Saudi Arabia Morning Espresso

28 October 2013

The Weekly Grind

- TASI gained 0.25% in the week ending on 24 October 2013 to close at 8,170.75 points.
- Market activity rose as market turnover and trading volume rose by 20.0% and 38.7%, respectively.
- Sectoral activity mostly advanced. Banking Sector was the sole loser, declining by 1.27%. All other sectors gained. Retail was the best performing sector, gaining 7.45%, followed by Petrochemicals, gaining 5.75%.

What’s Brewing?

- Global energy service giants are banking on a boom in Saudi oil and gas drilling over the next few years to revive profits that are being squeezed by overcapacity in the North American market. Schlumberger, Halliburton and Baker Hughes have all singled out Saudi Arabia as a major growth market for next year as they search the globe for better returns than the saturated U.S. and Canadian markets offer. Dozens of offshore and onshore rigs are being lined up for drilling in Saudi Arabia in 2014, and service companies are expanding their Saudi operations to meet buoyant demand. “We have a very close relationship with Saudi Aramco and the plans that we see for next year are talking about 200 rigs,” Gabriel Podskuba, area manager for the eastern hemisphere at steel pipe maker Tenaris SA, told analysts earlier this month. Industry sources in the Gulf said at least 160 rigs are currently deployed in Saudi territory and that the world’s top oil exporter plans to raise its rig count to 210 by the end of 2014.

Sublime Blends

- The Gulf Cooperation Council (GCC) countries are set to invest USD 155 Bn (SAR 581.3 Bn) for the construction of energy generating plants from non-traditional sources, notably solar energy, local media reported quoting a specialized energy report. However, the drive of energy firms from the private sector to renewable energy projects is still under the required level while the government-owned companies have big capitals to invest in this type of activity, which sometimes falls within “sovereign decisions,” the report, released by Abu Dhabi-based Crescent Petroleum, said. In particular, the private sector firms bear the brunt of challenges to get the required funding and, if attained, could give them the ability to participate in energy decision-making processes and acquire an increasing share of investments, the report said.

TASI Market Cap USD Bn

437.79

YTD - Average daily turnover USD MM

5,679.23

Open / Close

8,150.27 / 8,170.75

High / Low

8,173.70 / 8,141.17

Change / %

20.48 / 0.25

Turnover USD MM

7,020.66

Volume MM

1,122.90

P/E

15.17

P/BV

2.08
**Macro Indicators**

<table>
<thead>
<tr>
<th></th>
<th>Last Value</th>
<th>%Chg</th>
</tr>
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<tbody>
<tr>
<td>3M SAR SIBOR (%)</td>
<td>0.97</td>
<td>0.00%</td>
</tr>
<tr>
<td>EUR/SAR</td>
<td>5.18</td>
<td>0.00%</td>
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<tr>
<td>Gold ($/Oz)</td>
<td>1,350.80</td>
<td>0.30%</td>
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<tr>
<td>Brent Crude ($/bbl)</td>
<td>106.93</td>
<td>-0.06%</td>
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<tr>
<td>WTI ($/bbl)</td>
<td>97.85</td>
<td>0.76%</td>
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<tr>
<td>Saudi CPI (%)</td>
<td>3.70</td>
<td>-</td>
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**GCC Market Performance (Last Close)**

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<thead>
<tr>
<th></th>
<th>Last %Chg</th>
<th>YTD %Chg</th>
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<tbody>
<tr>
<td>Saudi SE</td>
<td>0.25%</td>
<td>20.14%</td>
</tr>
<tr>
<td>Dubai FM</td>
<td>0.29%</td>
<td>79.35%</td>
</tr>
<tr>
<td>Abu Dhabi SM</td>
<td>0.24%</td>
<td>47.57%</td>
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<tr>
<td>Kuwait SE</td>
<td>0.61%</td>
<td>34.04%</td>
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<tr>
<td>Doha SM</td>
<td>-0.43%</td>
<td>15.47%</td>
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<tr>
<td>Muscat SM</td>
<td>0.28%</td>
<td>15.74%</td>
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<tr>
<td>Bahrain</td>
<td>0.19%</td>
<td>12.88%</td>
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**USD/SAR = 3.75 (fixed rate)**

Sources: Tadawul, Zawya, Gulfbase, Bloomberg, Mubasher

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**Macro News**

- The cost of construction projects in Saudi Arabia have increased by at least 12% over the past two years, with profit margins for contracts ranging between 4-8%, said Fahd Al Hammadi, Chairman of the National Contractors Commission at the Saudi Council of Chambers. “With construction costs going up by at least 12%, contracts have started to suffer from a sharp fall in profits and large losses in some cases,” he told a Saudi Arabic daily. He added that urgent measures are needed to address the situation. While the Saudi government continues to award mega-project deals to local contractors, it has accused some of them of holding up projects and affecting the socio-economic development in the Kingdom. Contractors, however, dismissed the accusations, and alleged that the government tends to blame them for most of the problems facing the awarded contracts.

- Saudi Arabia will continue to attract the interest of foreign pharmaceutical companies, and not just that of multinationals, BMI said in its “Saudi Arabia Pharmaceuticals & Healthcare Report Q4 2013” forecast. An increase in the number of joint venture agreements with local partners shows that generic drug-based foreign players are also targeting the rising demand for a range of medical treatments. Healthcare modernization and facility expansion should further support this increasing demand, which is already being driven by epidemiological factors. In pharmaceuticals, expenditure would surge SAR 22.6 Bn (USD 6.0 Bn) in 2013 from SAR 20.4 Bn (USD 5.45 Bn) in 2012 or a 10.6% rise in both local currency and US dollar terms.

- The global takaful industry grew 16% in 2012, a noticeable moderation from a 22% compounded annual growth rate (CAGR) over 2007-2011, according to a recent Ernst & Young (EY). Takaful in most markets is still in its infancy, and its potential to replace conventional insurance in leading Islamic finance markets is still largely untapped. Currently, Saudi Arabia, the UAE and Malaysia lead the industry with their relatively well-developed Islamic finance industry. The role of authorities in simplifying regulatory frameworks across borders and encouraging consolidation will also be key in propelling the industry’s expansion. In order for the industry to maintain its growth trajectory, there is a need for larger regional players who can provide leadership for building capacity in the industry and to address a number of business risks that the industry executives cite as challenges to the industry as a whole.

- The Civil Aviation Authority (CAA) said Wednesday that it will approve the designation of Al-Hasa and Najran airports as international airports. CAA’s PR director and spokesman told Arab News that Prince Fahd bin Abdullah, president of CAA, welcomed the move. He said that Arab airline carriers will be allowed to operate one flight daily from Al-Hasa airport to Sharjah. Flights will begin operation in early November. Several other airline requests to operate from Al-Hasa are also under consideration. This brings the number of domestic airports being utilized for international flights to eight. Last year, 1.1 MM international passengers traveled through domestic airports.
Higher sales helped Saudi Basic Industries Corp (SABIC) post a rise in third-quarter net profit, in line with analyst forecasts, as the chief executive officer said the outlook for next year was improving. "About the future outlook, I think 2014 will be similar to 2013 or slightly better," Mohamed al-Mady told a news conference on Sunday after the company’s results were announced. Mady said he expected petrochemicals demand in the U.S., China and Europe, SABIC’s main markets, to grow next year as the global economy improved. The company’s sales in the third quarter rose 9% to SAR 48.8 Bn (USD 13.0 Bn) over the same period in 2012, with sales from the first nine months of this year unchanged from last year at SAR 140 Bn. Net profit for SABIC was SAR 6.5 Bn in the three months to Sept. 30, compared to SAR 6.31 Bn a year ago.

Saudi Electricity Company posted a 1% fall in third-quarter net profit, missing analyst’s forecasts. Profit fell to SAR 2.9 Bn (USD 761 MM) in the three months ended Sept. 30, from SAR 2.8 Bn in the same period a year earlier. The company attributed the decline in profits to an increase of purchased energy expenses in addition to increase the generation capacity to keep up with the demand for energy.

Zain Saudi, Saudi Arabia’s third-largest telecoms operator, reported a narrowing loss for the third quarter on Sunday, missing analyst’s forecasts, as its customer base rose by nearly a quarter. It said in a bourse statement it made a net loss of SAR 421 MM (USD 112 MM) in the three months to Sept. 30, compared with a net loss of SAR 493 MM a year ago. The company has yet to make a quarterly profit since launching operations in 2008, but has taken significant steps to ease its debt burden. In July, the company extended a $2.3 billion Islamic loan facility at a lower interest rate. It also agreed a deal with the government in June that would allow it to defer payment of license-related fees, which could total around USD 1.49 Bn over seven years, and appointed industry veteran Hassan Kabbani as chief executive in September.

Saudi Arabian retailer Fawaz Abdulaziz Alhokair posted an 11.8% rise in second-quarter net profit on Monday that fell short of analyst’s forecasts despite increased sales from expansion of stores. The firm made a net profit of SAR 282.1 MM (USD 75.21 MM) in the three months to Sept. 30, up from SAR 252.4 MM in the year-earlier period, according to a statement to the Saudi bourse. Alhokair’s financial year starts on April 1. Alhokair said the profit rise was due to an “increase of the sales for the same stores and the successful opening of new stores”. The company’s second-quarter turnover was SAR 1.6 Bn, up 13.5% from SAR 1.4 Bn in the corresponding period of 2012. In September, Alhokair said it would open nearly 250 stores in its current financial year.
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