

# Al Rajhi Capital 2025 Saudi Market Outlook

January 7<sup>th</sup>, 2025

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# Executive summary

## TASI to reach 12,882 points by the end of 2025, earnings to grow by over 9%

### Global economy

- Global economic growth is expected to remain stable despite the tight monetary policy around the world. Growth is projected to hold steady in 2024 and 2025 at 3.2%.
- The US is expected to lead the global growth due to strong consumption and resilient labor market. Whereas the Euro is projected to continue its weak economic performance, driven by Germany's stagnation in 2024, and modest growth in 2025 (0.8%).

### Monetary policy and inflation

- The global battle against inflation is showing outstanding progress, as it continues a downward trend, from 8.6% in 2022 to 5.8% in 2024, and expected to reach 4.3% and 3.6% in 2025 and 2026 respectively.
- Despite previous expectations of another 100 bps cut to take place in 2025 in addition to the recent development in US labor market (rise to 4.2% unemployment), the surge in inflation pushed the Fed to change their guidance for 2025. Currently, the median expectations is for just 50 bps cut during 2025

### Saudi economy

- Non-oil GDP has continued showing strong growth momentum since 2020. Most recent data shows annual growth of 4.3% in Q3-2024.
- We project non-oil GDP to grow at 4.6 in 2025, mainly due to the mega projects and infrastructure expansions around the Kingdom, and supported by private sector positive sentiment.
- We project inflation to remain stable at 2.1% in 2025, supported by macroeconomic and monetary stability.

### Oil outlook

- We expect oil prices in 2025 to range between USD 73-78 per barrel. A main upside factor is the Chinese government stimulus packages. On the supply side, non-OPEC production continues its growth mainly driven by the US, whereas OPEC maintains its commitment to stabilize the market.

### Equity market wrap up in 2024

- Amid positive global sentiments for equity, TASI underperformed the EM markets mainly due to local/regional factors such as liquidity squeeze in H1, pressure on oil prices and geopolitical worries.
- Index heavy weight, Aramco came under pressure, while Acwa Power and Al Rajhi came to the rescue.
- The weakness in the broader market masked the performance of small cap index, that was up over 9%.

### 2025 equity market outlook

- TASI P/E is now trading at a long term historical average P/E of just 19x, despite the attractive structural growth story, while dividend yield is above the long-term average.
- In 2025, we estimate over 9% earnings growth led by banks and other structural growth sectors. The implied 2025 P/E at current TASI level comes ~18x.
- We expect TASI to touch the level of 12,882 points by the end of 2025.

### IPOs, Liquidity and Nomu

- After a slowdown in the number of IPOs in 2023, 2024 noticed a resurgence with 14 new IPOs.
- We estimate 25-30 IPOs in 2025 and 2026 each.
- In the last six years, the foreign investors have been net buyers every single year. Foreign investors ownership is now over 4% and in terms of ADTV, the share is now over 26%.
- Nomu index saw second consecutive year of over 25% returns and notable outperformance vs. TASI.

### Sectoral performance in 2025

- Attractive:** Banks, Healthcare, Insurance , Rental/tourism, IT
- Neutral:** Petchem., Telecom, Pharma, Retail

### Stocks top-picks

- High conviction ideas:** Walaa, Dallah, Solutions, Budget
- Other Top Picks:** Habib, Bupa, Mobily, Leejam, Lumi, AlArabia, eXtra,
- NOMU:** TAM and Academy of Learning

# Macroeconomic Outlook

# Global Economy

## Robust global economy growth despite geopolitical headwinds

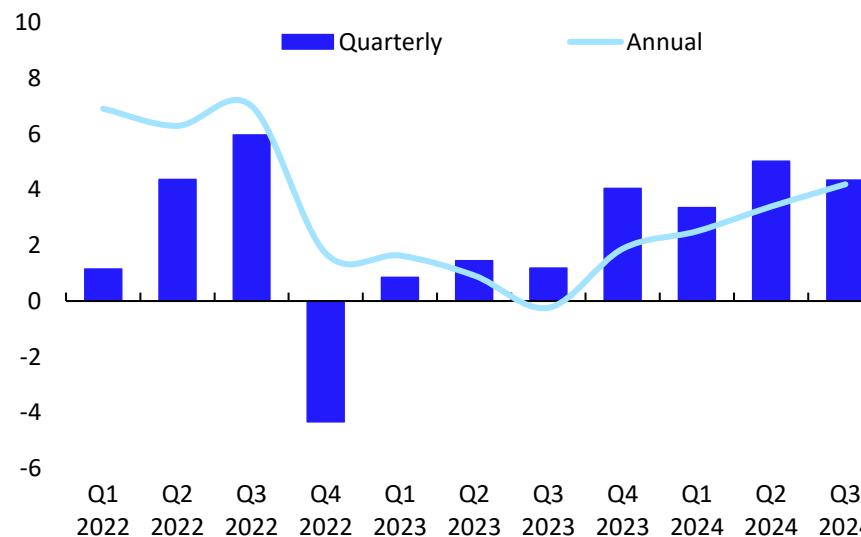
- Global economic growth is expected to remain stable, despite the tight monetary policy around the world. Growth is projected to hold steady in 2024 and 2025.
- The US is expected to lead the global growth due to strong consumption and resilient labor market.
- In China, on the other hand, growth is predicted to decline from 4.8% in 2024 to 4.5% in 2025, due to challenges in the property sector (over supply and high debt level among developers) in addition to weak household and business confidence.
- The Euro is projected to continue its weak economic growth, driven by Germany's stagnation in 2024 (0%) and modest growth in 2025 (0.8%). Persistent weak manufacturing, underinvestment and aging population are key factors for stagnation in Germany.
- Despite the ongoing geopolitical tensions, global trade was not impacted significantly so far. Indeed, global trade as a share of GDP remains stable. Nevertheless, we are witnessing fragmentation taking place between geopolitical blocks and a move towards regional integration, nearshoring, and "friend-shoring".
- Global commodity price pressure eased during 2024, after the significant pressure since Covid-19 and the Ukraine war. The IMF expects their prices to remain stable in 2025 due to reduced supply pressure.

## Global GDP growth

	2024	2025	2026		2024	2025	2026
World	3.2	3.2	3.3	G20	3.3	3.3	3.2
United States	2.8	2.2	2.0	Saudi Arabia	1.5	4.6	4.4
United Kingdom	1.1	1.5	1.5	China	4.8	4.5	4.1
Euro area	0.8	1.2	1.5	India	7.0	6.5	6.5
Germany	0.0	0.8	1.4	Russia	3.6	1.3	1.2
France	1.1	1.1	1.3	Argentina	-3.5	5.0	4.7
Spain	2.9	2.1	1.8	Brazil	3.0	2.2	2.3
Italy	0.7	0.8	0.7	Indonesia	5.0	5.1	5.1
Canada	1.3	2.4	2.0	Mexico	1.5	1.3	2.0
Japan	0.3	1.1	0.8	South Africa	1.1	1.5	1.5
Korea	2.5	2.2	2.2	Türkiye	3.0	2.7	3.2
Australia	1.2	2.1	2.2				

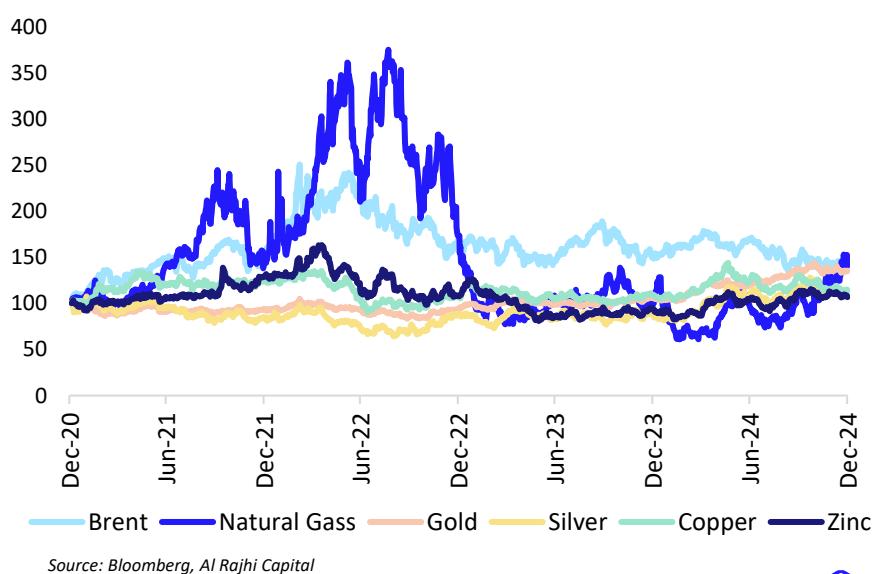
Source: IMF, Al Rajhi Capital

## Global trade growth



Source: OECD, Al Rajhi Capital

## Global commodity prices



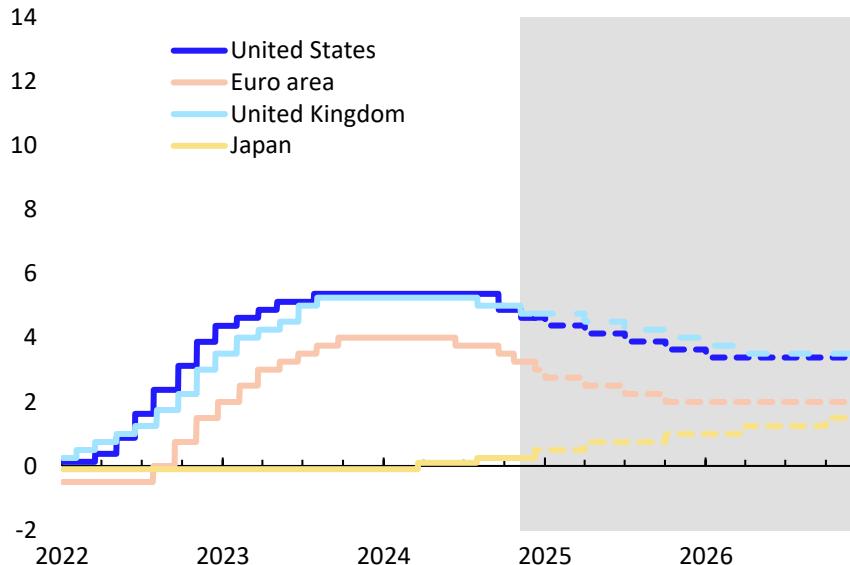
Source: Bloomberg, Al Rajhi Capital

# Monetary policy and inflation

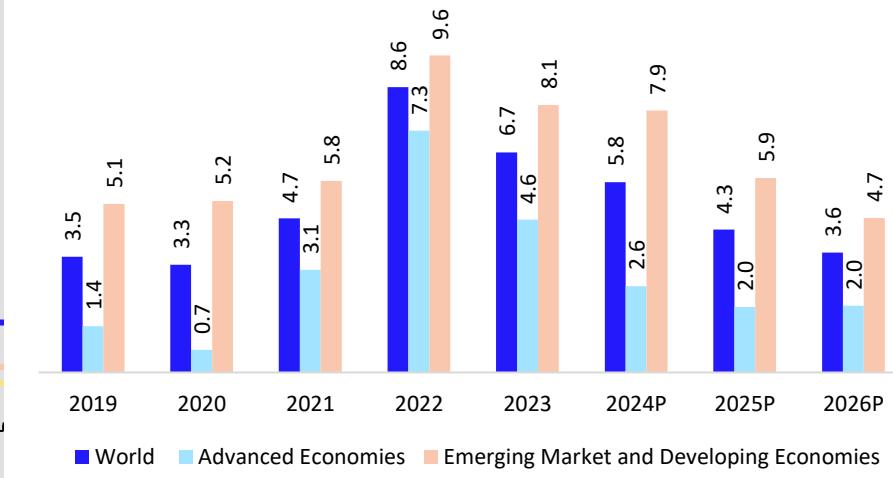
## Monetary policy direction has changed to support macro fundamentals

- The global battle against inflation is showing outstanding progress, as it continues a downward trend, from 8.6% in 2022 to 5.8% in 2024, and expected to reach 4.3% and 3.6% in 2025 and 2026 respectively (compared to 3.6% average between 2000 and 2019).
- The inflation decline is due to two major factors:
  - Easiness of supply shocks that escalated during Covid-19 and the Ukraine war.
  - Monetary policy tightening which helped keeping inflation expectations anchored and avoiding the 1970s experience of wage-price spiral (self-reinforcing inflation cycle).
- The decline in inflation paved the way for central banks to change their monetary policy stance. Since June 2024, we witnessed consecutive rate cuts with the purpose of supporting macroeconomics growth.
- In the US, the Fed has executed 3 consecutive rate cut totaling 100 bps in the second half of 2024.
- Despite previous expectations of another 100 bps cut to take place in 2025 in addition to the recent development in US labor market (rise to 4.2 unemployment), the surge in inflation (increase in core inflation by 20 bps in August-November of 2024) pushed the Fed to change their guidance for 2025.

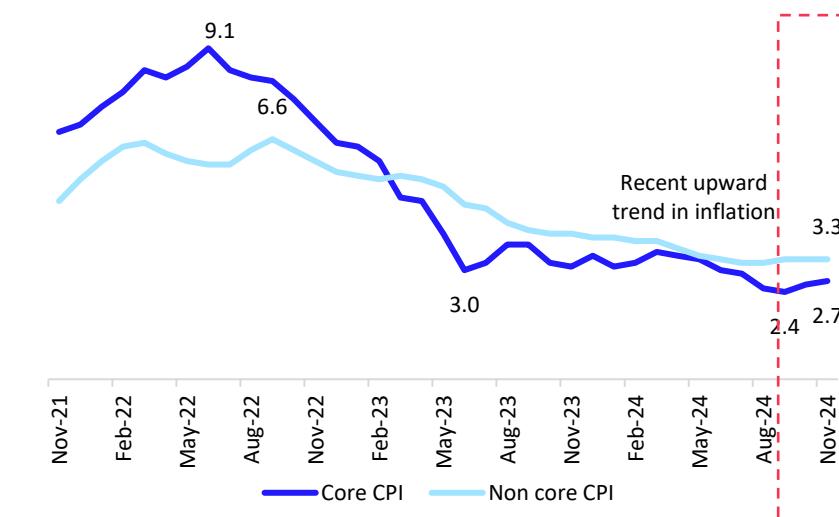
Policy rate



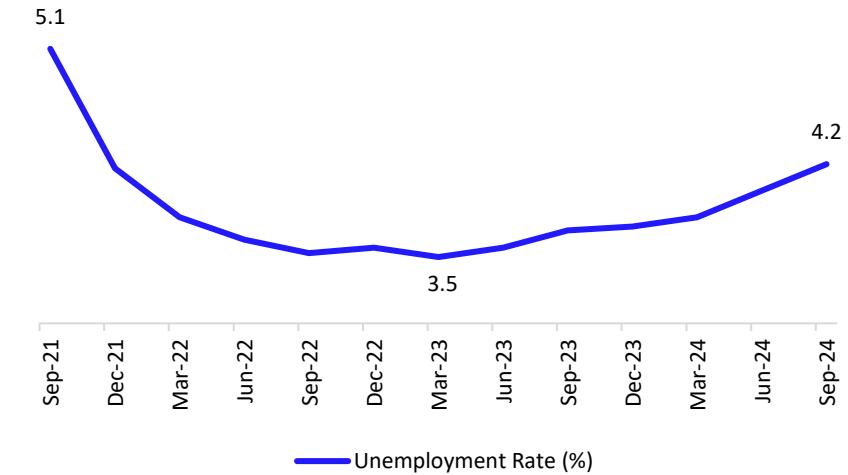
Global Inflation



US Inflation (core vs non-core)



US Unemployment rate

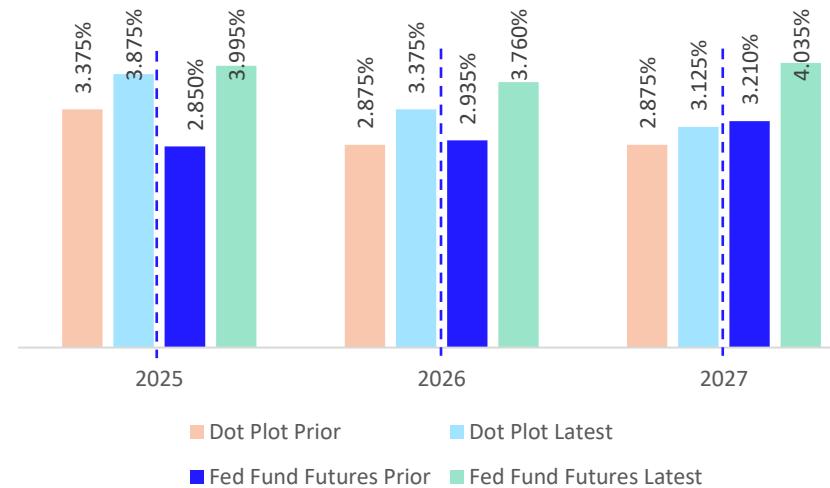


# Rate outlook

## We expect 2 cuts in 2025, in line with the market

- In the last Fed meeting, the dot plot was revised downwards with fewer rate cut projections in 2025 versus before. In the backdrop of healthy US economy and stickier inflation, the Fed now expects only 2 rate cuts in 2025 versus 4 cuts before. Even the US fed fund futures have now adjusted its expectations and is pricing in only 2 rate cuts this year. Similar expectations are implied by the US bond yield curve.
- The market is worried about the risk of Trump imposing tariffs and launching pro-economic measures that would result in higher inflation. To some extent, the concerns are reasonable. However, given that the economic conditions in the US are different this time versus the previous presidential term for Trump, we could see more measured approach. Further, the inflationary risk from higher tariffs, if imposed could be curtailed to some extent by the rise in the US dollar.
- In line with the market, we also expect 2 rate cuts this year. However, we believe there is a possibility of more than 2 cuts if the potential tariffs are lower than expected or the imposed tariffs weigh on the economy and the labor market.
- Back home, the liquidity situation continues to be tight with divergence between SAIBOR-SOFR this year around 70bps. We anticipate 2025 and 2026 to continue being higher than the long-term average spread driven by demand for loans. We estimate SAIBOR to end at 4.88% in 2025 and 4.38% in 2026.

### Dot Plot and Fed fund futures



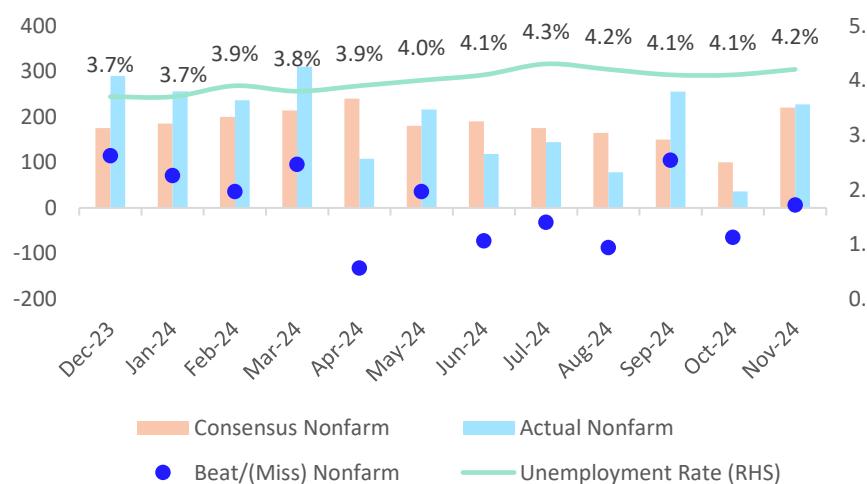
Source: Bloomberg, Al Rajhi Capital, Prior data is as of 18<sup>th</sup> September 2024

### US Bond yield curve (%) movement



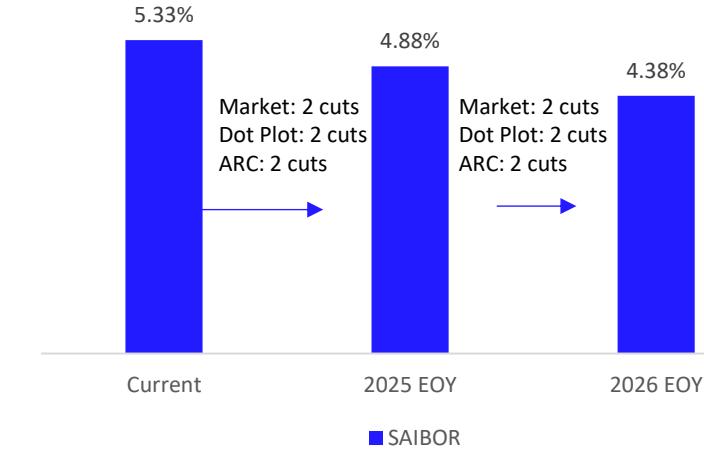
Source: Bloomberg, Al Rajhi Capital

### Non-farm payrolls ('000s) dictate yield and Fed decision



Source: Bloomberg, Al Rajhi Capital, Note: For Actual Nonfarm payroll data, we have considered the latest number from BBG (revised numbers).

### ARC's SAIBOR estimate



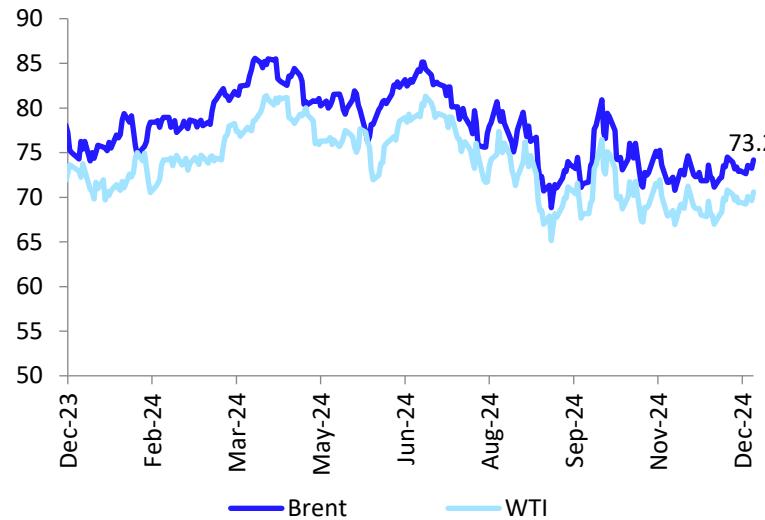
Source: Bloomberg, Al Rajhi Capital. EOY: End of year

# Oil Market

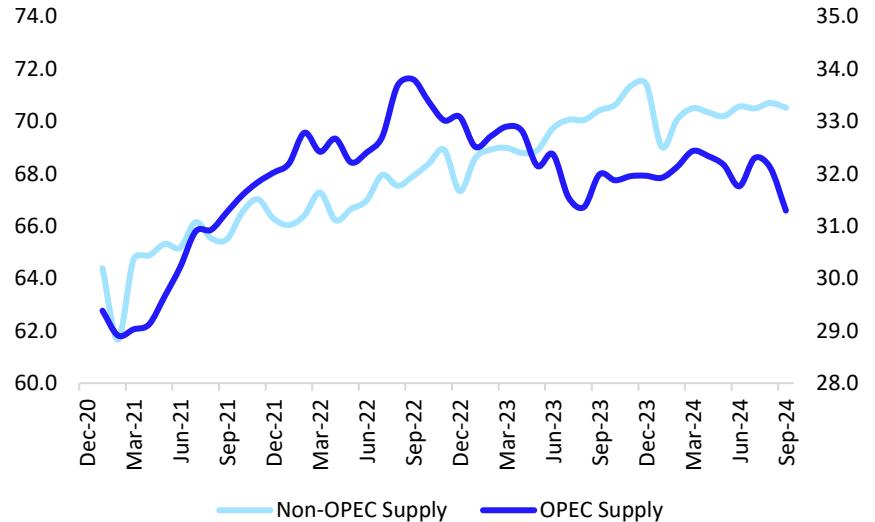
## Weak oil demand is expected to continue in 2025 driven by China's slow growth

- Oil prices have shown volatility throughout 2024, driven by geopolitical factors and weak demand.
- On the supply side, non-OPEC production continues its growth mainly driven by the US, whereas OPEC maintains its commitment to stabilize the market through its voluntary and non-voluntary cuts.
- International organization (OPEC, IEA, and EIA) expect slight expected growth in global demand. Also, they have revised their projection downwards for 2024 and 2025 to account for:
  - Weaker-than-expected economic activity in China.
  - Slow economic growth in the Euro area.
  - Increase in other energy sources production, including coal.
- We expect oil prices in 2025 to range between USD 73-78 per barrel. A main upside factor is the Chinese government stimulus packages, which could improve economic activity, sentiment, and oil demand.
- Indeed, signs of slight improvements in China's demand have been witnessed, as oil imports increase 14% in November-2024 (y/y).

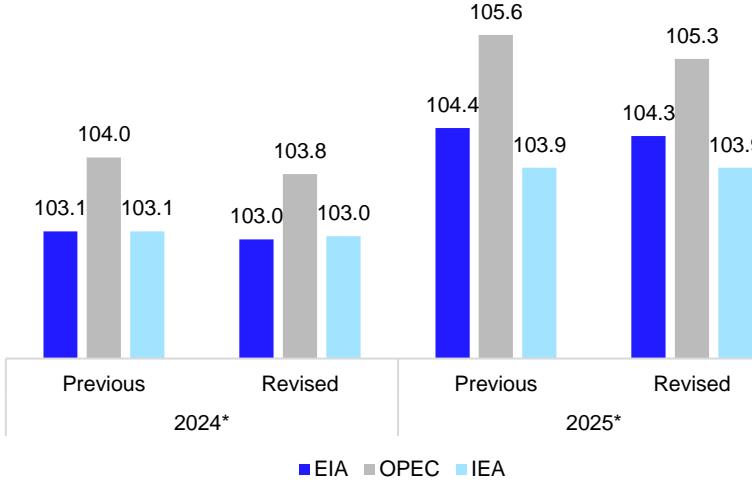
### Oil prices



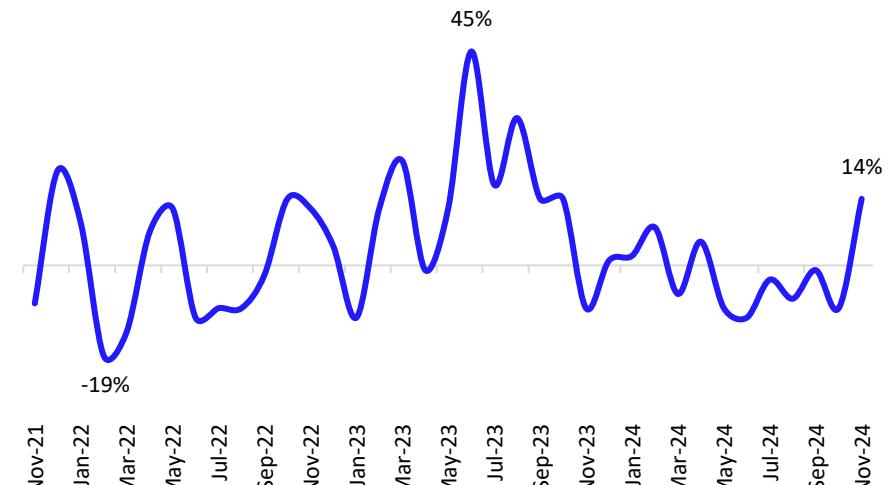
### Supply developments: by OPEC and Non-OPEC



### Oil demand projections



### China Crude Oil Imports (Percentage change, y-o-y)

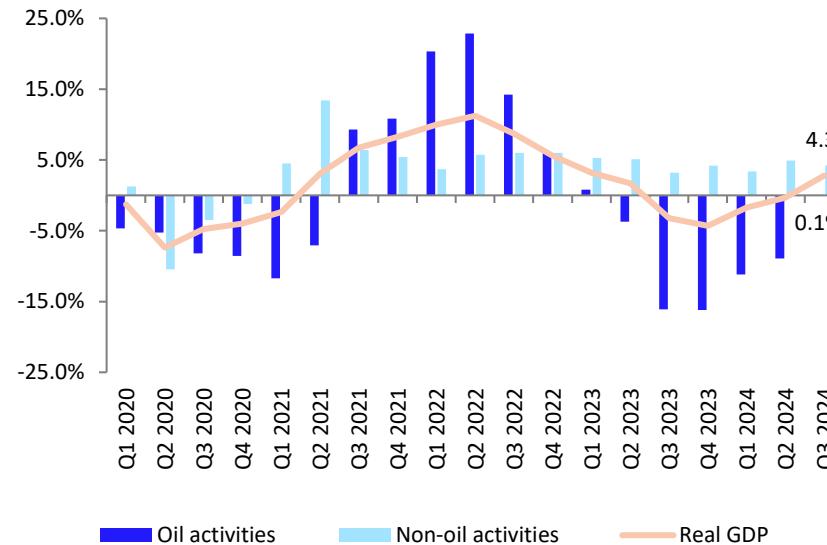


# Saudi economy (1/3)

## The Saudi economy continue showing robust growth indicators

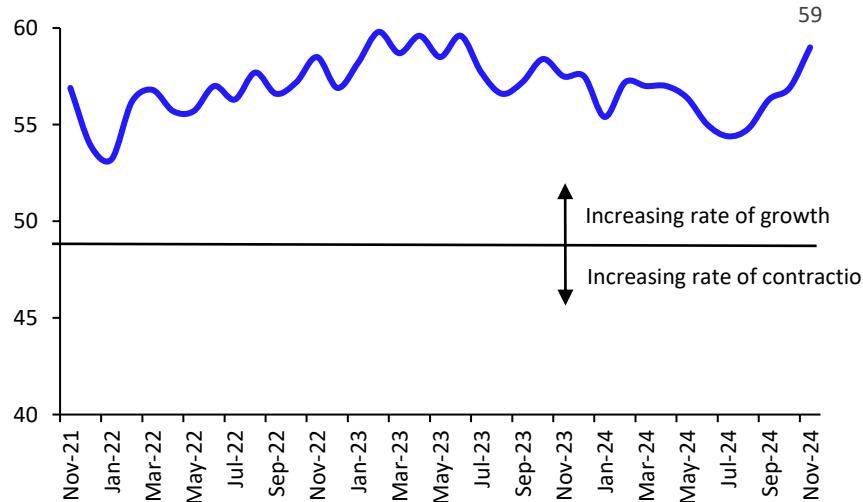
- Non-oil GDP has shown strong growth momentum since 2020 registering annual growth of 4.3% in Q3-2024, and reflecting Vision 2030 projects and diversification progress.
- Purchasing Managers Index (PMI) in November-2024 showed substantial growth reading at 59.0, marking the highest reading since June 2023.
- Growth was driven by services sectors: retail trade, construction, transportation, and financial.
- Labor market reforms are resulting in historically low unemployment and high participation rates in Q3-2024.
  - Overall unemployment reached 3.7%.
  - Saudi unemployment reached 7.3%
  - Participation rate reached 66.6%, supported by Saudi females.
- As a result of the substantial achievement, the government revised down the 2030 Saudi unemployment target of 7.0% to 5.0%.
- Regarding the oil sector GDP, it recorded a slight annual growth in Q3-2024 for the first time since Q1-2023. The slow growth is a result of the Saudi commitment to OPEC+ agreement, and the voluntary cut in production.

### Real GDP Growth



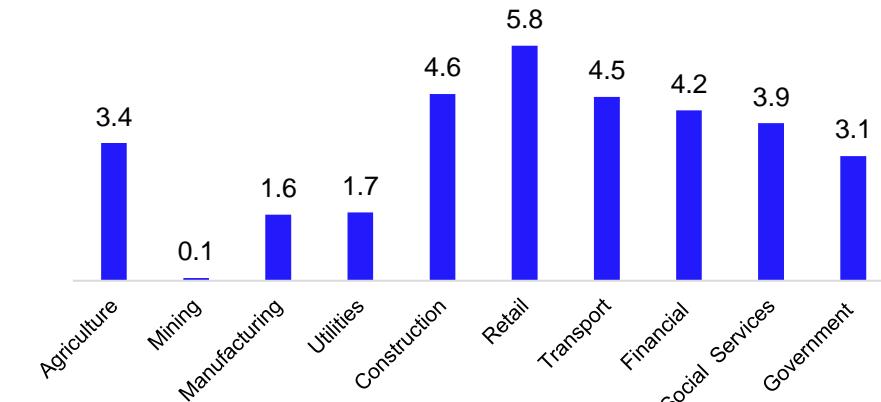
Source: IMF, Al Rajhi Capital

### Saudi PMI



Source: Bloomberg, Al Rajhi Capital

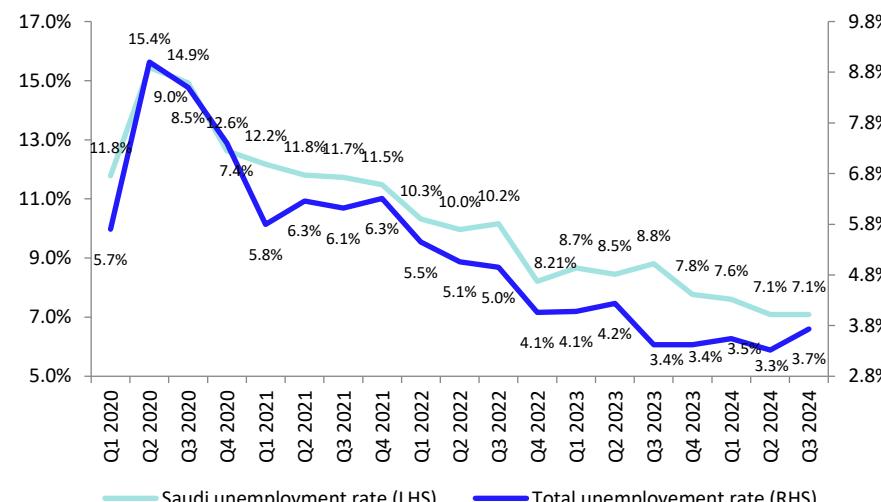
### Real GDP growth by Sector (3Q24 y-o-y % change)



Source: IMF, Al Rajhi Capital

Notes. retail sector includes: Retail, Restaurants, hotels., Finance sector also includes insurance and business services. Social services includes community services and other related activities. Transportation includes also communication and storage.

### Unemployment rate



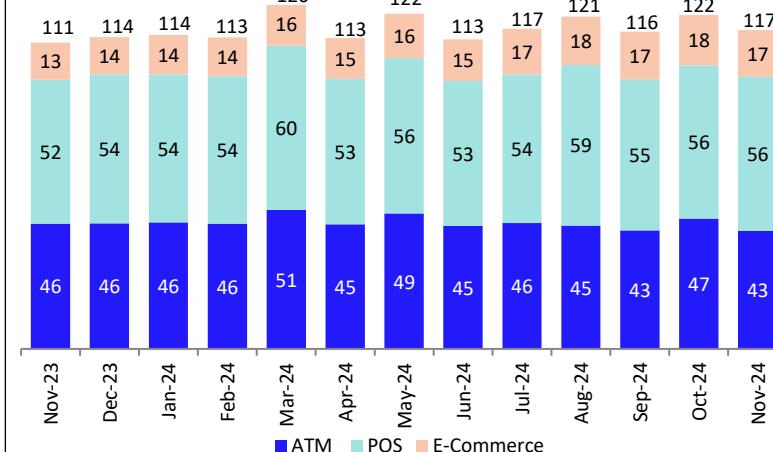
Source: GASTAT, Al Rajhi Capital

# Saudi economy (2/3)

## Low inflation rate and high consumption level continue driving private-sector confidence

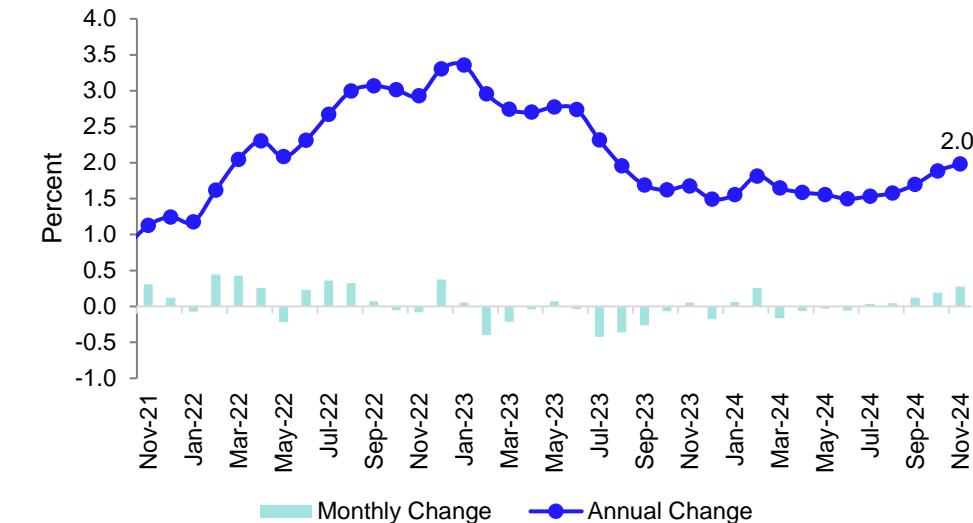
- Consumption spending remained solid, as it grew in November-2024 annually by 5.4%. In the meantime, E-commerce transactions grew by 30%. This growth shows the continues change in spending behavior favoring digital platforms, with younger demographics and tech-savy consumers driving the shift.
- Inflation rate grew annually by 2.0%, driven by housing rentals which increased by 9.0% in November-2024. The growth was driven by large private sector expansions, expats inflow, and regional offices move to the Kingdom.
- On the other hand, transportation led the deflating sectors by 2.5% mainly due to decline in used cars. In addition, the stabilization of fuel prices through government subsidy (price cap) also contributed to lower transportation costs.
- Such a rising consumption power and stable inflation rate further support consumer confidence and private-sector growth in the Kingdom.

Consumption (SAR bn)



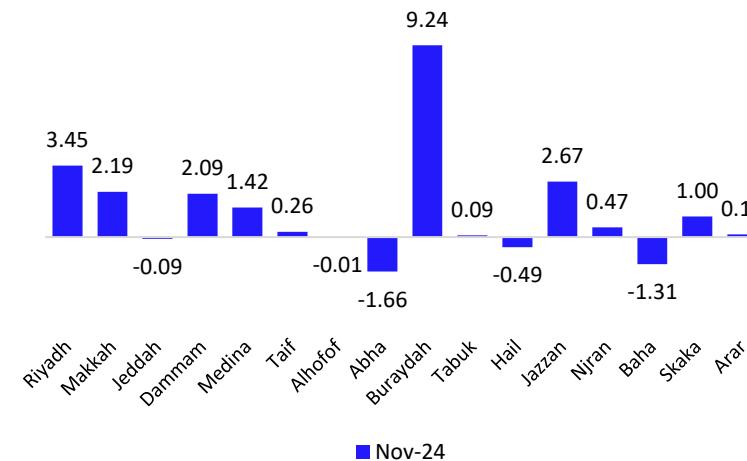
Source: SAMA, Al Rajhi Capital

Consumer Price Index



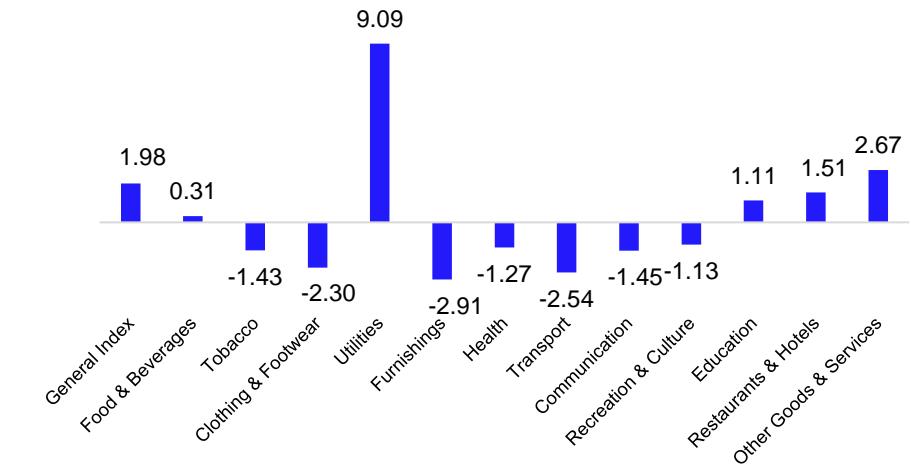
Source: GASTAT, Al Rajhi Capital

Consumer Price Index by City (y-o-y % change)



Source: GASTAT, Al Rajhi Capital

Change in Consumer Price Index by Segments (Nov-2024, y-o-y)



Source: GASTAT, Al Rajhi Capital

# Saudi economy (3/3)

2025 budget underscores the focus on supporting economic diversification, while maintaining fiscal sustainability

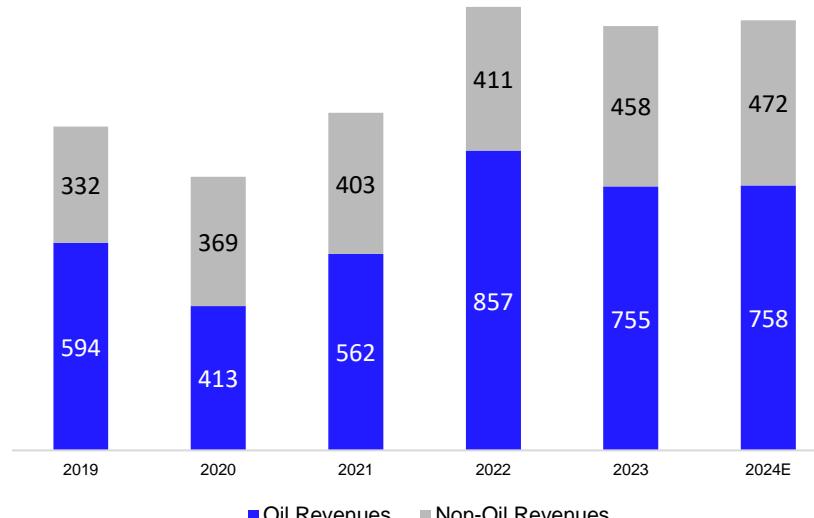
- The budget statement for 2025 confirms the government commitment to support Vision 2030 programs and strategies. In the meantime, the budget adopts a cautious stance on the revenue projections accounting for potential developments in the global markets.
- Total revenue is projected to reach about SAR 1,184bn in 2025 and 1,198bn in 2026.
- Expenditure is projected to reach SAR 1,285bn in 2025 and 1,328bn in 2026.
- Budget deficit/GDP is projected to reach 2.3% in 2025 (SAR 101bn) and 2.9% in 2026 (SAR 130bn).
- Debt to GDP is projected to reach 29.9% in 2025, which implies that Saudi Arabia has significant fiscal room compared with GCC and G20 countries. This is in addition to the substantial government reserves at the Saudi Central Bank (SAMA), which allows the Kingdom to deal with any external shocks.

## KSA Budget Estimates (SAR bn)

	2023A	2024E	2025P	2026P	2027P
<b>Revenue</b>	1,212	1,230	1,184	1,198	1,289
<b>Expenditure</b>	1,293	1,345	1,285	1,328	1,429
<b>Surplus (deficit)</b>	-81	-115	-101	-130	-140
<b>Budget Balance as % of GDP</b>	-2.0%	-2.8%	-2.3%	-2.9%	-3.0%

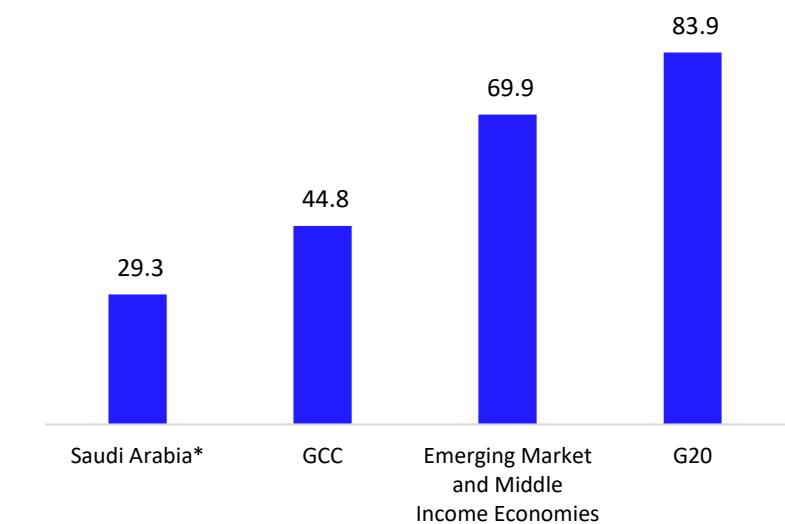
Source: Ministry of Finance, Al Rajhi Capital estimates

## Revenue Breakdown (Oil versus Non-Oil) (SAR bn)



Source: Ministry of Finance, Al Rajhi Capital estimates

## Expected debt as a % of GDP for KSA vs selected region's average



Source: GASTAT, IMF, Al Rajhi Capital estimates  
\* Saudi Arabia data is based on GASTAT, while other regions are from IMF

# Al Rajhi Capital's Economic Outlook

## Non-oil GDP is predicted to continue its positive momentum and grow at 4.6% in 2025

- We predict non-oil GDP to grow at 4.6% in 2025, supported by the mega projects and infrastructure expansions around the Kingdom.
- We project inflation to remain stable at 2.1% in 2025, supported by macroeconomic and monetary stability.
- Banking sector credit is expected to grow at 12% in 2025, another solid year driven by the corporate loan and mortgages.
- We expect the SAIBOR rate to reach 4.88% by 2025 and 4.38%

### ARC forecasts of the Saudi macroeconomics

Variables Growth	2024E	2025E	2026E
Real non-oil GDP growth	3.8 %	4.6 %	4.3 %
Inflation %	1.9 %	2.1 %	2.0 %
Banking credit growth	12.8%	12.1%	10.6%
SAIBOR*	5.54%	4.88%	4.38%

Source: ARC projections, Note\*: SAIBOR for 2024 is actual number

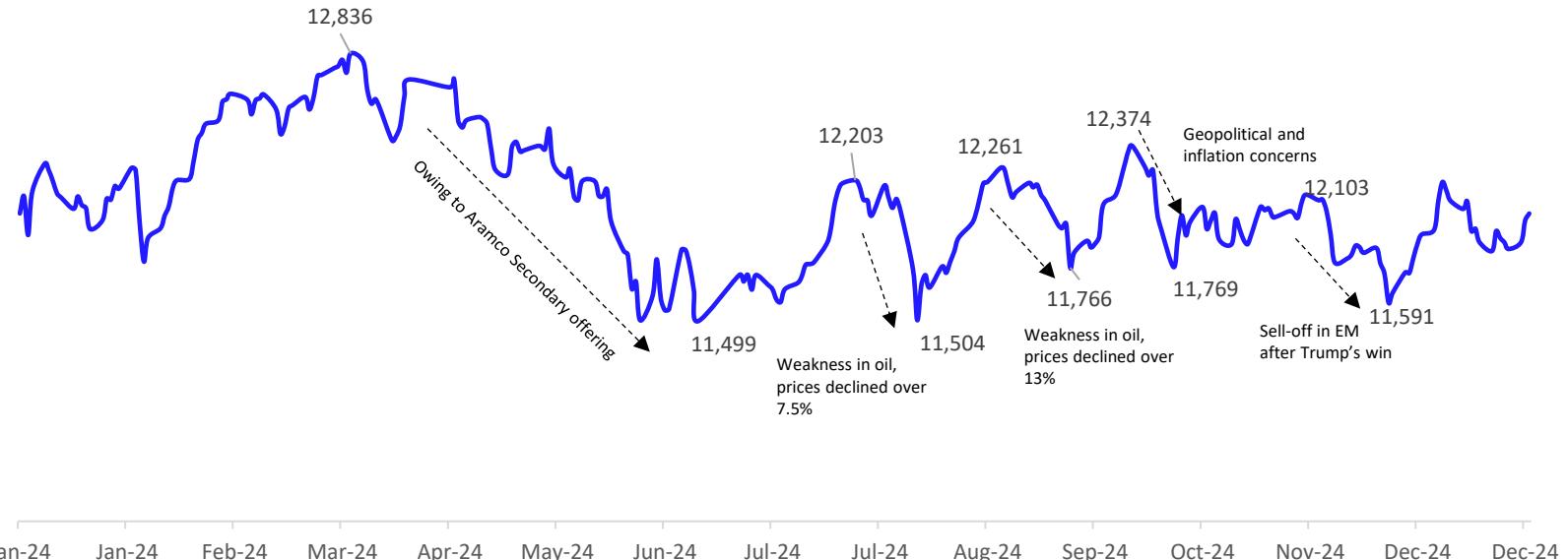
# Equity Market Outlook

# TASI: 2024 a volatile year

## Liquidity squeeze, oil prices and geopolitics

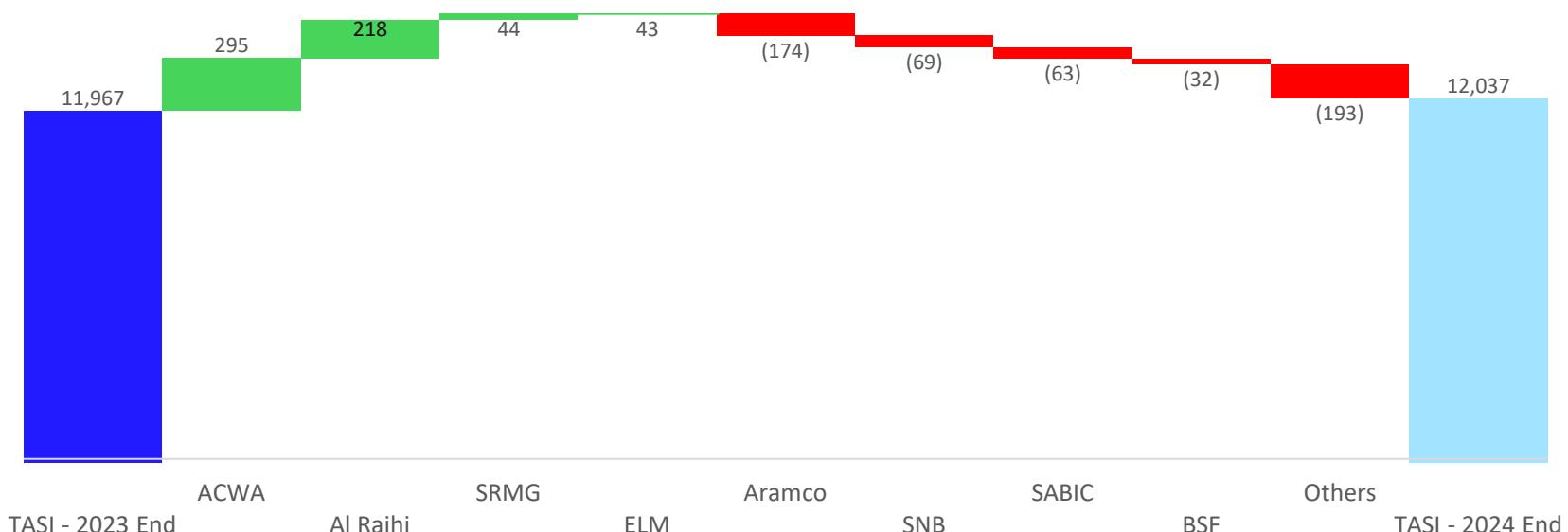
- Amid positive global sentiments for the equity markets, TASI ended largely flat and witnessed significant volatility in 2024 pressured by local factors. In H1, it was the liquidity squeeze led by secondary offering of Aramco, that resulted in heavy sell-off in the broader market, while H2 witnessed pressure from decline in the oil prices coupled with the spike in geopolitical concerns
- At the same time, lesser than expected/delay in timing of the rate cuts in 2024 as well as lack of meaningful recovery in the petrochemical product prices also damped investor sentiment.
- Nevertheless, solid performance of heavy weights, Acwa Power throughout the year and the rally in Al Rajhi Bank towards the end of the year, managed to offset the pressure in the other large cap stocks.
- The banking sector, especially Al Rajhi Bank, received support by the 100 bps cuts by done by the US Fed as well as the solid Q3 earnings performance.

## TASI witnessed notably volatility in 2024



Source: Bloomberg, Al Rajhi Capital

## TASI index movement waterfall chart



Source: Bloomberg, Al Rajhi Capital

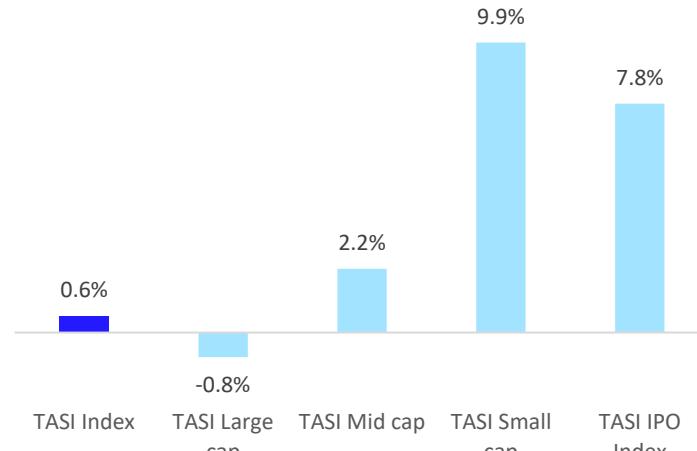
# TASI: 2024 dissected

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## Small cap outperformed

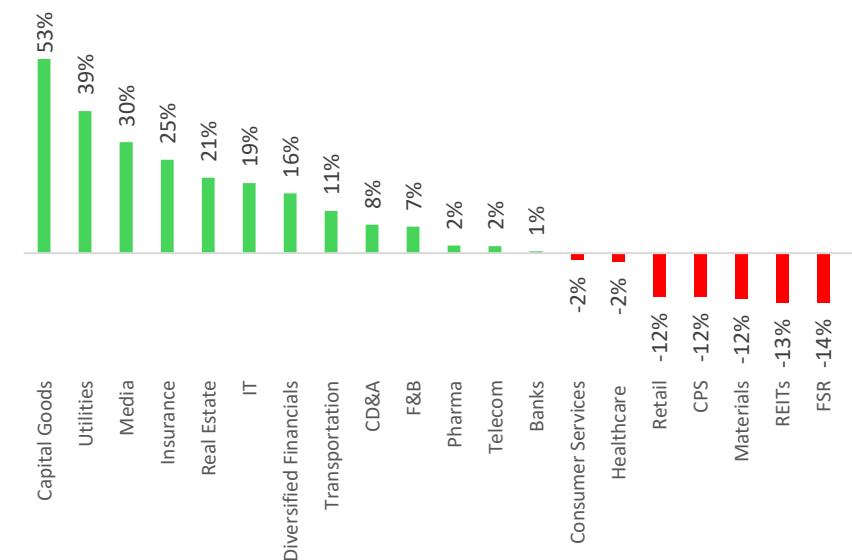
- The weakness in the broader index masked the decent performance in the small cap index as well as the IPO index. Given the solid construction outlook, the capital goods sector was the best performing followed by utilities. Among the top 10 performing stocks, 2 were from the construction/capital foods sector, EIC and MESC.
- Saudi Re from the insurance segment was the top performing stock supported by solid topline growth as well as favorable regulatory environment. Among the laggards, the energy sector was the weakest due to decline in the oil prices. Further, the suspension of oil rigs at the start of 2024 weighed on both the drillers in the sector.
- Among the heavyweights, Acwa Power stood out supported by Al Rajhi Bank.

## 2024 performance by different indices (Tadawul defined)



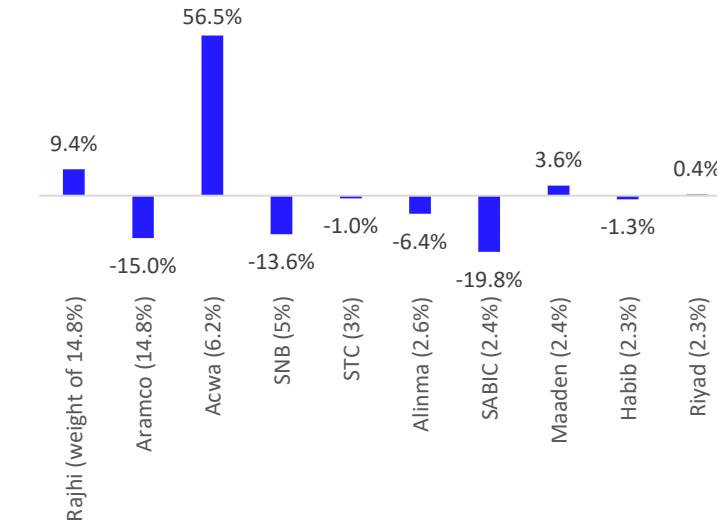
Source: Tadawul, Al Rajhi Capital

## Sector Performance in 2024



Source: Bloomberg, Al Rajhi Capital, Note: Sectors are as per Tadawul. CD&A: Consumer Durables & Apparel, F&B: Food & Beverages, CPS: Commercial & Professional Services, FSR: Food & Staples Retailing

## Performance of top 10 heavy weights (collective weight of 56% as of 31<sup>st</sup> Dec. 2024)



Source: Bloomberg, Al Rajhi Capital

## Top 10 gainers/losers in 2024

Gainers	% Change	Losers	% Change
Saudi Re	190%	Arabian Drilling	-40%
Red Sea	159%	Saudi Kayan	-36%
EIC	155%	Al Arabia	-34%
Al-Baha	147%	Al Hammadi	-33%
ARCCI	142%	Lumi	-29%
Chemical	117%	Alistithmar AREIC	-28%
GO Telecom	112%	Americana	-28%
Chubb	98%	ADES	-27%
Retal	95%	Yanbu Cement	-26%
MESC	94%	Derayah REIT	-25%

Source: Bloomberg, Al Rajhi Capital

# TASI: Relative valuations

## De-rating noticeable, valuations have turned attractive

- Post the flattish performance of TASI in 2024, the index's P/E has corrected to just about 19x from almost 25x at the start of 2022. In comparison to MSCI EM, the valuation premium has notably contracted to just 39% from about 75% at the start of 2022. Adjusted for the heavyweight Acwa, TASI P/E is just about 17.9x.
- In 2024, several sectors de-rated and even the structural growth sectors such as healthcare and tourism were not spared.
- Moreover, the healthcare sector saw the sharpest contraction, with its P/E declining to 30x from 40x at the start of 2024.

### TASI underperforms the other markets



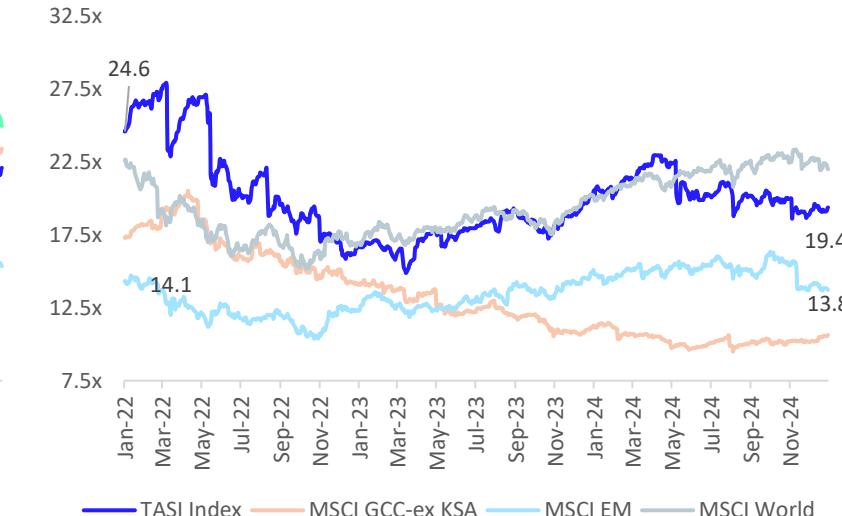
Source: Bloomberg, Al Rajhi Capital

### TASI P/E adjusted for Acwa and Aramco



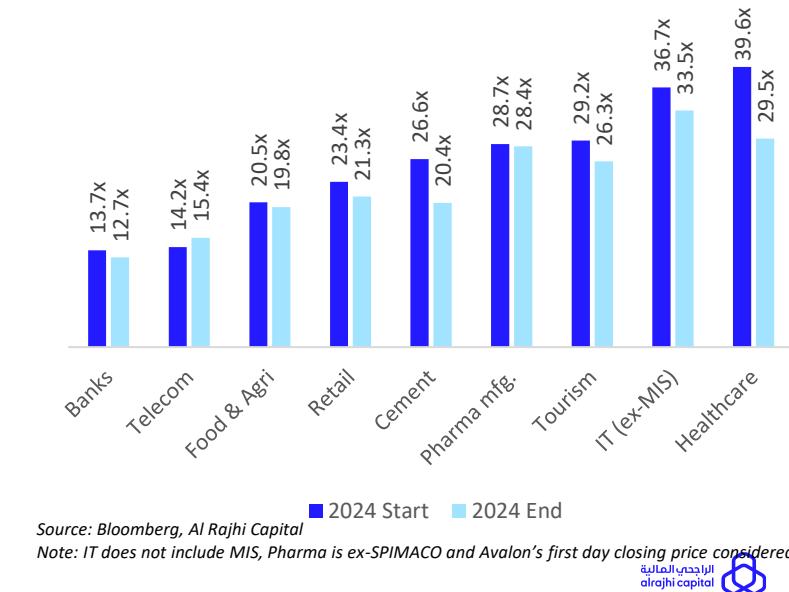
Source: Bloomberg, Al Rajhi Capital

### TASI P/E has contracted notably relative to EM



Source: Bloomberg, Al Rajhi Capital

### Most of the sectors de-rated during 2024

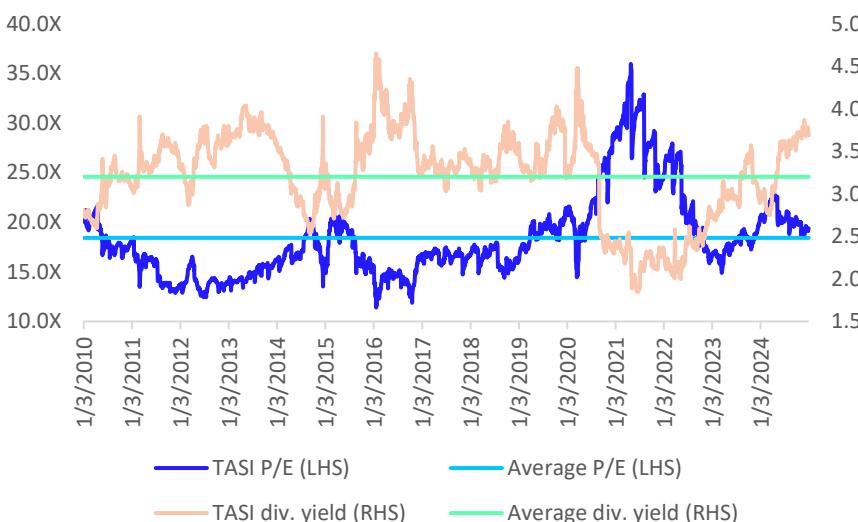


# TASI Target: Upside of 6%

## High single digit earnings growth to drive the index

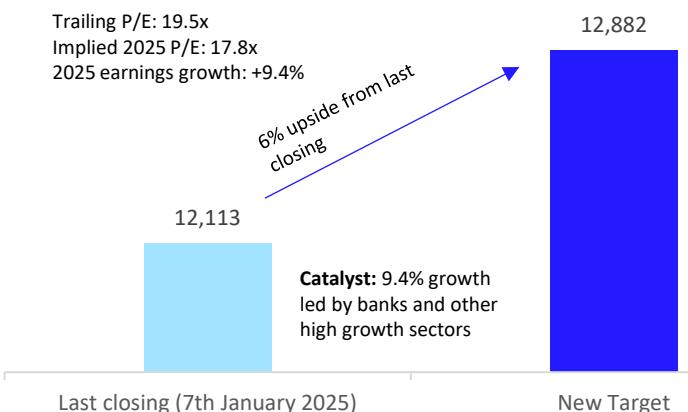
- In the backdrop of decent earnings growth over the recent years and the flattish performance in the index, the valuations have turned attractive for the broader market.
- Despite the structural growth story, TASI's trailing P/E has notably corrected from the highs of 2022 and is now trading at the historical average level. At the same time, the dividend yield is above historical average and at attractive level of almost 4%.
- The heavy weight sectors such as banking and materials continue to trade notably below its 2022 highs. Although, the outlook for the petchem continues to be uncertain, the current valuations is pricing in the negative to a large extent. At the same time, the banking index is not fully factoring in the ongoing credit growth story fully, in our view.
- We estimate TASI earnings (weighted) to grow over 9% in 2025 led by banks and other high growth sectors.
- The structural growth sectors such as healthcare, insurance, IT and tourism are expected to post double digit earnings growth in 2025. Moreover, we do not foresee further erosion in petchem earnings given the low base of 2024.

### TASI P/E near long term average, div. yield above average



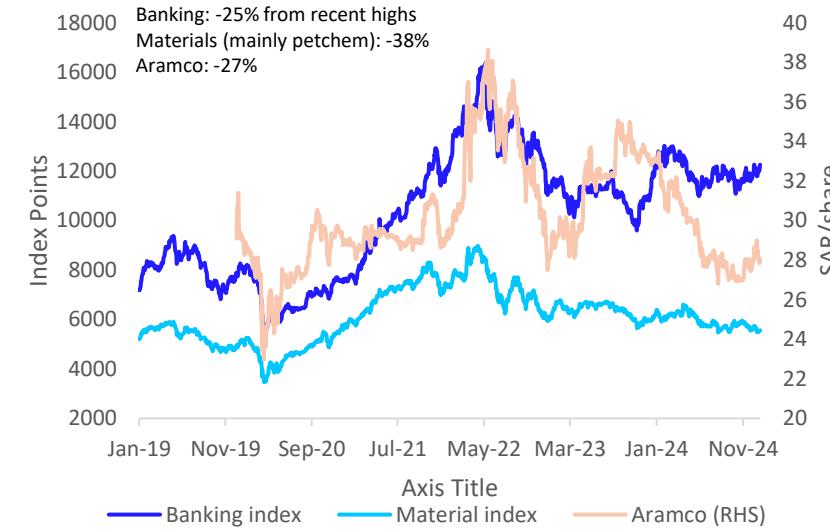
Source: Bloomberg, Al Rajhi Capital

### TASI target for 2025



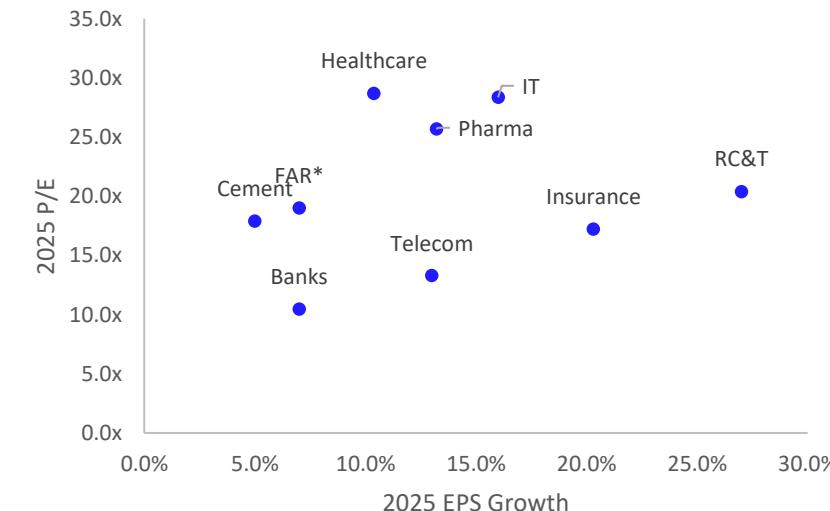
Source: Bloomberg, Al Rajhi Capital estimates. Note: TASI target is derived through our fair value for each stock under our coverage. For banks we do internal analysis. For non-covered stocks we have considered 5% increase on an average

### Key sectors/stocks notably below recent highs



Source: Bloomberg, Al Rajhi Capital

### Key sector 2025 growth and valuations



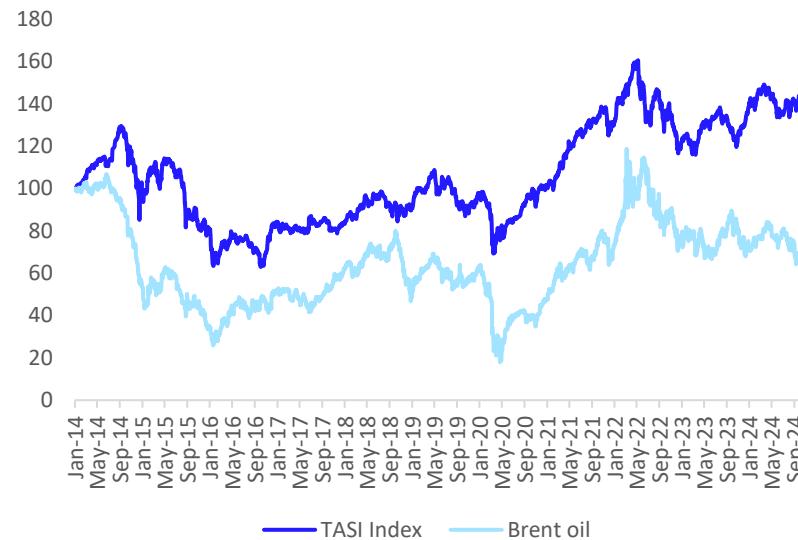
Source: Bloomberg, Al Rajhi Capital estimates, Note: FAR: Food, Agri & Retail and it does not includes Cenomi retail and Savola. RC&T: Rental Car and Tourism

# TASI/Oil: Decoupling noticed

## Aramco is pricing in bulk of the negatives

- Given that oil prices were under pressure and Aramco is one of the heavy weights, the underperformance of the stock weighed on the benchmark index. However, closer look at the performance indicate that the index was relatively resilient in the second half of the year despite oil prices declining almost 17% in Q3.
- This could be due to two reasons, one is by the end of H1 2024 Aramco was already trading around SAR 27-28, below its average share price. The second could be contribution from the several small and mid caps stocks (small cap index up 10% in 2024), that are expected to perform well irrespective of oil prices' trajectory.
- We believe that as the economy diversifies away from oil and the flow of IPOs continue, the index decoupling could become even more noticeable in the future.

TASI versus oil long term performance (rebased to 100)



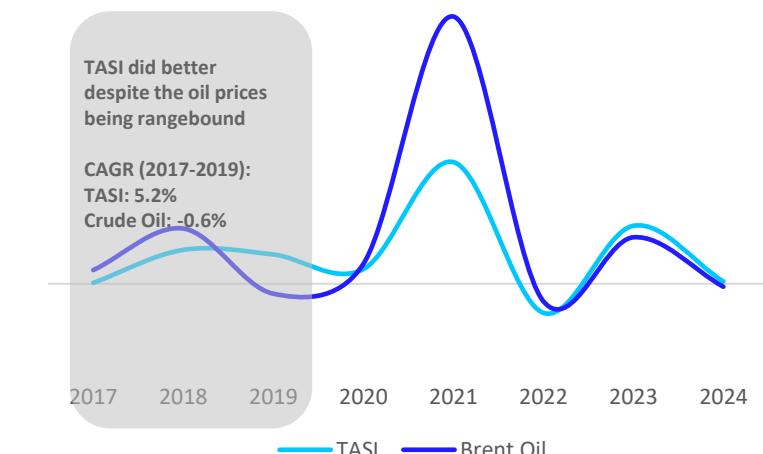
Heat map of TASI vs oil

		Q1	Q2	Q3	Q4	Overall
5 Year Avg.	TASI	4.27%	3.63%	1.34%	1.33%	9.54%
	Oil	3.17%	19.36%	-0.16%	2.53%	10.29%
2024	TASI	3.63%	-5.82%	4.68%	-1.55%	0.58%
	Oil	13.55%	-1.22%	-16.94%	4.00%	-3.12%
2023	TASI	1.07%	8.20%	-3.52%	8.24%	14.21%
	Oil	-7.15%	-6.11%	27.25%	-19.17%	-10.32%
2022	TASI	16.03%	-11.97%	-1.02%	-8.13%	-7.12%
	Oil	38.74%	6.39%	-23.39%	-2.33%	10.45%
2021	TASI	14.02%	10.86%	4.66%	-1.86%	29.83%
	Oil	22.66%	18.24%	4.51%	-0.94%	50.15%
2020	TASI	-22.46%	11.05%	14.88%	4.70%	3.58%
	Oil	-65.55%	80.96%	-0.49%	26.50%	-21.52%

Aramco stock is pricing in bulk of the weakness



TASI's performance in a range bound scenario

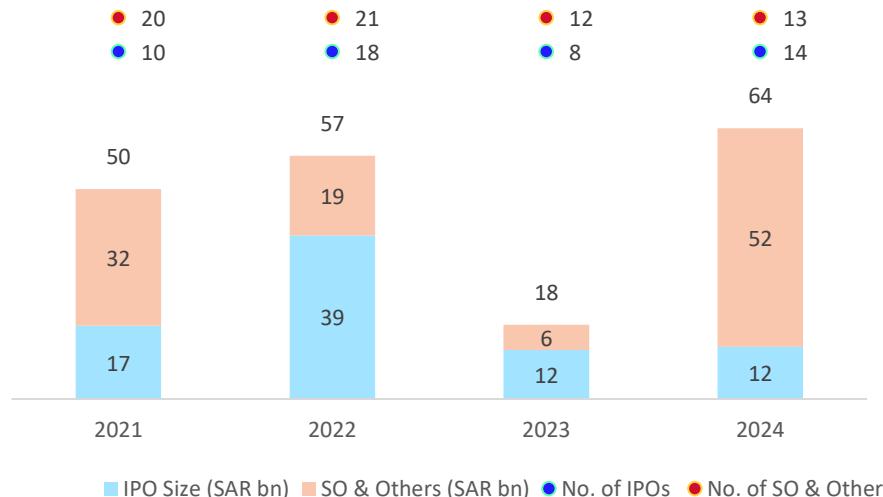


# TASI: IPOs resurge

## Pick up in IPOs, but Aramco secondary offering dominated

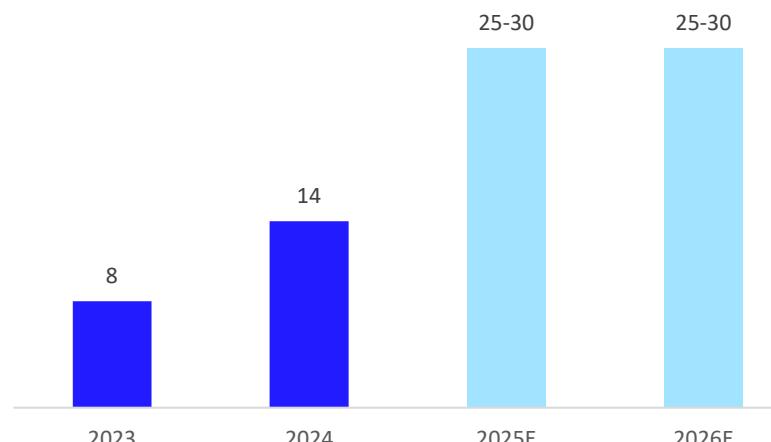
- After the slowdown in the number of IPOs in 2023, 2024 noticed a resurgence in the number of new listings with 14 new IPOs. In addition, the secondary offering from Aramco in H1 2024 dominated the headlines and resulted in total offering size of SAR 64 bn, surpassing the highs of SAR 57 bn raised in 2022.
- In our view, 2025 and 2026 will be heavy in terms of number of listings. Already, 7 IPOs have been approved/closed (2 to be listed in January), while 97 IPOs are under review.
- If we assume 50% of the IPOs receive CMA approval, we are looking at an IPO pipeline of 56 companies over the next two years. Thus, in terms of number of listings, the next two years could easily surpass the IPOs in 2022.
- We believe, in absence of any major secondary offering, the market should absorb 25-30 listings in a year without any major impact on the liquidity.

## IPOs & Other offerings snapshot



Source: Tadawul, Argaam portal, Al Rajhi Capital, Note: SO & others includes Private Offerings, Rights Issue, Direct Listings and Secondary Offerings

**Number of IPOs are expected to almost double from 2024 base**



Source: Argaam portal, Al Rajhi Capital estimates

## Expected IPOs to come over the years



Source: Tadawul, Argaam portal, Al Rajhi Capital

**1Q25 IPOs size is almost equivalent to average of last two years IPO size**

SAR 8-11bn:  
Estimated size of  
the 7  
Approved/Closed  
IPOs that might  
get listed in 1Q25



SAR 12bn:  
Average IPO size  
of FY23 and FY24  
IPOs

Source: Tadawul, Al Rajhi Capital estimate Note: 7 Approved IPOs considered are: Almoosa, Nice One, Ejada, UAQ, Derayah, UCIC and Entaj

# TASI: Trading Flows

## Foreign investors net buyers for sixth consecutive year

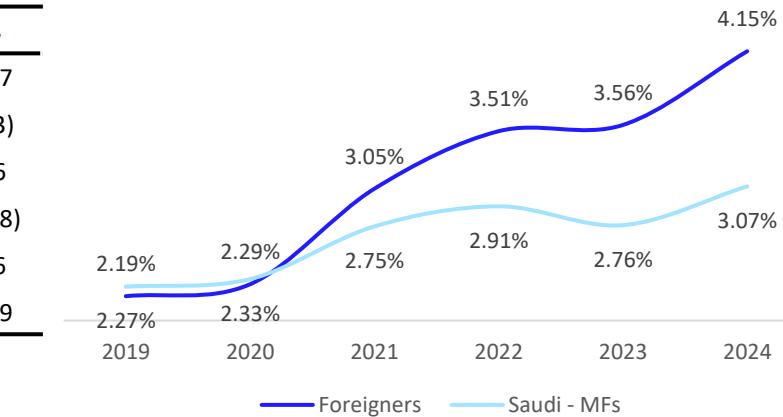
- Post the inclusion of Saudi Arabia in MSCI and KSA's ongoing reforms, notable interest has been seen from the foreign investors, mainly QFIs.
- In the last six years, the foreign investors have been net buyers every single year. Even in 2024, when the oil prices came under pressure, the foreigners continued to show trust in the growth story of the Kingdom.
- The buying over the years has pushed the ownership of foreign investors to reach over 4% from just 2% in 2019. Currently, the foreign investors' holding is larger than the local institutions.
- Despite the IPOs and secondary offering by Aramco, the liquidity (ADTV) in the market was better than 2023 and 2022, and double the average level seen during 2017-2019. As the breadth of the market (new IPOs) continue to increase and earnings growth story remains intact, we believe the liquidity will continue to improve.

Foreigners and retail net buyers in 2024 (SAR bn)

	2019	2020	2021	2022	2023	2024
Saudi Individuals	↓ (42.2)	↓ (31.8)	↓ (22.3)	↓ (5.4)	↓ (7.1)	↑ 11.7
Saudi – Corp	↓ (11.1)	↑ 280.1	↑ 13.6	↓ (27.2)	↓ (12.2)	↓ (5.3)
Saudi - MFs	↓ (9.8)	↓ (0.7)	↓ (2.8)	↑ 0.9	↓ (6.1)	↑ 1.6
Saudi - GReS	↓ (8.7)	↓ (262.7)	↓ (9.7)	↑ 3.1	↑ 12.0	↓ (30.8)
GCC	↓ (7.3)	↓ (4.8)	↓ (2.6)	↓ (2.4)	↑ 1.2	↑ 2.6
Foreigners	↑ 91.2	↑ 18.7	↑ 25.5	↑ 43.5	↑ 14.2	↑ 20.9

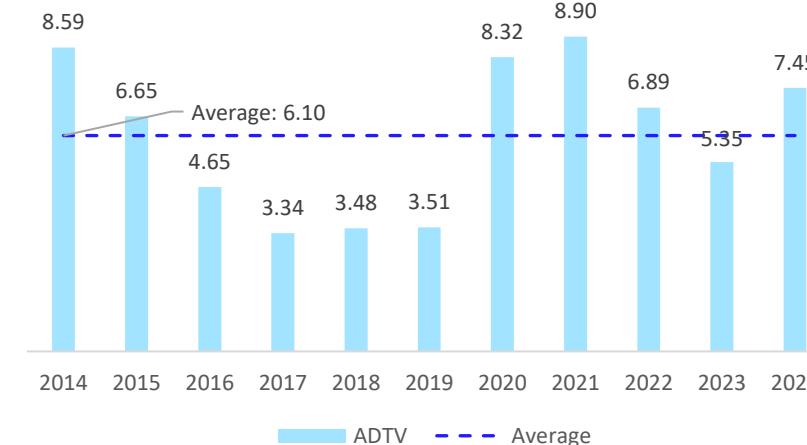
Source: Tadawul, Al Rajhi Capital. Note: foreigners include QFIs as well as other foreign investors

Foreigners surpass local mutual funds (total ownership)



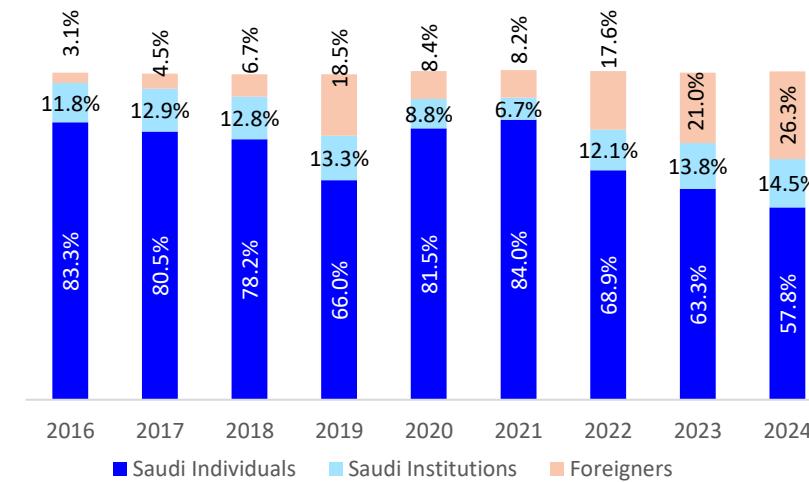
Source: Tadawul, Al Rajhi Capital

Average daily traded value (ADTV) over the years (SAR bn)



Source: Tadawul, Al Rajhi Capital

ADTV by participants



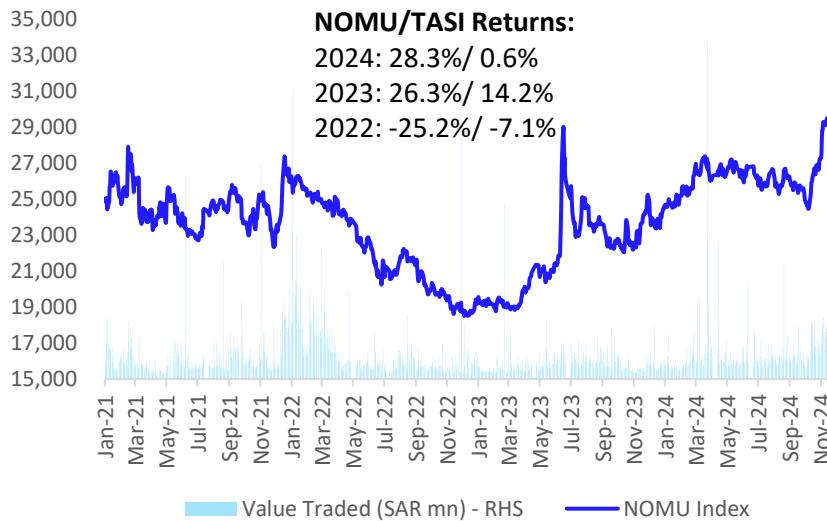
Source: Tadawul, Al Rajhi Capital. Note: we have not shown GCC

# NOMU: A solid year

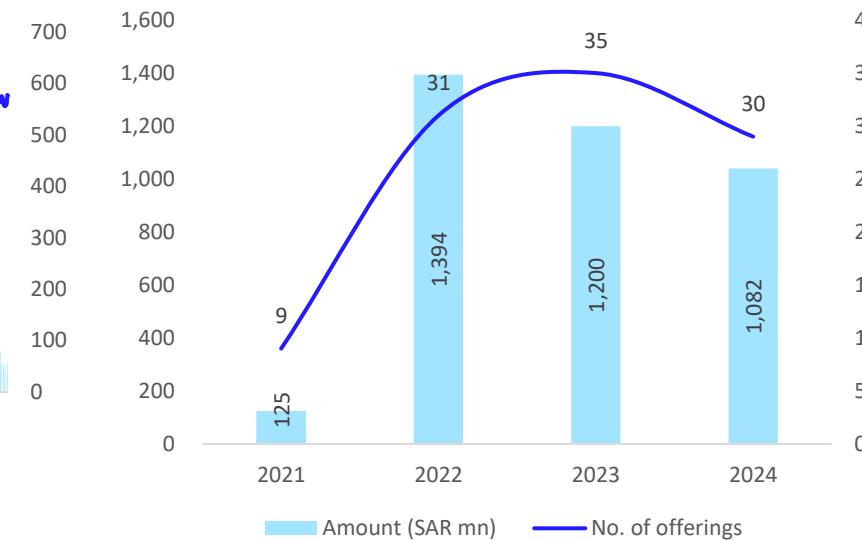
## Growing interest of institutional investors

- NOMU continued to be in the limelight during 2024 on account of its attractive returns and new IPOs. The index grew by 28.3% during 2024 outperforming the main-market index (which grew by just 0.6%) for the second consecutive year.
- Furthermore, it is pertinent to highlight that the return differential between NOMU and the main market continued to widen between 2023 and 2024. While in 2023 the positive delta between the return of the NOMU market and TASI was 12.1%, this delta grew to 27.7% in 2024.
- Amid this continued outperformance, ownership interest of Saudi institutions and foreign investors in NOMU saw a marked improvement. The ownership interest of Saudi institutions in NOMU grew from 1.84% in Dec-23 to 2.87% in Dec-24, similarly the ownership interest of foreign investors in NOMU grew from 1.22% in Dec-23 to 1.51% in Dec-24.
- We opine NOMU should continue to garner investor's attention during 2025 on the back of its pipeline of IPO and transfer of scrips from NOMU to the main market.

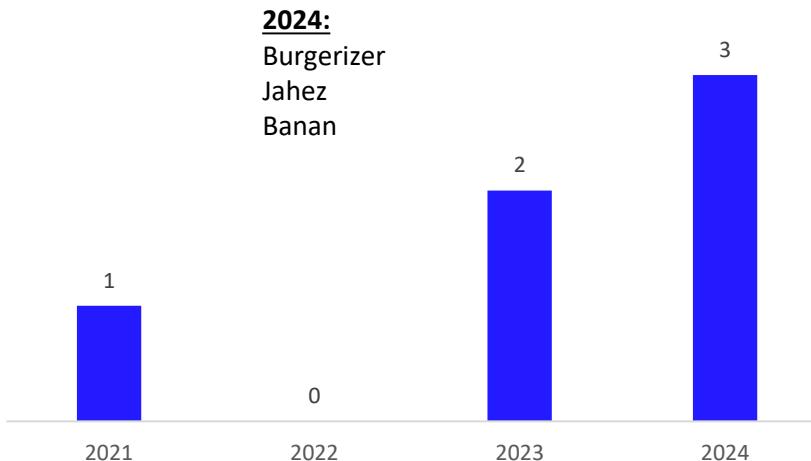
## Nomu index performance



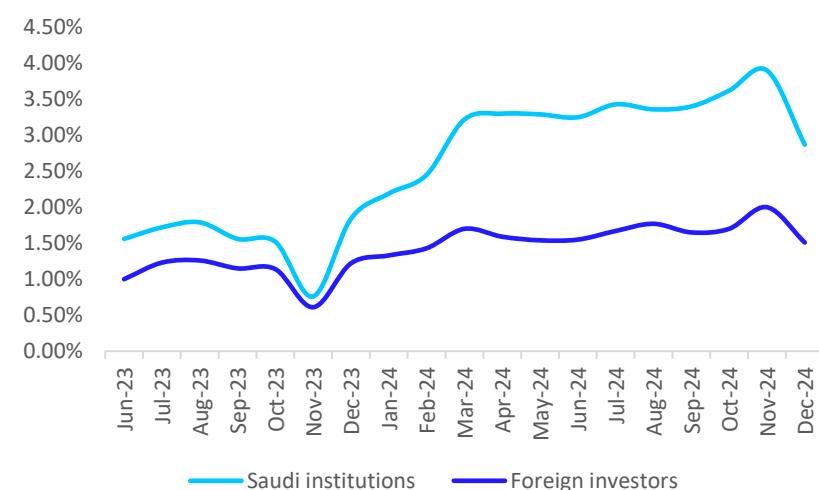
## NOMU Offerings over the years



## Transfer to main market from Nomu



## Institutions and foreigners' ownership continue to rise



# Sectoral Outlook

# Key Sector Views

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**Attractive**



**Banks**



**Healthcare**



**Insurance**



**Rental & Tourism**



**IT**



**Neutral**



**Pharma**



**Consumer & Retail**



**Petchem**



**Telecom**

# Banks: Attractive

## Market cap. has lagged earnings growth

- Despite the tough operating environment of unprecedented increase in interest rates and sharp migration from CASA to time deposits, the profitability of the banking sector has grown by almost 85% between 2019-now (9M24).
- Even adjusted for provisions, the growth has been strong at 62%. Moreover, the quality of the growth is also solid with expansion in ROEs, NPLs under control and capital ratio being resilient.
- Despite this, the market cap of the banks have notably lagged the profit growth. This has resulted in the valuations turning attractive with trailing dividend yield at multi-year highs of 4.4%. Further, on price to book, the sector is below 2019 levels despite the promising loan growth outlook and the rate cut scenario.
- We believe the current valuations are pricing in the weakness to a large extent and ignoring the positive aspects such as solid loan growth and the possibility of improvement in the NIMs in the medium term, especially beyond 2026, once the corporate book is repriced.

## Market cap. has lagged earnings growth...



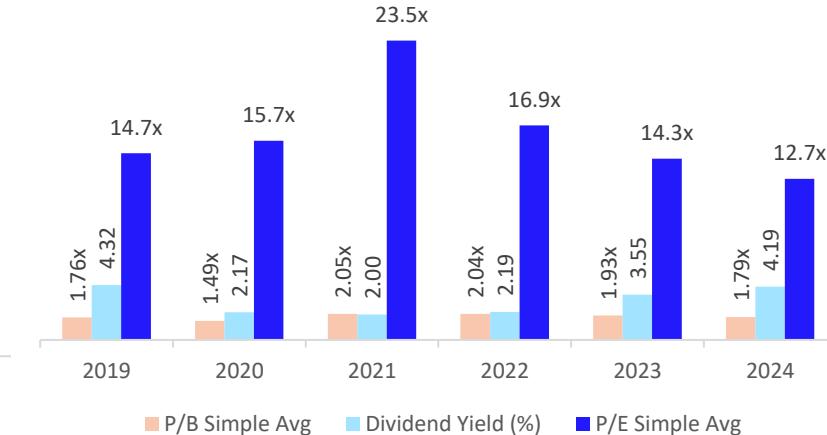
Source: Company Data, Bloomberg, Al Rajhi Capital, Note: Earnings are considered only for the listed banks at respective period. Earnings for 2019-2021 includes SAMBA's numbers

## Summary of our key parameters

Aggregate (SAR mn)	2023	2024E	2025E	2026E
Net interest income growth	10.9%	8.3%	9.8%	7.9%
Total operating income growth	9.5%	9.1%	9.0%	7.5%
Net income growth	11.9%	13.1%	7.3%	6.3%
Retail Net Income growth	3.1%	12.1%	13.5%	9.7%
Corporate Net Income growth	25.3%	14.3%	-0.4%	1.4%
Loan Growth	10.6%	13.5%	12.1%	10.5%
Deposit Growth	7.8%	11.0%	10.6%	9.0%
Asset yield	5.7%	6.1%	5.7%	5.3%
Cost of funds (deposits)	2.8%	3.4%	2.7%	2.3%
COR	41	35	43	47
NIM Change	-2.3 bp	-8.0 bp	-2.4 bp	-2.5 bp
ROE (%)	16.1%	16.8%	16.5%	16.0%

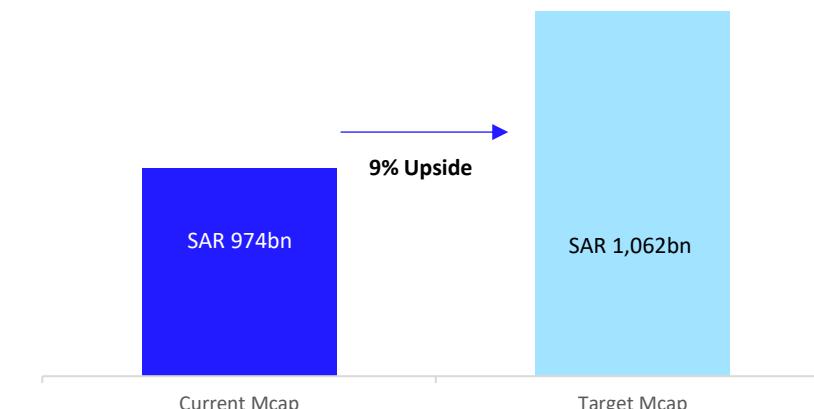
Source: Company Data, Al Rajhi Capital estimates, The loan growth mentioned above is net loans and thus would differ from our estimates for the system due to provisions. Cost of funds is cost for total deposits. Retail Banks considered are Al Rajhi, SNB, and AlBilad and rest are corporate

## .....resulting in valuations turning attractive



Source: Company Data, Bloomberg, Al Rajhi Capital, Note: Simple average taken for the listed banks at respective period

## Target upside appear modest after recent rally



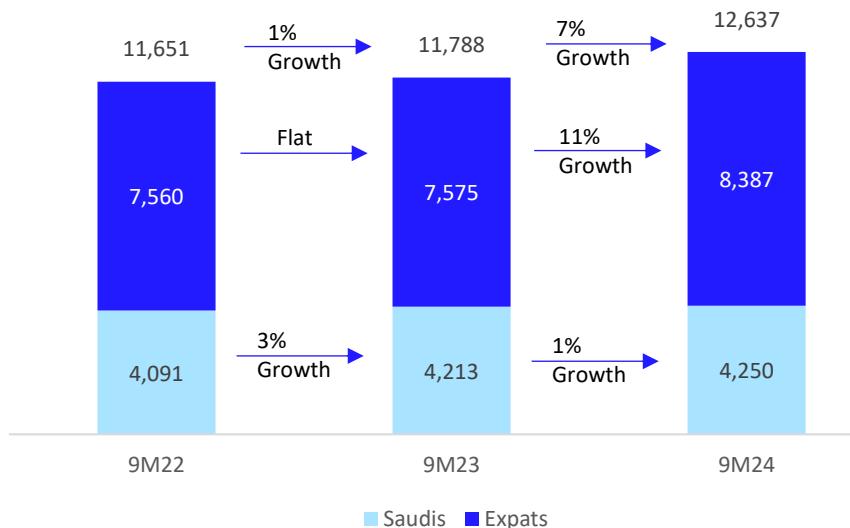
Source: Company Data, Al Rajhi Capital Note: Gordon Growth valuation methodology used. Retail Banks considered are Al Rajhi, SNB, and AlBilad and rest are corporate

# Healthcare: Attractive

## Correction in valuations offer attractive entry opportunity

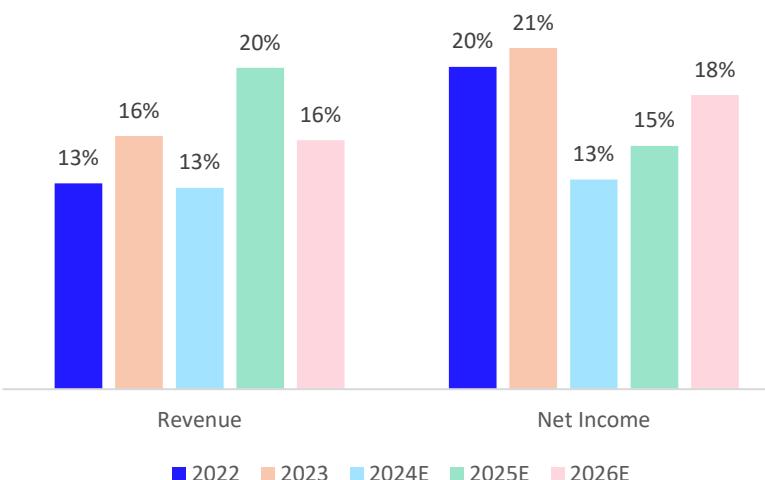
- Healthcare sector was at the forefront of the derating in the market. The lagged impact of weaker growth in the insured lives in 2023 weighed on the patient volumes for the sector in 2024. At the same time, the sector was trading at elevated valuations at the start of 2024. Additionally, investors became skeptical about the sharp capacity additions and the uncertainty around the DRG impact.
- Moreover, the margins also came under pressure due to capacity additions (initial ramp-up phase) and the focus to hire specialized doctors to improve the offering. Thus, the bottom-line growth was the slowest in 2024E compared to 2022 and 2023.
- Nevertheless, with recent improvement in the insured lives and ramp up at the new hospitals, earnings growth should improve in 2025 and 2026. Thus, we believe the correction in 2024 offers attractive entry opportunity in the healthcare space.
- Key ideas: Dallah, Al-Habib**

### Insured lives ('000s)



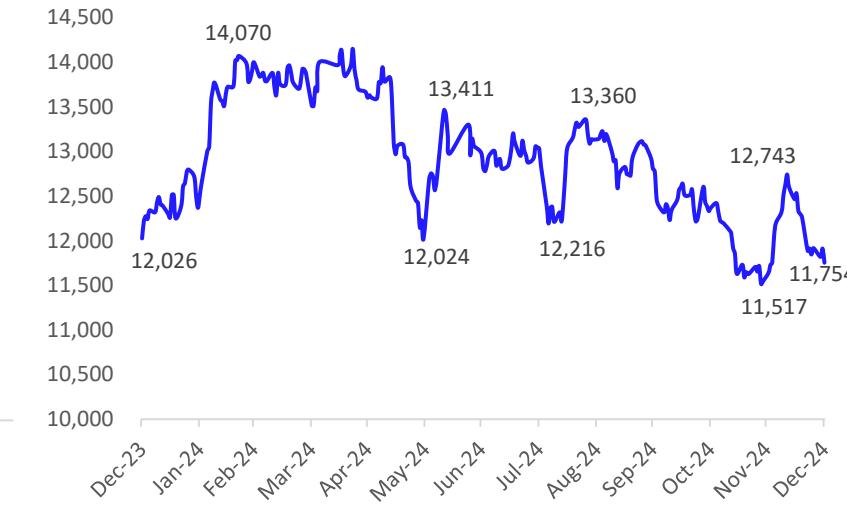
Source: Bupa ppt, Al Rajhi Capital

### Revenue and earnings growth 2022-2026



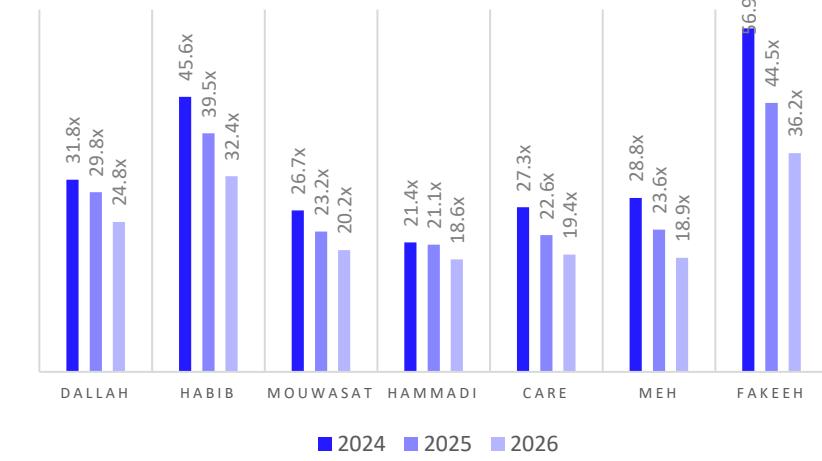
Source: Company data, Al Rajhi Capital

### Healthcare Index has seen volatility in 2024



Source: Bloomberg, Al Rajhi Capital

### Valuations have turned attractive



Source: Company data, Al Rajhi Capital

# IT: Attractive

## Structural growth story in the medium-term

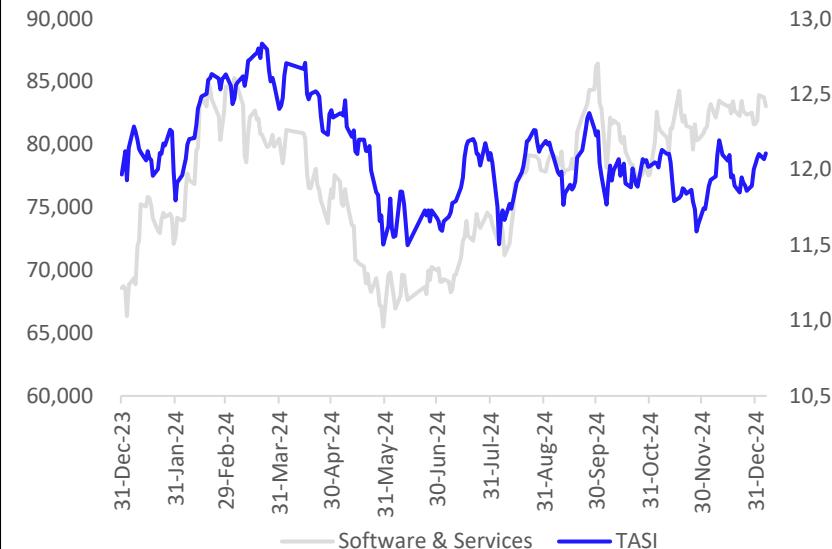
- The **IT sector** outperformed the Saudi Exchange's benchmark index, rising over 19% in FY24, compared to TASI's modest 1% growth. The rally was primarily driven by ELM ( $\uparrow 37\% \text{ y-o-y}$ ), which was one of our top picks in the previous strategies. Despite the outperformance of the IT sector in Tadawul, the ICT market within the Kingdom witnessed a slowdown, and this was reflected in Solutions' stock performance which was down by 23%. However, we believe this was a temporary slowdown and we remain confident over the structural growth story of the Kingdom's IT Sector in the medium-term.

- Growth Outlook:** We expect the FY25e profitability to increase by 16% y-o-y (ex. MIS) driven by the following factors:

- Near-term growth in the IT sector will be driven by increased digitization efforts, with government and private sector spending fueling demand.
- Giga projects are expected to boost IT spending across both large corporates and SME clients, further supporting growth
- Long-term drivers include global events such as Expo 2030 and FIFA World Cup 2034, which could have a broad sector impact, benefiting key players like Solutions and Elm due to their offerings in services and digitization segments.

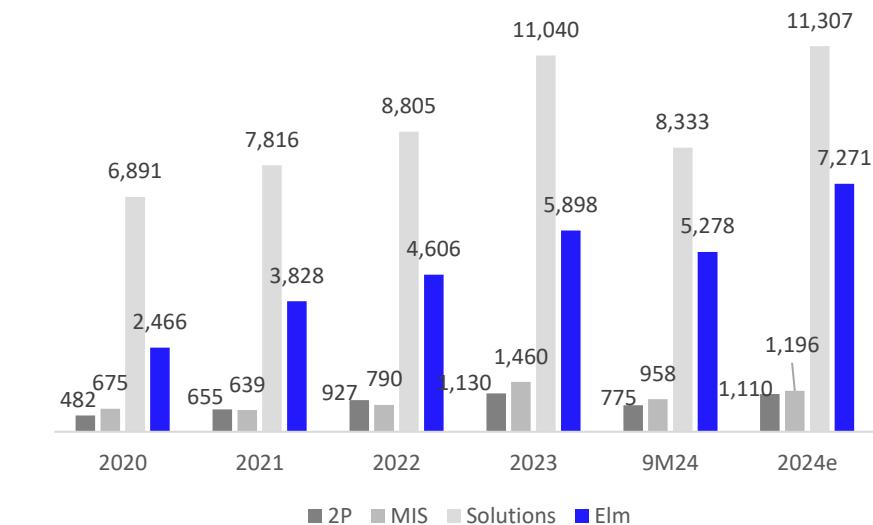
- Key ideas: Solutions and ELM**

### Software & Services (IT) Sector Price Performance vs TASI



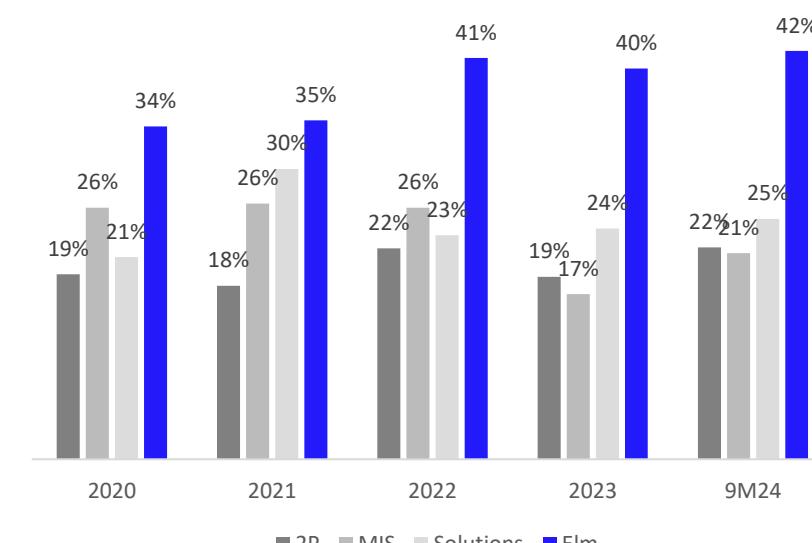
Source: Bloomberg, Al Rajhi Capital

### Elm expected to have highest FY24 revenue growth (SARmn)



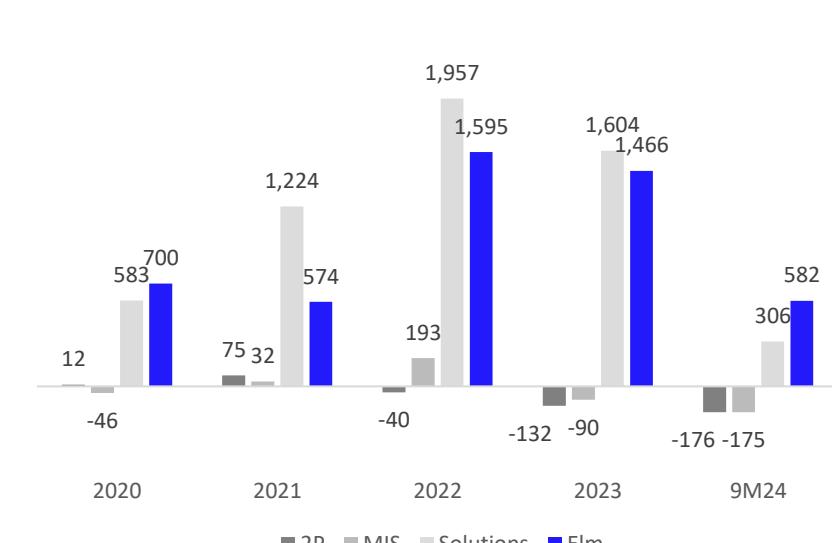
Source: Company data, Al Rajhi Capital estimates

### Elm leads the pack with over 40% gross margins



Source: Company data, Al Rajhi Capital estimates

### Elm and Solutions consistently reported positive FCF



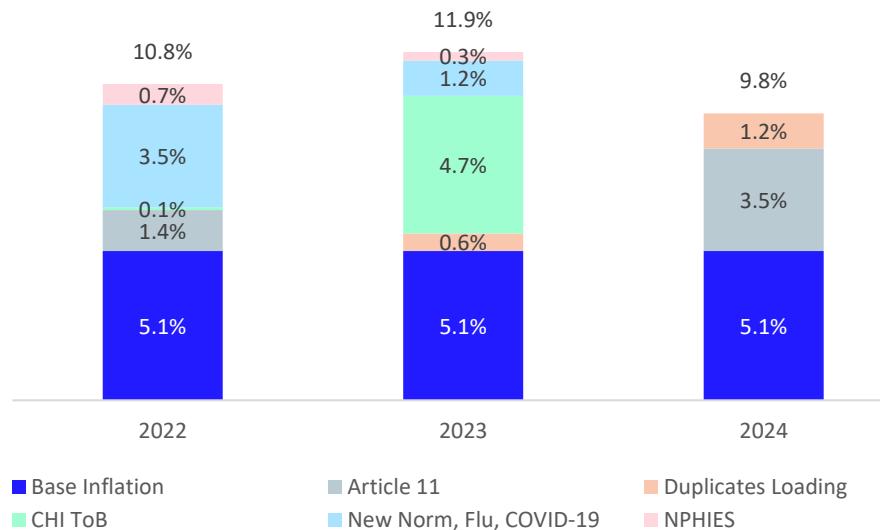
Source: Company data, Al Rajhi Capital

# Insurance: Attractive

## Property and casualty (P&C) exposure is expected to drive growth

- 2024 saw the emergence of two other segments, P&C and P&S, which currently are smaller in size but offers solid growth potential. The traditional segments, medical and motor GWP growth was relatively benign due to price competition.
- Given the growth in P&C and P&S and absence of large claims, the diversified players resorted to price competition in the motor as well as medical segments. Thus, the largest player in the sector, Bupa, saw some correction in its share price in 2024. Given that Bupa has focused on prioritizing profitability over market share, we believe better margins will offset the modest growth in GWP in 2025.
- Saudi Re was the best performing stock in the sector led by the solid growth in reinsurance business, infusion of capital from PIF as well as favorable regulatory environment.
- Going forward, we expect P&C to lead the growth given the construction activity in the KSA as well as thrust on increasing the penetration of P&C insurance.
- Key ideas: Walaa and Bupa**

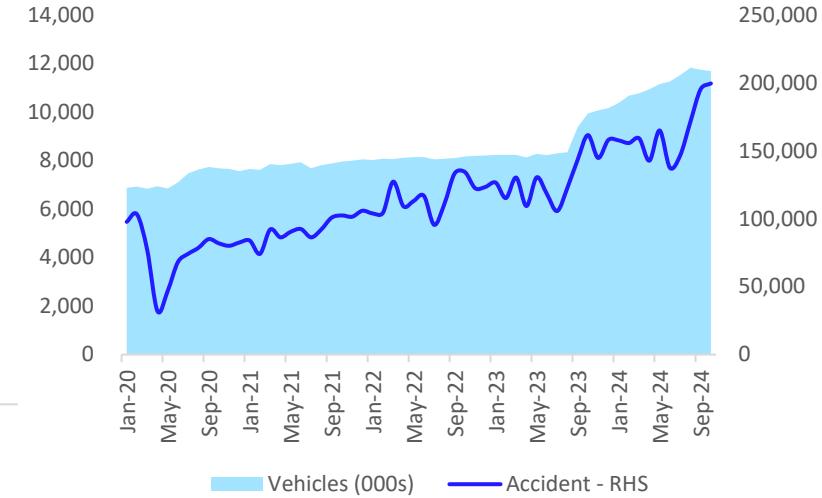
Medical inflation chart



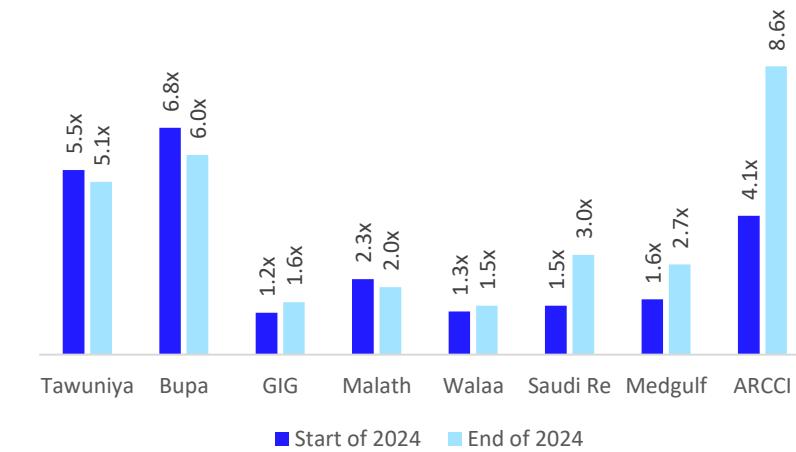
GWP growth (SAR bn)



Motor vehicles and accidents



Valuations P/B



# Rental & Tourism: Attractive

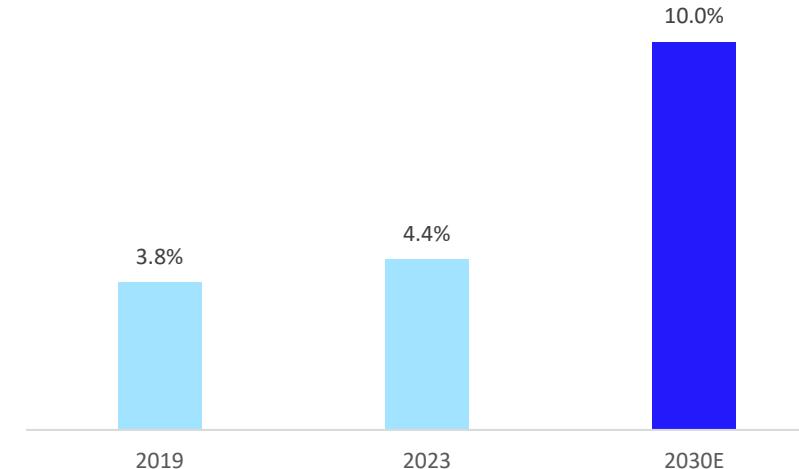
## Impressive growth & Undemanding valuations

On the back of Vision 2030 and government initiatives to diversify the economy, tourism & travel sector's direct contribution to GDP has increased from 3.8% pre-Covid to 4.4% in 2023 (as total spending by tourists grew by 1.6x from the pre-pandemic level) and is expected to surpass 10.0% by 2030. Hence, we opine that rental car & tourism related listed companies can be expected to remain in limelight in the medium and long-term.

In 2025 we expect the rental & tourism sector to witness an impressive double-digit earnings growth on the back of organic/in-organic growth in fleet size, reduction in finance cost, and continued cost controls. Apart from tourism, key themes that can be expected to positively contribute towards rental car companies include:

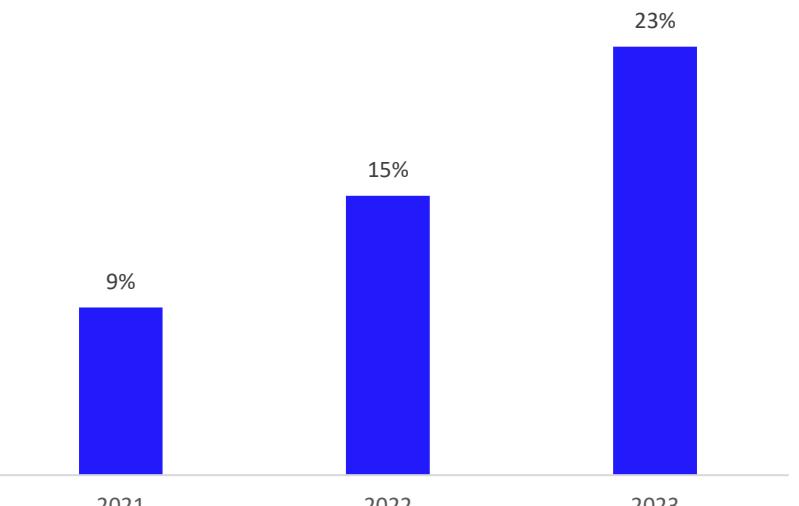
- Conversion of ~100k government vehicles from own model to leasing model over the next 5 years.
- Demand from mega and giga projects such as Neom, The Red Sea Project, Qiddiya, and Al Ula Project
- Country's regional head-office program
- Key ideas: Budget and Lumi**

Tourism & Travel Sector's direct Contribution to GDP



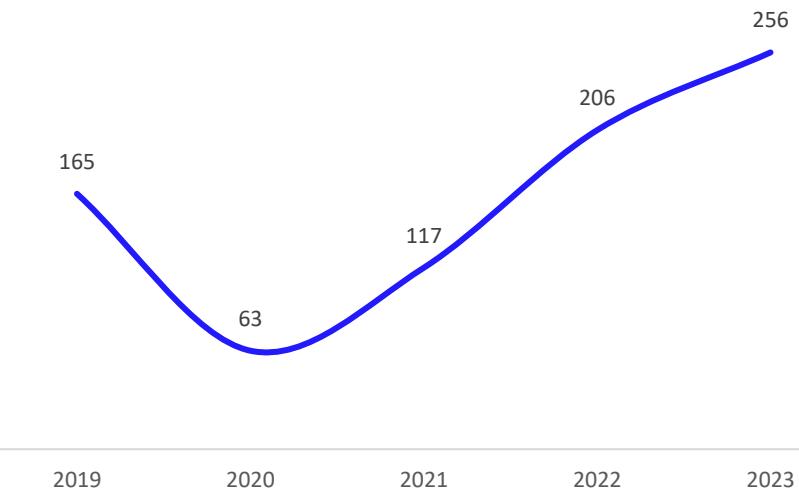
Source: Saudi Arabia FIFA World Cup 2034 Bid Book, Al Rajhi Capital

Leisure as a Purpose of Travel by Inbound Tourists



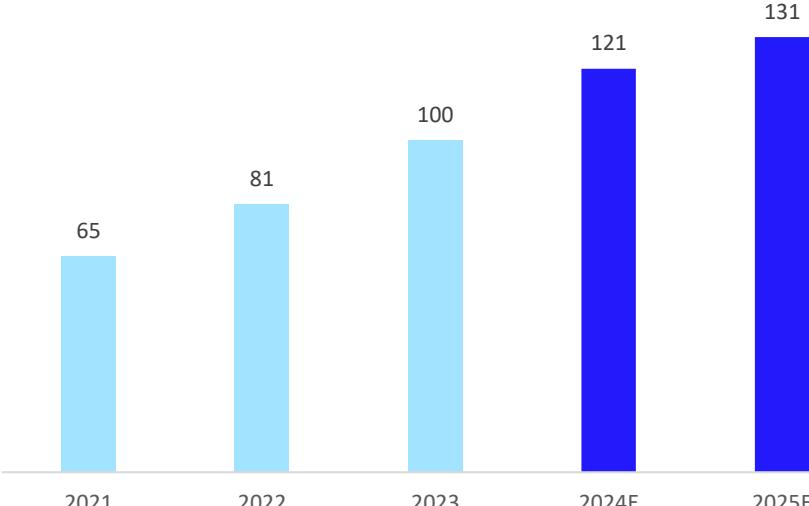
Source: Ministry of Tourism, Al Rajhi Capital

Tourist Spending in KSA (SAR bn)



Source: Ministry of Tourism, Al Rajhi Capital

Total Fleet Size (Budget, Theeb, and Lumi in '000)



Source: Company data, Al Rajhi Capital

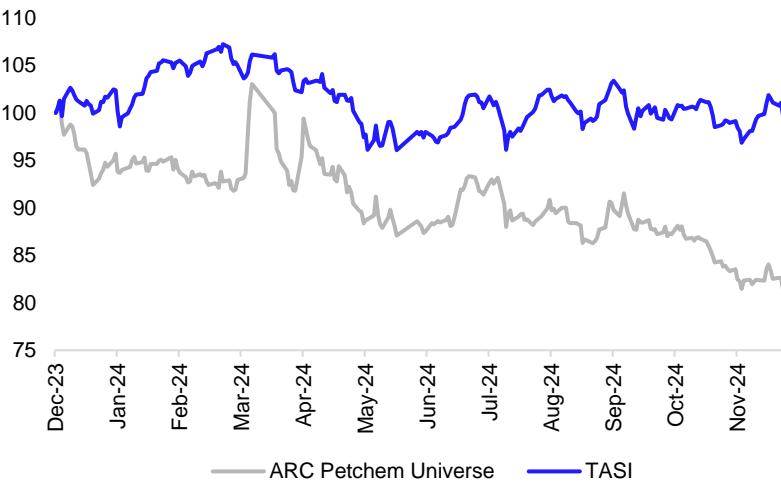
# Petrochemical: Neutral

## Demand issues to persist in FY25

The Saudi Petrochemical sector was a laggard to the broader market in FY24 (down by 19% YoY vs +0.6% YoY TASI). The sector faced strong headwinds in FY24 led by an increase in feedstock prices at start of FY24 leading to an increase in Methane, Ethane and Diesel prices by ~40%, 43%, and 53% YoY. On the other hand, product prices witnessed a mixed trend with no visible recovery across the board owing to weak demand from China. Apart from this, typical maintenance shutdowns and higher freight rates due to the Red Sea crises put further downward pressure on the profitability of the sector.

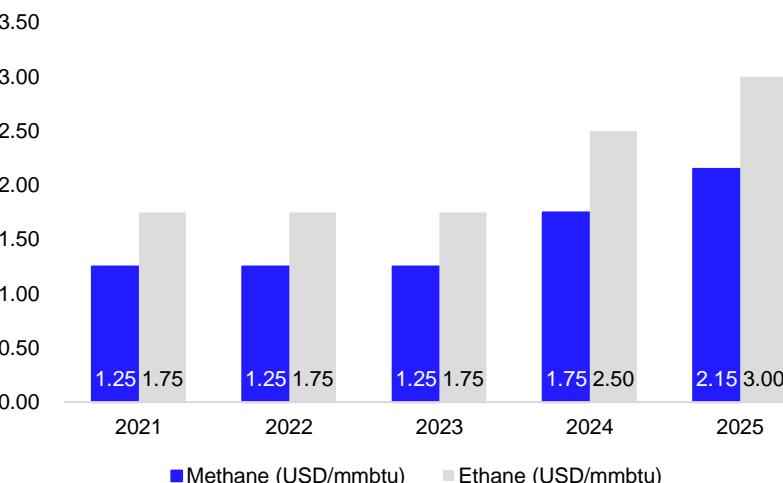
- The feedstock price hike continued in FY25 with Methane, Ethane and Diesel increasing by ~23, 20, and 44% respectively. This will put downwards pressure on the listed players margin in the range of 1-4%. The demand outlook remains mixed, albeit better than FY24. This was echoed by the downturn in December JPM Global PMI data (49.6 versus 50 in Nov'24). Although some positive signs can be seen including China stimulus package and expansion in Chinese manufacturing PMI for 3 straight months. China's stimulus package (~USD1.4 trillion) is a step in the right direction, but might do little to solve the structural issues plaguing the Chinese real estate market and the economy. On the supply front, outlook remains bleak as several capacities scheduled for FY24 have been delayed to FY25, increasing the supply outlook. As a result, prices and spreads continue to hover below the 5-year average range.
- We continue to advocate that the sector is not yet out of the woods and maintain a Neutral stance as structural demand issues persist.

### ARC Petchem Universe Return (rebased to 100)



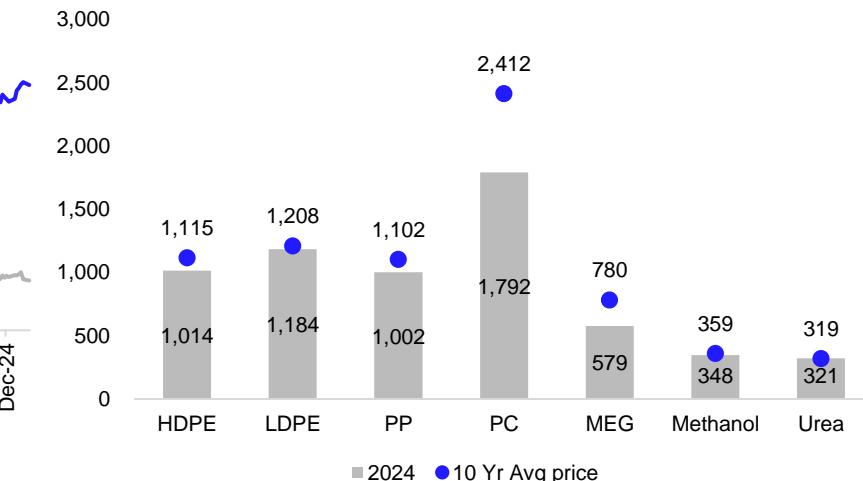
Source: Bloomberg, Al Rajhi Capital

### Feedstock Price over last 5 Years



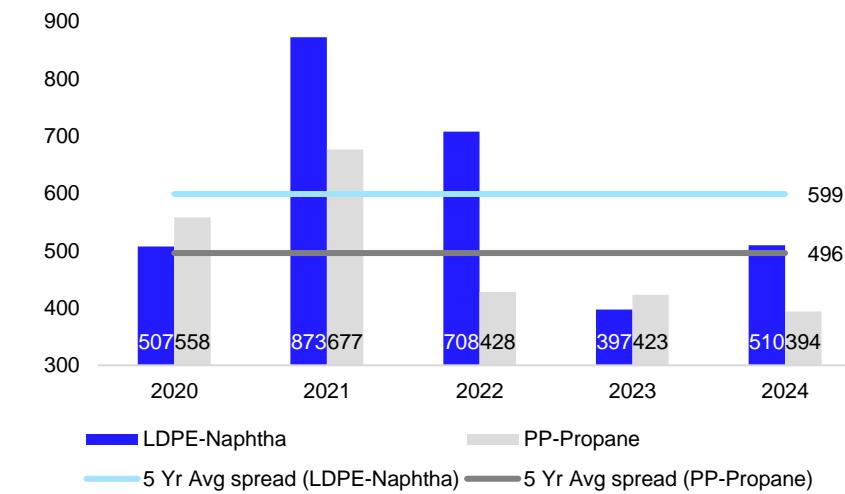
Source: Bloomberg, Al Rajhi Capital

### Key Product Prices (USD/mt) are below their 10 yr avg



Source: Bloomberg, Al Rajhi Capital

### Product Spreads over 5 Years (USD/mt)



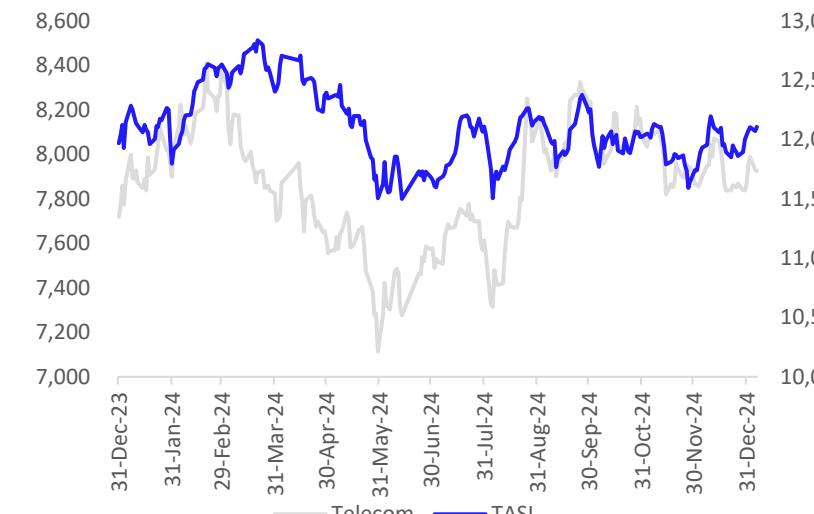
Source: Bloomberg, Al Rajhi Capital

# Telecom: Neutral

## Rate cuts to keep the sector under limelight

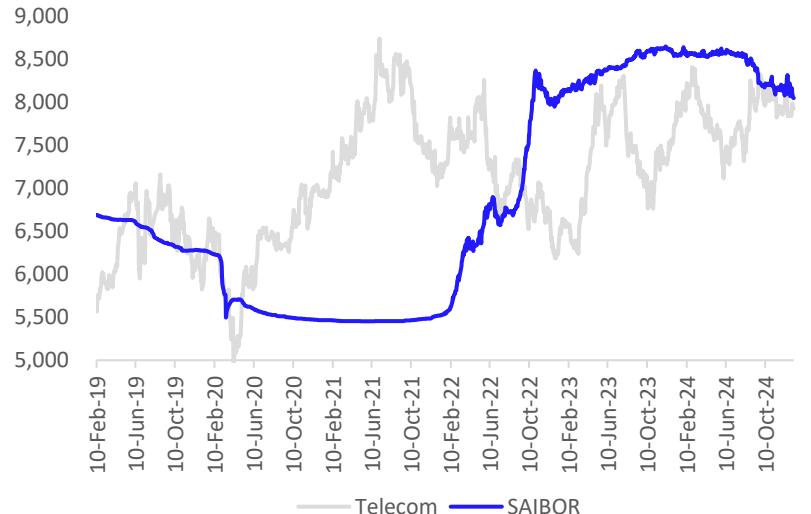
- The telecom sector dipped 2% in FY24, while TASI remained flat. STC led the sector with 9M24 net income up 10.3% on an adjusted basis, driven by 3.9% top-line growth from 5G rollout and subsidiary performance. The sale of majority stake in TAWAL by STC to PIF has been completed and the cash consideration amounting to c.SAR8.7bn will be further used to boost the group's growth. Mobily also posted strong results, with net income rising 34% y-o-y and revenue growing 8.5%, supported by its business segment growth and lower finance costs. The Consumer segment's performance reflects high competition and pricing pressure, with STC and Mobily's subscriber base growing by 6.9% and 1.5% y-o-y in 9M24.
- Growth Outlook:** We expect low growth from the consumer segment going forward while B2B segment remains higher growth area for Telecom. While STC's increasing contribution from its subsidiaries (33% in 9M24 vs 30% in FY22) is likely to boost its top-line. Overall, we expect profitability of the sector to increase by 13% y-o-y.
- The market is anticipating two rate cuts in FY25e, which could boost the Telecom sector's price performance. STC and Mobily boast annualized dividend yield of 3.9% and 3.4%, respectively. Going forward lower interest rates are likely to bring the sector into the lime-light.
- Key ideas: Mobily**

### Telecom Sector Price Performance vs TASI



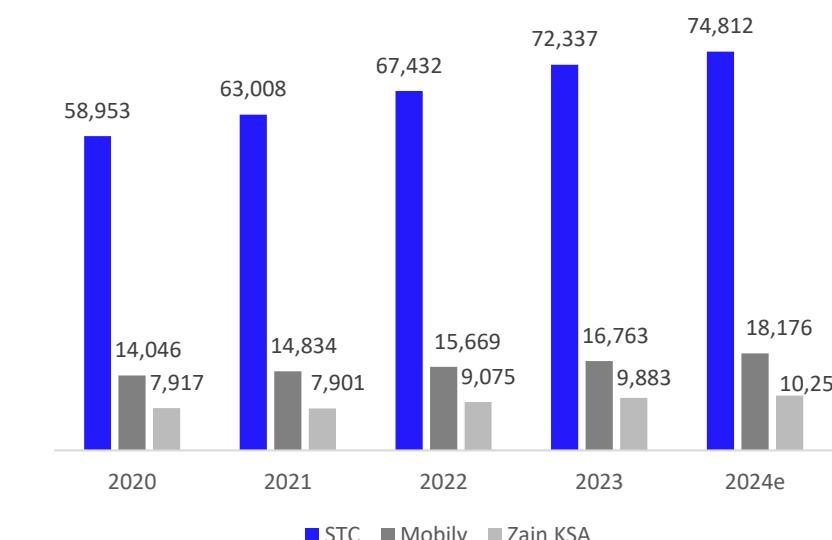
Source: Bloomberg, Al Rajhi Capital

### Telecom Sector Price Performance vs 3M SAIBOR



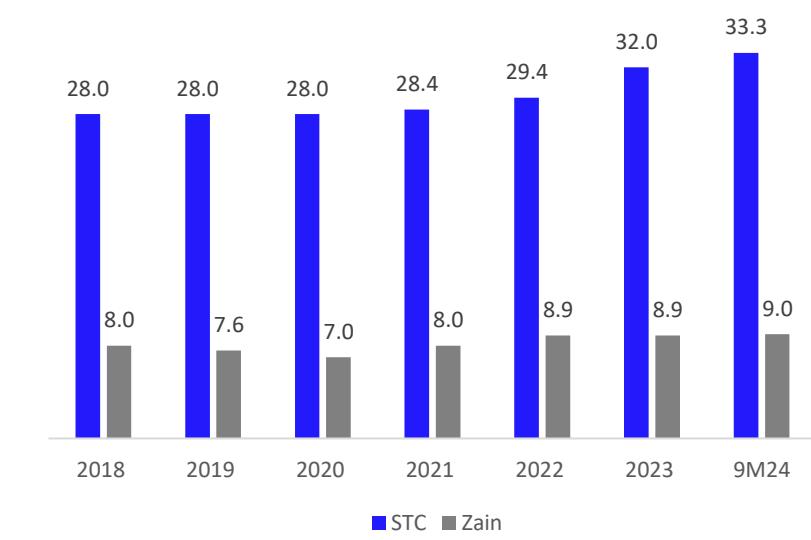
Source: Bloomberg, Al Rajhi Capital

### Mobily to witness highest revenue growth (SARmn)



Source: Company data, Al Rajhi Capital estimates

### STC remains the market leader in KSA (subscribers mn)



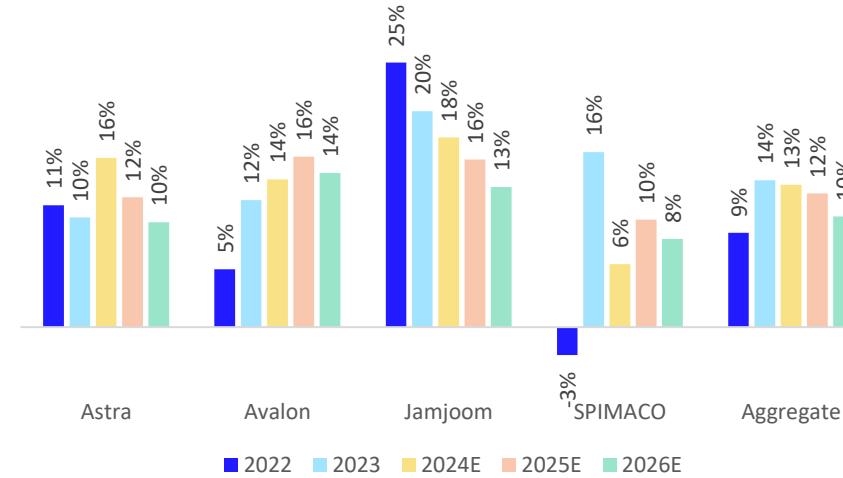
Source: Company data, Al Rajhi Capital estimates

# Pharma: Neutral

## Rerating happened as expected, but profit taking advised

- On the back of solid revenue growth for the third consecutive year, sharp rerating happened in the sector in 2024. As investors realized the potential of the generic pharma companies amid concerns of overcapacity in the hospital segment within healthcare (broader space including both hospital and pharma), investor interest shifted towards alternative space to play out the healthcare theme. Moreover, the visibility provided by the companies (except Astra all 3 provide guidance) in terms of annual and medium-term guidance, was reassuring.
- Going forward, we expect private market to slowdown a bit, while the overall market growth should continue to be attractive driven by the demand from Nupco.
- We also continue to be positive on the medium to long term growth potential of the sector, however, near term hiccups could emerge as similar growth in 2025 could be challenging given the high base effect. Moreover, as the companies rely more on tender business and Wasfy to support their growth, the margins could come under pressure a bit. Thus, we are of the opinion that some profit taking is warranted especially in the stocks that are fully pricing in similar growth even for 2025.

Pharma revenue sector growth in 2022-2024 and forecasts



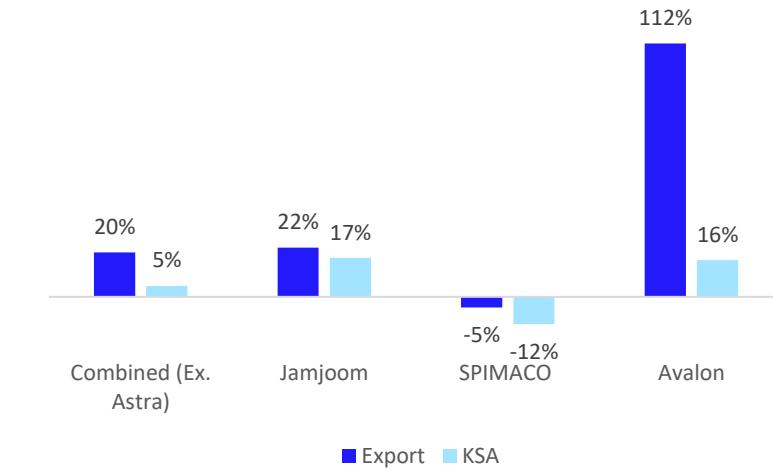
Source: Company Data, Al Rajhi Capital estimates

## Share price chart



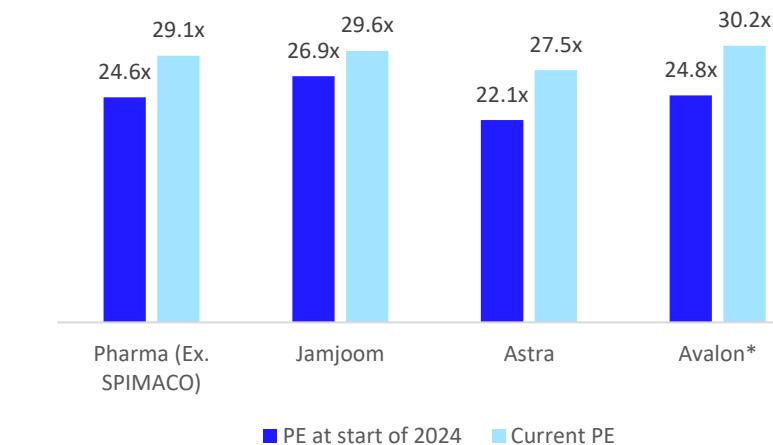
Source: Tadawul, Al Rajhi Capital

## Export & Local (KSA) market growth in 9M 2024



Source: Company Data, Al Rajhi Capital, Note: For SPIMACO, we have only considered only Pharma manufacturing revenues

## Valuations



Source: Tadawul, Al Rajhi Capital, Note\*: Avalon P/E at Start of 2024 is as on the date of its listing

# Consumer & Retail:

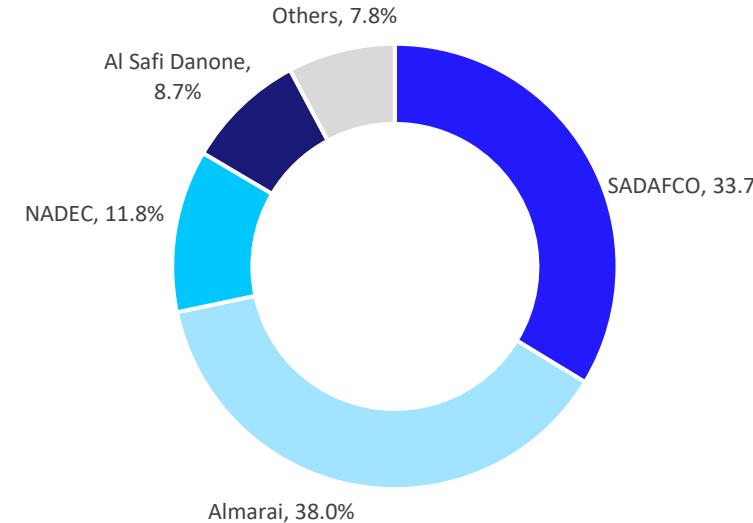
## Neutral

### Competition to remain elevated

Consumer & Retail sector's earnings is expected to grow by mid-single digits in 2025 (excluding Cenomi Retail & Savola), with the following major trends expected across different segments:

- Milk:** We expect oversupply of fresh milk and limited growth in local demand (of approximately 2-3%) to keep intensity of competition elevated in 2025. Hence, companies are expected to look towards export markets or product diversification to find growth opportunities.
- Poultry:** Risks of market disruption in the near-term on account of additional local capacity can be expected to keep stock price in-check.
- Grocery retailers:** Amid consumers remaining bargain hunters and expansionary plans of players, sector's profitability is expected to remain in-check in 2025. Going forward, the companies can be expected to continue their gradual tilt towards relatively high margin fresh products, consumer packaged products and private labels.
- Electronic retailers:** It is expected to witness contrasting trends in 2025. Competition in the smartphone segment is expected to remain elevated especially with the launch of online Apple store in 2025. On the other hand, eXtra is expected to benefit from JV with Panda and recently re-launched online platform that has increased the company's online sales by 38% in 9M24.
- Key ideas: eXtra**

Market Share of Milk in Dec 2023 (Value terms)



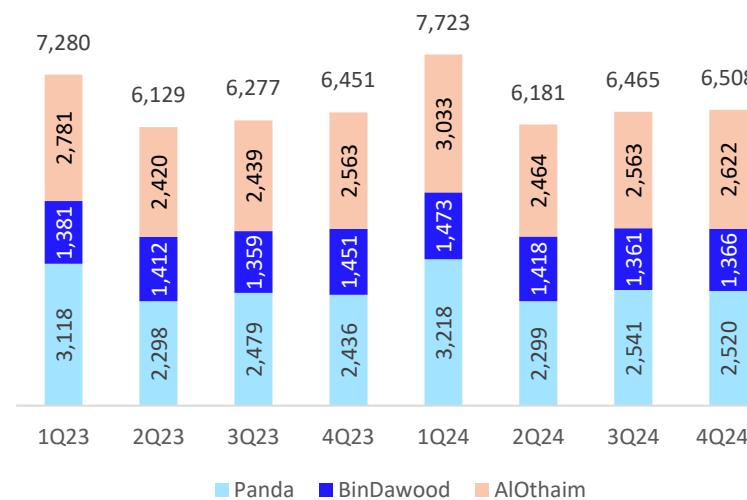
Source: Company data, Al Rajhi Capital

Quarterly Gross Margin of Tanmiah and Almunajem



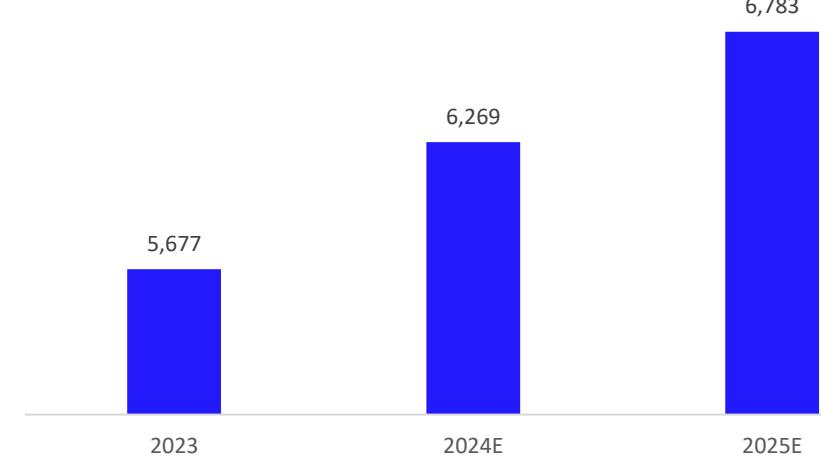
Source: Company data, Al Rajhi Capital

Topline of Panda, BinDawood, and AlOthaim (SAR mn)



Source: Company data, Al Rajhi Capital

Topline of eXtra electronic (SAR mn)



Source: Company data, Al Rajhi Capital

# Top Picks and investment case

# Rationale for Top Picks

Market	Company	Mcap (SARmn)	Last Price	TP	Upside (%)	ADTV (20 days) (SARmn)	P/E		EV/EBITDA	
							2024E	2025E	2024E	2025E
TASI	★ Solutions	33,648	280.4	360.0	28.4	28.2	23.8x	21.7x	17.7x	16.2x
	★ Dallah	14,848	152.0	192.0	26.3	7.1	29.2x	33.8x	27.7x	28.4x
	★ Budget Saudi	6,425	82.2	96.0	16.8	11.3	21.0x	16.4x	10.5x	8.0x
	★ Walaa*	2,544	19.9	25.3	26.6	15.7	16.0x	15.4x	NA	NA
	Al - Habib	101,640	290.4	316.0	8.8	60.2	45.4x	38.2x	46.1x	37.6x
	Mobily	41,580	54.0	60.0	11.1	43.9	15.5x	13.9x	6.8x	6.5x
	Bupa	30,810	205.4	260.0	26.6	22.3	27.0x	22.1x	NA	NA
	Leejam	9,691	185.0	210.0	13.5	15.0	25.9x	20.2x	14.0x	13.0x
	Al Arabia	8,426	153.2	NA**	NA**	36.8	34.0x	26.2x	6.1x	4.5x
NOMU	eXtra	7,512	93.9	117.0	24.6	54.3	14.6x	15.9x	10.2x	9.2x
	Lumi	3,910	71.1	87.0	22.4	12.8	22.2x	16.7x	8.1x	7.6x
	AOL	793	8.8	12.4	40.7	0.3	33.9x	14.0x	18.6x	10.2x
	Tam Development	680	185.8	270.0	45.3	0.8	13.3x	9.9x	12.3x	8.8x

Source: Bloomberg, Al Rajhi Capital estimates, Last price as of 7th January 2025, **Picks marked in bold are high conviction picks**. Note: \*Our target price for Walaa was already accounting for the impact of rights issue, thus not adjusted after the event. \*\*our current tp is SAR280/sh and our case is under review

# Rationale for Top Picks

	<p><b>Solutions:</b> Solutions' net income for 9M24 rose by 23% year-on-year (y-o-y), primarily driven by several one-off gains, while revenue growth remained stagnant at just 2% y-o-y during the same period. Due to this, the stock saw a correction of 23% in 2024 and 4% since our last update on July 31, 2024. We believe the group's fundamentals remain strong, with a decent backlog of projects. The stock is currently trading at attractive P/E multiples of 23.8x for FY24e and 21.7x for FY25e EPS, presenting a compelling valuation opportunity. Key upside triggers for the stock include: 1) a healthy pipeline of recurring revenues, 2) strong balance sheet with healthy cashflow generation, allowing it to consider M&amp;A options, and 3) it is a key beneficiary of Vision 2030 projects.</p>
	<p><b>Dallah:</b> Despite the solid 9M 2024 results (sharp improvement in the gross margins), the share price reaction has been muted due to de-rating in the sector as well as concerns around the losses related to the two acquisitions. However, we are of the view that these acquisitions can be a strong catalyst for the company to maintain its solid run rate in the next 4-5 years. With this deal, the company will expand into the eastern province, offsetting the risks of competition in its home market, Riyadh. At the same time, the price paid for these acquisitions is even cheaper compared to greenfield expansion. Moreover, funding through shares at a trailing P/E of 37x is a solid strategy as the hospital operator will not see any incremental pressure on the balance sheet.</p>
	<p><b>Budget:</b> Amid full year impact of AutoWorld acquisition (that increased the company's fleet size by ~45% starting from Aug-24) and gradual realization of synergies between the two companies (AutoWorld has materially higher maintenance, insurance and spread on borrowing as compared to Budget) we expect the company to report impressive double-digit earnings growth in 2025. Double-digit earnings growth and undemanding 2025 P/E multiple of around 16x warrants an overweight stance in our opinion.</p>
	<p><b>Walaa:</b> Walaa is one of the few primary insurance companies that have reinsurance license. In our view, the recent mandate by the regulator for local cession of facultative reinsurance business should support the growth for the company. At the same time, the company has raised capital through the rights issuance, that is expected to be deployed to grow in the P&amp;C business. Moreover, Walaa is also one of the few companies that have invested in the IT systems to analyze the data and risks in the P&amp;C business. In our view, the P&amp;C market is at a nascent stage of growth and the companies with the systems and expertise have first mover advantage. At an adjusted price to book (after accounting for rights issue), it is trading at a P/B of juts 1.4x, which is extremely attractive as the stock is a beneficiary of the structural P&amp;C growth story.</p>
	<p><b>Habib:</b> The year 2025 is a very crucial year for the company as it ramps up its recently opened hospitals. Among all the projects, the 500 beds hospital in Riyadh and the two hospitals in Jeddah are very crucial. As per the management, the patient volumes in the initial few weeks at its Southwest Jeddah Hospital (50% ownership) have been better than the run rate at Khobar, indicating signs of strong demand. In our view, more than the cost pressure, focus should be on the trends of patient volumes. In our view, any weakness in the stock price should be utilized as an opportunity to build position as its medium to long term growth story is pretty solid. We see upside risks to our target price if we see strong quicker than expected ramp-up at the Jeddah/New Riyadh hospital and manageable costs pressure in 2025.</p>

## Rationale for Top Picks

	<p><b>Mobily:</b> Mobily delivered impressive earnings growth of 56.4% y-o-y in the 9M24, driven primarily by business segment and improving gross margins. We expect this segment, the second largest after Consumer, to continue leading the company's growth. The stock is currently trading at a FY24/25e P/E ratio of 15.5/13.9x and EV/EBITDA ratio of 6.8/6.5x. The stock has outperformed the ARC Telecom universe by 9.7% in FY24. Key upside triggers include: 1) impressive growth in business segment, 2) consistent improvement in operational efficiency, 3) ongoing deleveraging efforts, and 4) possibility of setting a dividend policy.</p>
	<p><b>Bupa:</b> Bupa has prioritized profitability over market share in 2024, thus despite its topline being under pressure, net income has grown by xx% in 9M 2024. We estimate another solid quarter for the company in Q4. Moreover, its move to focus on telemedicine rather than venturing into physical clinics is a better move given the rising competition and capacity in the primary clinics. In the backdrop of DRG implementation and the expected reduction in claims from public hospitals (now requires preapproval), we estimate profitability to improve in 2025.</p>
	<p><b>Leejam:</b> Leejam's top-line and adjusted net income (ex-impact of property sale) grew by 17.9% YoY 20.3% y-o-y in 9M24, respectively. The growth was driven by higher membership and subscription revenues, driven by new outlet openings. Despite solid operational performance, the stock declined by 9% in FY24 and currently trades at an attractive FY24e/FY25e P/E of 25.9x and 20.2x, respectively. Due to its rapid outlet expansions, margins will remain under pressure in the short run. However, we believe, once ramp up of new gyms happen the company's profitability will increase rapidly. Key upside triggers for the company include: 1) continued higher than expected growth in members, 2) gradual ramp up of new centers, and 3) increase in health savvy customers especially women.</p>
	<p><b>Al Arabia:</b> Alarabia delivered an outstanding revenue performance in 9M24, achieving 28% y-o-y growth, driven by increase in billboards. However, net income declined by 19% as the company faced margin pressure, primarily stemming from rapid expansion. Delays in deployment of Remat contract, Faaden debt, and sale of stake by MBC has put pressure on the stock which saw a correction of 34% during FY24. Despite these challenges, the stock remains attractively valued, trading at FY24e/FY25e P/E multiples of 34.0x and 26.2x, respectively. Key upside triggers include: 1) revenue flow from recently won big ticket contracts, 2) exclusivity in Riyadh, 3) vast OOH advertising network, and 4) expected reduction in finance cost.</p>
	<p><b>eXtra:</b> Extra's electronic business is trading at an undemanding forward implied P/E of 13x and it is poised to benefit from its JV with Panda and recently re-launched online platform that has increased the company's online sales by 38% in 9M24. Furthermore, we believe company's plan to buy back 3mn shares and reduce its total debt bodes well from a stock price perspective.</p>

## Rationale for Top Picks

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	<p><b>Lumi:</b> Full year impact of Aramco contract (which is ~9% of the company's total fleet) and full year impact of 100bps reducing interest rates already witnessed in 2024 (Lumi as a Debt/Equity and Debt/Asset of 147% and 51% respectively as on Sep-24) is expected to result in double-digit earnings growth for the company in 2025. Despite offering impressive double-digit earnings growth the stock trades at forward P/E multiple of just 17x.</p>
	<p><b>AOL:</b> listed on Nomu, is an emerging player in the education and training space in the KSA. The company is well positioned to capitalize on Saudi Arabia's growing demand for vocational training as the job market continues to favor ready to be employed workforce and is focused on gender diversity. The company has predominantly focused on women education &amp; training and has benefited from the sharp growth in demand for the women workforce. From just 7 branches in 2022, it has opened 12 branches by the end of 2024. Moreover, over the medium term, the growth will come from its plan to venture into having schools, through a newly formed subsidiary. Although profitability could be under pressure this year due to new branches, sooner than later the margins should recover. We estimate revenues (standalone, ex-education company) to grow by 29% CAGR over the next 4 years and profits to increase by 34%.</p>
	<p><b>TAM Development:</b> TAM had an impressive start to the year, with its revenue growing nearly 92% y-o-y, as the group added approximately 30 new clients to its portfolio in the first half of FY24. We believe the group is well-positioned to maintain its strong growth trajectory, supported by its backlog of SAR278mn (as of 1H24) and a potential pipeline of SAR400mn. The stock, which has moved up by nearly 44% in FY24, however, the stock is still trading at undemanding valuations of 13.3/9.9x based on FY24/25e earnings.</p>

Thank You

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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 12 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 12 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 12 month time horizon.

"Target price": We estimate target 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.

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.

# Contact us

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