Al Rajhi Capital الراجحي المالية

Key themes

OECD inventory likely to remain above its five years' average in 2019

US oil production growth may surpass the expected increase in global oil demand in 2019

Shale requires ~US$50/barrel to maintain its operating expenses and capex

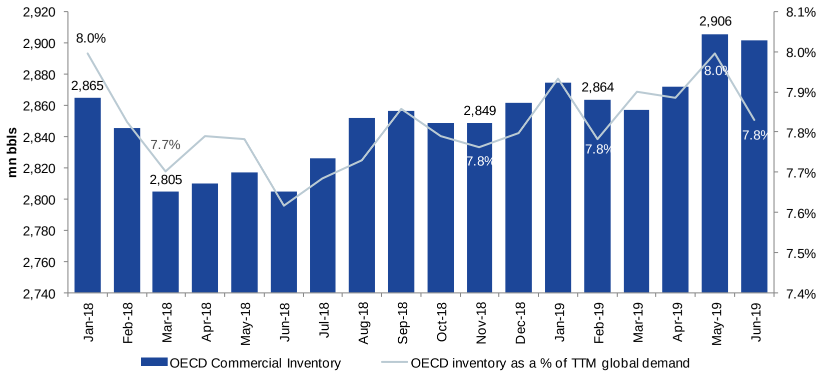
Saudi led OPEC faces hurdles to balance oil market

Oil market update

Global trade concerns weaken market dynamics

OECD inventories: Despite a decline in OPEC crude output on account of production cut deal and US sanctions on Iran, OECD inventory level crossed above its five years' average in Q2, primarily due to increased global supply (+0.76mb/d q-o-q) led by higher US crude production (+0.37mb/d q-o-q). Further, slowing global oil demand (1.1mb/d in 2019 vs. 1.4mb/d in 2018) on the back of weak trade and manufacturing activity amid US-China trade spat, along with steady rise in US production and the extension of OPEC+ output cut agreement until Q1 2020 are likely to delay re-balancing of the market. This could continue to keep OECD inventory levels above historical averages in the coming quarters, signalling limited upside to oil prices.

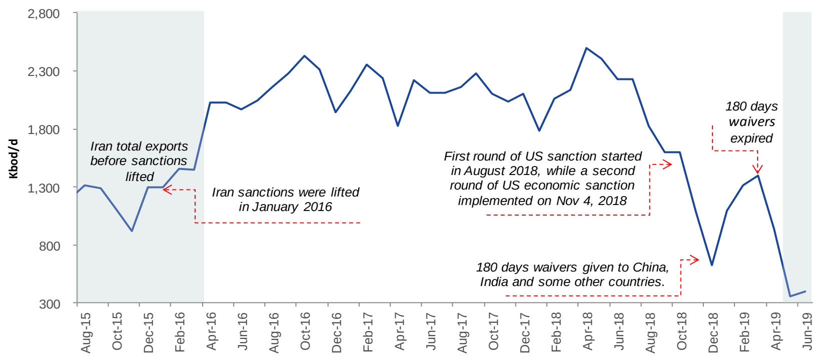
Figure 1 Monthly OECD inventory with a % of global demand



Source: EIA, Al Rajhi Capital.

Iran exports continue to fall on sanction. After US president's sanctions announcement on Iran in May 2018, Iranian oil output recently reached around its lowest level in three decades. Consequently, Iranian exports plunged 83% to 400kb/d in June 2019 from 2.4mb/d in May 2018 (does not include exports at Chinese shores). However this, along with lower production from Venezuela that too due to US sanctions, helped OPEC to curb its production level (-0.2mb/d q-o-q in Q2) in order to balance the market. However, lower output from these two countries have opened the door to non-OPEC countries (particularly US), which witnessed an increase in their output by ~1.3mb/d q-o-q in Q2, delaying the balancing of the oil market.

Figure 2 Monthly Iranian oil exports before and after sanctions



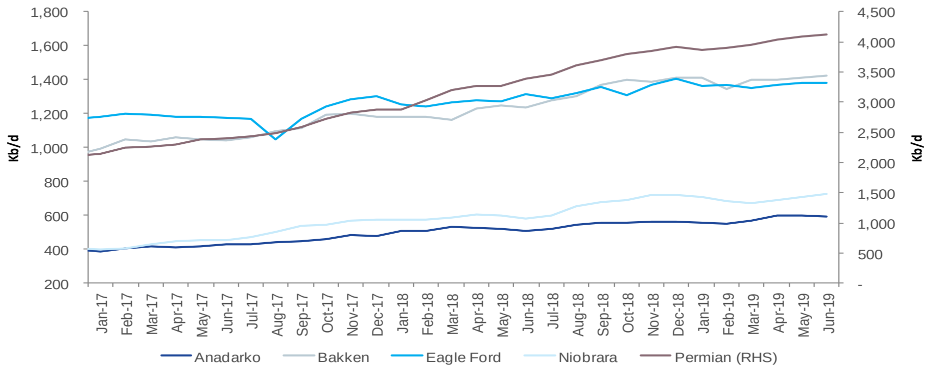
Source: Bloomberg, Al Rajhi Capital

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

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

US shale production rising: We observe US production has been continuously rising over the past few years, largely driven by shale output, particularly in the Permian Basin. As per EIA, US oil production rose by 1.6mb/d y-o-y in 1H 2019, with bulk of production coming from the Permian region (+82mb/d y-o-y rise; 51% of total increase). It is expected that rising US crude production (+1.4mb/d expected rise in 2019) could surpass global oil demand growth (+1.1mb/d in 2019), reflecting supply glut at the end of this year. This is likely to challenge the OPEC+ members to keep the current production level intact or reduce it further.

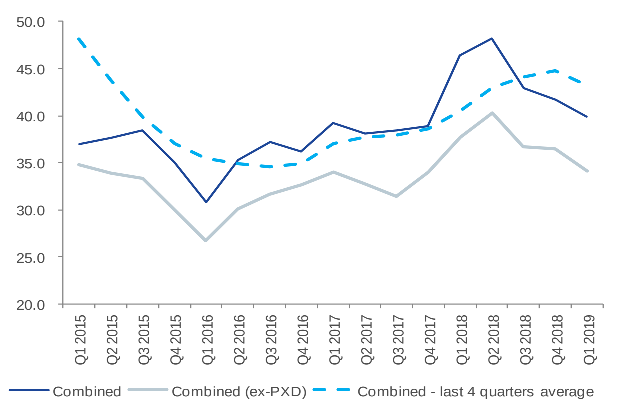
Figure 3 Production increasing across the shale regions, led by Permian



Source: EIA, Al Rajhi Capital

"Cash required per barrel" declines on higher production and improved cost efficiency: As the US oil production has been on a upward trend, US shale producers have finally started witnessing an improvement in operating efficiency, on account of benefit of economy of scale. Based on our sample companies, we noticed that average cash operating cost per barrel of US shale producers has improved to ~US$40/bbl in Q1 2019, compared to ~US$46/bbl in Q1 2018. On a sequential basis also, cash operating costs were down by ~US$2/bbl in Q1 2019, reflecting better efficiencies. On the other hand, the cumulative production of US shale producers (under our study) continued to rise, up by ~28% y-o-y and 5% q-o-q in Q1 2019. Further, most producers witnessed lower income taxes / benefits in Q1 2019. Consequently, The "Cash required per barrel" for US Shale companies to meet their core capex needs, cash operating costs, taxes and interest reached to US$52/barrel in Q1 2019 (Figure 13) from US$65/barrel in Q1 2018. Given the upward trend in shale production along with the extension of OPEC+ production cut deal amid weak demand outlook, the global oil market is likely to take longer time to balance, keeping oil prices under check unless any unexpected rise in geo-political tensions.

Figure 4 Weighted average cash operating cost / barrel (US$)



Source: Company data, Bloomberg, Al Rajhi Capital. PXD denotes Pioneer natural Resources.

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

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Concho Resources Inc.	19.8	20.2	20.6	21.1	30.1	21.8	20.7	20.1	21.0
Diamondback Energy	14.4	11.8	12.5	12.7	14.3	15.4	15.1	13.5	13.7
Pioneer natural Resources	66.6	67.3	74.1	64.2	92.0	90.3	77.5	73.1	74.8
Whiting Petroleum Corp.	21.4	21.9	21.9	22.7	21.6	22.0	22.1	19.9	22.3
Oasis Petroleum Inc.	30.6	27.6	29.3	32.8	30.1	37.7	39.8	55.8	55.8
Continental Resources Inc.	15.9	15.1	14.2	14.8	18.5	19.3	19.7	16.8	17.1
EOG Resources	54.5	52.0	50.7	55.5	62.3	69.3	60.6	59.4	58.1
Parsley Energy	17.1	19.9	18.6	25.4	19.1	18.2	19.8	37.8	19.3
Weighted average*	**39.2**	**38.1**	**38.4**	**38.9**	**46.4**	**48.2**	**42.9**	**41.7**	**39.9**

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

Figure 6 Inventories likely to rise above optimal level in the US ...

	2014	2015	2016	2017	2018	2019E*	2020E*
US Commercial inventories (mbbls)	1,134	1,287	1,334	1,232	1,262	1,293	1,316
Average US oil consumption (m b/d)	19.1	19.5	19.7	20.0	20.4	20.7	20.9
% of average US oil consumption	16.3%	18.1%	18.6%	16.9%	16.9%	17.1%	17.2%
Average global oil demand (m b/d)	93.6	95.9	96.9	98.5	99.9	101.0	102.4
US inventory as a % of global demand	3.3%	3.7%	3.8%	3.4%	3.5%	3.5%	3.5%

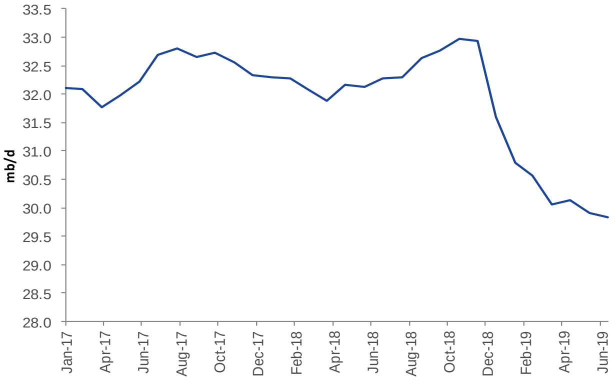
Source: EIA, Al Rajhi Capital. * EIA estimates

Figure 7 ... as well as in OECD

	2014	2015	2016	2017	2018	2019E*	2020E*
OECD Commercial inventories (mbbls)	2,688	2,970	2,994	2,844	2,861	2,899	2,934
Average OECD consumption (m b/d)	45.6	46.4	46.8	47.3	47.5	47.5	47.8
% of average OECD consumption	16.1%	17.5%	17.5%	16.5%	16.5%	16.7%	16.8%
Average global oil demand (m b/d)	93.6	95.9	96.9	98.5	99.9	101.0	102.4
OECD inventory as a % of global demand	7.9%	8.5%	8.5%	7.9%	7.8%	7.9%	7.9%

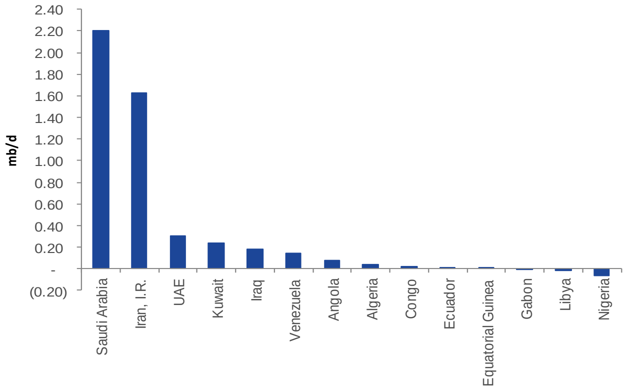
Source: EIA, Al Rajhi Capital. * EIA estimates

Figure 8 OPEC production decreasing



Source: OPEC, Al Rajhi Capital. * Excluding Qatar for Dec 2018

Figure 9 OPEC spare capacity (as of June 2019)



Source: IEA, Al Rajhi Capital

Shale health check up

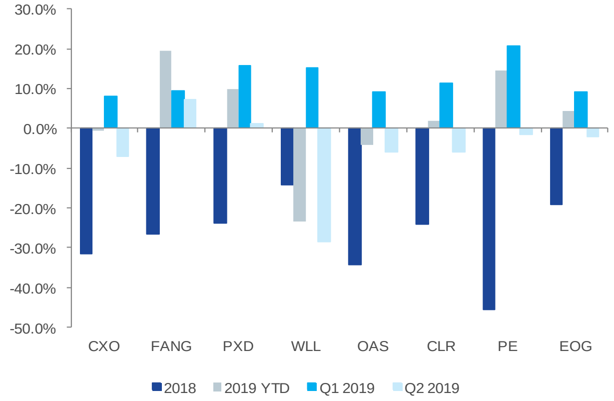
1. Shale profits and stock performance:

After showing an improvement in net profit in 2018, most of US shale firms, under our study, have witnessed a decline in their profitability on an annual basis in Q1 2019, largely weighed down by lower oil price, offsetting increased production. Similarly, average ROA declined from 8.7% in Q3 2018 to ~6.2% in Q1 2019 (Figure 21). However, the stock performance of all the shale companies (under our sample) posted positive returns in Q1 2019, largely on expectations of healthy earnings and optimism over the oil market amid OPEC+ production cut deal. Nonetheless, renewed trade war concerns (US-China and US-Mexico) impacted the stock prices of most shale companies in Q2, due to anticipated lower oil demand.

Figure 10 2018/19 net profit performance of shale firms

Source: Company data, Al Rajhi Capital

Figure 11 Stock performance of shale firms – 2018 and 2019 YTD

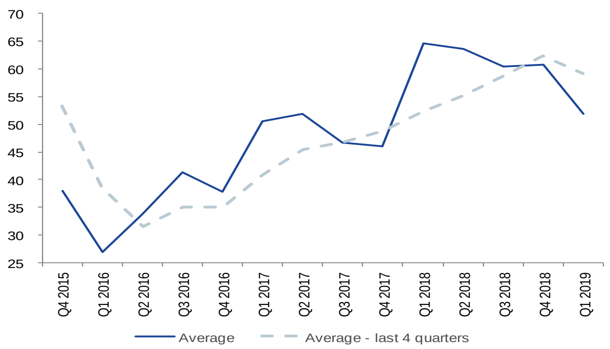


Source: Bloomberg, Al Rajhi Capital * EGN till Nov 29, 2018 only as the company is recent acquired by FANG.

2. Cash required to meet expenses declined on increased production and improvement in operating efficiencies

Despite increased capital spending, our calculations show that average **"Cash required per barrel" dropped to US$52 bbl (ex-Parsley Energy) in Q1 2019** from ~US$65/bbl in Q1 2018 (Figure 12 and 13), primarily on account of increased production and better operating efficiencies. This was further aided by lower income taxes. Within the Permian basin, Diamondback Energy had one of the lowest requirements of cash per barrel of ~US$45/bbl as of Q1 2019.

Figure 12 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. Ex-one-time impact of non-cash tax benefit resulting from the Tax Cuts and Jobs Act in Q4 2017.

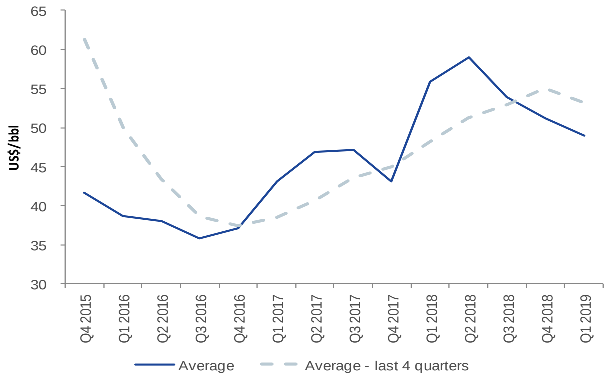
Figure 13 Cash required per barrel for major US shale producers (US$/bbl) - for FCF plus interest and tax expense

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Weight*
Concho Resources Inc.	78	56	38	52	86	58	53	81	52	14%
Diamondback Energy	42	42	52	54	66	71	66	62	45	12%
Pioneer natural Resources	57	81	61	58	74	71	71	79	54	14%
Whiting Petroleum Corp.	34	45	31	33	46	56	54	48	47	6%
Oasis Petroleum Inc.	49	59	54	52	74	63	89	88	57	5%
Continental Resources Inc.	45	47	46	38	52	62	62	53	51	13%
EOG Resources	46	42	45	42	59	62	54	45	55	30%
Parsley Energy	70	73	102	100	104	97	96	116	68	5%
Weighted average**	**51**	**53**	**49**	**48**	**67**	**66**	**63**	**64**	**53**	
Weighted average (ex-PE)**	**51**	**52**	**47**	**46**	**65**	**64**	**60**	**61**	**52**	

Source: Company data, Bloomberg, Al Rajhi Capital. * Weights are based on production. ** Calculated based on weighted average production of major shale producers under our sample. Ex-one-time impact of non-cash tax benefit resulting from the Tax Cuts and Jobs Act in Q4 2017. PE denotes Parsley Energy.

Excluding the impact of interest and tax expenses on the free cash flow, our calculations show the similar trend as well with average cash required per barrel declining to US$49/bbl (ex-Parsley Energy) in Q1 2019 from US$56/bbl in Q1 2018 (Figure 14 and 15).

Figure 14 Average "cash required per Barrel"* for major US shale producers to generate FCF positive



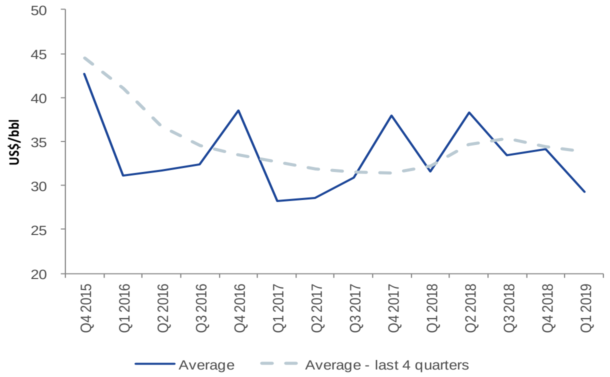
Source: Company data, Bloomberg, Al Rajhi Capital. Weighted average required cash per barrel based on production of major US shale producers to generate positive cash flow.

Figure 15 "Cash required per barrel" for major US shale producers (US$/bbl)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Weight*
Concho Resources Inc.	38	43	40	56	64	53	55	58	60	14%
Diamondback Energy	39	40	50	53	57	70	58	51	44	12%
Pioneer natural Resources	56	69	59	55	69	68	63	72	47	14%
Whiting Petroleum Corp.	32	44	58	42	39	50	48	42	44	6%
Oasis Petroleum Inc.	37	50	50	51	67	74	79	70	50	5%
Continental Resources Inc.	37	44	39	26	42	52	51	46	44	13%
EOG Resources, Inc.	45	41	44	38	54	57	47	40	50	30%
Parsley Energy	60	64	98	97	93	86	86	109	65	5%
Weighted average**	**44**	**48**	**50**	**46**	**58**	**61**	**56**	**54**	**50**	
Weighted average (ex-PE)**	**43**	**47**	**47**	**43**	**56**	**59**	**54**	**51**	**49**	

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

Figure 16 Average "cash required per Barrel"* for major conventional producers to generate FCF positive



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

Figure 17 "Cash required per barrel" for major conventional producers (US$/bbl)

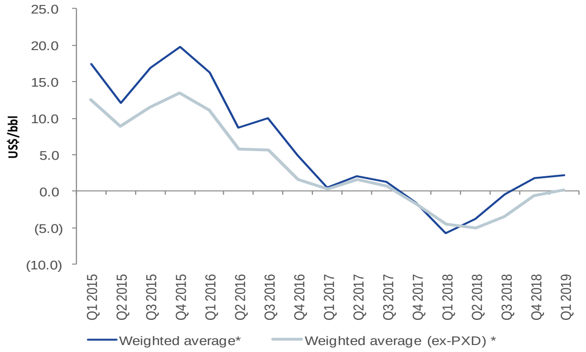
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Weight*
BP PLC	36	39	33	43	40	41	44	55	29	23%
Chevron Corp	42	28	37	40	28	31	27	29	26	19%
Exxon Mobil Corp	21	26	28	29	28	45	36	35	47	24%
Husky Energy Inc	17	26	18	32	15	11	20	76	26	2%
Imperial Oil Ltd	27	42	22	34	31	50	28	NM	26	3%
Statoil ASA	17	14	44	42	12	44	29	NM	15	11%
TOTAL SA	22	27	19	39	48	32	29	37	20	17%
Weighted average**	**28**	**29**	**31**	**38**	**32**	**38**	**33**	**34**	**29**	

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

3. Limited hedging gains in Q1 2019

Most of US shale producers (under our sample; except Pioneer Natural Resources) witnessed limited gains from their derivative instruments in Q1 (+$0.2/bbl average gain in Q1 2019 vs. -$5.0/bbl average loss in Q1 2018; Figure 19). However, this still compares meekly with the numbers for FY15 and FY16 at ~US$15/bbl and ~US$9/bbl, respectively.

Figure 18 US shale producer's average realized gain / losses



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

Figure 19 US shale producer's avg. realized gain / losses (US$/bbl)

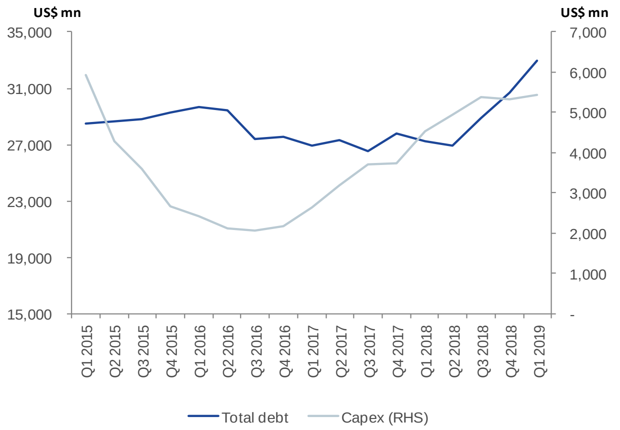
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Concho Resources	3.0	6.9	2.5	(4.3)	(8.7)	(6.6)	(2.7)	1.7	0.2
Diamondback Energy	(0.4)	0.9	1.3	(0.9)	(4.8)	(6.0)	(4.8)	(0.2)	0.8
Pioneer natural Res.	0.8	1.6	1.9	0.3	(4.5)	4.1	10.8	9.4	8.2
Whiting Petroleum	0.2	0.7	0.7	(0.3)	(3.2)	(6.9)	(7.9)	(2.0)	0.2
Oasis Petroleum	(1.9)	(2.1)	(2.9)	(1.6)	(7.0)	(10.9)	(10.8)	(7.9)	2.3
Continental Res.	NA	NA	NA	NA	NA	NA	NA	NA	NA
EOG Resources, Inc.	NA	NA	NA	NA	NA	NA	NA	NA	NA
Parsley Energy	(1.5)	0.0	(0.3)	(3.1)	(3.7)	(4.2)	(1.3)	(1.5)	(2.4)
Weighted average*	**0.8**	**2.5**	**1.4**	**(1.8)**	**(6.6)**	**(3.9)**	**(0.5)**	**1.8**	**2.2**
Weighted average (ex-PXD)	**0.5**	**1.9**	**0.6**	**(1.9)**	**(5.0)**	**(5.3)**	**(3.8)**	**(0.7)**	**0.2**

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

4. Shale producers continue to raise debt to fund their capex programs

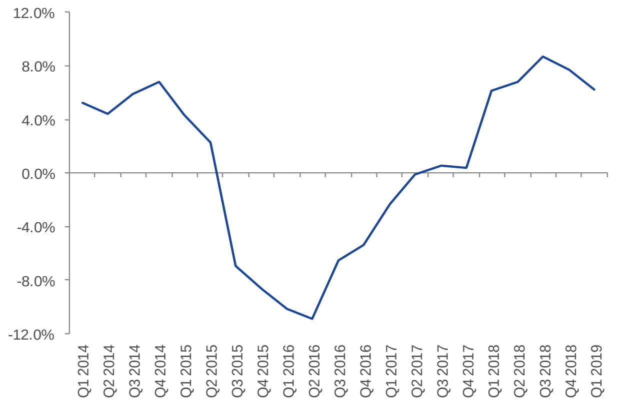
After bottoming out in the second half of 2016, capital expenditure by the shale producers in our study had been mostly on an upward trend, primarily due to recovery in oil prices on OEPC+ production cut agreement. However, we observed that capital spending remained largely muted from Q4 2018 to Q1 2019, which could be attributable to volatile oil prices amid trade war tensions. The TTM total capex of the US shale producers (under our study) rose 39% y-o-y as of Q1 2019, putting the shale producers deeper in debt as reflected from rising total debt for these companies (Figure 20). We continue believe that increase in debt level could weaken their own financial health in case of decline in oil prices.

Figure 20 Total debt rises as capex increases



Source: Company data, Bloomberg, Al Rajhi Capital

Figure 21 Weighted avg. ROA improved *



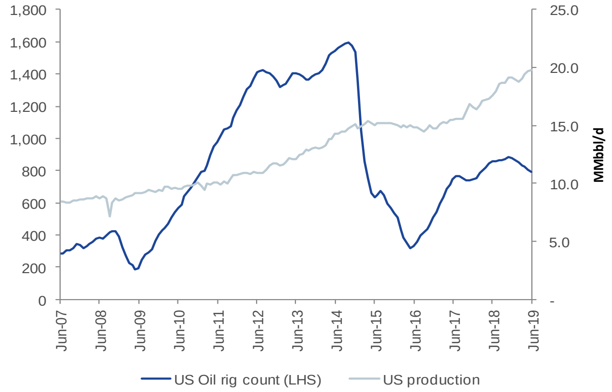
Source: Company data, Bloomberg, Al Rajhi Capital. * Adjusted for one-time impact of non-cash tax benefit resulting from the Tax Cuts and Jobs Act for Q4 2017.

Figure 22 Market shares

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
OPEC	39.1%	38.5%	38.7%	38.8%	38.3%	37.4%	37.1%	36.9%	37.0%	37.0%	36.8%	36.6%	36.8%	37.0%	37.2%	36.8%	35.8%	35.5%	35.4%	34.9%	34.9%	34.5%	34.1%
OECD	13.1%	13.6%	12.6%	12.1%	12.2%	12.9%	12.8%	12.7%	12.6%	12.1%	12.2%	12.5%	12.3%	12.0%	12.2%	12.5%	12.4%	12.6%	12.6%	12.8%	12.6%	12.6%	12.5%
US non-conv.	6.1%	6.6%	6.7%	7.1%	7.8%	7.6%	7.7%	8.0%	8.1%	8.1%	8.2%	8.3%	8.6%	8.8%	9.0%	9.0%	9.3%	9.3%	9.3%	9.4%	9.6%	9.6%	9.6%
Others	41.7%	41.3%	42.0%	41.9%	41.7%	42.1%	42.3%	42.4%	42.3%	42.8%	42.8%	42.7%	42.3%	42.1%	41.6%	41.6%	42.6%	42.7%	42.7%	42.8%	42.9%	43.3%	43.7%

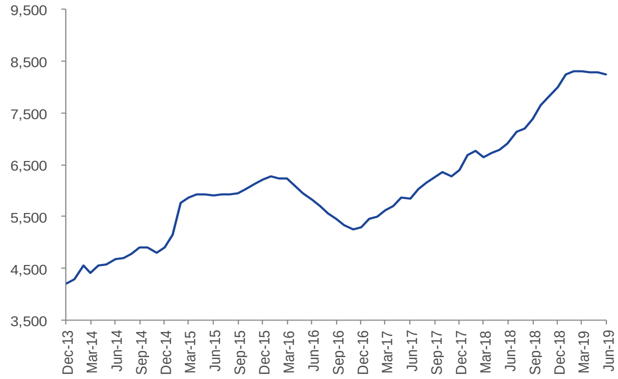
Source: OPEC, EIA, IEA, Al Rajhi Capital

Figure 23 US shale rig count and production*



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

Figure 24 Rising DUC wells



Source: EIA, Al Rajhi Capital

OPEC compliance level

In order to keep oil prices at the optimum level amid weakening oil demand and rising US production , OPEC, in its joint meeting with non-OPEC members in early July, decided to extend their production cut deal of 1.2mbpd for another 9 months until March 2020. We believe that OPEC continues to play a key role and control balance in the global market. OPEC compliance level remained satisfactory during the last couple of months, while non-OPEC compliance level reduced in June 2019, primary due to increased production in Kazakhstan.

Figure 25 OPEC 2019 compliance to agreement

(MMbbl/d)	Jan-19 Supply	Feb-19 Supply	Mar-19 Supply	Apr-19 Supply	May-19	Supply Baseline*	Agreed Cut	New Target	Compliance Jan	Feb	Mar	Apr	May	Jun
Algeria	1.03	1.03	1.02	1.02	1.03	1.06	-0.03	1.03	84%	84%	116%	116%	84%	147%
Angola	1.46	1.43	1.41	1.41	1.45	1.53	-0.05	1.48	187%	123%	166%	251%	166%	272%
Congo	0.33	0.35	0.36	0.36	0.36	0.33	-0.01	0.32	-50%	-150%	-250%	-250%	-150%	-250%
Ecuador	0.52	0.53	0.53	0.53	0.53	0.52	-0.02	0.51	88%	25%	-38%	-38%	-38%	-38%
Equatorial Guinea	0.11	0.11	0.12	0.11	0.11	0.13	0.00	0.12	425%	175%	175%	175%	675%	425%
Gabon	0.20	0.21	0.22	0.20	0.20	0.19	-0.01	0.18	-383%	-383%	-217%	-217%	-217%	-550%
Iraq	4.75	4.66	4.56	4.65	4.78	4.65	-0.14	4.51	-26%	-19%	80%	16%	-90%	-48%
Kuwait	2.72	2.71	2.71	2.69	2.71	2.81	-0.09	2.72	105%	128%	128%	140%	116%	152%
Nigeria**	1.64	1.68	1.69	1.75	1.66	1.65	-0.05	1.60	75%	19%	19%	-264%	-75%	-226%
Saudi Arabia	10.24	10.14	9.80	9.81	9.70	10.63	-0.32	10.31	122%	153%	252%	256%	290%	268%
UAE	3.07	3.05	3.05	3.05	3.05	3.17	-0.10	3.07	102%	123%	123%	123%	123%	113%
OPEC 11	**26.07**	**25.90**	**25.47**	**25.58**	**25.58**	**26.67**	**-0.81**	**25.85**	**86%**	**94%**	**153%**	**131%**	**133%**	**128%**

Source: IEA OMR, OPEC OMR, Al Rajhi Capital. Note: OPEC figures are crude oil only. * Based on Oct-2018 production, except for Azerbaijan and Kuwait based on Sept-2018 and Kazakhstan Nov-2018. Non-OPEC supply baseline based on IEA estimates. ** Nigeria supply baseline based on IEA estimates, which exclude Akpo and Agbami condensates. *** Iran, Libya, Venezuela exempt from cuts. # Qatar left OPEC on 1 Jan 2019.

Non-OPEC compliance level

Figure 26 Non-OPEC 2019 compliance to agreement

(MMbbl/d)	Jan-19 Supply	Feb-19 Supply	Mar-19 Supply	Apr-19 Supply	May-19	Supply Baseline*	Agreed Cut	New Target	Compliance Jan	Feb	Mar	Apr	May	Jun
Azerbaijan	0.79	0.81	0.80	0.68	0.78	0.80	-0.02	0.78	15%	-49%	17%	565%	100%	140%
Kazakhstan	2.08	2.02	1.95	1.70	1.75	2.03	-0.04	1.99	-134%	100%	150%	600%	637%	-3%
Mexico	1.94	1.95	1.94	1.92	1.91	1.99	-0.04	1.95	131%	148%	119%	168%	195%	222%
Oman	0.98	0.98	0.98	0.98	0.98	1.00	-0.03	0.98	102%	137%	101%	115%	105%	99%
Russia	11.71	11.67	11.63	11.57	11.44	11.75	-0.23	11.52	18%	36%	52%	80%	132%	114%
Others**	1.20	1.26	1.26	1.27	1.25	1.23	-0.03	1.19	-71%	-107%	-107%	-143%	-71%	-71%
Total	**18.70**	**18.69**	**18.56**	**18.12**	**18.11**	**18.80**	**-0.38**	**18.41**	**25%**	**51%**	**64%**	**151%**	**169%**	**98%**

Source: IEA OMR, Al Rajhi Capital. Note: Non-OPEC figures are total oil supply (including NGLs). * Based on Oct-2018 production, except for Azerbaijan and Kuwait based on Sept-2018 and Kazakhstan Nov-2018. Non-OPEC supply baseline based on IEA estimates. ** Bahrain, Brunei, Malaysia, Sudan and South Sudan.

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.

Disclaimer and additional disclosures for Equity Research

Disclaimer

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 11 211 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.