



# Arbah Market Synopsis

Report on Saudi Market

December 2018

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## Budget Commentary

### Largest Budget in the History of KSA

- The budget for the fiscal year 2019 is aimed at inducing spending even though the Saudi economy is envisioned to narrow its budget deficit, going forward.
- For the fiscal year 2019, the Ministry of Finance of Saudi Arabia has revealed the largest budget in the history of Saudi Arabia, comprising of spending worth SAR1.106 trillion which is a 7.3% increase as compared to 2018 figure.
- As per the data revealed by the Ministry of Finance of Saudi Arabia, the expected revenues for 2019 are estimated at SAR975 billion with a 8.9% increase as compared to 2018 figure.
- Oil revenue is expected to form ~68% of the total revenue in 2019, similar to the contribution in 2018. Oil revenue is expected to contribute SAR662 billion to the total revenue figure, 9.1% up from the SAR607 billion oil revenue contribution in 2018.
- Analyzing the oil revenue contribution in 2019, we establish that the oil prices are largely anticipated to average around \$70 per barrel.
- Revenue contribution from taxes is expected to ramp up by 10.2% in 2019 to reach a figure of SAR183 billion (2018: SAR166 billion).
- The deficit is expected to decline to SAR131 billion (4.6% of GDP) in 2019, this figure is in comparison with the deficit figure of SAR136 billion for 2018 (4.2% of GDP).
- Education sector claimed the largest allocation amongst the sectors, however the allocated amount to the Education sector declined by 6% as compare to the allocated figure of SAR205 billion a year ago.
- Military and Healthcare sectors claimed 17% and 15% allocation, respectively, securing second and third spot in terms of largest allocation.
- Furthermore, as per the recently issued royal decree, allowance of SAR1,000 per month will be paid continuously to the military personnel throughout the year 2019.

Exhibit: 01 Budget Comparison of KSA in SAR billions

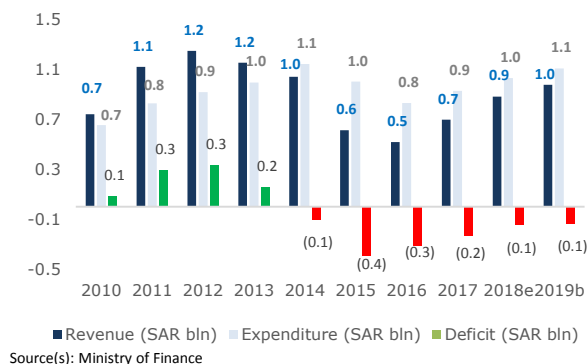


Exhibit: 02 Highlights of State Budget of KSA for 2019

#### Breakdown of Revenue

Revenue:	2019b	2018e	▲ %
Taxes	183	166	10.2%
Oil Revenue	662	607	9.1%
*Non-oil Revenue	130	172	-24.4%
<b>Total Revenue</b>	<b>975</b>	<b>895</b>	<b>8.9%</b>
Expenditure	1,106	1,030	7.4%
<b>Deficit</b>	<b>131</b>	<b>136</b>	<b>3.7%</b>
Deficit as a % of GDP	4.6%	4.2%	

Source(s): Ministry of Finance  
\* Other than taxes & fees

#### Budget Sector Wise Allocation

Sector	2019b	2018e	▲ %
Public Admin	28	27	1%
Education	193	205	-6%
Health Services	172	159	8%
Municipal Ser.	62	54	15%
Military	191	218	-12%
Security & Regional Admin	103	106	-3%
Basic Equipment & Trans.	70	55	28%
Economic Resources	131	106	24%
General Items	156	100	57%
<b>Total</b>	<b>1,106</b>	<b>1,030</b>	<b>7.4%</b>

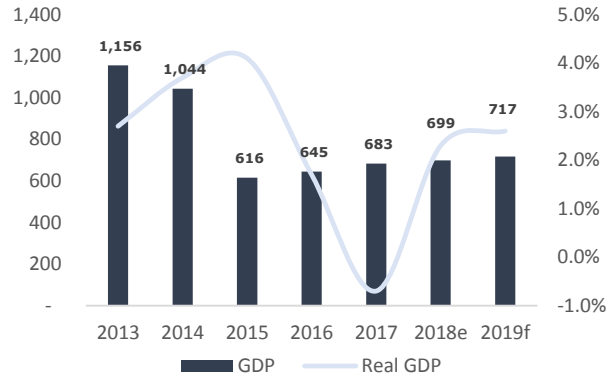
Source(s): Ministry of Finance

## Macroeconomic Indicators

### Moderate GDP growth expected in 2019

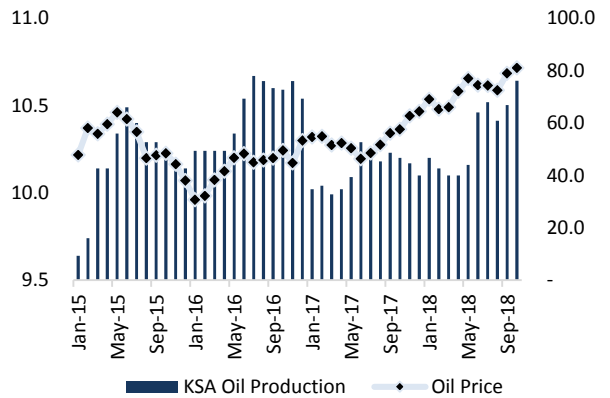
- The global weak economic environment started to pose adverse impact on Saudi economy in late 2014. However, recently the economy has witnessed a turnaround, this upward trend is expected to continue going forward. According to the IMF, nominal GDP of Saudi Arabia is expected to reach \$717 billion in 2019, showing a moderate real GDP growth rate of 2.6%.
- In October 2018, oil prices reached its highest level in four years time backed by the production cut by the OPEC cartel. Brent averaged \$73 per barrel this year till the end of November 2018, slightly below the oil prices required to balance the fiscal deficit of Saudi Arabia.
- The oil prices have remained under pressure recently. The building pressure on the oil prices is resulting from the ongoing concerns over excessive supply and lower demand growth. Through 2019, we expect Brent benchmark to remain stable within the range of \$65-70 per barrel.
- As per the latest data released by SAMA, overall foreign reserves at Saudi Arabia's central bank increased by 1.6% this year till October to reach \$504.6 billion.
- The highest increase in the foreign reserves was reported in the "Reserve Position in the IMF" category, which surged by 14.7% YTD followed by "Foreign Currency and Deposits Abroad" category, which reported 12.1% YTD increase.
- As per the data released by Saudi Arabian Monetary Authority for the month of October, general consumer price index for October showed that inflation rate rose by 2.4% YoY while it showed a decline of 0.3% MoM.
- Transportation category witnessed the highest increase accounting 11.5% YoY increase, followed by Tobacco and Food and Beverages categories which rose by 10.1% and 7.3% YoY, respectively.
- In 2019, inflation rate is expected to stabilize around the current level as the impact of VAT seems largely absorbed.

Exhibit: 03 Nominal GDP of KSA in \$bn and Real GDP Growth



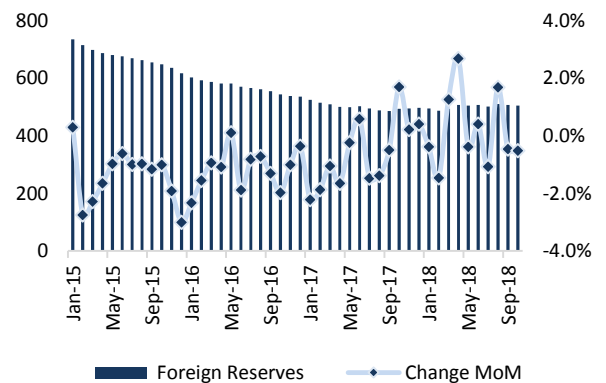
Source(s): Ministry of Finance

Exhibit: 04 KSA Oil Production m barrels vs Brent Oil Price



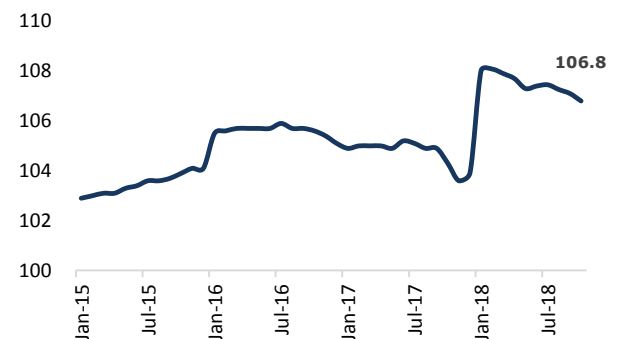
Source(s): OPEC

Exhibit: 05 KSA Foreign Reserves in \$ billion



Source(s): SAMA

Exhibit: 06 Consumer Price Index



Source(s): SAMA

## Performance of TASI

### Large caps expected to lift TASI

- In 2018 Tadawul All Share Index (TASI) reached level of 8,490 surpassing highest level reached in four-year time.
- Besides other factors, the progress towards inclusion into MSCI Emerging Market and inclusion into FTSE Emerging Market Indices played vital role in lifting the market to four-year high level.
- Recently TASI took a downturn on the back of global geopolitical issues and release of global macroeconomic data showing subdued demand growth. However, TASI looks stable and promising equity market amongst the major regional and global markets.
- This year till December 17, 2018, Media and Entertainment had been the best performing sector with a return of 43.7%, followed by Banks and Telecommunication Services sectors with a return of 28.4% and 24.1%, respectively.
- On the other side, Real Estate Management, Utilities and Food & Beverages sectors showed the worst performance with a return of -28.0%, -24.0% and -19.0%, respectively.
- While comparing the rebased performance, for this year till December 17, 2018, of TASI with MSCI Emerging Market and MSCI World Indices, it is established that TASI outperformed both EM and World Indices by 24.9% and 16.1% (active performance), respectively.
- Currently TASI is trading at a higher PE of 17.1x as compare to MSCI EM and World Indices which are trading at a PE of 11.9x and 16.3x, respectively.
- In the near-term, we expect TASI continue to trade at a higher PE mainly on the back of regulatory changes/ restructuring and relatively stable oil market.
- Furthermore, we believe that heavyweights continue to perform well mainly due the favorable fundamentals, consequently lifting the market beyond 8,500 mark.

Exhibit 07: TASI Periodic Performance

TASI Return			
	YTD	QTD	MTD
Return	8.8%	-1.7%	2.0%

Prices as of December 19, 2018

Top Gainers & Top Losers (Major Companies)			
Top Gainers		Top Losers	
Riyad Bank	44.2%	Savola Group	-32.8%
Al Rajhi Bank	33.1%	SEC	-24.0%
Saudi Telecom	32.8%	Almarai	-7.0%
Samba	32.3%	Ma'aden	-3.1%
NCB	29.2%	--	--

Source(s): Tadawul YTD performance prices as of December 19, 2018

Exhibit 08: TASI Performance

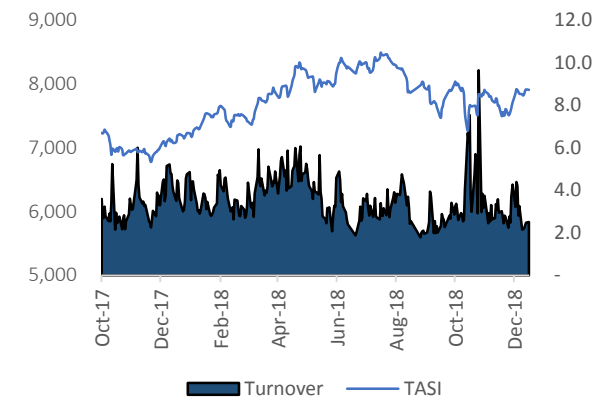


Exhibit 09: TASI Performance Comparison

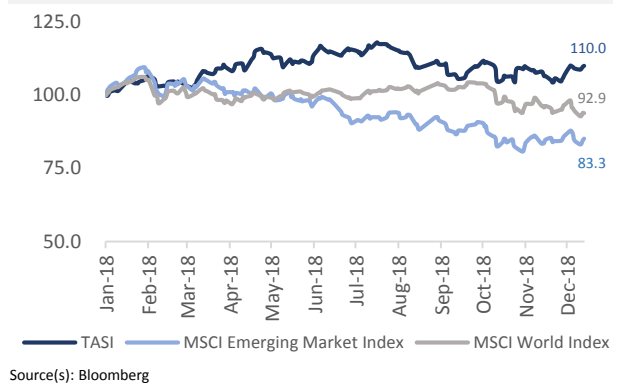
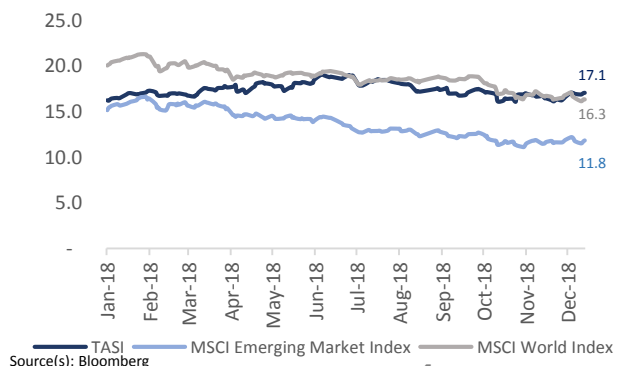


Exhibit 10: PE Comparison



## Recent Developments

### Recently made corporate announcements

- **Advanced Petrochemical Company** has announced to pay SAR0.7 per share cash dividend for Q42018.
- **The Savola Group** has obtained all the regulatory approvals on its acquisition of a 51% (SAR565.5 million deal) stake in Dubai based Al Kabeer Group.
- Al Kabeer Group is being acquired through the Savola Group's wholly owned subsidiary, Good Food Co., the financial statements will be consolidated in Q42018.
- **Bank Albilad** has announced to hike capital by 25% through the issuance of one bonus share for every four shares held, the new paid up capital of the bank will be SAR7.5 billion.
- **Saudi Telecom Company** has announced to pay a cash dividend of SAR1 per share, the telecom operator has also proposed paying an exceptional cash dividend of SAR2 per share.
- Further, STC has announced that it will continue its policy to pay SAR1 per share quarterly dividend for the next three years starting from Q42018.
- **Middle East Healthcare Company** has signed an amended regarding its Islamic financing agreement with Samba Financial Group.
- According to the amended terms the working capital facilities will be increased to SAR150 million from the current level of SAR35 million.
- **Saudi Arabian Fertilizers Company** has announced a SAR1.5 per share (15%) dividend for H12018.
- **Al Khaleej Training and Education Company** has been awarded a contract worth SAR17.52 million from the Ministry of Justice for the provision of unified call services.
- **Jarir Marketing Company** has opened a new showroom in Al Khobar covering 3,378 square meters at a total cost of SAR156 million. The retailer's showroom count has 46 stores in Saudi Arabia and 55 overseas.
- This was the fifth showroom opened by the retailer in this year, the showroom will have financial impact in Q42018.

## Upcoming Events

Exhibit 11: Upcoming Events

Dividend Record Date		
Company	Date	Amount (SAR/ Share)
GASCO	1.8%	16.1%
Catering	24.9%	10.3%
SIIG	1.8%	-7.1%
Kingdom Holding	0.3%	6.1%

Source(s): Tadawul

### Next Expected Dividend Announcement Date

Company	Date	Amount (SAR/ Share)
ANB	20-12-18	0.65
SABB	23-12-18	0.96
Riyad Bank	24-12-18	1.0
Samba	25-12-18	0.8
Sipchem	26-12-18	0.5
Petrochem	26-12-18	0.5
Al Rajhi Bank	14-01-19	3.0
Saudi Cement	03-02-19	1.0
Qassim Cement	06-02-19	0.5
SAFCO	20-02-19	1.5
SAIB	20-02-19	0.7

Source(s): Bloomberg

## Sectors of Saudi Market

### Sectorial Performance of Saudi Market

Sector Wise Performance Summary					
Sectors	Market Cap	Free Float	YTD	MTD	QTD
Energy	33,533	1.8%	16.1%	1.5%	-0.5%
Materials	624,916	24.9%	10.3%	4.3%	-3.3%
Capital Goods	8,953	1.8%	-7.1%	1.8%	11.4%
Commercial & Professional Services	8,208	0.3%	6.1%	4.2%	3.4%
Transportation	11,746	1.2%	-10.7%	-0.1%	-3.4%
Consumer Durables & Apparel	2,916	0.5%	-10.2%	1.6%	1.4%
Consumer Services	15,069	1.3%	-16.9%	1.8%	-5.6%
Media and Entertainment	7,645	0.1%	43.7%	0.5%	-8.3%
Retailing	29,937	1.3%	21.4%	-0.4%	9.3%
Food & Staples Retailing	7,727	0.4%	7.4%	3.9%	2.8%
Food & Beverages	75,698	3.4%	-19.4%	1.0%	-4.8%
Healthcare Equipment & Services	22,188	0.9%	-13.5%	4.0%	-1.8%
Pharma, Biotech & Life Science	3,522	0.2%	-2.5%	0.0%	-6.2%
Banks	607,523	36.9%	28.4%	1.9%	0.2%
Diversified Financials	30,975	1.1%	-14.7%	2.8%	-2.0%
Insurance	37,142	2.9%	-9.3%	8.3%	10.4%
Telecommunication Services	193,940	4.2%	24.1%	6.2%	1.6%
Utilities	67,504	3.0%	-23.7%	5.5%	-1.3%
Real Estate Management & Development	79,803	10.2%	-28.4%	1.5%	-6.3%
REITs	12,340	3.5%	-21.9%	0.47%	-1.7%
<b>Total</b>	<b>1,881,372</b>	<b>100%</b>	<b>--</b>	<b>--</b>	<b>--</b>

Source(s): Tadawul

Data as of December 17, 2018

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