Tharaa Financial Center

TASI-1H23 Review & Outlook

Strong Returns Despite not Firing from all Cylinders

June 2023

All data as of 31/12/2022

Summary

Tharaa Financial Center

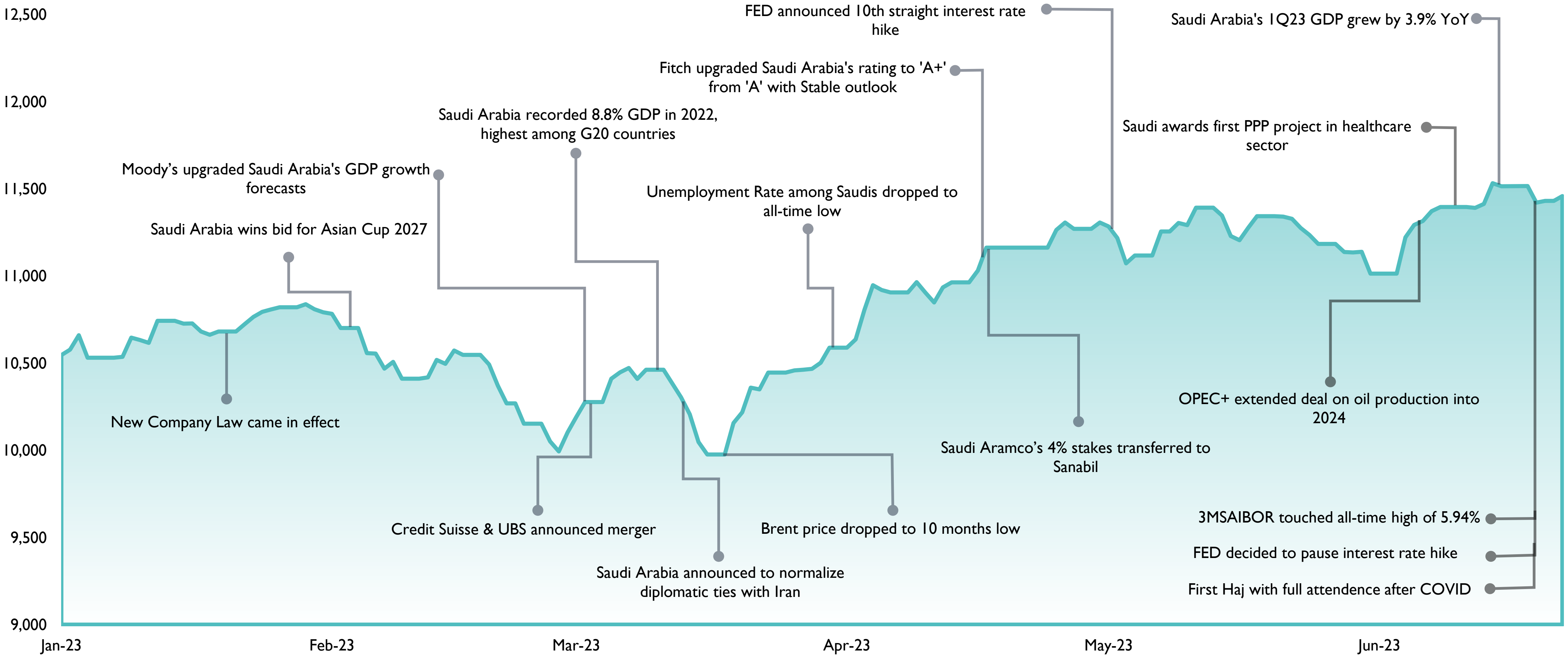
TASI-Review

- TASI has delivered a robust 9.4% YTD return in 1H23, outperforming MSCI EM benchmark by 200bps. The overall backdrop for TASI remained quite encouraging. Positive updates on the economy (rating upgrade, a slew of economy data), progress on economic reforms under Vision 2030 (PPP in particular), corporate updates (business expansion, merger & acquisition) and change in regulations (new Company Law came into effect) have driven TASI higher.
- The positive return of TASI is noteworthy as it came despite the four major drags present in 1H23; (i) concerns on global economic slowdown, (ii) volatility in commodity prices (iii) increase in domestic interest rates by 75bps, and (iv) relatively muted performance by index heavy-weight sectors (banks & petrochemicals). Overall, 1H23 has proved yet another period where TASI has exhibited robustness against volatility in oil prices, pointing to a broader trend of decoupling of the Saudi economy with the dynamics of the oil market. A brief analysis of TASI is presented below;
  - **Sectors performance:** The divergence in performance in key sectors is quite stark. Sectors with relatively low weight in TASI performed well ahead of benchmarks. At least 13 sectors listed on TASI have risen by +20% in 1H23. Pharma (+75%), Soft & Services (+55%) and Capital Goods (+45%) were the three best performing sectors in 1H23. Banks (-2%) and Petrochem (+0.2%) dragged down the TASI return.
  - **Stock performance:** Aramco, STC and Jabal Omar contributed the most to increase in TASI. Al-Rajhi, SABIC Agri-Nutrients and Arab National Bank were the three major negative contributors.
  - **Liquidity:** Both traded volumes and value increased meaningfully in 1H23 vs the preceding six months. Volumes are likely to further improve for two reasons, (i) a number of companies in both main index and Nomu have (at least 34 companies) opted for stock splits in 1H, and (ii) new listings.
  - **Foreign holding:** Saudi market continued attracting significant foreign interest in the public market. During 1H23, total ownership of TASI listed stocks have increased by 11% to ~USD117bn, representing 18% ownership of available free float (23% after adjusting for PIF holding in Aramco)
  - **Valuation:** TASI's valuation remained at premium to most of its peers in the Emerging Market space. A strong performance from a number of sectors means the overall valuation as measured by P/E (trailing, 40 companies) increased from 14.9x in Dec-22 to 16.7x in June-23.

TASI-Outlook

- TASI is likely to face drag from at least three key areas in near-term, (i) risk to global economic growth has increased, given the uncertainty surrounding further interest rate by Fed, latest economy data in developed economies suggesting the negative impact on demand, and post-COVID economic recovery in China not living up to expectations (ii) corporate earnings growth for TASI listed stocks whereby consensus have already made a cumulative 10% cut in total earnings growth (40 stocks tracked) since Dec-22, (iii) valuation in certain high-performing sectors in 1H23 have left little room for further expansion, suggesting significant positive returns in TASI's return in 2H23 largely hinge on performance in banks, & petrochemical.
- That being said, news-flow on the economy is likely to remain positive whereby a number of GIGA projects will likely enter the implementation phase. All in all, there are more arguments for TASI to move in a range in near-term before rebuilding positive momentum.

TASI-Key Events in 1H23

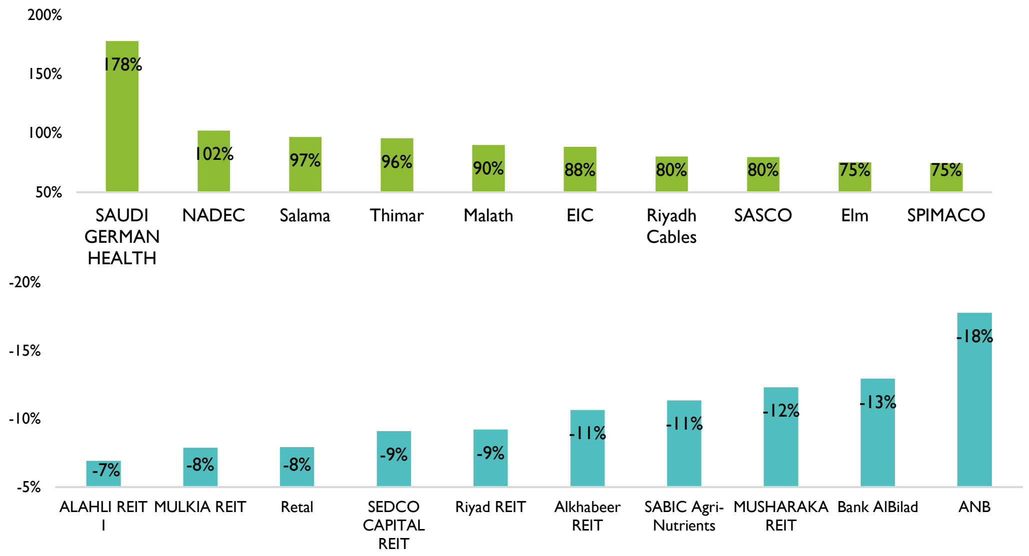


Source: Tharaa Financial Center

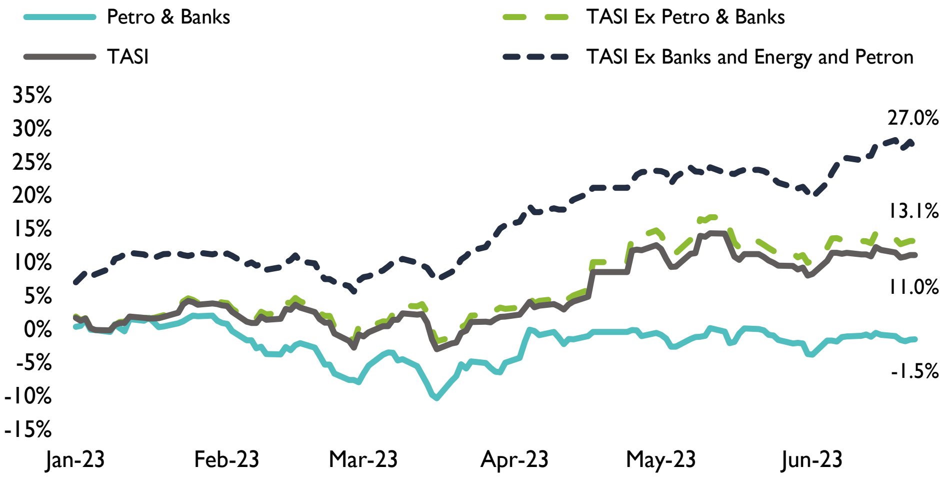
TASI-1H Sector & Stock Performance

Tharaa Financial Center

10 Best & Worst Performing Stocks in 1H23



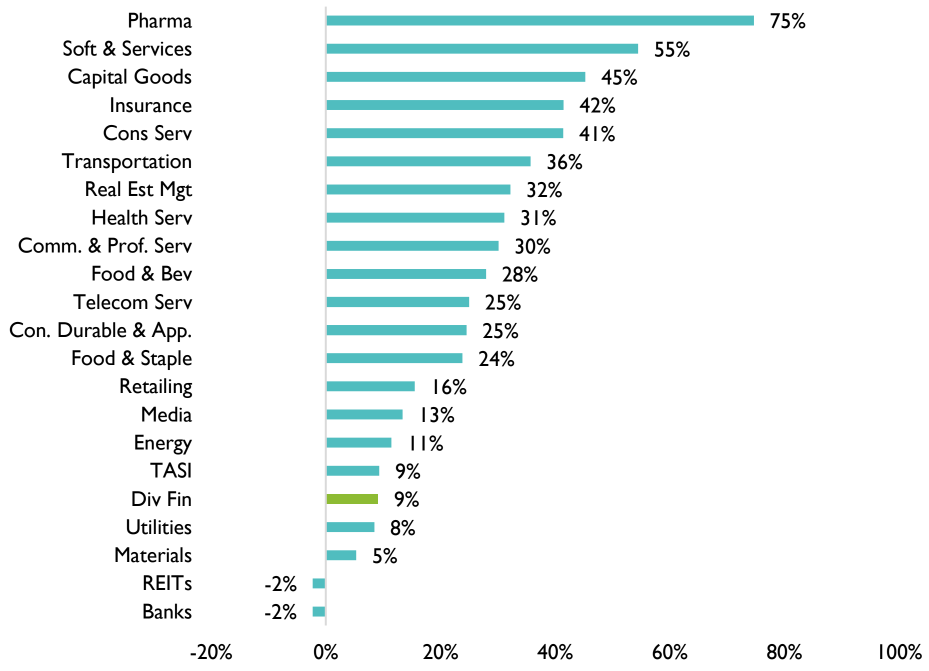
Banks, Petrochem and Energy YTD returns



Source: Bloomberg, Tharaa

- TASI's Ex Banks & Ex Petrochem stocks have been on fire as a total 36 stocks achieved +50% return YTD.
- Pharma, Software and Capitals Goods, were the three best performing sectors. A number of sectors have provided +20% return 2x of TASI return in 1H23.
- Banks & REITs were the worst performing sectors with a total of 8 stocks from the two sectors featuring in the 10-worst performing stocks.

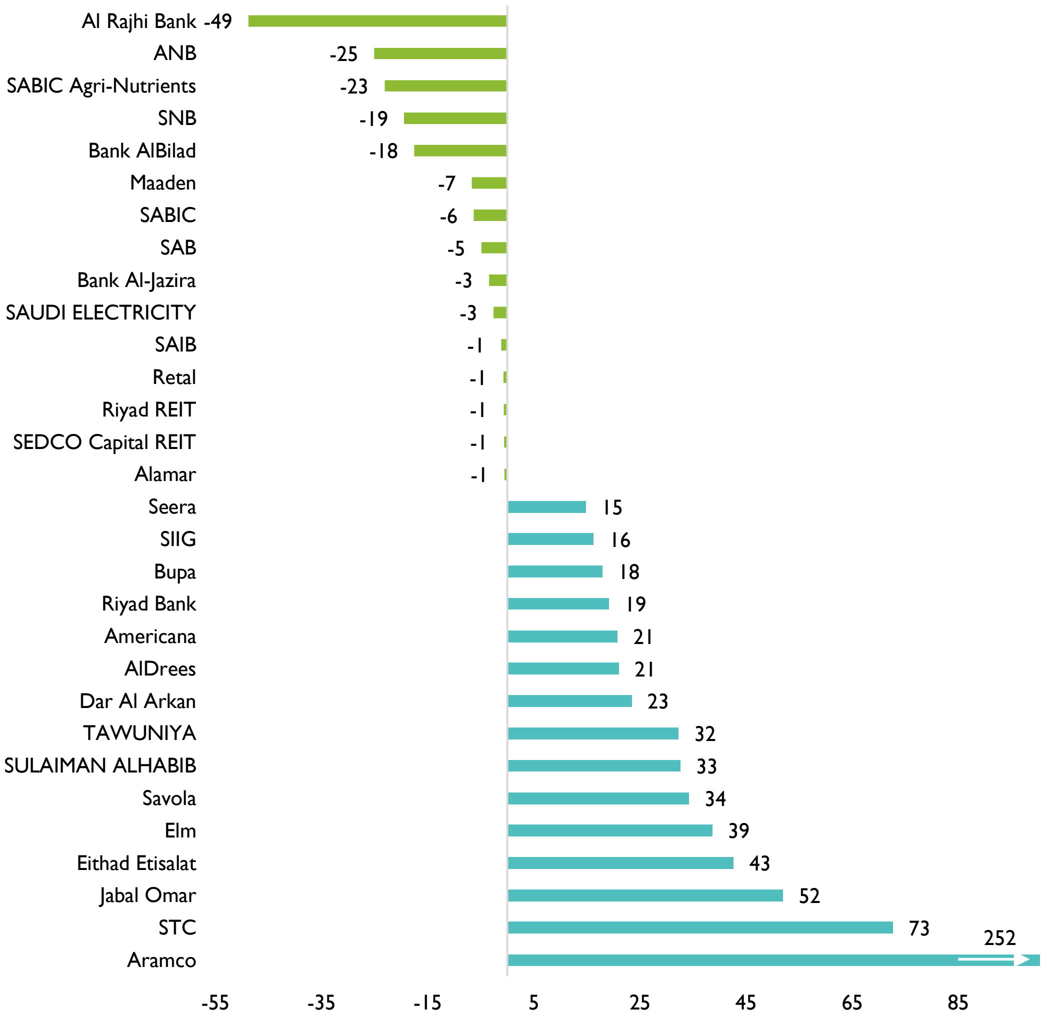
Sectors Performance %



Source: Bloomberg, Tharaa

TASI-1H Sector & Stock Contribution

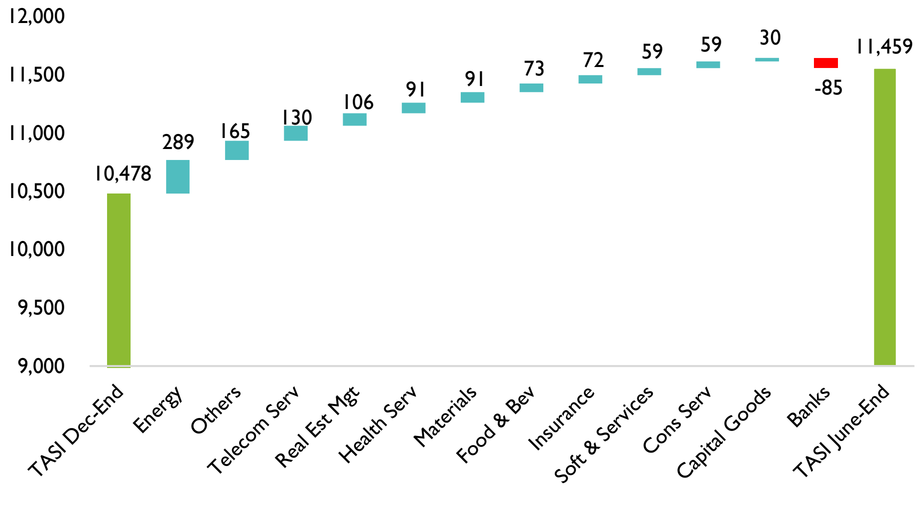
Best & Worst Point Contribution of Stock in TASI



Source: Tharaa Financial Center

- The point contribution data reveals a big divergence in stock and sector performance.
- Aramco, the biggest stock by market weight in TASI, has contributed over 24% (252points) of total gains in TASI Index in 1H23, followed by STC (73points). Alrajhi, along with many other banks, has dragged the TASI.
- The impact of a strong performance in Energy, Telecom, Real Estate and a number of other sectors on TASI was diluted by banks.

Sectors Contribution to TASI's return in 1H23

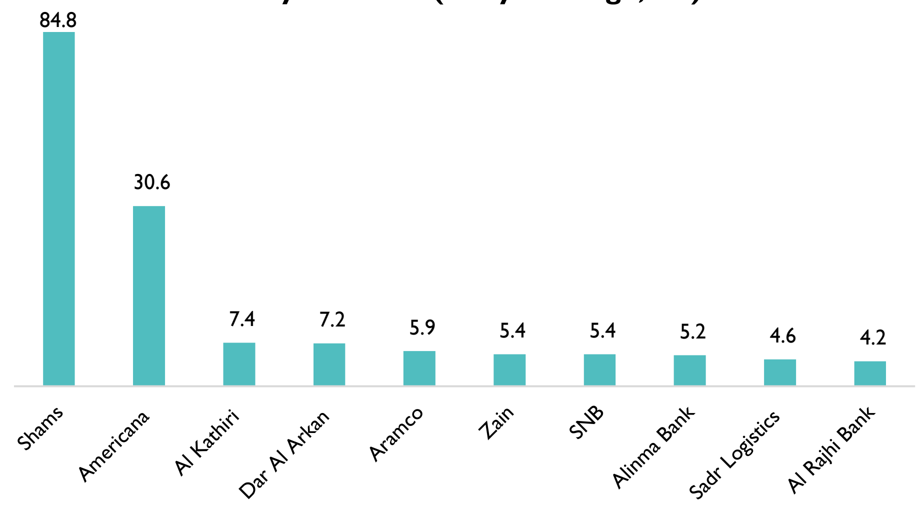


Source: Tharaa Financial Center

TASI-Most Liquid Stocks (Value & Volume)

Tharaa Financial Center

Most Traded Stocks By Volumes (Daily Average,mn)

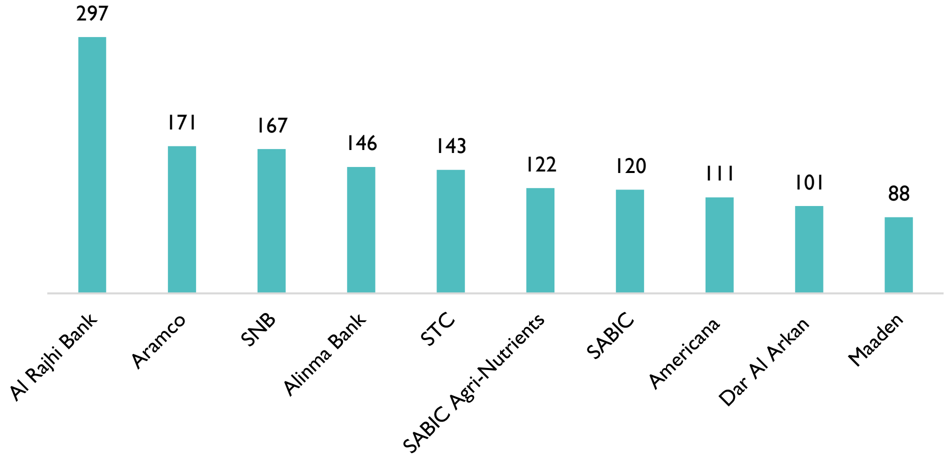


Source: Bloomberg,Tharaa

The average monthly traded volumes at TASI has increased by 27% YoY in 1H23. The listing of Americana, implementation of stock-splits and general rise in trading activity associated with the index direction have contributed to YoY increase in traded volumes.

The average traded volumes are likely to further improve. Besides above-mentioned factors, higher number of listing of new stocks will also likely contribute to higher volumes.

Most Traded Stocks by Value (Daily Average, SARmn)



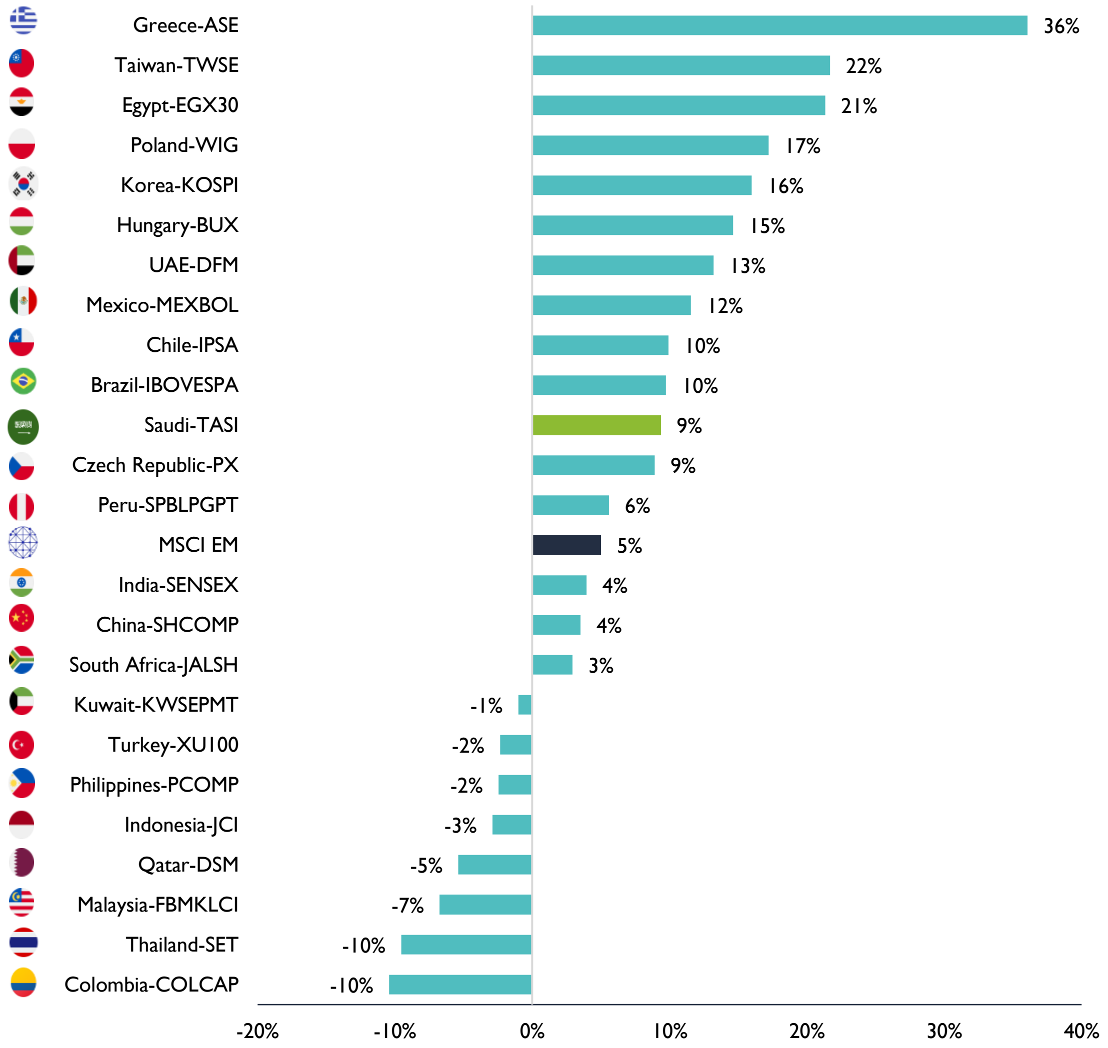
Source: Bloomberg,Tharaa

The average daily traded value at TASI has dropped by 4% YoY.

Al Rajhi remained the most traded stock by value in 1H23. given company's high free float and weight in TASI.

TASI Vs EM-Returns

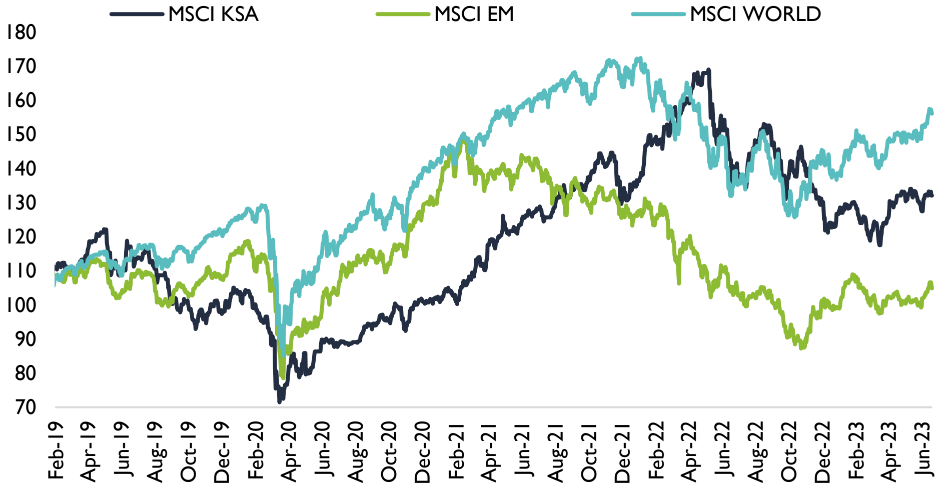
TASI Vs EM-Returns YTD%



Source: Bloomberg,Tharaa

- TASI has delivered robust 9.4% return YTD, and outperformed MSCI benchmark by a modest 200bps in 1H23.
- A relatively muted performance by index heavyweight sectors, banks and petrochemical, has overshadowed a strong returns in other sectors.

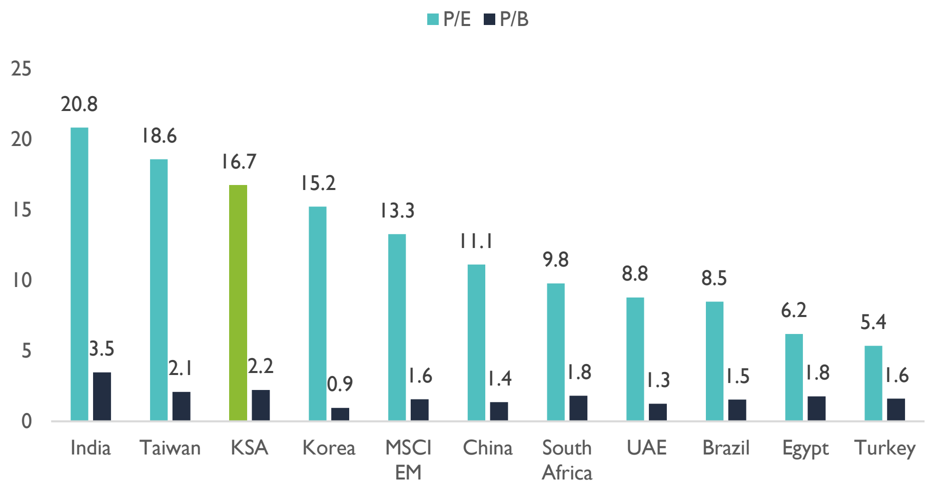
Key Emerging Markets



Source: Bloomberg,Tharaa

TASI- Valuation Premium Sustained

Key Valuation Metrics - Emerging Markets

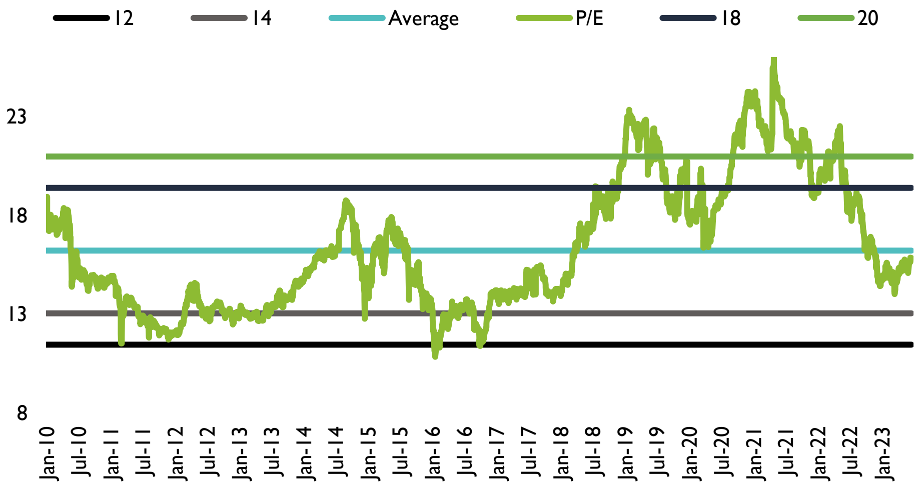


Source: Bloomberg, Tharaa Financial Center

- TASI's valuation remained at premium to most of its peers in the Emerging Market space. Robust growth profile, strong economic and corporate fundamentals and positive reform story supports premium valuation for TASI.

- TASI Valuation (P/E, trailing) has inched up from its low seen in Mar-23 and now trades close to its Long-Term (2010 to date) average of 16.2x.

Saudi Banks' Valuation (P/BV) has reverted to its LT average



Source: Tharaa Financial Center

Disclaimer

The document has been prepared by Tharra Financial Center (TFC, Tharaa) at Prince Sultan University. The information contained in this document was obtained from several sources such as Bloomberg, Reuters, SAMA, IMF, IEA, OPEC, Tadawul and other national and international agencies. Tharra tried its best effort to acquire the data from most reliable sources. However, Tharaa does not guarantee the accuracy of the data. Therefore, Tharaa makes no representation whether expressed or implied concerning the accuracy and completeness of any information contained in this report.

The report is not intended to provide personal investment advice nor it gives recommendation to buy or to sell any securities or any type of investment products. Tharaa shall not be liable for any direct or indirect consequences resulting from the use of the information in this document.

Contact Info

Tharaa Financial Center
011 494 8899
info@tharaafc.com
www.tharaafc.com
Building 105
Prince Sultan University
Rafha Street, Riyadh
Kingdom of Saudi Arabia