الراجحي المالية
Al Rajhi Capital

Key themes

Average “cash required” price for shale producers to meet capex and costs could increase further on higher capex

However, US non-conventional supply poised to gain in the near term

OPEC’s future action will depend on US commerical inventorties level

Compliance to OPEC agreement remains healthy

Mazen Al-Sudairi
Head of Research
Tel +966 11 2119449
alsudairim@alrajhi-capital.com.

Pritish Devassy, CFA
Tel +966 11 2119370
devassyp@alrajhi-capital.com

Oil market update

OPEC Harmony and Shale reality

Irrational production: *As oil prices have been on a recovery path, the general consensus seems to be a continued increase in US shale production to record levels. While this may be the case, we observe that despite rising prices most firms under our study are still in losses with no signs of improvement and average ROA is still a measly 0.8% (Figure 13) on account of higher capex and leverage. Moreover, in Q3, the average operating cost per barrel has broadly remained the same without any efficiency gains (Figure 4). The shale firms have been exuberantly investing even as the price per barrel required (currently US$64/barrel) to meet cash flow requirements has only been increasing (Figure 6/7). Even when capex declines, we are unlikely to see any sustained drop in cash flow required per barrel due to drop in production due to the nature of shale production and rising interest expenses. Hedging benefit was negligible in Q3 2017. Overall, we do not see this sustainable for long.*

OPEC’s dynamic strategy. *We sense more unity among OPEC members as well as Non-OPEC allies to take a collective decision which will especially help to manage the market balance and any potential risks, namely a) uncertainty in production outside OPEC, mainly Shale production and b) Chinese demand for oil. Therefore, though following the extension of current production cut agreement till December 2018, shale producers may gain more market share in 2018, OPEC might devise a new strategy (which may not only just be capping production) so as to manage an oil price optimal enough for the existing fields to continue production but rebalance the market.*

OPEC closely monitoring US inventory level for future action. *Though US commercial inventories have declined by over 100m barrels in 2017, it is still higher than 2014 levels. Given that average global consumption was 93.6m b/d in 2014, and is likely to increase to 100.1m b/d in 2018 and 101.8m b/d in 2019, the optimal level of inventories to meet surge in demand or untoward disruption in supply required could be higher in general. However, even as oil inventories are declining we would expect the level to further decline before OPEC takes a call on further action.*

Figure 1 US inventories likely to remain above 2014 level

	2014	2015	2016	2017	2018E*	2019E*
US Commercial inventories (m barrels)	1,134	1,287	1,334	1,229	1,267	1,325
Average US consumption (m b/d)	19.1	19.5	19.7	19.8	20.3	20.7
% of average US production	16.3%	18.1%	18.6%	17.0%	17.1%	17.6%
Average global oil demand (m b/d)	93.6	95.4	97.0	98.4	100.1	101.8
% of US production	3.3%	3.7%	3.8%	3.4%	3.5%	3.6%

*Source: EIA, Al Rajhi Capital. * EIA estimates*

Compliance status improves: *Based on OPEC’s secondary sources production data of 11 producers (ex-Equatorial Guinea), average OPEC compliance improved to ~130% in December. Nigeria (being exempt from cuts) continued to increase its output for the second straight month, offsetting the decline in production from Saudi Arabia and Venezuela. This has resulted in a net rise in overall production for the OPEC members in December. Meanwhile, non-OPEC members have also marginally increased production, reaching a compliance level of 96% by November (as per IEA data).*

Demand: *The oil demand is likely to pick up in the near to medium term on the back of improving global economic activity. OPEC has recently raised its oil demand forecast in its January 2018 report, reinforcing our view. Trailing twelve month (TTM) vehicle sales grew 3.5% y-o-y at the end of Q3 2017. Vehicle sales continue to be driven by emerging markets (EM), primarily by China (7.7% TTM y-o-y growth).*

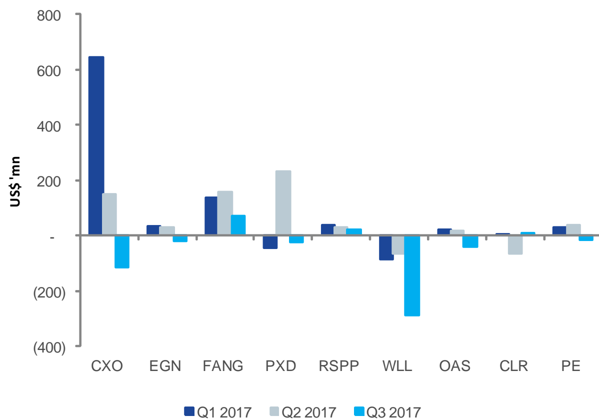
Please see penultimate page for additional important disclosures. Al Rajhi Capital (Al Rajhi) is a foreign broker-dealer unregistered in the USA. Al Rajhi research is prepared by research analysts who are not registered in the USA. Al Rajhi research is distributed in the USA pursuant to Rule 15a-6 of the Securities Exchange Act of 1934 solely by Rosenblatt Securities, an SEC registered and FINRA-member broker-dealer.

Shale health check up

1. Shale profits and stock performance:

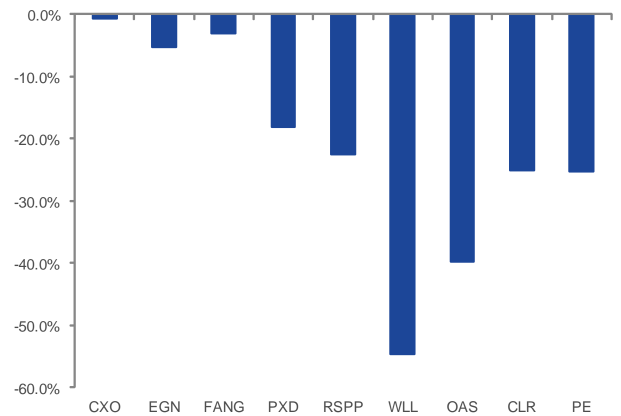
We observe that despite rising crude prices, most of US shale firms under our study were still in losses till Q3 2017 with no signs of improvement and average ROA was still a measly 0.8% (Figure 13) on account of higher capex and leverage. At the same time, the stock performance of all these companies (under our sample) also reflected the weak earnings performance, posting negative returns during the 9M 2017. Whiting Petroleum and Oasis Petroleum shares plunged by ~55% and ~40%, respectively, while Concho Resources witnessed a minor decline of ~1%.

Figure 2 9M 2017 net profit performance of shale firms



Source: Company data, Al Rajhi Capital

Figure 3 Stock performance of shale firms - 9M17

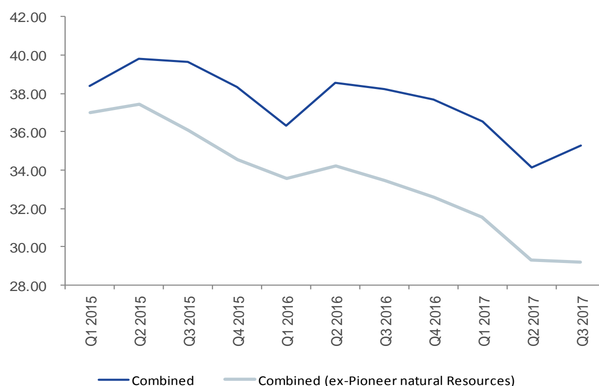


Source: Bloomberg, Al Rajhi Capital

2. "Cash required" per barrel to meet expenses & capex requirements is increasing despite stable operating efficiencies.

The average operating cost per barrel (based on our sample companies and our methodology) increased in Q3 2017 (Figure 4). However, excluding one company (Pioneer natural Resources) from our analysis, which witnessed a steep increase in operating cost per barrel, the average operating cost remained almost stable. Figure 4 below shows the weighted average operating cost per barrel, while Figure 5 shows the operating cost per barrel for all the shale companies in our study.

Figure 4 Weighted average operating cost per barrel (US$)



Source: Company data, Bloomberg, Al Rajhi Capital

Figure 5 Top US Shale Oil producers – Op. cost per barrel (US$/bbl)

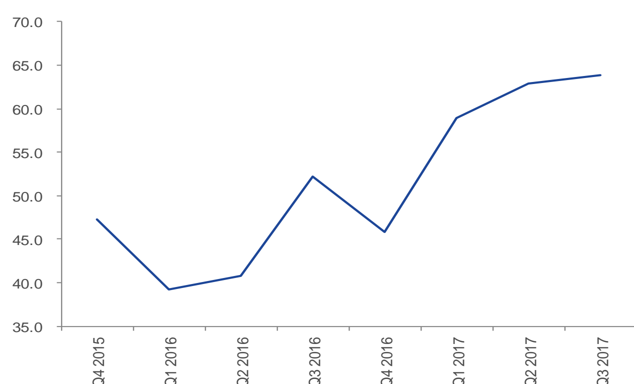
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Concho Resources Inc.	38.0	34.5	32.8	31.0	29.7	28.8	28.5
Energen Corp.	37.6	33.9	34.9	36.1	37.7	30.3	28.8
Diamondback Energy	24.2	25.2	21.6	20.5	21.4	19.4	20.3
Pioneer natural Resources	47.4	53.8	54.2	54.3	54.0	52.1	57.4
RSP Permian Inc.	31.2	31.6	29.0	26.1	27.1	24.5	24.7
Whiting Petroleum Corp.	33.2	38.9	40.0	41.4	37.2	35.4	35.1
Oasis Petroleum Inc.	44.1	45.7	45.4	44.8	46.1	43.1	44.7
Continental Resources Inc.	29.2	29.7	29.7	29.1	28.8	27.3	27.0
Parsley Energy	33.4	32.2	30.3	27.1	25.8	27.1	26.7
Weighted average*	**33.6**	**34.2**	**33.5**	**32.6**	**31.6**	**29.3**	**29.2**

Source: Company data, Bloomberg, Al Rajhi Capital. * Calculated based on weighted average production of major share producers under our sample (ex-Pioneer).

3. Cash required to meet expenses increased

Despite largely stable operating efficiencies of US shale producers, our calculations show that **"Cash required per barrel"** (Operating costs + depreciation + interest expense + tax expense + capex on drilling and exploration activities) **continued to increase for the third consecutive quarter, reaching to ~US$64/bbl in Q3 2017** from ~US$63/bbl in Q2 2017 (Figure 6 and 7), primarily on account of the increased capex (~17% q-o-q rise). Within the Permian basin, Diamondback Energy, which is pure play Permian shale producer, has still one of the lowest requirements of cash per barrel of ~US$53/bbl, while Energen Corp. and RSP Permian need ~US$65/bbl and US$66/bbl, respectively to start generating positive free cash flows.

Figure 6 Average "cash required per barrel" for major US shale producers (US$/bbl)- for FCF less interest and tax expense



Source: Company data, Bloomberg, Al Rajhi Capital Weighted average required cash per barrel based on production of major US shale producers to start generating positive free cash flow

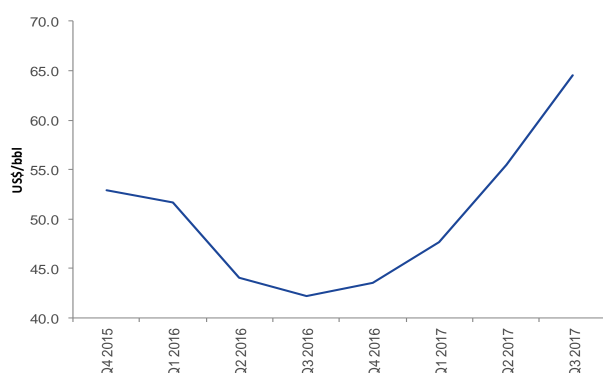
Figure 7 Cash required per barrel for major US shale producers (US$/bbl) - for FCF plus interest and tax expense

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Weights*
Concho Resources Inc.	NM	35	46	38	94	65	106	16%
Energen Corp.	32	46	53	56	88	85	65	7%
Diamondback Energy	50	44	47	45	42	42	53	7%
Pioneer natural Resources	65	57	51	56	58	82	63	23%
RSP Permian Inc.	54	50	52	55	58	70	66	5%
Whiting Petroleum Corp.	45	29	88	42	34	46	31	10%
Oasis Petroleum Inc.	45	45	51	37	47	57	51	6%
Continental Resources Inc.	27	26	29	37	45	47	43	20%
Parsley Energy	90	78	73	64	69	73	101	6%
Weighted average**	**39**	**41**	**52**	**46**	**59**	**63**	**64**	

Source: Company data, Bloomberg, Al Rajhi Capital. * Weights are based on production. ** Calculated based on weighted average production of major share producers under our sample.

Excluding the impact of interest and tax expenses on the free cash flow, our calculations show that the average cash required per barrel marginally increases further for the companies being covered in the study (Figure 8 and 9).

Figure 8 Average "cash required per Barrel"* for major US shale producers to generate FCF positive



Source: Company data, Bloomberg, Al Rajhi Capital. Weighted average required cash per barrel based on production of major US shale producers to generate positive cash flow

Figure 9 "Cash required per barrel" for major US shale producers (US$/bbl)

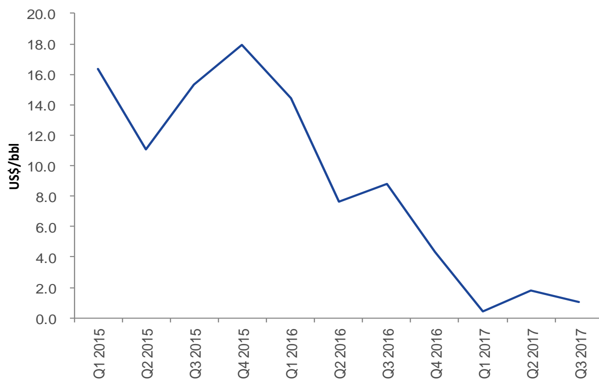
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Weight*
Concho Resources Inc.	63	48	43	43	54	52	108	16%
Energen Corp*	61	37	41	61	78	79	65	7%
Diamondback Energy	46	40	44	42	39	41	52	7%
Pioneer natural Resources	73	64	53	56	57	70	61	23%
RSP Permian Inc.	52	45	47	50	46	59	59	5%
Whiting Petroleum Corp.	43	32	31	36	33	45	59	10%
Oasis Petroleum Inc.	42	49	47	36	35	48	47	6%
Continental Resources Inc.	30	26	28	28	38	44	37	20%
Parsley Energy	89	77	68	56	58	64	97	6%
Weighted average**	**52**	**44**	**42**	**43**	**48**	**55**	**65**	

Source: Company data, Bloomberg, Al Rajhi Capital. * Weights are based on production. ** Calculated based on weighted average production of major share producers under our sample.

4. Hedging benefit negligible in Q3 2017.

A look at the US shale producer's average hedged realization indicates a decline in gains in Q3 2017 compared to Q2 2017 ($1.0/bbl vs. $1.8/bbl), which is miniscule, in our view. This compares meekly with the numbers for FY15 and FY16 at ~US$15/bbl and ~US$9/bbl, respectively. Despite recovery in oil prices, it is unlikely to see a significant improvement in hedging benefits in the near-term, as most of the US shale producers have already hedged their part of production at lower than the current market prices. However, if oil prices sustain at the current level, US shale producers could start increasing their hedging positions at higher rate, which would help them to surpass 10.5mb/d volume at the end of this year.

Figure 10 US shale producer's average realized gain / losses



Source: Company data, Bloomberg, Al Rajhi Capital. Calculated is based on weighted average production of major share producers under our sample.

Figure 11 US shale producer's average realized gain / losses (US$/bbl)

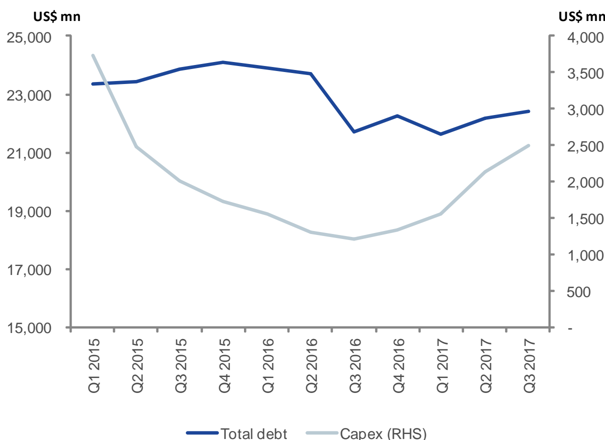
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Concho Resources	19.9	11.4	17.4	21.2	31.0	19.8	18.4	4.7	3.0	6.9	2.5
Energen Corp.	24.0	15.4	27.2	34.7	1.5	(5.5)	(1.2)	(4.2)	(2.0)	0.0	1.2
Diamondback Energy	20.4	12.6	15.5	15.3	2.0	(0.2)	(0.1)	(0.9)	(0.4)	0.9	1.3
Pioneer natural Res.	20.4	13.0	20.5	23.1	17.3	9.0	13.6	10.4	0.8	1.6	1.9
RSP Permian	27.3	13.5	12.5	13.7	1.2	0.5	(1.1)	(1.0)	(1.0)	(0.2)	(0.7)
Whiting Petroleum	4.2	3.3	4.7	6.4	5.5	3.9	5.3	2.8	0.2	0.7	0.7
Oasis Petroleum	27.2	26.0	19.2	19.8	18.9	8.1	3.3	1.6	(1.9)	(2.1)	(2.9)
Continental Res.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Parsley Energy	12.4	7.2	15.0	12.3	16.7	5.2	4.0	2.7	(1.5)	0.0	(0.3)
Weighted average*	**16.4**	**11.1**	**15.3**	**17.9**	**14.4**	**7.7**	**8.8**	**4.3**	**0.4**	**1.8**	**1.0**

Source: Company data, Bloomberg, Al Rajhi Capital. * Calculated is based on weighted average production of major share producers under our sample.

5. Shale producers raising debt to fund their capex programs, which could weaken their own financial health in case of decline in oil prices amid rising US production.

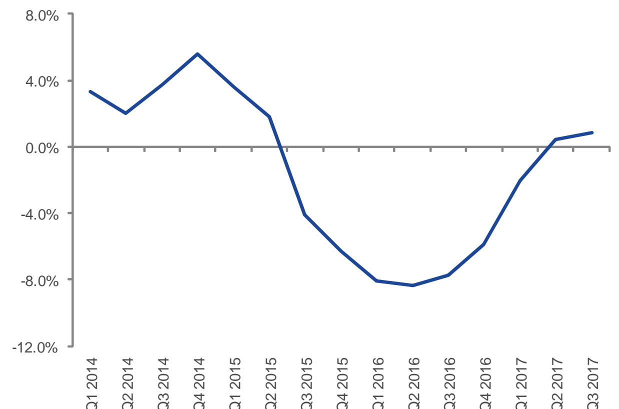
After bottoming out in the H2 2016, capital expenditure by the shale producers in our study has remained on an upward trend in 2017, primarily due to recovery in oil price post the OPEC agreement. We note that the increased capital expenditure puts the shale producers deeper in debt, reflecting from rising total debt for these companies (Figure 12).

Figure 12 Total debt begins to rise as capex increases



Source: Company data, Bloomberg, Al Rajhi Capital

Figure 13 Weighted average ROA still lower than the historical level



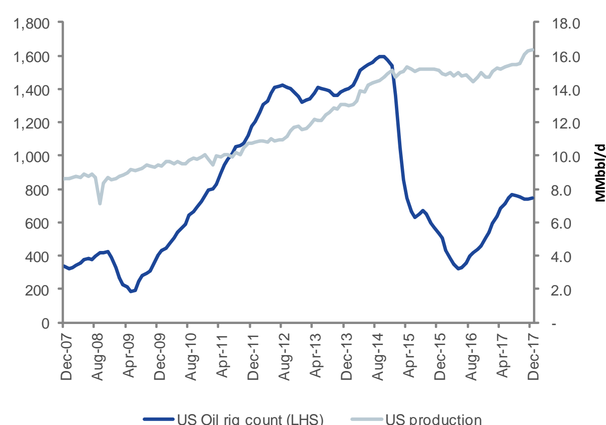
Source: Company data, Bloomberg, Al Rajhi Capital

Figure 14 Market shares

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
OPEC	39.1%	38.6%	38.5%	38.5%	38.6%	38.6%	38.7%	38.7%	38.8%	38.8%	38.6%	38.1%	38.2%
OECD	13.1%	13.3%	13.3%	13.6%	13.3%	13.0%	12.6%	12.7%	12.4%	12.2%	12.7%	12.7%	12.7%
US non-conv.	6.1%	6.3%	6.5%	6.6%	6.6%	6.7%	6.6%	6.7%	6.9%	7.1%	7.3%	7.3%	7.5%
Others	41.7%	41.8%	41.7%	41.3%	41.5%	41.7%	42.1%	41.8%	41.9%	42.0%	41.4%	41.8%	41.7%

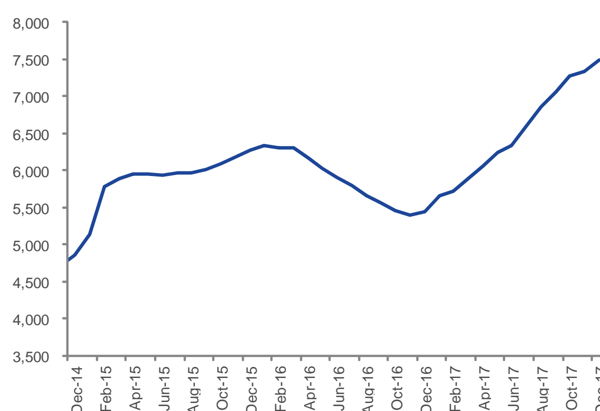
Source: OPEC, EIA, IEA, Al Rajhi Capital

Figure 15 US shale rig count and production*



Source: Baker Hughes, EIA, Al Rajhi Capital. * Crude and other condensates

Figure 16 Rising DUC wells



Source: EIA, Al Rajhi Capital

OPEC compliance level

Figure 17 OPEC compliance to agreement

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec^	2017 Avg.
Algeria	78%	78%	78%	58%	58%	58%	38%	58%	58%	178%	158%	106%	84%
Angola	142%	129%	142%	117%	181%	117%	104%	91%	117%	91%	168%	150%	129%
Ecuador	88%	88%	108%	69%	69%	69%	31%	31%	31%	69%	31%	92%	65%
Gabon	22%	22%	78%	22%	22%	22%	-200%	244%	133%	-89%	22%	33%	28%
Iran, I.R.***	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Iraq	53%	67%	62%	67%	39%	29%	34%	34%	15%	77%	67%	74%	51%
Kuwait	98%	98%	106%	98%	90%	98%	105%	105%	98%	105%	98%	107%	100%
Qatar	127%	193%	127%	93%	60%	93%	127%	127%	227%	127%	127%	187%	135%
Saudi Arabia	153%	116%	126%	120%	128%	102%	106%	120%	118%	102%	118%	128%	120%
UAE	38%	60%	74%	60%	60%	60%	53%	60%	60%	60%	81%	95%	63%
Venezuela	18%	18%	39%	49%	71%	28%	39%	81%	134%	186%	239%	342%	104%
Total OPEC 11#	**105%**	**90%**	**100%**	**95%**	**95%**	**77%**	**75%**	**86%**	**87%**	**101%**	**115%**	**130%**	**96%**

Source: IEA OMR, OPEC OMR, Al Rajhi Capital. ^ December data based on OPEC report's secondary data sources. *** Iran was given a slight increase. # Excluding Equatorial Guinea, which joined OPEC from 25th May, 2017.

Non-OPEC compliance level

Figure 18 Non-OPEC compliance to agreement

	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	2017 Avg.
Azerbaijan	34%	83%	207%	85%	85%	56%	53%	215%	61%	37%	65%	98%
Kazakhstan	42%	-138%	-324%	-218%	-54%	NA	NA	162%	-111%	54%	-328%	-120%
Mexico	73%	79%	71%	77%	79%	91%	112%	195%	401%	231%	227%	149%
Oman	103%	86%	101%	99%	91%	95%	100%	97%	80%	79%	73%	91%
Russia	39%	40%	59%	77%	91%	93%	92%	104%	106%	97%	95%	81%
Others***	14%	-40%	-28%	86%	-13%	-55%	-69%	59%	46%	48%	53%	22%
Total	**47%**	**38%**	**51%**	**70%**	**74%**	**66%**	**68%**	**126%**	**142%**	**111%**	**96%**	**83%**

Source: IEA OMR, Al Rajhi Capital. *** Bahrain, Brunei, Equatorial Guinea, Malaysia, Sudan and South Sudan.

APPENDIX

Methodology of calculation of "cash required". *"Cash required" per barrel to start generating positive FCF generally varies from formation to formation, from well to well as well as from producer to producer due to different well economics, drilling techniques and depth of the formation. In simple terms, the "cash required" level is the function of drilling and completion (D&C) well cost and the amount that can be ultimately recovered from a single well. Since the amount of oil produced from the well varies significantly depending on its drilling technology, geology and well depth, we generally see different "cash required" prices within the same shale oil play. While we look at a different approach to calculate the required cash per barrel level for major US shale producers, we derive our cash required level for non-conventional US producers based on a cash basis. We have analyzed the "cash required" (based on operating costs + depreciation + interest expense + tax expense + core capex including only drilling and completion capex but excluding any acquisition capex) spent by these producers under different oil price regimes and derived the minimum required cash per barrel to cover their core spending based on available historical data.*

الراجحي المالية
Al Rajhi Capital

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

الراجحي المالية
Al Rajhi Capital

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

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

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.