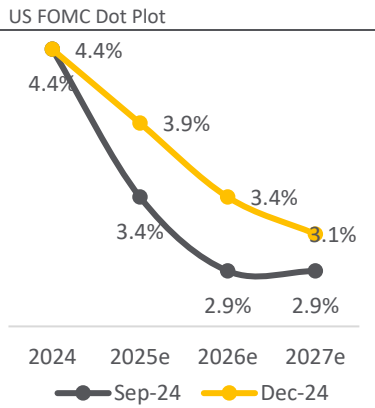


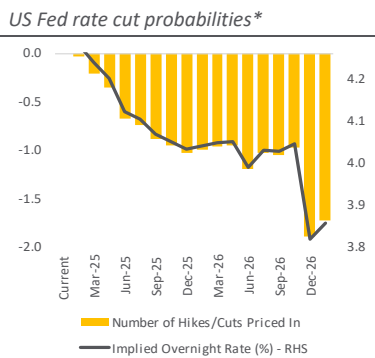
Saudi Arabia: Navigating the Year Ahead

Rate cut impact to begin fully materializing in 2025e

- The US Fed reduced the benchmark rates by 100bps in 2024 and has cautiously projects to reduce rates by 50bps each in 2025e and 2026e.
- We expect total finance costs of TASI companies (ex. Banks, Insurance and Aramco) to decline by 18-11% in 2025-26e, with the Real Estate sector likely witnessing the highest earnings expansion, followed by consumer durables, utilities, and REITs sectors.
- Within our coverage, we expect Marafiq, Akaria, ADES, Miahona, and AlArabia to be notable beneficiaries of rate cuts, with a healthy upside to earnings.



Source: Bloomberg



Source: Bloomberg * as of 13th Jan 2025

From aggressive hikes to measured cuts - The Fed's policy shift: Following an aggressive tightening cycle that saw 11 rate hikes (over 5%) since March 2022, the US Fed reached a peak target range of 5.25-5.50% in July 2023. Later, in Sept-24, the Fed began easing monetary policy with a 50bps rate cut, amid signs of slowing inflation and weakening economy. Subsequent 25bps cuts in both November and December 2024 brought the target range down to 4.25-4.50% (a total reduction of 1% in 2024). However, newly released FOMC projections signal a more cautious and slower pace of rate cuts in 2025e. The Fed now forecasts reducing rates by only 0.5% in 2025e (down from Sept-24 projection of 1%), 0.5% in 2026e (unchanged), and 0.3% in 2027e (up from 0%). Meanwhile, the market is expecting just one cut in 2025e in 2H25e (Bloomberg World Interest Rate Probabilities), with US treasury yield increasing by ~100bps since the cut cycle started. This is due to the stronger than expected macro-economic data releases in recent months, coupled with policy uncertainties and the potential inflationary consequences of the incoming US presidential administration. SAMA has mirrored the Fed's rate cuts (Repo/Reverse Repo 5.00-4.50%) and is expected to maintain a similar policy stance.

Implications of rate cuts on sectors: We expect the implications of the Fed rate cut to start fully materializing in 2025e. Based on the Fed's rate cuts of 100bps in 2024 and future projections of 50bps cuts each in 2025e and 2026e, and factoring in a lag effect, we now project a cumulative impact of 110bps in 2025e and 50bps in 2026e. This adjustment translates to an 18% y/y reduction in finance costs for TASI-listed companies (excluding Aramco, Banks, and Insurance) in 2025e (up from our previous ~15% projection) and an ~11% y/y reduction in 2026e. These revised finance cost savings are projected to boost earnings by 8% y/y in 2025e (up from our previous estimate of 7%) and 4% in 2026e. Real estate is expected to lead earnings growth (44% y/y in 2025), followed by consumer durables (30%), utilities (19%), and REITs (11%).

Impact on our coverage: Within our coverage, Marafiq (1.3x D/E including lease liabilities for 2024e) stands as a notable beneficiary, expecting a (-24%) decline in finance expenses for 2025e (assuming effective 110bps rate cut impact on our projected 2024e debt level). This reduction is expected to increase the bottom line by 36%. In the Utilities sector, Miahona (1.9x, 18% decline in finance costs; 12% rise in earnings) is other beneficiary from the rate cuts. In the Energy sector, ADES (2.0x; 16% decline; 16% jump in earnings) and Arabian drilling (0.5x, 15% reduction; 10% increase) are other beneficiaries from the rate cuts. Akaria (0.6x), in the real estate sector, is projected to witness a 14% reduction in finance costs, potentially leading to a 28% surge in the bottom line. Additionally, AlArabia (1.9x) and Lumi (1.5x) are also expected to witness a double-digit reduction in interest expenses, resulting in an 11-12% improvement in earnings in 2025e. These key beneficiaries are largely consistent with our previous analysis.

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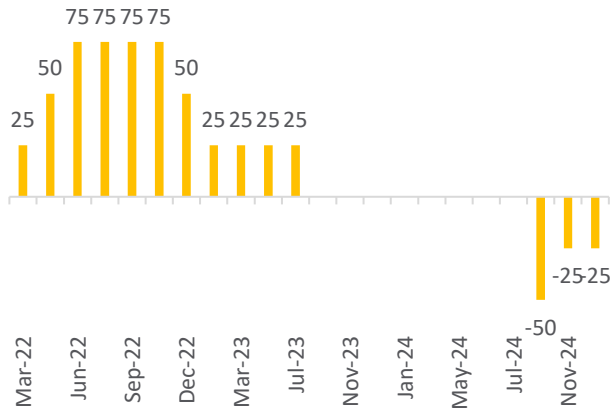
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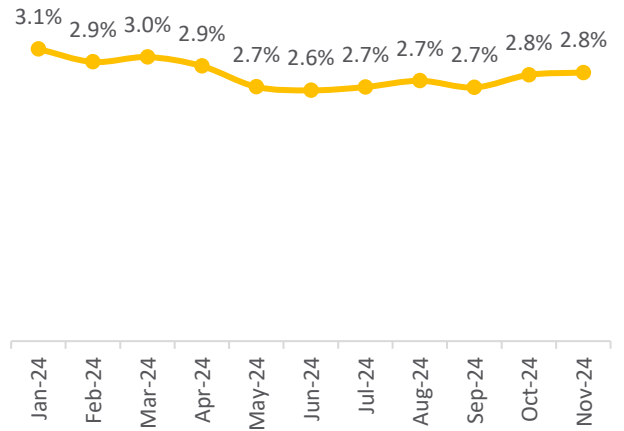
1. Rate Cuts: What you need to know

Figure 1: US Fed initiated its monetary easing cycle in Sept-24 (bps)...



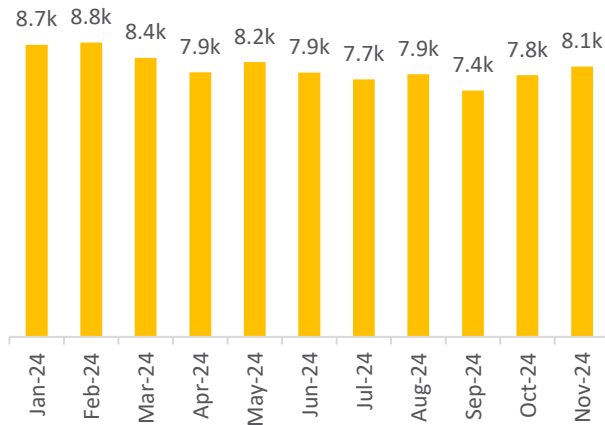
Source: Bloomberg, GIB Capital

Figure 2: However, US core PCE index indicate persistent inflation



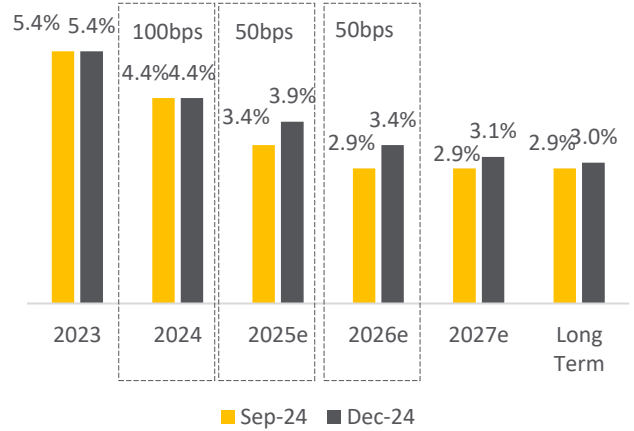
Source: Bloomberg, GIB Capital *excl. food and energy

Figure 3: ... and US jobs opening data also suggest firm US economy



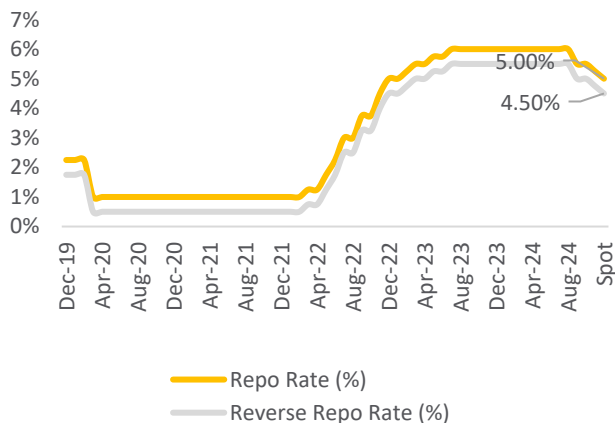
Source: US FRED, GIB Capital

Figure 4: leading to a more cautious rate cut outlook from the Fed



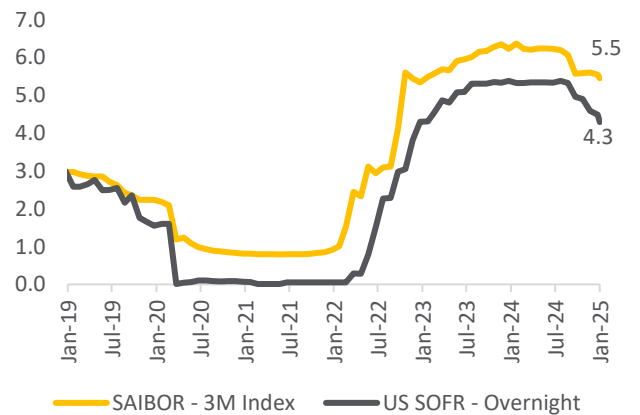
Source: Bloomberg, GIB Capital

Figure 5: KSA's SAMA has mirrored the US Fed and adjusted key rates



Source: Bloomberg, GIB Capital

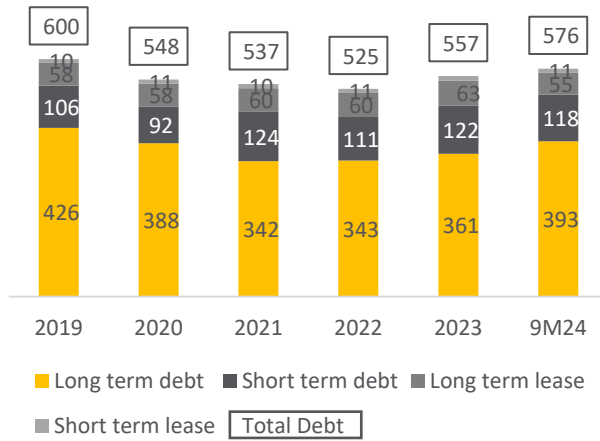
Figure 6: Key benchmark rates (%)



Source: Bloomberg, GIB Capital

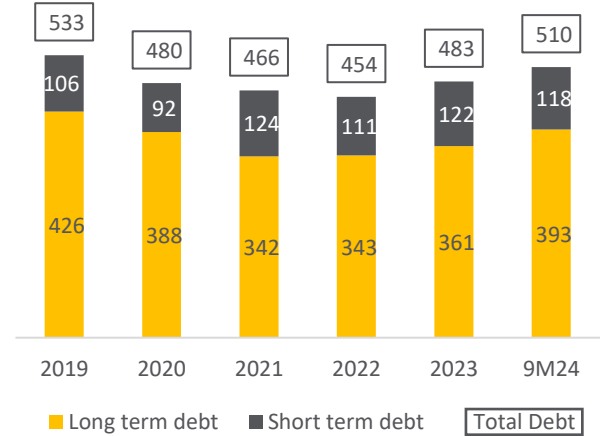
2. Current leverage scenario in KSA

Figure 7: Total debt including lease liabilities (SARmn)*



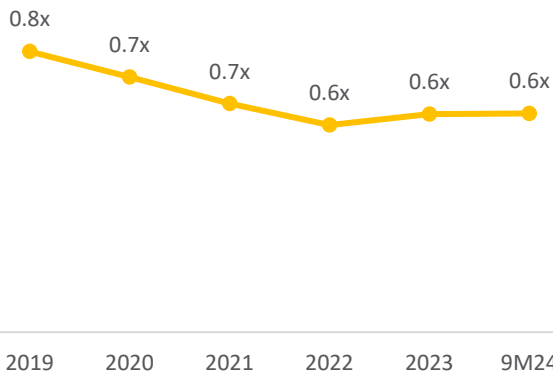
Source: Argaam, GIB Capital, * Ex-Banks and Insurance and Aramco

Figure 8: Total debt excluding lease liabilities (SARmn)*



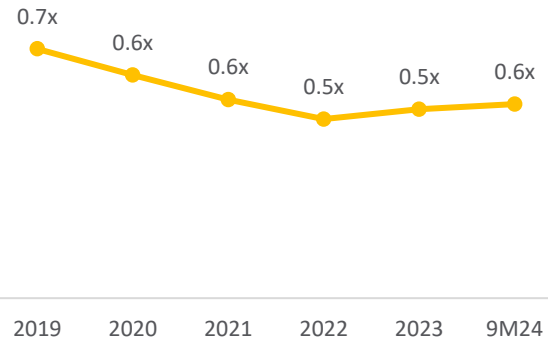
Source: Argaam, GIB Capital, * Ex-Banks, Insurance and Aramco

Figure 9: Trend in D/E ratio including lease liabilities*



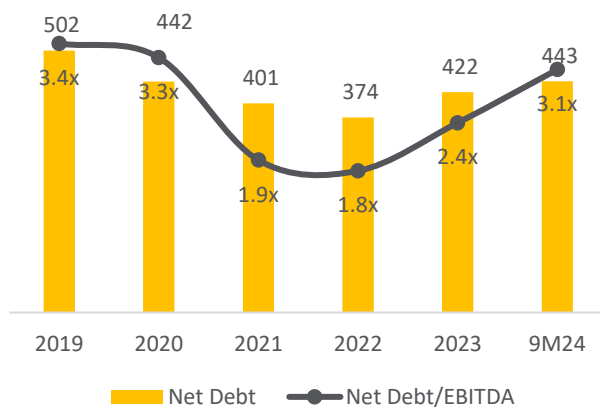
Source: Argaam, GIB Capital, * Ex-Banks and Insurance and Aramco

Figure 10: Trend in D/E ratio excluding lease liabilities*



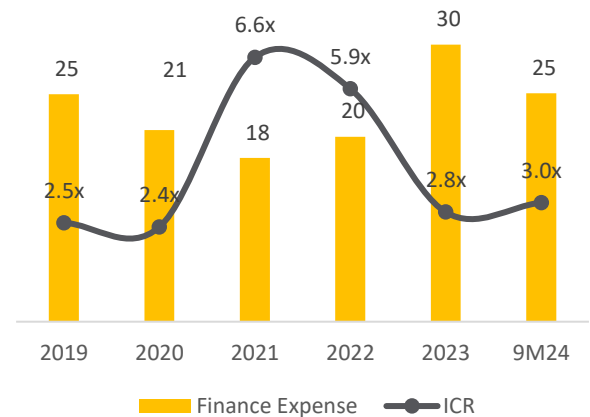
Source: Argaam, GIB Capital, * Ex-Banks and Insurance and Aramco

Figure 11: Trend in net debt and net debt to EBITDA ratio (SARmn)*



Source: Argaam, GIB Capital, * Ex-Banks and Insurance, REITs and Aramco

Figure 12: Trend in finance expense and interest coverage ratio (SARmn)*



Source: Argaam, GIB Capital, * Ex-Banks and Insurance, REITs and Aramco

3. Rate cuts beneficiaries: Analyzing the impact on KSA sectors

The US Federal Reserve reduced benchmark rates by 100bps in 2024 and projects further 50bps cuts in both 2025e and 2026e. To estimate the lagged impact of these cuts on company finance costs, we used the following methodology:

For 2024e: We applied a 50bps reduction (reflecting one quarter's impact) to the 9M24 finance rate to derive a 4Q24e implied rate. This rate was then applied to the 9M24 debt level (held constant) to calculate 4Q24e finance costs, which were added to 9M24 finance costs to arrive at the annual 2024e finance costs estimate.

For 2025e: We assumed the full 100 bps impact of the 2024 cuts would be reflected in 2025e. Additionally, we factored in the projected 50 bps cut for 2025e (assumed to be implemented in 2H25, resulting in a two-quarter impact of 25bps and a one-quarter impact of another 25bps). By calculating the same, we arrive at a 110bps impact on the finance costs in 2025e. This 110bps effective rate cut was applied to the 9M24 debt level (held constant) to estimate 2025e finance cost savings. We have added these savings to the annualized 9M24 earnings to project 2025e earnings growth.

2026e: We applied the same approach, using the projected 50bps rate cut for 2026e, to estimate finance cost savings and earnings growth for that year.

Figure 13: Impact on finance cost and earnings¹ of TASI sectors (excl. Banks and Insurance)

Sectors (SARmn)	9M24	9M24	9M24 D/E (x)	Finance Cost Impact			Earnings Impact		
	Total Debt**	Total Equity		2024e finance cost	2025e 110bps [^]	2026e 50bps [^]	Annualized Earnings*	2025e 110bps [^]	2026e 50bps [^]
Real Estate Mgmt & Dev't	54,943	78,499	0.7x	3,351	-17%	-10%	1,329	44%	14%
Consumer Durables & Apparel	1,917	2,688	0.7x	72	-28%	-18%	69	30%	11%
Utilities	180,777	292,636	0.6x	7,301	-26%	-17%	10,000	19%	8%
REITs^^	9,044	17,298	0.5x	577	-17%	-9%	842	11%	5%
Consumer Discretionary Dist. & Retail	11,451	4,405	2.6x	637	-19%	-11%	1,517	8%	3%
Materials	114,310	390,669	0.3x	7,607	-16%	-9%	16,110	8%	3%
Consumer Services	10,932	15,304	0.7x	717	-16%	-9%	1,690	7%	3%
Transportation	9,263	11,724	0.8x	773	-13%	-7%	1,609	6%	3%
Food & Beverages	26,437	47,858	0.6x	2,189	-13%	-7%	5,241	5%	2%
Consumer Staples Dist. & Retail	10,105	8,481	1.2x	558	-19%	-11%	2,073	5%	2%
Financial Services	13,108	50,038	0.3x	1,011	-14%	-8%	3,034	5%	2%
Media and Entertainment	4,184	8,790	0.5x	291	-15%	-8%	974	5%	2%
Health Care Equipment & Svc	17,225	26,949	0.6x	830	-22%	-13%	4,746	4%	2%
Pharma, Biotech & Life Sciences	1,649	3,397	0.5x	109	-16%	-9%	534	3%	1%
Commercial & Professional Svc	1,789	3,807	0.5x	145	-13%	-7%	640	3%	1%
Telecommunication Services	36,007	110,282	0.3x	2,544	-15%	-8%	18,243	2%	1%
Capital Goods	6,049	12,442	0.5x	496	-13%	-7%	3,072	2%	1%
Household & Personal Products	222	444	0.5x	16	-14%	-8%	189	1%	1%
Energy	366,996	1,729,350	0.2x	13,475	-29%	-19%	408,185	1%	0%
Software & Services	2,790	9,514	0.3x	222	-13%	-7%	3,768	1%	0%
Total	879,197	2,824,575	0.3x	42,932	-22%	-13%	483,867	2%	1%
Total (ex-Aramco)	575,738	1,133,712	0.5x	33,430	-18%	-11%	74,353	8%	4%

Source: Argaam, GIB Capital **includes lease liabilities ¹assumed no tax impact *9M24 annualized numbers, ^^ 1H24 numbers for REITs [^]proforma impact

Figure 14: Impact on finance cost and earnings¹ of most leveraged TASI companies (excl. coverage companies)

Companies (SAR mn)	9M24 Total Debt**	9M24 Total Equity	9M24 D/E (x)	9M24 Total Assets	9M24 D/A (x)	Finance Cost Impact			Earnings Impact		
						2024e finance cost	2025e 110bps [^]	2026e 50bps [^]	Annualized Earnings*	2025e 110bps [^]	2026e 50bps [^]
Lazurde	1,444	301	4.8x	1,897	0.8x	36	-43%	-35%	33	46%	15%
Cenomi Retail	3,605	(830)	-4.3x	4,813	0.7x	300	-13%	-7%	(71)	54%	55%
Baan	1,413	221	6.4x	1,997	0.7x	84	-18%	-10%	23	64%	18%
Petro Rabigh	35,816	10,581	3.4x	60,472	0.6x	2,154	-18%	-10%	(5,020)	8%	4%
Alkhaleej Trng	1,257	598	2.1x	2,189	0.6x	82	-16%	-9%	126	11%	5%
Sppc	790	370	2.1x	1,397	0.6x	65	-13%	-7%	(175)	5%	2%
Farm Superstores	1,262	681	1.9x	2,343	0.5x	70	-19%	-11%	27	49%	16%
Nama	548	200	2.7x	1,030	0.5x	44	-13%	-7%	(39)	15%	8%
Emaar Ec	7,981	5,244	1.5x	14,997	0.5x	638	-13%	-7%	(1,537)	6%	3%
Ataa	1,105	847	1.3x	2,133	0.5x	58	-20%	-12%	59	20%	8%
Aldrees	4,211	1,390	3.0x	8,216	0.5x	204	-22%	-13%	326	14%	6%
Alyamamah	937	688	1.4x	1,867	0.5x	67	-15%	-8%	89	11%	5%
Naseej	172	66	2.6x	345	0.5x	14	-13%	-7%	(32)	6%	3%
Saudi German	2,484	1,746	1.4x	5,162	0.5x	218	-12%	-6%	233	11%	5%
Acwa Power	26,456	20,822	1.3x	55,085	0.5x	1,421	-20%	-12%	1,673	17%	7%

Source: Argaam, GIB Capital **includes lease liabilities ¹assumed no tax impact *9M24 annualized numbers [^]proforma impact

Figure 15: Impact on finance cost and funds from operations (FFO)¹ of REITs

REITs (SAR mn)	1H24 Total Debt**	1H24 Total Equity	1H24 D/E (x)	Finance Cost Impact			Funds from operations impact		
				2024e finance cost*	2025e 110bps [^]	2026e 50bps [^]	Annualized FFO*	2025e 110bps [^]	2026e 50bps [^]
Mefic REIT	444	509	0.9x	31	-15%	-9%	2	254%	34%
Musharaka REIT	790	761	1.0x	58	-15%	-8%	11	80%	21%
Sico Saudi REIT	150	256	0.6x	12	-13%	-7%	4	40%	13%
Riyad REIT	1,436	1,447	1.0x	85	-18%	-10%	44	35%	12%
Mulkia REIT	477	781	0.6x	33	-15%	-8%	17	29%	11%
Derayah REIT	608	887	0.7x	47	-14%	-7%	30	22%	8%
Alinma Retail REIT	264	778	0.3x	16	-18%	-10%	(14)	20%	12%
Alahli REIT 1	680	1,218	0.6x	37	-19%	-11%	54	13%	6%
Alkhabeer REIT	751	1,064	0.7x	39	-21%	-12%	67	12%	5%
Jadwa REIT Alharamain	214	506	0.4x	17	-14%	-8%	21	11%	5%
Sedco Capital REIT	795	1,528	0.5x	60	-14%	-8%	79	11%	5%
Taleem REIT	298	549	0.5x	23	-14%	-8%	38	8%	4%
Al Rajhi REIT	896	2,210	0.4x	53	-18%	-10%	147	6%	3%
Jadwa REIT Saudi	543	1,767	0.3x	35	-17%	-9%	97	6%	3%
Al Maather REIT	200	516	0.4x	6	-35%	-25%	44	5%	2%
Bonyan REIT	498	1,388	0.4x	26	-20%	-12%	130	4%	2%
Alinma Hospitality REIT	0	1,039	0.0x	0	NA	NA	66	0%	0%
Aljazira REIT	0	93	0.0x	0	NA	NA	5	0%	0%
Total	9,044	17,298	0.5x	577	-17%	-9%	842	11%	5%

Source: Argaam, GIB Capital **includes lease liabilities ¹assumed no tax impact *1H24 annualized numbers [^]proforma impact

4. Coverage companies in focus: Analyzing the impact of rate cuts

Figure 16: Impact on finance cost and earnings⁴ on coverage companies

Companies (SAR mn)	Sectors	Total Debt 2024e**	Total Equity 2024e	2024e D/E (x)	Finance Cost Impact			Earnings Impact		
					Finance cost 2024e	2025e 110bps [^]	2026e 50bps [^]	Earnings 2024e	2025e 110bps [^]	2026e 50bps [^]
ADES	Energy	11,903	6,090	2.0x	772	-16%	-9%	796	16%	6%
Arabian Drilling	Energy	3,086	6,055	0.5x	226	-15%	-8%	334	10%	4%
Alujain	Petrochemical	37	4,983	0.0x	38	-1%	0%	82	0%	0%
Kayan	Petrochemical	9,003	11,806	0.8x	673	-14%	-8%	(1,465)	7%	3%
Sipchem	Petrochemical	2,459	16,589	0.1x	211	-12%	-7%	507	5%	2%
Miahona	Utilities	757	389	1.9x	44	-18%	-11%	65	12%	5%
Marafiq	Utilities	11,114	8,360	1.3x	496	-24%	-15%	332	36%	12%
AMAK	Materials	94	1,318	0.1x	6	-17%	-10%	188	1%	0%
Luberef	Materials	1,169	4,633	0.3x	91	-14%	-7%	976	1%	1%
Retal	Real Estate / REITs	1,386	875	1.6x	123	-12%	-6%	267	6%	2%
Akaria	Real Estate / REITs	3,297	5,201	0.6x	235	-15%	-8%	117	30%	11%
SAL	Transportation	1,328	1,424	0.9x	72	-20%	-11%	681	2%	1%
Theeb	Transportation	1,541	819	1.9x	84	-20%	-11%	179	9%	4%
budget	Transportation	1,815	2,732	0.7x	69	-28%	-18%	296	7%	3%
Lumi	Transportation	1,745	1,197	1.5x	134	-14%	-8%	172	11%	5%
Jarir	Retailing	738	1,743	0.4x	50	-16%	-9%	967	1%	0%
Alamar	Consumer Services	177	304	0.6x	14	-13%	-7%	28	7%	3%
Americana	Consumer Services	2,002	1,975	1.0x	132	-16%	-9%	594	4%	2%
Leejam	Consumer Services	1,901	1,279	1.5x	97	-21%	-12%	468	4%	2%
Tanmiah	Food & Beverages	748	718	1.0x	58	-14%	-7%	92	9%	4%
First milling	Food & Beverages	1,492	960	1.6x	97	-16%	-9%	253	6%	3%
Modern Milling	Food & Beverages	917	301	3.0x	56	-17%	-10%	211	5%	2%
Arabian Milling	Food & Beverages	1,241	1,004	1.2x	86	-15%	-9%	212	6%	3%
Astra	Capital Goods	1,392	2,474	0.6x	112	-13%	-7%	637	2%	1%
Gas Arabian	Capital Goods	86	417	0.2x	1	NM	NM	120	1%	0%
Riyadh Cables	Capital Goods	825	2,469	0.3x	96	-9%	-5%	807	1%	1%
TadawulG	Diversified Financials	321	3,338	0.1x	10	-33%	-23%	606	1%	0%
Avalon	Pharma	52	349	0.1x	6	-9%	-5%	85	1%	0%
Jamjoom	Pharma	2	1,549	0.0x	12	0%	0%	361	0%	0%
Mawarid	Comm. & Prof. Svc	51	404	0.1x	3	-16%	-9%	97	1%	0%
SAMSCO	Comm. & Prof. Svc	56	560	0.1x	6	-9%	-5%	136	0%	0%
AZM***	Software & Services	35	132	0.3x	3	-12%	-7%	40	1%	0%
Elm	Software & Services	591	5,222	0.1x	28	-22%	-13%	1,828	0%	0%
AlArabia	Media & Ent.	2,562	1,348	1.9x	213	-13%	-7%	236	12%	5%

Source: Argam, GIB Capital **includes lease liabilities ¹assumed no tax impact [^]proforma impact, ***for the period July-June 2025e. We have not calculated the impact on APCC as the company is currently capitalizing the financial costs due to its ongoing expansion projects. We have not included SNB and UIHC. We have not included SASCO as most of the debt is lease liabilities.

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