  
Refinitiv/Zawya

# SABIC (2010)

BASIC MATERIALS – CHEMICALS, STEEL

LAST TRADED: SAR 92.30

CONSENSUS TARGET: SAR 114 (+23%)

**Profile:** SABIC is among the top three global chemical companies and operates in 50 countries manufacturing petrochemicals, agri-nutrients and steel business segments. The group's sales are closely linked to the global economy as nearly 85% of its sales is from outside the Middle East region

Fundamentals		Outlook
<b>Mcap</b>	SAR 277 bn	EBITDA margin compression in Q3 2022 and Q4 2022 E due to lower
<b>P/E (TTM)</b>	13x	average sale price in H2 2022 led to a 7% yoy drop in EBITDA and a
<b>Year end</b>	December	10% yoy drop in net profit during 9M 2022. The company responded
<b>EPS 2023E</b>	SAR 4.72	To lower operating results by reducing capex by around 20% and as a result, free cash flow should be higher in 2022 and 2023E
<b>EPS 2022</b>	SAR 5.89	Covid lockdowns in China and high natural gas prices in Europe
<b>Operating margin (TTM)</b>	14%	dented demand for petrochemicals in Q3 2022. However, reopening of China and cooling of gas prices should improve
<b>Next earnings day</b>	Feb 13, 2023	demand for this segment. High urea prices helped the company
<b>Div yield</b>	4.3%	to report strong numbers in Agri-nutrients segment. In steel
<b>ROE</b>	11.9%	segment, performance was subdued in Q3 2022.
<b>Institutional holding</b>	4%	Sabic is 70% owned by Saudi Aramco.

Source:  
Refinitiv/Zawya

# ADVANCED PETROCHEM (2330)

BASIC MATERIALS – PETROCHEMICALS

LAST TRADED: SAR 46

CONSENSUS TARGET: SAR 54 (+17%)

**Profile:** Advanced petrochemicals is one of the most profitable petrochemical manufacturers in KSA producing only one product, polypropylene. It is a major exporter of the polymer to major Asian economies.

Fundamentals		Outlook
<b>Mcap</b>	SAR 12 bn	Its current production capacity of 500 ktpa is expected to rise to
<b>P/E (TTM)</b>	18x	1,130 ktpa by H2 2024 once its expansion project starts commercial
<b>Year end</b>	December	production. The parent company has recently announced securing
<b>EPS 2023E</b>	SAR 1.31	SAR 6.1 bn funding from a consortium of Saudi banks for this
<b>EPS 2022E</b>	SAR 1.24	project.
<b>Operating margin (TTM)</b>	17%	The company has a track record of paying consistent dividends
<b>Next earnings day</b>	Feb 13, 2023	and has created significant wealth for its investors since its listing in
<b>Div yield</b>	4.8%	2007. The stock fell sharply in 2022 owing to weaker PP prices in its
<b>ROE</b>	13%	core markets and higher input costs. Its South Korean affiliate ,
<b>Institutional holding</b>	6%	SK Advanced also reported weak numbers on weak macro.
		Always buy a cyclical during a weak macro environment

Source:  
Refinitiv/Zawya