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SNB Capital

Beyond Oil – Exploring Saudi Market Gems

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Saudi Arabia

Beyond Oil - Exploring Saudi Market Gems

2024

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Vision 2030

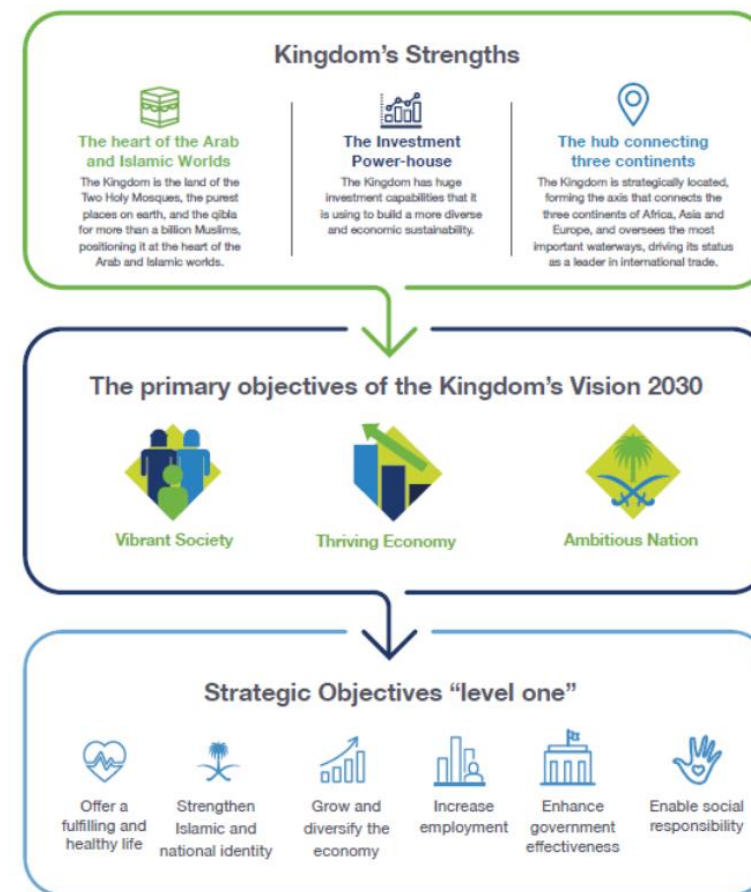
An ambitious vision for an ambitious nation

- Vision 2030 was launched in 2016, providing a blueprint for an ambitious nation. It states Saudi's long-term goals and expectations, building on the country's strengths and capabilities. The Vision is built on three pillars; a vibrant society, a thriving economy and an ambitious nation
- **A Vibrant Society:** to enable citizens and businesses to unleash their potential, while strengthening Islamic values and national identity
- **A Thriving Economy:** key goals include growing and diversifying the economy and increase employment
- **An Ambitious Nation:** enhancing government effectiveness and enable social responsibility are the main goals of this pillar

Some of key milestones/achievement

- **Housing:** Targeting to reach 70% from c65% in 2023 and compared to c62% in 2020
- **Technology:** The country rose in the global ranking of internet infrastructure to be among the top 10
- **Tourism:** Reaching 100mn visitors and SAR289bn in total tourism spending with plans to exceed 150mn in the coming period

Key highlights



Source: Vision 2030, SNB Capital Research

Vision 2030 Programs

The Vision Programs were designed to translate the Vision into action. Below we highlight selected programs



Public Investment Fund Program

The Public Investment Fund program drives economic diversification in the Kingdom through strategic international and domestic investments.



Housing Program

The Housing Program provides housing solutions that meet the needs and aspirations of Saudi families, with a focus on sustainability and technology.



Financial Sector Development Program

The program plays a crucial role in shaping the future of Saudi's financial sector to promote income diversification, boost savings, and offer various financing & investment opportunities. By creating a strong, dynamic, and stable sector, the Program is driving economic growth & diversification in Saudi.



Human Capability Development Program

The Program aims to empower citizens and elevate their global competitiveness.



Quality Of Life Program

The Program aims to enable culture, entertainment, sports and tourism to flourish in Saudi Arabia, delivering enriched and better lives for all.



Health Sector Transformation Program

To restructure the health sector in Saudi to be a comprehensive, effective and integrated health system that is based on the health of the individual and society and depends on the principle of value-based care.



Privatization Program

The Program aims to strengthen the role of the private sector by unlocking state-owned assets for investment. Privatizing selected government services will improve the quality of services and reduce overall costs.



National Industrial Development and Logistics Program

The National Industrial Development and Logistics Program (NIDLP) focuses on transforming Saudi Arabia into an Industrial Powerhouse and a global logistics hub by leveraging the resources of sectors like Mining and Energy and focusing on the development of local content as well as Industry



Pilgrims Experience Program

The Program aims to provides pilgrims with world-class facilities, improved infrastructure and digitized services to ensure each individual is blessed with a distinguished spiritual experience they never forget.

- PIF strategic investments in the local economy are well diversified, with a focus on 13 sectors, including aerospace, automotive, logistics, food, real-estate and mining. We believe these investments will diversify the economy, unlock new sectors, build long-term partnerships and will pave the way for further investments by the private sector
- PIF supports the development of the local economy, aims to expand its portfolio of international assets, alongside maximizing sustainable returns for the national economy
- The size of the fund is expected to reach SAR4.0trn (US\$1.1trn) by 2025f from SAR3.5trn (US\$925bn) in 2023. The growth is expected to be driven by 1) strong performance of the current assets, 2) higher returns of the new investments and 3) restructuring of certain investments (privatization and listing)

Key objectives of PIF strategy

- Maximizing assets
- Launching new sectors
- Building a strategic economic partnership
- Localizing technologies and knowledge

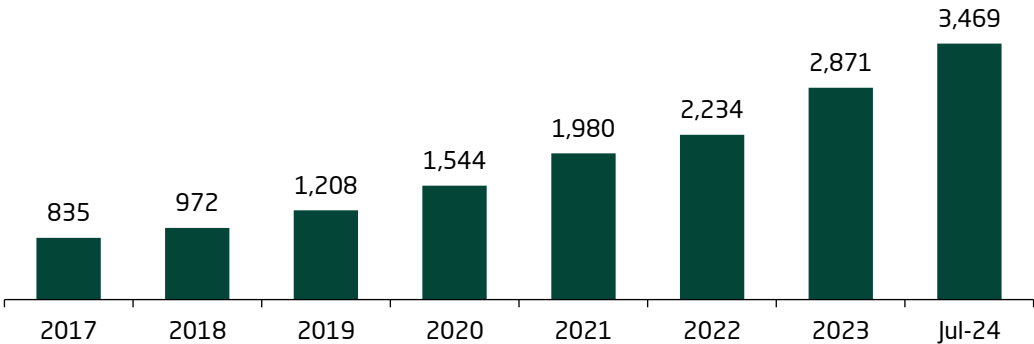
Source: PIF, SNB Capital Research

Top achievements

- Growing assets under management from SAR570bn to cSAR3.5trn in Q1 24
- Doubling the total shareholder return from c3% between 2014-2016 to 8% between 2018-2022
- PIF established 5 Giga projects; NEOM, Qiddiya, Red Sea, ROSHN, Diriyah
- PIF established +94 companies across +13 sectors

Source: PIF, SNB Capital Research

Growth in assets under management (SAR bn)



Source: PIF, SNB Capital Research

Selected Major Projects in Saudi

NEOM

An economic zone located in the Northwest with an estimated cost of US\$500bn and its first phase is expected to be completed by 2025f. Several projects were launched including, The Line and OXAGON

Amaala

A luxury tourism destination located in the North-West. The project's first phase is expected to be completed by mid 2024f, consisting of six hotels. The project is expected to be completed by 2027f with 3,000 rooms and 25 hotels

Red Sea Project

A luxury tourism destination located in the western region. The Red Sea opened its first resort in 2023, it will continue opening the 16 resorts of its first phase over 2024f/2025f. By 2030f, 22 islands, 48 hotels, 6 inland sites and 8,000 rooms will be developed

Central Jeddah Project

A tourism destination located Jeddah. The first phase is expected to be completed in 2027f, while the second and third phases in 2030 and beyond 2030f. The project has a total value of SAR75bn

ROSHN

Backed by PIF, The goal of the project is to create a modern and vibrant community that promotes a high quality of life for its residents. ROSHN launched 2 new project: ALAROUS and WAREFA

Diriyah Gate

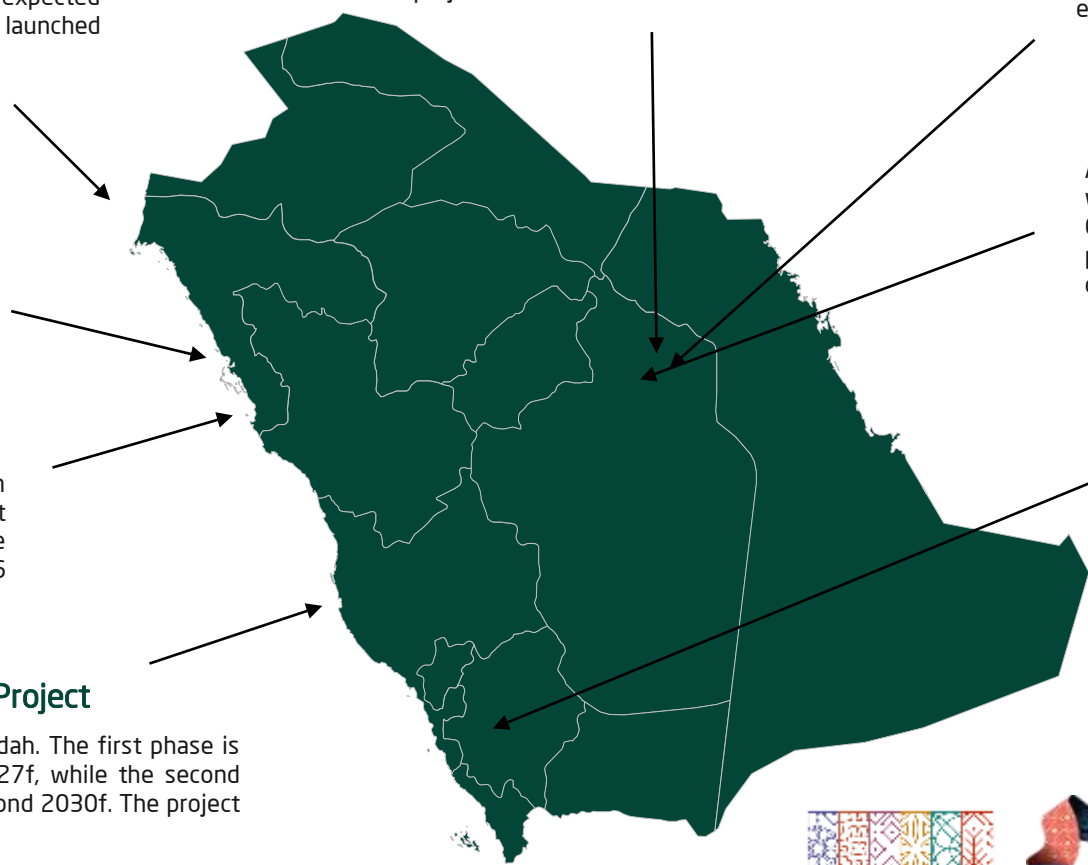
Diriyah aims to transform into an international lifestyle destination for culture, heritage, hospitality, retail and education. The project is expected to have 27mn visitors by 2030f

Al Qiddiya

An entertainment project located in the central region with a total area of 320,000 sqm. Launched in 2019, Qiddiya revealed the launch of Dragon Ball theme park. The project announced a SAR3.75bn contract to construct Six Flags Qiddiya theme park

Soudah Development Project

A tourism destination located in Asir region. The first phase is expected to be completed in 2027f. The total value of the project is expected to be cSAR11bn. Over SAR3bn will be committed to upgrading local infrastructure



السودة للتطوير
Soudah Development



GDP

A growth of 4.4% in 2024f followed by a growth of 5.7% in 2025f are expected, as progress in Vision 2030 programs and initiatives will drive non-oil GDP. In comparison, Saudi GDP declined by 0.8% in 2023 as the 9% decline in Oil GDP was mitigated by a 4.4% growth in non-oil GDP

Non-Oil GDP

Non-oil GDP grew by 4.4% in 2023 and is expected to remain strong in 2024f, driven by higher consumption, the increasing role of the private sector as well as the progress in the implementation of Vision 2030 programs

Expenditure

Expenditure is projected to decline by 1.9% in 2024f to SAR1,251bn, primarily due to the decline in current expenditure

Budget Deficit

A budget deficit is expected with a total amount of SAR79bn (1.9% of GDP) in 2024f vs a deficit of SAR81bn (2.0% of GDP) in 2023

Inflation

CPI increased to 2.3% in 2023 and is expected to moderate to 2.2% in 2024f (MoF)

Mega Projects

Major progress expected in 2024f with several projects expected to deliver its 1st phases during 2024f-2025f

Oil GDP

Oil GDP was impacted by production cuts, inline with OPEC+ agreements, leading to a decline of 9% in 2023. Better demand and higher production may potentially drive growth going forward. However, it remains a function of OPEC+ policy

Revenues

Revenues are expected to decline by c1.7% yoy in 2024f to SAR1,172bn due to the government's conservative approach in estimates. Other revenues are projected to decline by 3.5% yoy to SAR812bn while tax revenues are expected to increase by 2.5% yoy to SAR361bn

Capital Expenditure

Capital expenditure to decrease by 7.1% yoy in 2024f to SAR189bn

Debt Issuance

Total debt in 2024f is estimated to increase to SAR1,103bn, reflecting a debt-to-GDP ratio of 25.9%. (vs c24.8% in 2023)

Interest Rate

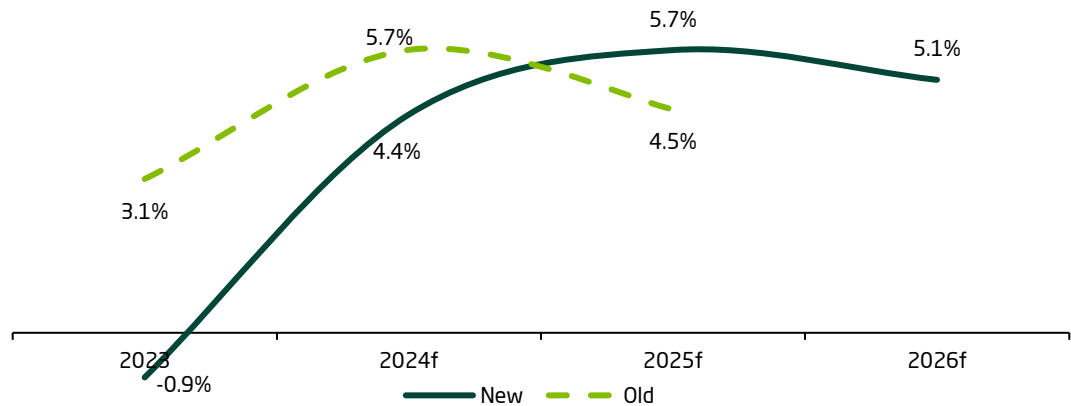
As SAR is pegged to US\$, the Saudi Central Bank (SAMA) follows the Fed.

Implicit oil price

2024f: Based on our estimates, the implicit oil price in the budget is US\$68.0-US\$78.0

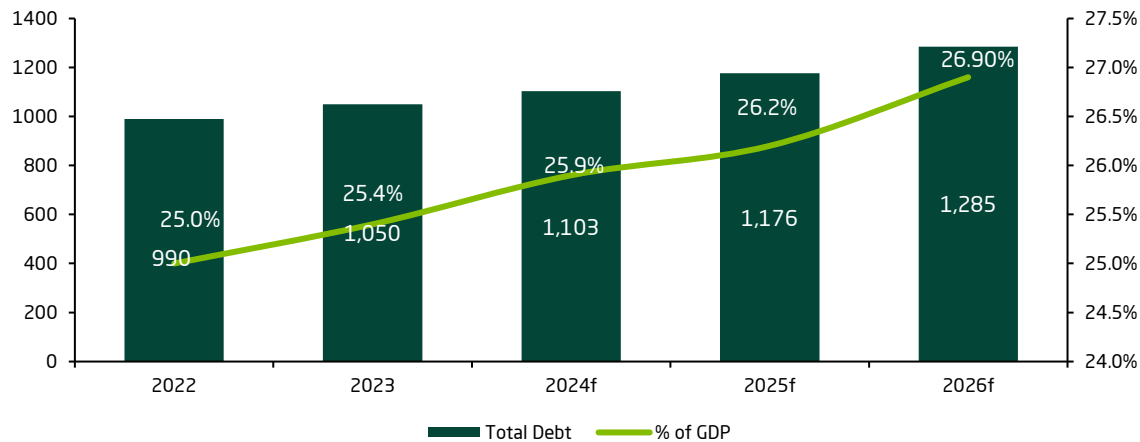
Evolution of Key Economic Matrices

Saudi GDP forecast (%)



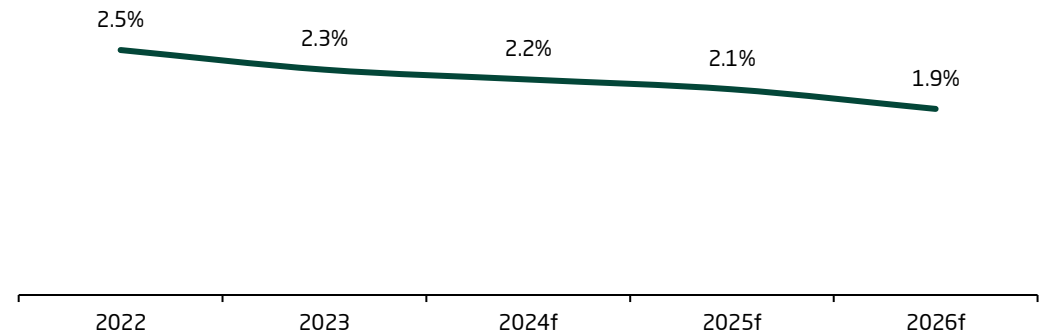
Source: Ministry of Finance, SNB Capital Research

Debt-to-GDP levels (SAR bn, % of GDP)



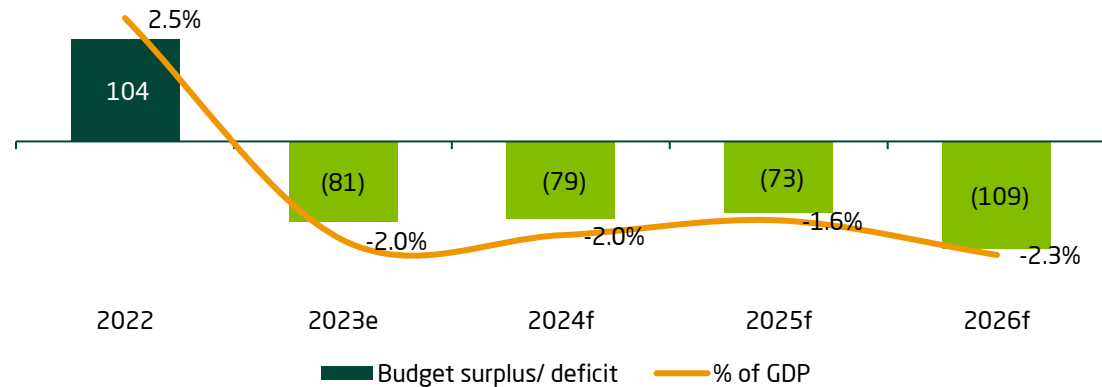
Source: Ministry of Finance, SNB Capital Research

Inflation to moderate



Source: Ministry of Finance, SNB Capital Research

Fiscal roadmap 2022-2026f (SAR bn, % of GDP)

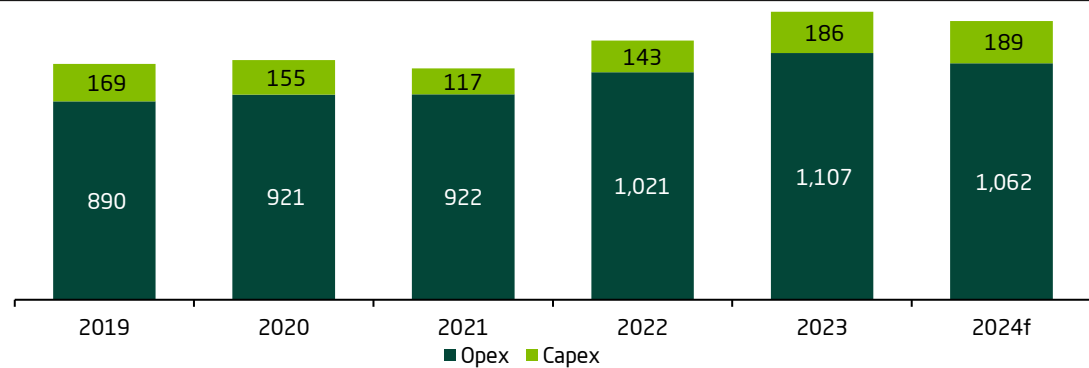


Source: Ministry of Finance, SNB Capital Research

Moving to an expansionary policy

- In 2024f, revenues are expected to decline by 3.3% yoy to SAR1,172bn. Other revenues (including oil revenue) are projected to decline by 5.1% yoy to SAR812bn and its impact will be partially offset by a 1.1% yoy increase in tax revenue to SAR361bn
- According to our estimates, the implicit oil price is cUS\$68-US\$78 (depending on oil production level)
- Total expenditure is estimated at SAR1,251bn (-3.3% yoy). Current expenditure is estimated to decline by 4.1% yoy to SAR1,062bn while capex is expected to remain largely flat at SAR189bn.
- Total public debt is expected to reach cSAR1,103bn in 2024f vs SAR1,050bn in 2023, whereas debt-to-GDP ratio is expected at 25.9% in 2024f vs c24.8% in 2023

Expenditure break-down (SAR bn)



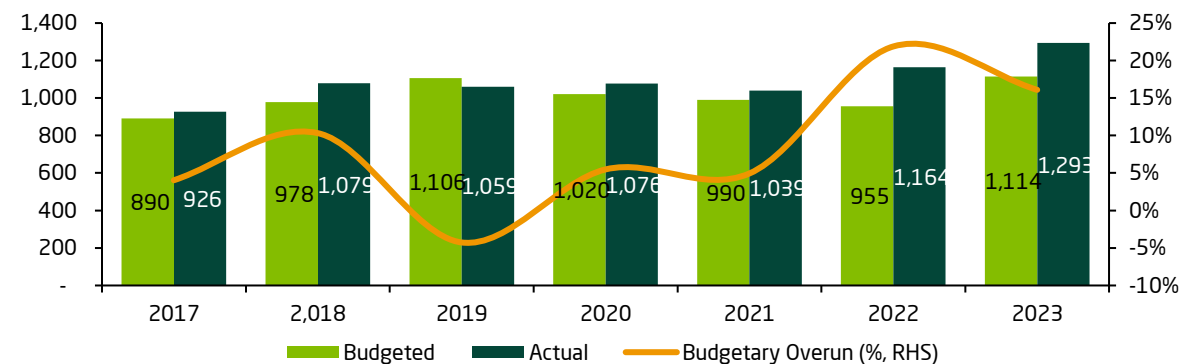
Source: Ministry of Finance, SNB Capital Research

Expenditure by sector (SAR bn)

	2022	2023	2024f	yoy %
Education	202	210	195	(7.1)%
Health and Social Affairs	227	256	214	(16.4)%
Municipality Services	75	77	81	5.2%
Transportation and Infrastructure	41	40	38	(6.1)%
Economic Resources	77	85	84	(1.7)%
Military	228	254	269	5.7%
Security	115	114	112	(2.1)%
General	159	208	216	4.0%
Public Management	41	48	43	(10.3)%
Total	1,165	1,293	1,252	(3.3)%
<i>As % of GDP</i>	<i>28.0%</i>	<i>30.8%</i>	<i>29.4%</i>	

Source: Ministry of Finance, SNB Capital Research

Budget overrun (SAR bn)

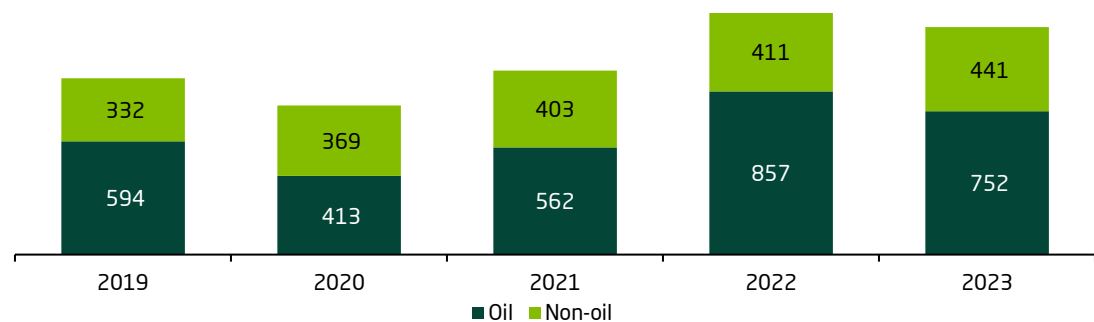


Source: Ministry of Finance, SNB Capital Research

Continuation of sustainability and economic reforms

- The 2024 budget and the medium-term forecasts reflect the progress in implementing the comprehensive structural reforms that aim to boost sustainable economic growth
- Real GDP declined by 0.8% in 2023 vs a growth of 8.7% in 2022 as the 9% decline in oil GDP was mostly mitigated by a strong growth of 4.4% in non-oil GDP. The economy is expected to grow by 4.4% in 2024f and 5.75% in 2025f
- The government adopted an expansionary spending policy that support sustainable economic growth and in turn contribute to the development and diversification of the economy
- A budget deficit of SAR79bn (1.9% of GDP) is estimated in 2024f. A similar level of deficit is expected over the medium term

Break-down of government revenue (SAR bn)



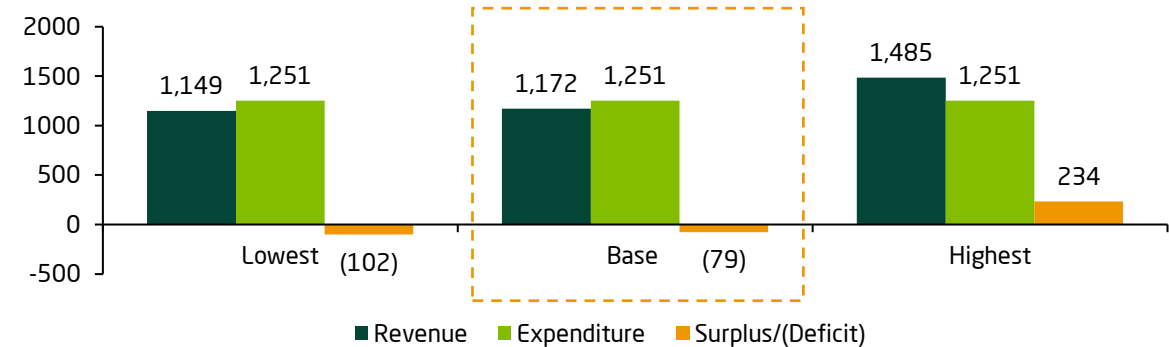
Source: Ministry of Finance, SNB Capital Research

Budget snapshot (SAR bn)

	2022	2023	2024f	2025f	2026f
Revenue	1,268	1,172	1,172	1,227	1,259
Expenditure	1,164	1,251	1,251	1,300	1,368
Surplus (Deficit)	104	(79)	(79)	(73)	(109)
% of GDP	2.5%	(1.9)%	(1.9)%	(1.6)%	(2.3)%
Debt Balance	990	1,103	1,103	1,176	1,285
% of GDP	23.8%	25.9	25.9	26.2%	26.9%
GDP growth	8.7%	0.03%	4.4%	5.7%	5.1%
GDP nominal	4,157	4,136	4,261	4,494	4,774
Inflation	2.5%	2.6%	2.2%	2.1%	1.9%

Source: Ministry of Finance, SNB Capital Research

Budget scenarios for 2024f (SAR bn)



Source: Ministry of Finance, SNB Capital Research

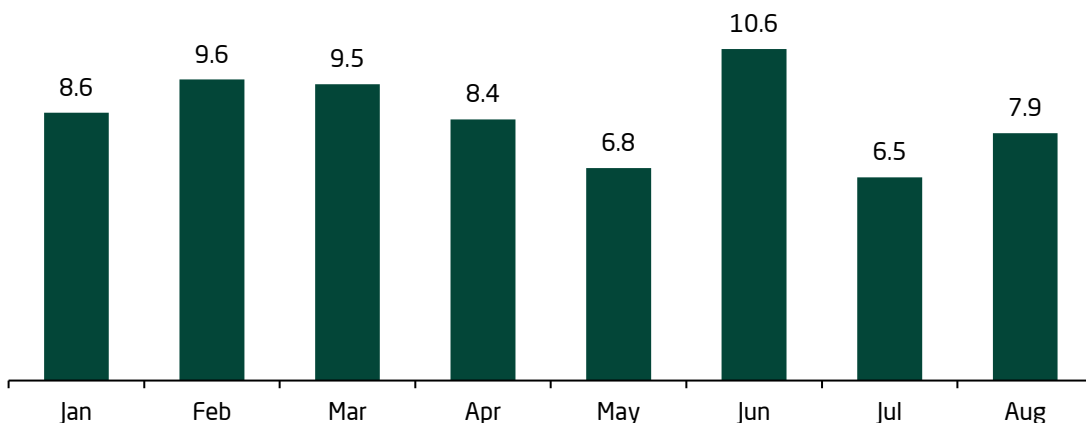
Saudi equities market

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Saudi, a leader in the GCC markets

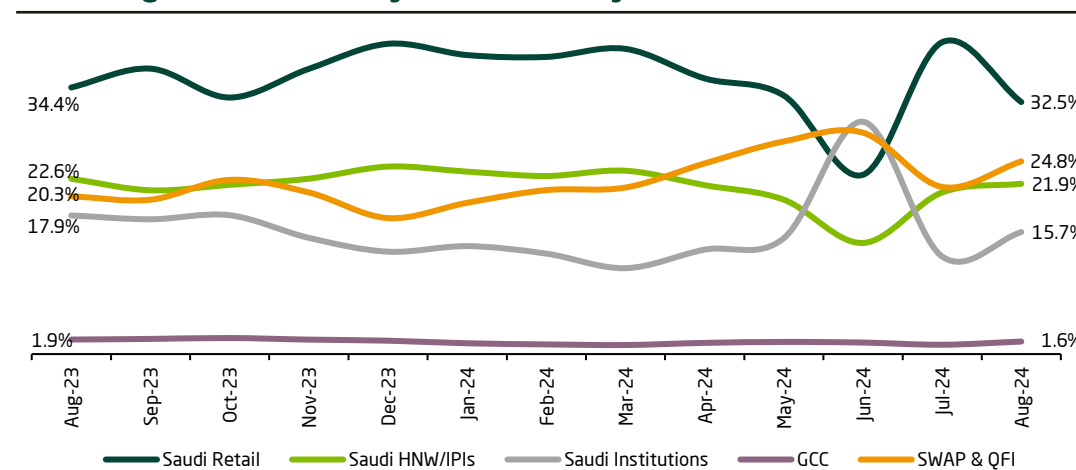
- The Saudi stock market is the largest and most liquid market in the GCC, with a market capitalisation of cUS\$3.0trn (56% of GCC market cap) and is 3.8x larger than the second place (Abu Dhabi)
- The Saudi Stock Exchange consists of 234 listed companies, across 21 sectors, the highest level of diversification in terms of sectors in the region. Of the 21 sectors, Banking, Energy and Materials are dominant, accounting for c36%, c19% and c12% of the free float market cap, respectively
- Tadawul classifies investors in the Saudi market into four main categories and 16 sub-categories. The main categories are: Saudi Individuals, Saudi Institutions, GCC and Foreign investors
- QFI are increasingly playing a larger role in the market. Their trading market share averaged c15% in 2022 and have increased to c23% in 2024

Average daily value traded (SAR bn) in 2024



Source: Saudi Exchange, Bloomberg, SNB Capital Research

Percentage of total monthly value traded by investor



Source: Bloomberg, SNB Capital Research

Largest companies by market cap (SAR bn)

	Sep-24
Saudi Aramco	6,752
Al Rajhi	350
Acwa Power	306
SABIC	227
STC	217
SNB	210
Maaden	156
Sulaiman Alhabib	107
ELM	80.4
Alinma	78.5
Total	8,482

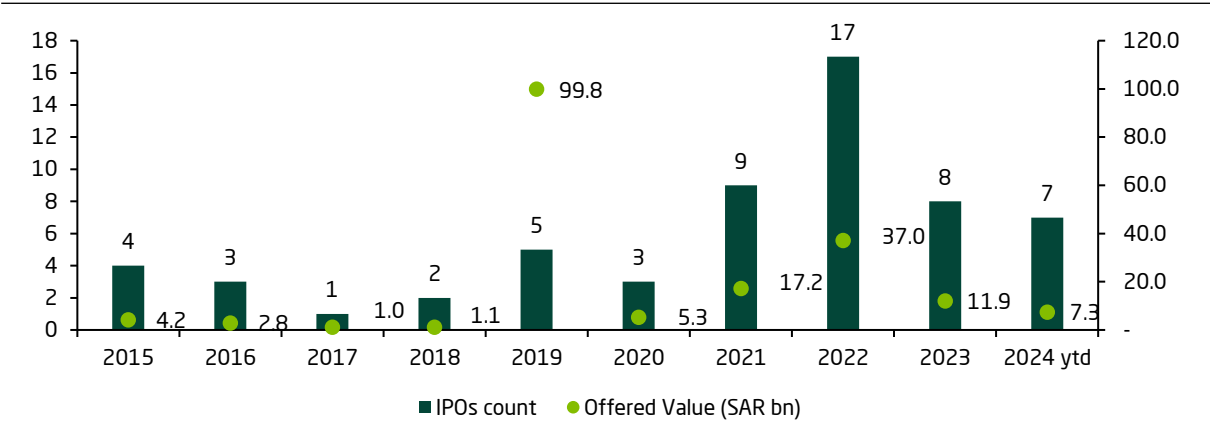
Source: Saudi Exchange, Bloomberg, SNB Capital Research. As of 02 Sep 2024.

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A strong pipeline ahead

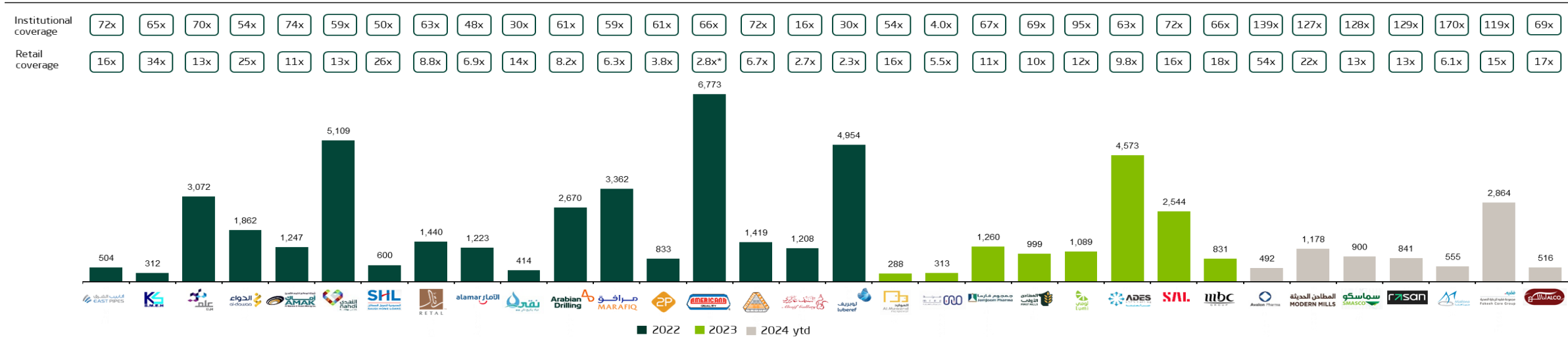
- After record levels in 2022 and following global market trends, TASI IPO activity slowed down in 2023. The number of deals and amounts raised declined to 8 and SAR11.9bn vs 17 and SAR37.0bn in 2022
- Despite that, institutional investors appetite improved with coverage averaging at c61x in 2023 vs c56x in 2022, while retail coverage remained flat at c11x
- We believe the recently announced IPOs indicate a stronger 2024f pipeline, supported by the anticipated ease in interest rates, the acceleration of economic activity, government incentives to list, asset monetization and investors' appetite. Based on the latest data, +50 companies are set to list on TASI and Nomu

Overview of Saudi main market IPOs



Source: SNB Capital Research. *SAR3.8bn excluding Saudi Aramco IPO

TASI amounts raised in 2022 and 2023 (SAR mn)



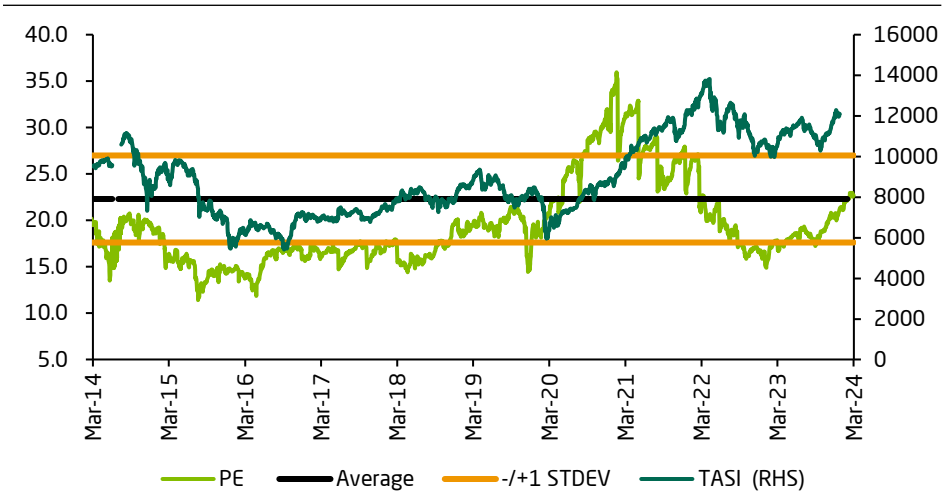
Source: SNB Capital Research. *Saudi retail

2024 Saudi Equity Strategy

Sailing in a fresh breeze

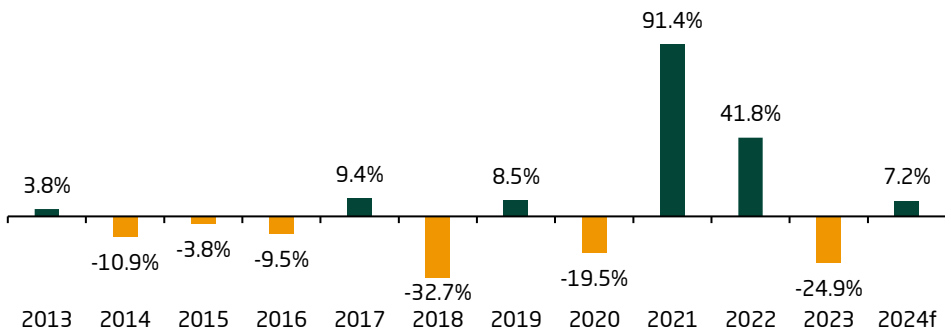
- Ending 2023 with high level of optimism and confidence, anticipating a promising macro dynamic with consecutive rate cuts and picturing its magical impact on markets this year & beyond, we believe 2024f sets itself as a transition year for equity markets
- With inflation fear fading, soft landing expectations and potentially 3 interest rate cuts in the horizon, global equity markets are expected to show strong performance. However, we believe flexibility and agility between sectors and themes are required
- Within EMs, we believe the Saudi market is a shining star. It is setting its own dynamics and offering a distinctive proposition with unmatched characteristics
- Optimism and confidence further strengthen the Saudi market's positive sentiment, underpinned by determination to achieve 2030 goals, delivering the 1st phase of various projects in 2024f-2025f and capitalizing on the impact of hosting major global events
- The Saudi market earnings are expected to be back on track after a major setback in 2023. Earnings are expected to grow by c7.2% yoy, following to a decline of c25% in 2023 and a growth of 42% in 2022
- Key 2024f themes:
 - Global Macro
 - Interest Rates
 - Oil Prices
 - Improvement in EM economies
 - Mega Projects
 - Major Events
 - IPOs
- We expect 2024f to be a positive year but requires agility and flexibility.

TASI P/E (x)



Source: Bloomberg, Saudi Exchange, SNB Capital Research

TASI -Earnings growth



Source: Bloomberg, SNB Capital Research

Petrochemicals

- Slowing global economy, excess supply and supply-chain issues are the key challenges
- High feedstock cost and limited product price increases to pressure earnings
- Potential recovery in 2025f

Banks

- Loan growth to remain in double-digits; driven by the corporate segment
- Banks with greater funding room to record better margins and loan growth
- Excellent asset quality to keep cost of risk low

Telecom

- Digital transformation and B2B are the key sector drivers
- The digitalization is driven by both the public and private sectors

Healthcare

- A promising sector and a key beneficiary of Vision 2030
- Strong expansion pipeline
- Prefer also exposure to pharmacies and pharmaceutical producers

Construction

- Positive outlook driven by accelerated construction of Giga projects
- Tourism and population growth to support demand and activity

Tourism

- Positive long-term outlook driven by Vision 2030 targets
- Major events (Expo 2030 and FIFA World Cup 2034) to drive growth
- Number of tourists is set to exceed 150 million by 2030

Retailing

- Growth to be driven by normalized spending and favorable economic events, while changing consumer behavior is a challenge
- We prefer companies with consumer-coped outlook, away from the exposure to the changing macro environment
- High single digit earnings growth and improved margins on easing inflation

Food

- Reduction in commodity prices to support margins
- Government focus on food security to support the sector's growth
- Increased capex spend on poultry and dairy

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