GIB CAPITAL جي آي بي كابيتال

Target Price: SAR114/share
Market price: SAR101.6/share
Upside: +12% (+Div. Yield: 4.3%)
Rating: Overweight

Saudi Aramco Base Oil Company - Luberef

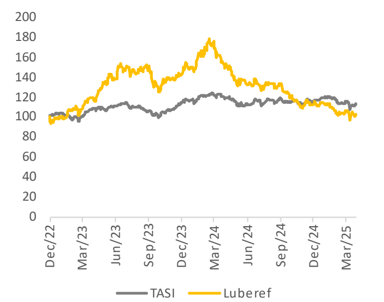
Crack margin to improve gradually; TP set at SAR114/sh.

- Crack margin to improve gradually to US$460/t in 2025e and US$480/t by 2028e, mainly driven by lower fuel oil and freight costs, though remaining below the historical average.
- 2025e performance may remain under pressure due to catalyst replacement, the Yanbu plant shutdown in 4Q25, and higher capex before starting to improve in 2026e.
- Despite the near-term headwinds, we remain positive on Luberef, aided by Yanbu II expansion leading to better margins, feedstock allocation, cost optimization efforts, and healthy FCF. Our revised TP stands at SAR114/sh., implying ~12% upside.

Stock data	
TASI ticker	2223
Mcap (SARbn)	17,145
Avg. Trd. Val (SARmn)	26.1
Free Float	30.0%
QFI Holding	6.8%
TASI FF weight	0.23%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Crack margins likely to improve gradually, although it may remain below the historical levels: 2024 market environment was quite challenging for Luberef with base oil crack margins declining from US$551/t in 2023 to US$454/t in 2024, mainly due to i) lower base oil product prices (~5% y/y decline), ii) a decline in domestic sales (24% of total vs 25% in 2023 vs 30% 2024 guidance), iii) higher feedstock price (Singapore Fuel Oil; +11% y/y), iv) imported feedstock impact (SAR50mn impact) in 1Q24, and v) relative higher freight and insurance costs amid the red sea crisis. Going forward, we expect the average base oil prices to remain mostly stable (+1% up YTD) in 1H25, driven by healthy demand-supply balance amid shutdown of a few plants during April-May-2025. Thereafter, we expect the prices to decline slightly as the demand is expected to slow down (mainly in Asia; Figure 4) to 3Q25e, due to the seasonality factor and concerns surrounding the global economic slowdown amid tariff war. On the other hand, avg. feedstock price (Singapore Fuel Oil) is likely to continue tracking oil prices, which may remain under pressure (-3% decline YTD) due to trade war concerns and likely rise in OPEC supply. Overall, we expect crack margin to marginally improve to US$460/t in 2025 and further to ~US$480/t by 2028e (US$438/t in 4Q24), largely driven by lower fuel oil prices, higher domestic sales and easing freight costs. However, it is likely to remain below 10Y avg. of US$493/t.

Yanbu II expansion project likely to compete pre-commissioning by Jan-26: Luberef is investing US$150-200mn (spent US$30mn so far) into expanding the capacity of its Yanbu plant ("Yanbu Growth II project") to start producing Group III base oils with a capacity of 175kmta. This implies that after the likely closure of the Jeddah facility by mid-26 (although still not finalized), the group's total capacity would largely remain the same (including HVGO and UCO feedstock allocation). Further, the capacity comes with a flexibility that allows the group to transform its GII capacity into GIII and vice-versa according to the demand in the market.

Figure 1: Key financial metrics

SARmn	2023a	2024a	2025e	2026e
Revenue	9,489	10,036	9,628	9,403
Revenue growth	*-10.6%*	*5.8%*	*-4.1%*	*-2.3%*
Gross Profit	1,858	1,336	1,348	1,360
Gross Profit margin	*19.6%*	*13.3%*	*14.0%*	*14.5%*
EBITDA	1,912	1,272	1,274	1,293
Op. income	1,590	1,001	1,012	1,030
Net profit	1,510	972	957	988
Net profit margin	*15.9%*	*9.7%*	*9.9%*	*10.5%*
EPS	9.0	5.8	5.7	5.87
P/E	11.3x	17.6x	17.9x	17.3x

Source: Company data, GIB Capital

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The company is targeting project mechanical completion in December 2025 and pre-commissioning completion in January 2026. As of Jan 2025, the company has achieved project overall progress of 40.3% vs planned 42.6%. The delay is due to open technical clarifications with vendors. The company is working to sort these out and remains on target to achieve its planned 45% completion in 1Q25. Further, Luberef expects the project's completion rate to pick up in 2Q25 and 3Q25 due to the nature of the project, with later stages having less engineering and construction work and more procurement work. Overall, this expansion, along with the additional feedstock allocation, should ensure steadily growing sales volume (assuming the closure of the Jeddah facility on a conservative basis) with a gradual margin improvement (GIII commands US$200-300/t average premium on group 2) over the medium term.

Yanbu plant to shut for maintenance for 45 days in 4Q25e: As a part of its business plan, Luberef is expected to shut down its Group I and Group II plants in Yanbu for maintenance for around 45 days in 4Q25, which is mostly aligned with its Growth II project activity. Accordingly, we expect sales volume to decline to ~1.2mn for 2025e (in line with the guidance) from ~1.3mn in 2024. However, the company expects higher production during the first eight months of 2025, which, along with likely higher domestic sales and better margins, would likely absorb the most shutdown impact.

Ongoing significant capex to lower FCF, which may reduce dividend: The company has guided 2025e total capex of SAR520-630mn (SAR204mn in 2024), including SAR250-300mn for the Yanbu Growth II project and SAR170-190mn turnaround capex, and the remaining for the maintenance capex. Accordingly, we expect the company to generate an FCF of ~SAR1 bn, ~38% below last year's FCF of SAR1.6bn (clean FCF: SAR1.1bn), which benefited due to working capital inflows (+SAR496mn) on higher payable to Aramco. This may likely put pressure on the dividend in 2025e. Accordingly, we forecast 2025 DPS at SAR4.4, implying a healthy dividend yield of ~4% and FCF payout of 77% (70-80% guidance; 5.6% FCF yield). However, we highlight that the company possesses a strong balance sheet with cash & cash equivalents of ~SAR1.2bn and a gearing ratio of -3% as of Dec-24, providing enough cushion if the board decides to maintain the DPS at the 2024 level.

1Q25 preview: We expect Luberef's 1Q25 topline to decline by ~10% q/q to SAR2,354mn, mainly due to lower sales volume on a 15-day shutdown for catalyst replacement (earlier scheduled for 2Q25 but preponed to 1Q25 due to lower prices). Further, the crack margin is expected to remain broadly stable at US$442t in 1Q25 (vs. US$438/t in 4Q24), due to an improvement in base oil prices (+3.6% q/q) and easing freight and insurance costs, offsetting increased Fuel Oil prices (+6.9% q/q). Overall, we expect a 2% q/q decline in 1Q25 earnings (SAR205mn), mostly due to sales volume.

Valuation: Despite the near-term headwinds, we remain positive on the company, on the back of i) Yanbu II expansion, ii) additional feedstock allocation that can drive sales volume, iii) likely improvement in crack margin (although gradually), iv) its initiatives for cost optimization (signed a MoU with Bahri to explore long term collaboration, v) strong FCF generation ability and vi) healthy dividend yield (~4%). Based on an equal mix of DCF (9.6% WACC) and P/E-based (18x on 2025e EPS) valuation methods, we set the 1Y forward TP at SAR114 per share, implying an upside of ~12% and an Overweight rating on the stock.

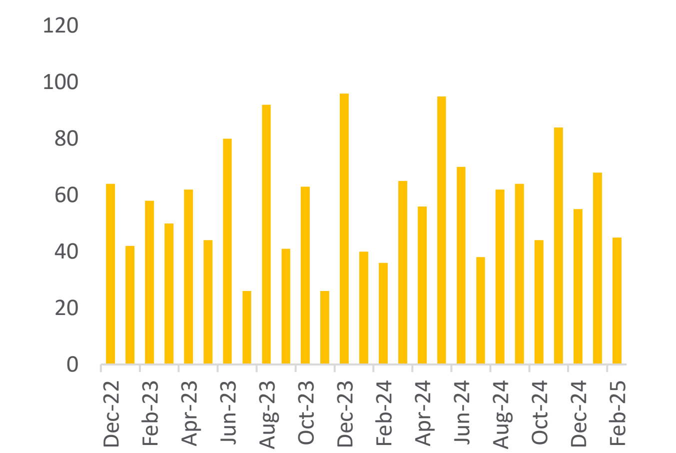
Risks to our view: Upside from dividends as the cash generation is strong, better than expected crack margins led by market dynamics, and the continuation of the Jeddah facility are the key company-specific upside risks to our valuation. The downside risks to our valuation include lower-than-expected dividends, the slowdown in demand, and the weaker-than-expected crack margin.

Base oil market dynamics

KSA base oil shipments increased by over 4% y/y in 2024: The total base shipments from Yanbu and Jeddah ports increased 12% q/q (-1% y/y) to over 180k tonnes in 4Q24, taking the total shipments to 710k tonnes (vs 680k tonnes in 2023) in 2024. Overall, the growth was mainly driven by rising Asian demand, where product availability is tight after a few plant shutdowns over the recent years. Increased exports to China (17k tonnes vs 1k tonnes in 2023) and India were also observed in 2024. This trend continued during Jan-Feb 2025 as well, with the total base oil shipments reaching 113k compared to 76k during the same period last year (Red Sea impact).

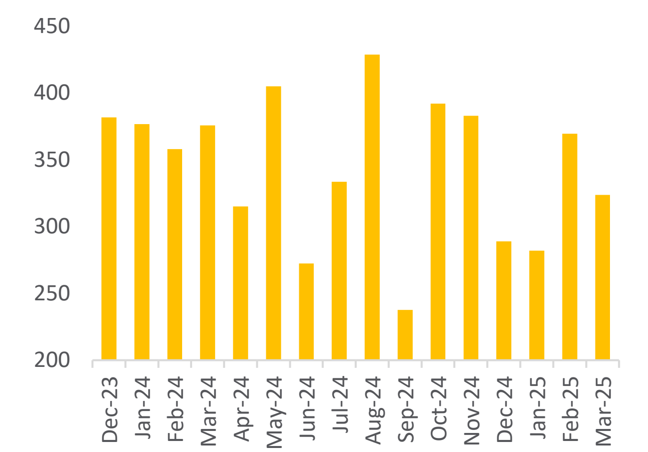
Over the near term, we expect steady exports from the Kingdom, which would be the key source for the Middle East, mainly due to a slowdown in shipments from Asia on planned shutdowns and higher seasonal demand.

Figure 2: Base oil shipments from Yanbu/Jeddah ('000 tonnes)



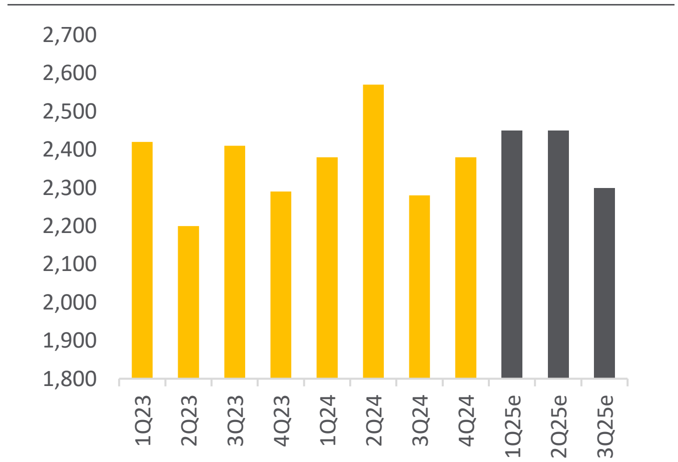
Source: Shipping data, GIB Capital

Figure 3: South Korea's base oils exports ('000 tonnes)



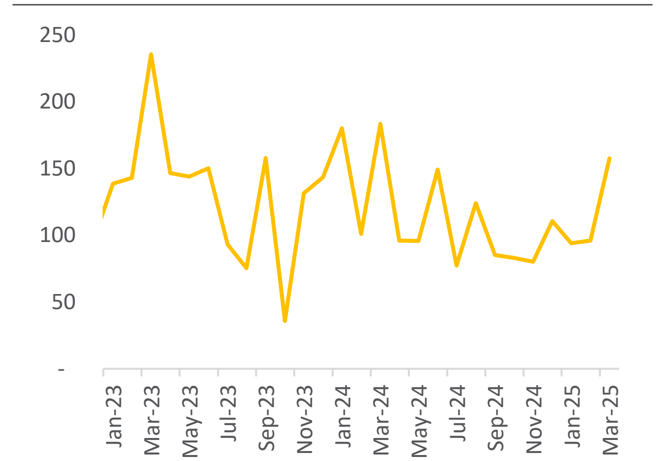
Source: Korea Customs Service, GIB Capital

Figure 4: Asia lube demand ('000 tonnes)



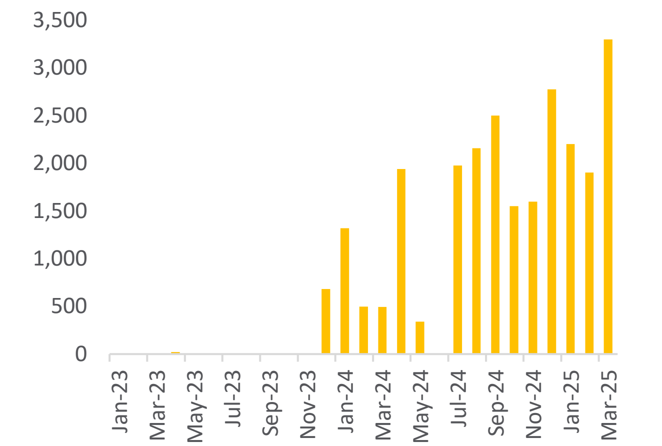
Source: Baseoilnews, GIB Capital

Figure 5: China net base oil imports ('000 tonnes)



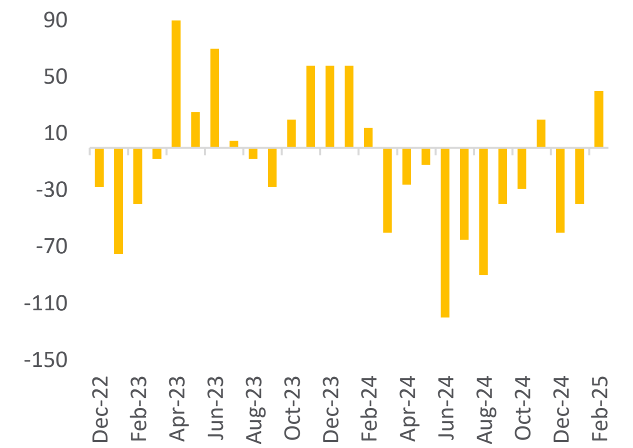
Source: ICIS, GIB Capital

Figure 6: China base oil imports from Saudi Arabia (tonnes)



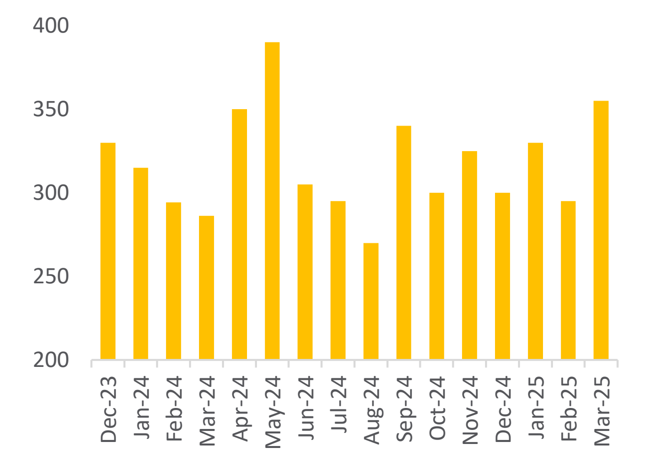
Source: Bloomberg, GIB Capital

Figure 7: India's base oil supply demand gap ('000 tonnes)



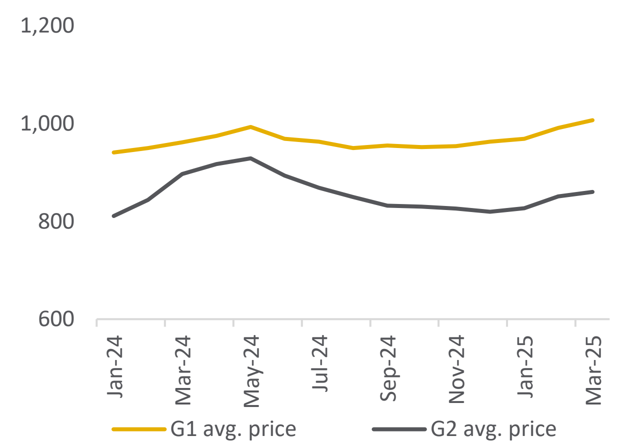
Source: Ministry of Petroleum and Natural Gas

Figure 8: India base oil imports ('000 tonnes)



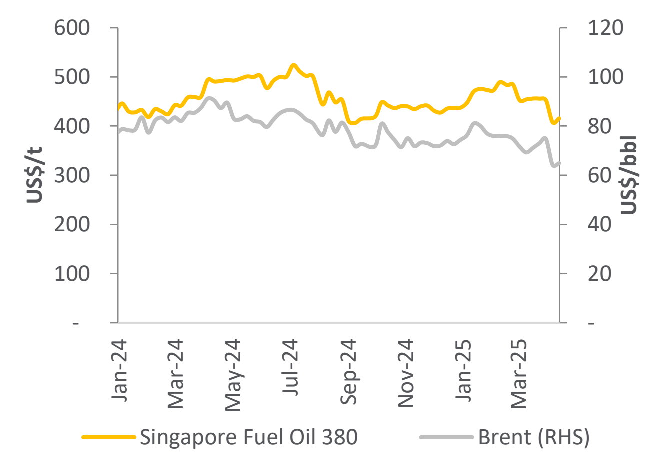
Source: India customs data, GIB Capital

Figure 9: GI and GII FOB Asia price trend (US$/t)



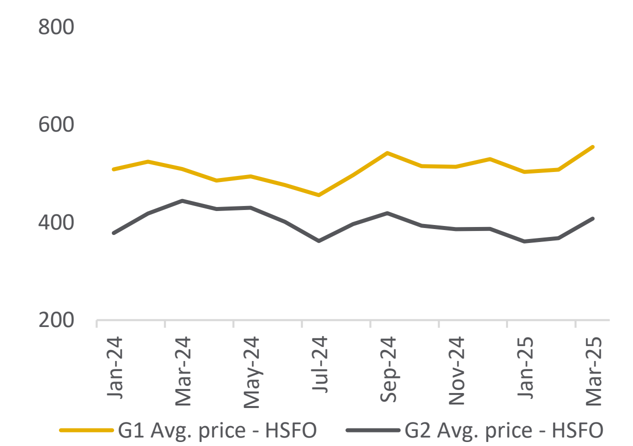
Source: Argus' indexes, GIB Capital

Figure 10: Singapore Fuel oil vs Brent



Source: Bloomberg, GIB Capital

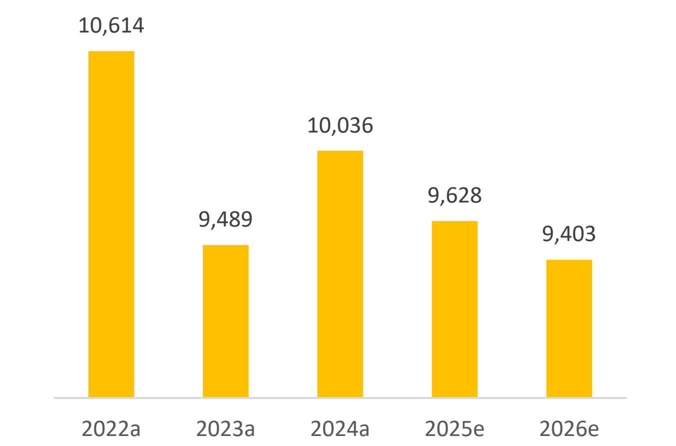
Figure 11: Implied crack margin (US$/t)*



*Source: Argus' indexes, Bloomberg, GIB Capital. * Without Luberef premium*

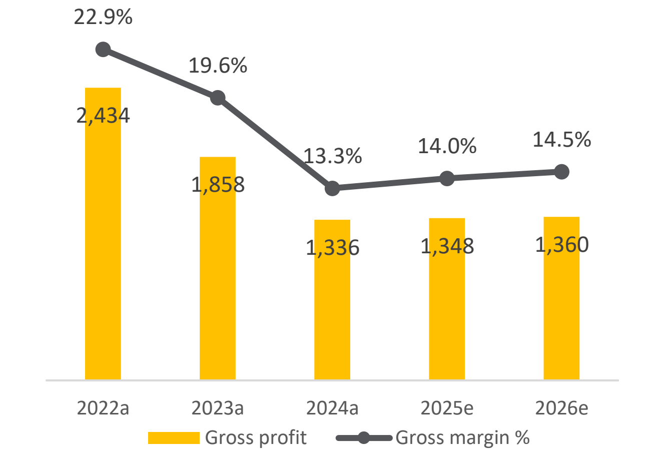
Financial analysis in charts

Figure 12: Revenue trend (SARmn)



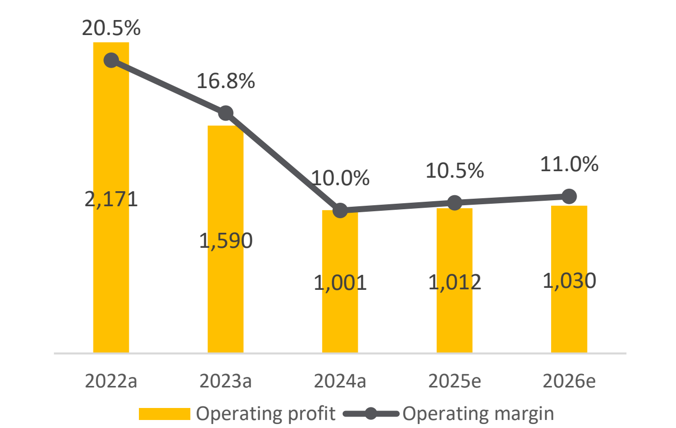
Source: Company data, GIB Capital

Figure 13: Gross profit and gross margin trend (SARmn)



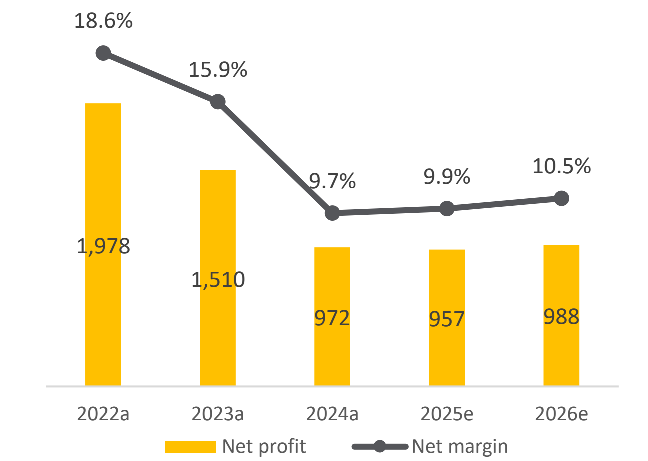
Source: Company data, GIB Capital

Figure 14: Operating profit and operating margin trend (SARmn)



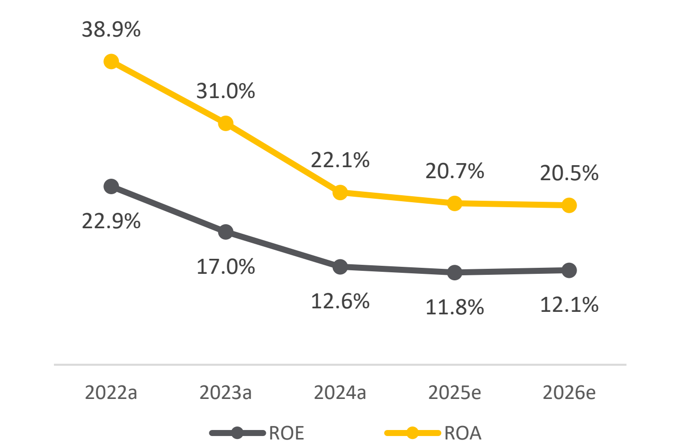
Source: Company data, GIB Capital

Figure 15: Net profit and net margin trend (SARmn)



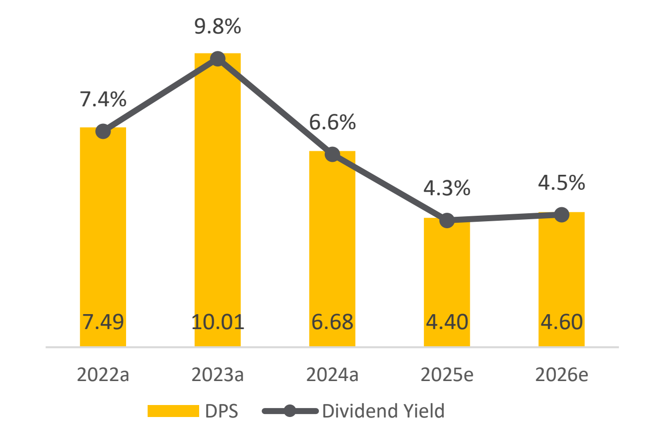
Source: Company data, GIB Capital

Figure 16: ROE & ROA



Source: Company data, GIB Capital

Figure 17: Dividend and yield



Source: Company data, GIB Capital

Financials

Figure 18: Key financials

Income statement (SARmn)	2023a	2024a	2025e	2026e
Revenue	**9,489**	**10,036**	**9,628**	**9,403**
revenue y/y	*-10.6%*	*5.8%*	*-4.1%*	*-2.3%*
COGS	7,630	8,700	8,280	8,044
Gross Profit	**1,858**	**1,336**	**1,348**	**1,360**
Gross Profit margin	*19.6%*	*13.3%*	*14.0%*	*14.5%*
G&A	230	281	278	271
Operating profit	**1,590**	**1,001**	**1,012**	**1,030**
Operating margin	*16.8%*	*10.0%*	*10.5%*	*11.0%*
Finance costs	142	92	70	52
Net income	**1,510**	**972**	**957**	**988**
Net margin	*15.9%*	*9.7%*	*9.9%*	*10.5%*
y/y	*-23.7%*	*-35.6%*	*-1.6%*	*3.3%*
EPS	**8.98**	**5.78**	**5.69**	**5.87**
DPS	10.01	6.68	4.40	4.60
Payout	111%	116%	77%	78%
EBITDA	**1,912**	**1,272**	**1,274**	**1,293**
Net debt	239	286	478	679

Balance Sheet (SARmn)	2023a	2024a	2025e	2026e
Inventories	623	671	635	617
Trade Receivables	1,054	961	923	902
Other Current Assets	1,663	469	469	469
Cash and Equivalents	546	735	811	878
Total Current Assets	**3,885**	**2,836**	**2,838**	**2,865**
Intangible Assets	18	15	17	17
Property, Plant & Equipment	4,771	4,718	5,072	5,129
Total Non-Current Assets	**4,971**	**4,903**	**5,241**	**5,283**
Total Assets	**8,856**	**7,739**	**8,079**	**8,149**
Current Liabilities	1,701	2,011	2,274	2,272
Non-current Liabilities	2,286	1,331	1,191	1,048
Equity	4,869	4,397	4,614	4,828
Total Equity and Liabilities	**8,856**	**7,739**	**8,079**	**8,149**
BVPS	28.9	26.1	27.4	28.7

Cashflow (SARmn)	2023a	2024a	2025e	2026e
Cashflow from Operations	2,322	1,808	1,564	1,294
Cashflow from Investing	-1,691	977	-600	-305
Cashflow from Financing	-1,997	-2,596	-889	-923
Total Cashflows	**-1,366**	**189**	**76**	**67**

Source: Company, GIB Capital

Figure 19: Key ratios

Key ratios	2023a	2024a	2025e	2026e
Profitability ratios				
RoA	17%	13%	12%	12%
RoE	31%	22%	21%	20%
Sales/Assets	107%	130%	119%	115%
EBITDA margin	20.1%	12.7%	13.2%	13.8%
Net margin	15.9%	9.7%	9.9%	10.5%
Liquidity ratios				
Current Assets/ Current Liabilities	2.3	1.4	1.2	1.3
Debt to Total Equity	44%	24%	21%	17%
Receivable Days	41	35	35	35
Inventory Days	30	28	28	28
Payable days	56	66	80	82
Debt ratios				
Net Debt/EBITDA	0.1	0.2	0.4	0.5
Debt/Assets*	24%	14%	12%	10%
Valuation ratios				
P/E	11.3	17.6	17.9	17.3
P/B	3.5	3.9	3.7	3.5
EV/adj. EBITDA	9.1	13.6	13.6	13.4
FCF yield	11.8%	9.1%	5.6%	5.8%
Div Yield	9.8%	6.6%	4.3%	4.5%

*Source: Company, GIB Capital, * Debt includes bank facilities taken + lease liabilities. Calculations may differ from those reported by the company*

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