Saudi Aramco Base Oil Company

Earnings Revision

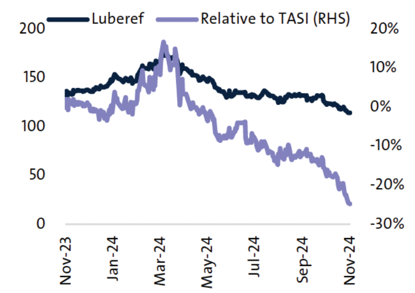
الإنماء المالية
alinma capital

Strong margin delivery in otherwise tough environment; Buy

Recommendation	BUY
Market Price	100.6
Target Price	131.0
Upside/Downside	30%

Stock Data	
Market Cap Total/FF (USDmn)	4,501/1350
Shares Total/FF (mn)	168.7/29.9
52 Week Hi-Low(SAR)	170/88
3/6/12 M Volume Traded (mnsh)	0.14/0.16/0.13
3/6/12 M Value Traded (USDmn)	2.4/2.9/2.6
3/6/12 M Relative Performance (%)	3/9/9

Luberef stock Price Performance VS TASI



Source: AC

Luberef: Strong turnaround in earnings delivered; sustained growth ahead

Luberef has delivered strong 1Q25 earnings in an environment challenged by low products spread and demand seasonality. 1Q25 earnings came in at SAR222, marking the first +ve earnings beat in the past four quarters. We have adjusted our estimates down (combination of volumes and margin) and trimmed our DCF-based TP to SAR131(-5%). We maintain our Buy rating on a stock.

Key highlights of 1Q25 results

Netback margin improved sequentially by 9% YoY driven by a change in sales mix. 2Q25 spreads are up 7% quarter-to-date and may set the stage for stronger earnings ahead. Volumes were flat YoY despite an 8-day shut-down for catalyst replacement on Group II train and lower sales of high-margin GII products. Base-oil volumes will likely improve in 2Q/3Q on the back of normalized GII train operation and resumption of supply of VGO. Luberef plans to conduct a maintenance shut-down and tie-in of the Growth II project in 4Q (45-days). We eye flat base-oil volumes YoY.

Strong FCF generation of SAR292mn, up 162% YoY, driven by healthy EBITDA and savings in working capital. This has set the stage for the payout ratio to stay at the higher end of management guidance of 60-80% FCF.

Project updates; more visibility seen by year's end

Visibility on new projects (Growth III, extension in operation of Jeddah facility) is likely to emerge over the course of 2H25 or early 1H26) and will be a source of excitement in stock price beyond the resolution of ongoing tariff fiction (~70% volumes are exported), in our view. We see significant earnings and valuation upside from future progress on Growth III (USD300-400mn, 40% IRR) or extension in operation at the Jeddah facility (20- 25% earnings upside post 2026).

Why Buy rating despite negative performance

Attractive valuation due to a steep underperformance of stock price in the past 12 months coupled with strong FCF generation, significant earnings and valuation upside from progress on future projects and possible future synergies with Aramco in either feedstock or sales form the basis for our Buy rating on Luberef.

Luberef: Financial Highlights (SARmn)

Year to 31 Dec	CY23	CY24	CY25E	CY26E	CY27E	CY28E
Revenues	9489	10036	8703	9174	8167	8257
Growth	-10.6%	5.8%	-13.3%	5.4%	-11.0%	1.1%
PAT	1510	972	964	1161	1329	1332
EPS (SAR)	9.0	5.8	5.7	6.9	7.9	7.9
Growth	-24%	-36%	-1%	20%	14%	0%
DPS (SAR)	10.0	6.7	4.5	5.0	6.9	7.3
P/E (X)	11.1	17.3	17.4	14.5	12.6	12.6
D/Y (%)	10.0%	6.7%	4.4%	5.1%	6.9%	7.3%
EV/EBITDA (%)	8.6	13.3	13.5	11.3	10.1	10.1

Source: Luberef, AC Estimates

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Luberef: Estimates revision post 1Q25 earnings

Luberef has delivered strong 1Q25 earnings in an environment challenged by low product spread and demand seasonality. 1Q25 earnings came in at SAR222, marking the first +ve earnings beat in the past four quarters. We have taken the opportunity to update our earnings estimates and adjust our TP. Specifically, we have made the following changes to our estimates:

Product spreads: We have updated our CY25 spreads assumptions based on actual realized spreads in CY24 and 1Q25 and updated our outlook for the rest of 2025. The weighted average spreads for GI and GII base oils were almost flat sequentially in 1Q vs our forecast of a nominal rise from 4Q levels. Our estimates build in flat product spreads for future years based on an average forecast of spreads for the past 15 years.

Volumes: We have tweaked down 2025 volumes in our estimates and have assumed a minimum six-month delay in optimization of production and start of UCO feed, a pre-requisite for optimization of production on upgraded facilities on the Yanbu facility. The following presents a comparison of old and revised estimates.

Luberef: Estimates Revision (SAR/sh)

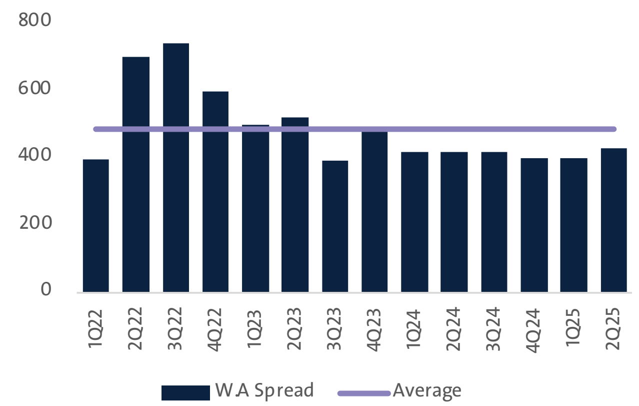
SAR	2024	2025	2026	2027	TP
Old	5.8	7.2	8.0	8.3	138.0
New		5.7	6.9	7.9	131.0
△		-20%	-14%	-5%	-5%

Source: AC estimates

Key highlights of 1Q2025 results

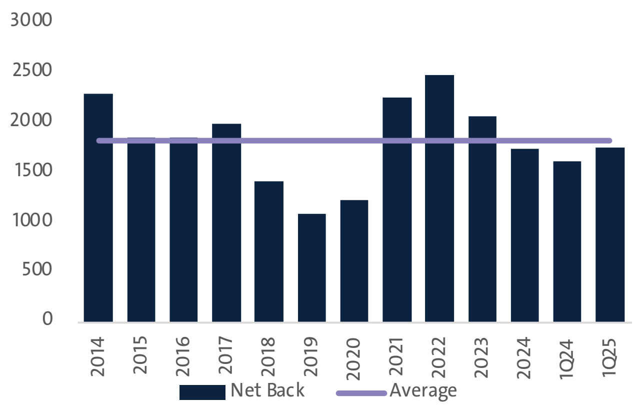
Netback margin improved sequentially by 9% YoY, driven by a change in sales mix. Encouragingly, the weighted average spread of base-oil products is up 7% quarter-to-date given downward sticky base-oil prices and recent negative volatility in oil prices.

Luberef's W.A spreads are up 7% in 2Q25 (USD/ton)



W.A=Weighted Average Source: Luberef, AC Estimates

Luberef's netback margin rose 9% QoQ in 1Q25 (USD/ton)



Source: Luberef, AC Estimates

Volumes were flat YoY despite an 8-day shut-down for catalyst replacement on Group II train and lower sales of high-margin GII products. Base-oil volumes will likely improve in 2Q/3Q on the back of normalized operation of GII train and resumption of supply of VGO. Luberef plans to conduct maintenance shut-down and tie-in of the Growth II project in 4Q25. We eye base-oil volumes to remain flat YoY.

Strong FCF generation of SAR292mn, up 163% YoY, driven by healthy EBITDA and savings in working capital. This has set the stage for the payout ratio to stay at the higher end of management guidance of 60-80% FCF.

We expect overall cash payout to drop to ~SAR4.5/sh in 2025 from SAR6.7/sh in 2024. The drop in cash payout is premised on (i) the expected increase in capex associated with the ongoing Growth II project and maintenance cycle, and (ii) the drop in contribution to cash flow from changes in the working capital in 2025 compared to 2024. Dividends are expected to recover in 2026 to 2027 upon completion of the project capex and optimization of operations.

Capex is set to ramp up to SAR520-680mn in 2025 as per management guidance, up from SAR200mn. The majority of increase in capex is due to Growth II project. Capex is likely to drop in 2026 but still will remain elevated.

Luberef's 1Q2025 earnings review

SARmn	1Q24	1Q25	QoQ	4Q24	YoY
Sales	2185	2128	-3%	2628	-19%
Gross Profit	314	288	-8%	339	-15%
Operating Profit	246	226	-8%	198	14%
EBITDA	324	289	-11%	266	9%
Profit Before Zakat	245	231	-6%	215	7%
Net Profit	239	222	-7%	208	6%
EPS	1.4	1.3	-7%	1.2	6%
Margins					
Gross Margin	14%	14%		13%	
EBITDA Margin	15%	14%		10%	
Net Margin	11%	10%		8%	
Volumes	271	271	0%	350	-22%
Crack Margin	1613	1755	9%	1644	7%

Source: Company Announcement

Big potential upside from future projects & initiatives

Visibility on major projects (Growth III, extension in operation of Jeddah facility) is likely to emerge over the course of 2H25 or early 1H26) and will likely be a source of excitement in stock price beyond the resolution of ongoing tariff fiction (~70% volumes are exported), in our view. We see significant earnings and valuation upside from future projects and developments. The following is a brief summary of major projects:

Growth II: Once optimized, Growth II project (de-bottlenecking of various components of the Yanbu complex in Group II processing unit) will likely lead to 37% increase in GII volumes, and the introduction of GIII products. The total base-oil production is expected to increase to 1.6mn tons upon optimization from the current 1.3mn tons. The Growth II project is part of our earnings and valuation estimates.

Continuation of production in Jeddah: Luberef's request for continuation of feedstock supply beyond the currently scheduled expiry of the feedstock agreement in mid-2026, is pending with the Ministry of Energy. Separately, Aramco is also reviewing the possibility of continuing operations on Jeddah terminal, as per the management. We continue to see commercial and economic rationales for the continued operation in Jeddah facility and expect tangible progress on the extension of various agreements towards the end of this year or early next year. In the case of an extension in operations in Jeddah, we see 20-25% upside in earnings in 2027.

Growth III (Group III+) project: Firming up company's plans for a new USD300-400mn project (GIII & GIII+ products) with IRR of 40% (management estimates) is another major future project. Luberef is targeting to complete the pre-feed study by the end of this year. Subject to the outcome of the pre-feed study and the board's approval, the project can move to FEED and FID in 2026.

Why Buy rating despite negative performance

Attractive valuation due to a steep underperformance of stock price in the past 12 months coupled with strong FCF generation, significant earnings and valuation upside from progress on future projects and possible future synergies with the parent company in either feedstock or sales form the basis of our Buy rating on Luberef.

Key risks to our investment thesis include: (i) general risks associated with the optimization of plant post revamp under Growth II project,(ii) volatility in base-oil margin and volumes due to ongoing tariff fiction, (iii) by-product margin, and (iv) dependence on a single source of feedstock.

Key Financials

Income Statement						
SARmn	**2023**	**2024**	**2025E**	**2026E**	**2027E**	**2028E**
Revenue	**9,489**	**10,036**	**8,703**	**9,174**	**8,167**	**8,257**
Cost of Revenue	-7,630	-8,700	-7,421	-7,672	-6,577	-6,672
Gross Profit	**1,858**	**1,336**	**1,282**	**1,502**	**1,590**	**1,585**
Selling & distribution Exp	-37	-64	-59	-60	-61	-62
G&A expenses	-230	-281	-256	-260	-177	-180
EBIT	**1,590**	**977**	**956**	**1,171**	**1,341**	**1,332**
EBITDA	1,892	1,227	1,204	1,441	1,613	1,605
Finance income/Others	131	80	75	54	46	42
Financial costs	-142	-92	-54	-33	-19	-7
Zakat	-69	-16	-13	-30	-39	-35
Profit after Tax	**1,510**	**972**	**964**	**1,161**	**1,329**	**1,332**
EPS	9.0	5.8	5.7	6.9	7.9	7.9
DPS	10.0	6.7	4.5	5.0	6.9	7.29

Source: Luberef, AC Estimates

Balance Sheet						
SARmn	**2023**	**2024**	**2025E**	**2026E**	**2027E**	**2028E**
Assets	**8,856**	**7,739**	**7,743**	**7,739**	**7,380**	**7,079**
Non-Current Assets	**4,771**	**4,718**	**4,912**	**4,894**	**4,679**	**4,462**
Property, Plant and Equipment	4,771	4,718	4,912	4,894	4,679	4,462
Current Assets	**3,885**	**2,836**	**2,656**	**2,679**	**2,546**	**2,461**
Cash and cash equivalents	546	735	744	702	756	657
Trade receivables	1,054	961	835	880	783	792
Inventories	623	671	610	631	541	548
Short-term deposit	1,635	452	452	452	452	452
Equity	**4,869**	**4,397**	**4,630**	**4,942**	**5,105**	**5,210**
Share capital	1,688	1,688	1,688	1,688	1,688	1,688
Retained earnings	2,724	2,253	2,485	2,798	2,960	3,066
Liabilities	**3,987**	**3,342**	**3,114**	**2,797**	**2,275**	**1,869**
Non-Current Liabilities	**1,908**	**935**	**657**	**415**	**186**	**0**
Long-term borrowings	1,744	785	626	406	186	0
Lease liabilities	164	150	31	9	0	0
Current Liabilities	**1,622**	**1,979**	**2,031**	**1,955**	**1,708**	**1,488**
Payables & Others	1,174	1,569	1,525	1,471	1,243	1,243
Accrued expenses	227	274	264	254	244	244
Current portion of borrowing	221	136	242	229	220	0

Summary of Cash Flows						
SARmn	**2023**	**2024**	**2025E**	**2026E**	**2027E**	**2028E**
Operating Activities	2,247	1,688	1,347	1,303	1,505	1,590
Investing Activities	(324)	(182)	(432)	(242)	(46)	(57)
Financing Activities	-3249	-996	-754	-802	-1405	-1633

Source: Luberef, AC Estimates

Key Ratios							
Revenue Contribution	**Units**	**2023**	**2024**	**2025E**	**2026E**	**2027E**	**2028E**
Current Ratio	X	2.4	1.4	1.3	1.4	1.5	1.7
Quick Ratio	X	2.0	1.1	1.0	1.0	1.2	1.3
Cash Ratio	X	1.3	0.6	0.6	0.6	0.7	0.7
Turnover Ratios							
AR Turnover	X	9.0	10.4	10.4	10.4	10.4	10.4
AP Turnover	X	7.0	4.9	4.9	5.2	5.3	5.4
DIO	Days	28	32	30	30	30	30
DSO	Days	41	35	35	35	35	35
DPO	Days	52	75	75	70	69	68
CCC	**Days**	**16**	**-8**	**-10**	**-5**	**-4**	**-3**
Capital Structure Ratios		0.9	0.7	0.6	0.7	0.7	
Debt to Equity	X	44%	24%	19%	13%	8%	0%
Debt Ratio	%	24%	14%	12%	8%	6%	0%
Debt Coverage	x	7.03	0.85	4.23	4.06	5.22	3.22
Profitability Ratios							
GP Margin	%	20%	13%	15%	16%	19%	19.19%
Operating Margin	%	17%	10%	11%	13%	16%	16.13%
NP Margin	%	16%	10%	11%	13%	16%	16%
ROE	%	31%	22%	21%	23%	26%	26%
ROA		17%	13%	12%	15%	18%	19%
Market Ratios							
Market Price	SAR/sh	100.6	100.6	100.6	100.6	100.6	100.6
EPS	SAR/sh	9.0	5.8	5.7	6.9	7.9	7.9
DPS	SAR/sh	10.0	6.7	4.5	5.0	6.9	7.3
BVPS	SAR/sh	29.0	26.1	27.5	29.4	30.4	31.0
EBITDA	SAR/sh	11.3	7.3	7.2	8.6	9.6	9.5
PE	X	11.1	17.3	17.4	14.5	12.6	12.6
Dividend Yield	%	10.0%	6.7%	4.4%	5.1%	6.9%	7.3%
Payout Ratio	%	111%	116%	76%	73%	88%	92%
PB	X	3.5	3.8	3.6	3.4	3.3	3.2
EV/EBITDA	X	8.6	13.3	13.5	11.3	10.1	10.1

Source: Luberef, AC Estimates

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA, Abdulrahman Yusef Alnafia** , the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

Rating Methodology

Alinma Capital Company (ACC) follow a four-tier rating system based on total return methodology as per following details

>+15% Total Return: Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

5-15%: Stocks with total return between 5-15% can be classified as Buy or Neutral.

>-5%<+5% total return: Stocks with total return between -5+5% can be classified as Neutral or Underperform

Underperform-Stocks which are expected to have <-5% total return

Not Covered: AIC has not assigned any rating on the stock

Coverage Suspended: AIC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Price data for the listed securities is based on 19 May, 2025.

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