

MONTHLY MACROECONOMIC REVIEW – SAUDI ARABIA



February 2018

Review of economic developments till end of January 2018

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A. Executive Summary and Review

Executive Summary

The key highlights are:

1. **Oil production** – KSA marginally increased oil production, producing 10.01 million barrels of oil per day (mbpd) in January 2018 (Refer Figure 1, Page 14), to keep slightly below the production limit.
2. **Inflation** – Inflation rate during Dec-17 rose 0.4% YoY (Refer Figure 5, Page 8), after rising 0.1% during the previous month, thus reversing 10-month deflationary trend since the start of 2017. This was mainly contributed by the growth in prices of Food and Beverages (0.6%), which registered positive growth for the first time since June 2016. The back-to-back inflation figures indicate increase in demand, especially among consumers, as a result of higher government spending in Q4 2017.
3. **Non-oil private sector growth** – Saudi Arabia's PMI declined to 53.0 in January 2018 from 57.3 in the previous month (Refer Figure 7, Page 8) as higher input costs due to VAT implementation and fuel subsidy cuts weighed down on the non-oil private sector growth.
4. **Bank Credit** – Bank credit declined 1.0% YoY in December to SAR 1.386tn, the lowest figure in 2017 (Refer Figure 20, Page 10), mainly due to 0.9% decline in private sector lending. Among the lending groups by duration, long-term lending, which forms around 30% of total lending, declined by 1% in December 2017, the first month indicating year-on-year decline since December 2016.
5. **POS transactions** – POS transactions increased 28.1% YoY and 20.1% MoM to SAR 20.2bn in December 2017, the highest figure in 22 years (Refer Figure 38, Page 12).
6. **VAT Implementation** – Saudi Arabia has imposed value added tax (VAT) of 5% on most goods and services effective from January 01, 2018, to boost the government's non-oil revenue and narrow the fiscal deficit. The government estimates the revenue of SAR 35 bn (USD 9 bn) from VAT in the first year of implementation.

Higher Government spending in Q4 2017 reflected in recent indicators, as expected

The sharp jump in POS transactions, further supports our view of strong government spending in Q4 2017 leading to greater demand in the economy, reflected in greater demand for money (ATM withdrawals increased 2.4% YoY in December) and increase in prices (positive inflation).

Data Releases

Indicator	Data
Inflation (December 2017)	0.4%
PMI (January 2018)	53.0
SAMA Reserve Assets Growth MoM (December 2017)	0.4%
Bank Credit Growth YoY (December 2017)	-1.0%
Bank Deposit Growth YoY (December 2017)	0.1%
Loan to Deposit Ratio (December 2017)	0.86
Money Supply Growth YoY (November 2017)	0.2%
3M SAIBOR (January 2018)	1.89%
ATM Withdrawals Growth YoY (December 2017)	2.4%
PoS Transactions Growth YoY (December 2017)	28.1%
Saudi Oil Production (January 2018)	10.01 mbpd
Saudi Oil Export (November 2017)	7.0 mbpd
OPEC Production (January 2018)	32.4 mbpd
Global Oil Supply – Demand (December 2017)	-1.2 mbpd
US Rig Count (January 2018)	759

Saudi Arabia steps into the era of VAT

Saudi Arabia became one of the first two GCC countries to implement value added tax (VAT) on goods and services starting from January 01, 2018; along with the UAE. The tax is being imposed within the framework of a unified agreement between the member states of the GCC. Saudi Arabia, which recently unveiled its biggest ever budget with a record budgeted spending of SAR 978 bn, hopes to boost the government revenues and narrow the fiscal deficit through the implementation of VAT.

Introduction

VAT is an indirect tax applied upon the consumption of goods and services. It is collected on behalf of the government by VAT registered businesses that supply the said goods and services. VAT is levied at each stage of the supply chain and ultimately paid by the end consumer. VAT registered businesses levy VAT to the price of goods and services they supply. These businesses can also reclaim VAT paid on the input items such as raw materials and other consumables used for business purposes, i.e. the net amount of VAT paid by them is on the net value added to the goods or services.

According to the GCC VAT framework, goods and services in Saudi Arabia are categorized as standard rated (5% VAT applicable), zero rated (0% VAT applicable) or exempt. The standard rate of 5% is one of the lowest rates globally.

The VAT treatment of any good or service according to its category is determined by the following table:

Table 1: VAT classification

	Output Tax Payable	Input Tax deductible
Standard Rated	5%	Yes
Zero Rated	0%	Yes
Exempt	nil	No
Out of scope	NA	NA

Source: GAZT, Saudi Arabia, NA: Not Applicable

VAT Treatment by sector

Mandatorily Zero rated goods and services:

There are certain goods and services which are mandatorily zero rated according to the GCC agreement. They are as follows:

- Investment gold, silver and platinum (only if the purity is not less than 99% and are tradeable in international bar market)
- Exports of goods and services
- Medicine and medical equipment
- International and Intra-GCC transportation

Voluntary Exemption:

Certain sectors were left to the discretion of the member countries of GCC to voluntarily exempt or zero rate. The goods and services which are exempted in such a way in Saudi Arabia are:

- Rent of residential real estate
- Sale of a residential property for use as a permanent home by the buyer
- Margin based financial products
- Current accounts, deposits, savings
- Life Insurance
- Capital markets activity
- Public services provided by government authorities

Subsidized goods and services:

VAT on certain goods and services in Saudi Arabia would be paid by the government, i.e. subsidized, on behalf of the citizens. Such goods and services include:

- Private education
- Private healthcare
- Supply of basic food items to low income citizens, through Citizens Account

Note: Private education and private healthcare were not subsidized in the original VAT law. However, as per the Royal Decree issued by King Salman in January 2018, VAT on these expenses would be subsidized, along with the series of other allowances and subsidies aimed to offset the higher cost of living for citizens due to VAT and fuel, electricity price hikes.

Trade

Exports of goods and services outside of Saudi Arabia are zero rated, while the imports of goods and services would attract the same rate of VAT as the supply of those in domestic market.

VAT implementation

Saudi Arabia released its final Value Added Tax (VAT) law on the website of its official Gazette on July 28, 2017, thereby becoming the first country in the GCC to enact the law. The government expects revenue of about SAR 35 bn from the first year of the implementation of VAT.

Regarding the implementation of VAT, the key points are listed as below:

- **Registration:** All businesses or entities which make an annual taxable supply of goods and services more than SAR 375,000 are mandatorily required to register for VAT through the official portal of General Authority of Zakat and Tax (GAZT). Businesses or entities that make annual taxable supply of goods and services more than SAR 187,500, but less than SAR 375,000 are eligible for voluntary registration.
- **Return filing:** Entities that make taxable supplies more than SAR 40 mn annually are required to file the tax returns on a monthly basis, while other entities are required to file it on a quarterly basis.
- **VAT refunds:** There may be instances in which a business might have paid more input VAT than it has charged output VAT, such as:
 - Businesses that supply zero rated goods or services

- Businesses that export goods or services outside Saudi Arabia
- Businesses that have paid more input VAT on raw materials than the output VAT charged on the sale of goods during a particular tax period
- Businesses who have invested in capital assets

In such cases, the businesses may claim direct refund from GAZT or request the credit to be used against their next VAT filing.

Comparison of VAT regimes in Saudi Arabia and UAE

Saudi Arabia and UAE remain the only countries in GCC to have implemented VAT so far. Following table summarizes the key differences between the two:

Table 2: Key attributes of VAT in Saudi Arabia and UAE

Attribute	Saudi Arabia	UAE
Registration requirement for suppliers of zero rated goods and services	Not required to register	Required to request an exemption from mandatory registration
Return filing requirement	Required to be filed on a monthly basis for companies that make taxable supplies more than SAR 40 mn annually; others are required to file on a quarterly basis	Required to be filed on a quarterly basis
Treatment of private education and healthcare sector	Neither exempt nor zero rated	Certain education and healthcare services are zero rated
Treatment of local passenger transport services	Standard rated	Exempted

Source: MEFIC Research

Overall economy improving in pockets

The trend of monthly indicators for the past few months shows signs of improvements in certain areas. Indicators of consumer demand, such as inflation, POS transactions, ATM withdrawals show improvement in last few months of 2017, while indicators of corporate demand, such as credit growth, PMI have not yet shown sustained improvement.

Inflation: 10-month deflationary trend reversed

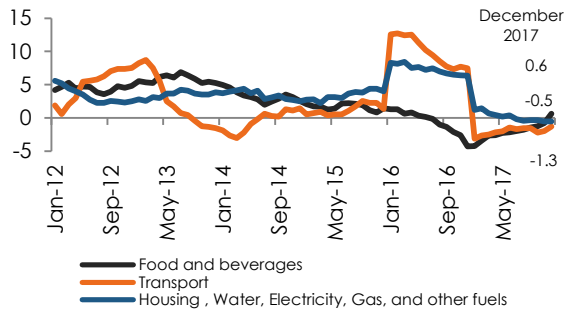
Inflation rate during December rose 0.4% YoY after registering 0.1% growth in the previous month, thus reversing 10-month deflationary trend since the start of 2017. Inflation is also likely to rise further in coming months due to the low base of last year, hike in electricity and fuel prices, and implementation of VAT. In December, prices of food and beverage items, constituting 22% of the inflation general index, rose 0.6% YoY, registering positive growth for the first time since June 2016. While prices of Housing, Water, Electricity and fuels (-0.5%) continued to drag the index down; prices in Transport sector (-1.3%) continued to improve, falling the least since the start of the year.

Bank Credit lowest in the year

Bank credit declined 1.0% YoY in December 2017 to SAR 1.386tn, the lowest figure in 2017, mainly due to 0.9% decline in private sector lending. On MoM basis, bank credit declined 1.4%, the largest MoM drop in 2017; mainly due to private sector lending falling 5% MoM.

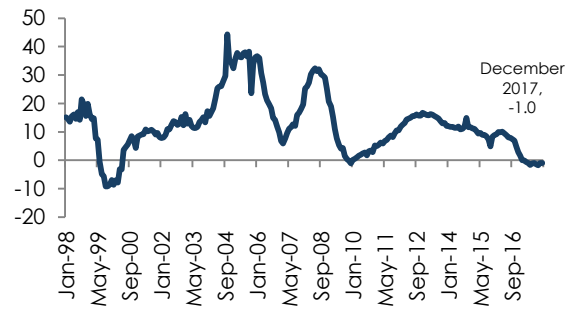
Long term credit (more than 3 years) declined 1.0% YoY, the first and only drop in the year. Short term credit (less than 1 year) declined 1.4% while medium term credit (1 to 3 years) grew 0.3% on YoY basis. During Q4 2017, banks cut credit exposure to Manufacturing and Processing sector by 8.8% YoY and 3.6% QoQ; while the Building and Construction sector witnessed 14.9% YoY and 15.5% QoQ drop in credit exposure.

Figure 1: Inflation - major sub-indices (% YoY)



Source: SAMA

Figure 2: Bank credit growth (% YoY)

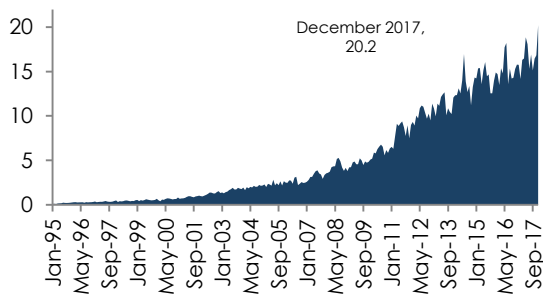


Source: SAMA

POS Transactions hit 22-year high; ATM withdrawals also rise 2.4%

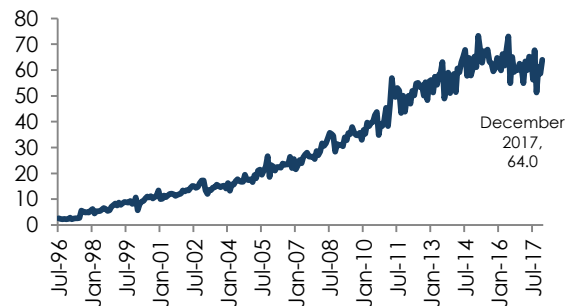
Point-of-sale (POS) transactions in Saudi Arabia rose 28.1% YoY and 20.1% MoM to reach SAR 20.2 bn in December 2017, the highest figure in 22 years. Data showed that 72.2 mn transactions were processed through about 300,000 POS machines in shopping malls, retail stores, and pharmacies etc. This growth is likely to be due to positive impact of wage hikes and surge in spending just before the VAT kicks in from January 2018. ATM withdrawals also increased 2.4% YoY to SAR 64 bn in December.

Figure 3: POS Transactions (SAR bn)



Source: SAMA

Figure 4: ATM Cash Withdrawals (SAR bn)



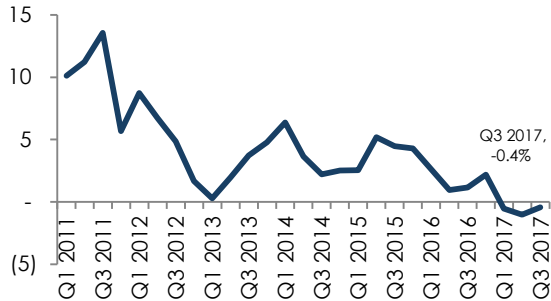
Source: SAMA

In our Flash Note on Saudi Arabia 2018 Budget (published in December 2017), we had noted the change in government spending in Q4 2017 as compared to first nine months of 2017, and had expected certain parts of the economy to reflect the higher spending. The data on inflation, POS transactions and ATM withdrawals indicates that consumer demand is improving, which will help in 2018, as outlined in our Saudi Arabia 2018 Outlook report, published in January 2018.

B. Chart Pack

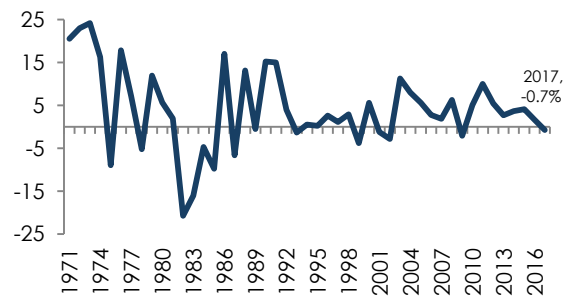
I. Macroeconomic Indicators

Figure 1: GDP (Constant prices) growth (quarterly -% YoY)



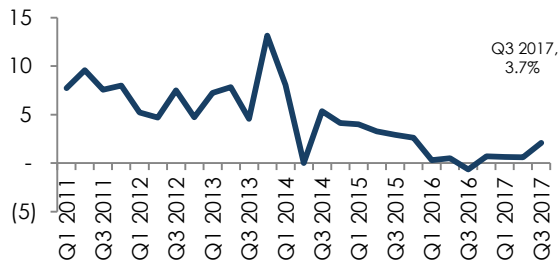
Source: General Authority of Statistics

Figure 2: GDP growth (annual - % YoY)



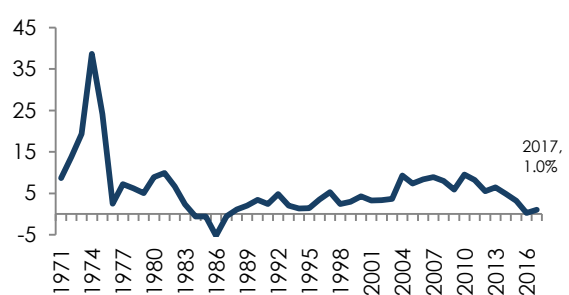
Source: General Authority of Statistics

Figure 3: Non-oil GDP growth (quarterly - % YoY)



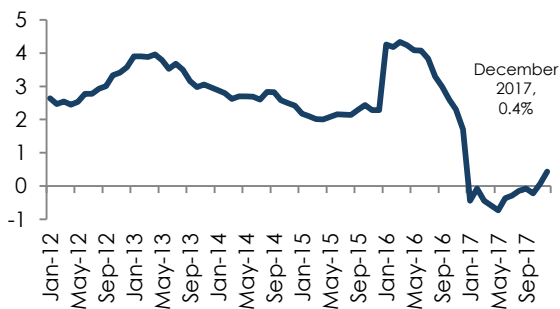
Source: General Authority of Statistics

Figure 4: Non-oil GDP growth (annual - % YoY)



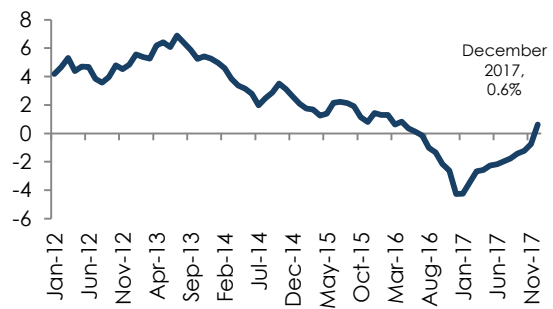
Source: General Authority of Statistics

Figure 5: Inflation (% YoY)



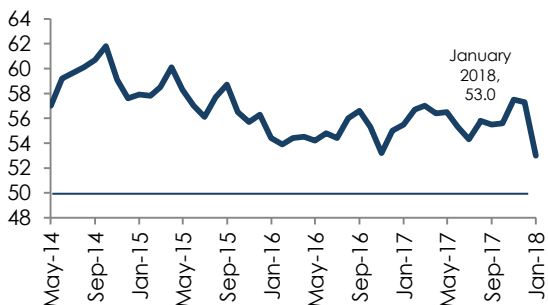
Source: Saudi Arabia Monetary Authority (SAMA)

Figure 6: Food inflation (% YoY)



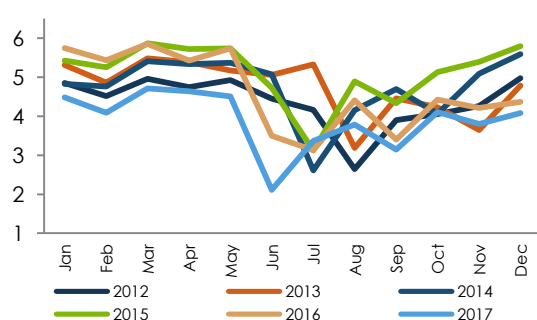
Source: SAMA

Figure 7: PMI index



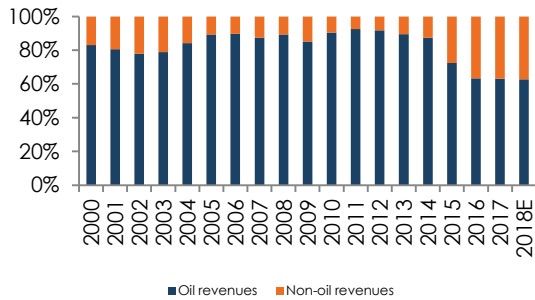
Source: Bloomberg

Figure 8: Cement Sales (Mn tons)



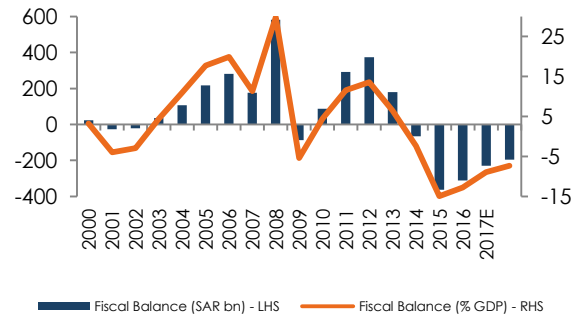
Source: Yamama Cement

Figure 9: Oil vs Non-oil revenues (% share)



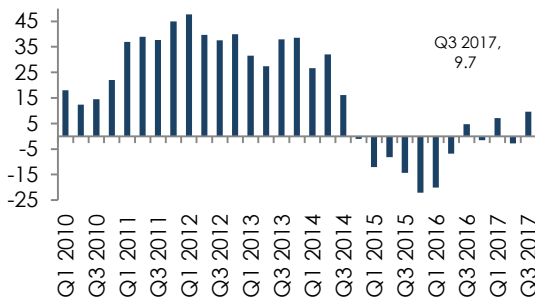
Source: Saudi Arabia Finance Ministry, E- Estimate

Figure 10: Annual fiscal balance (SAR bn)



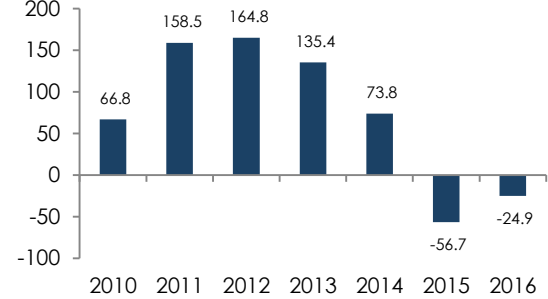
Source: Saudi Arabia Finance Ministry, E-Estimate

Figure 11: Current account balance - quarter (USD bn)



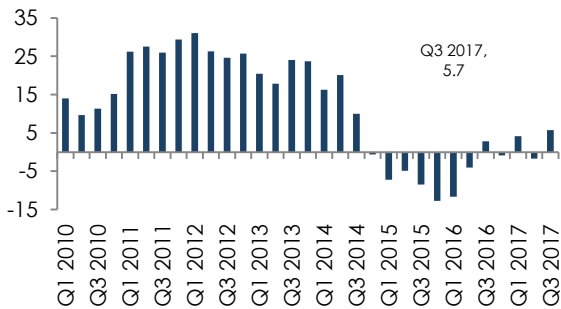
Source: SAMA

Figure 12: Current account balance -yearly (USD bn)



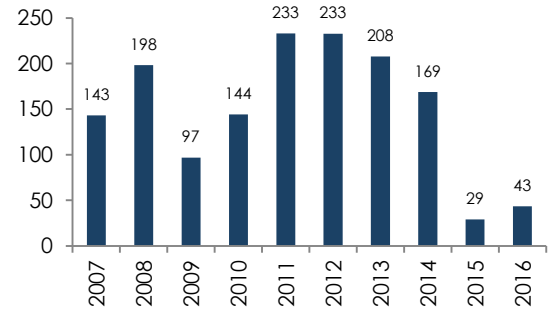
Source: SAMA

Figure 13: Current Account Balance (%GDP)



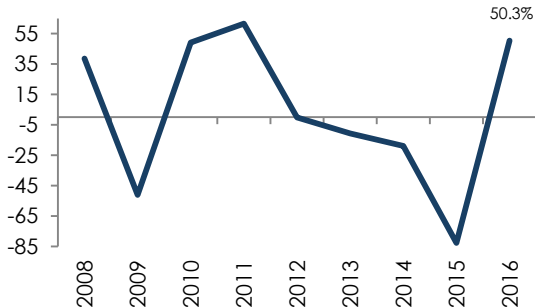
Source: SAMA

Figure 14: Trade balance (SAR bn)



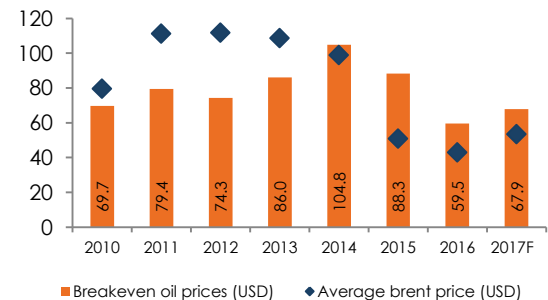
Source: SAMA

Figure 15: Trade balance change (% YoY)



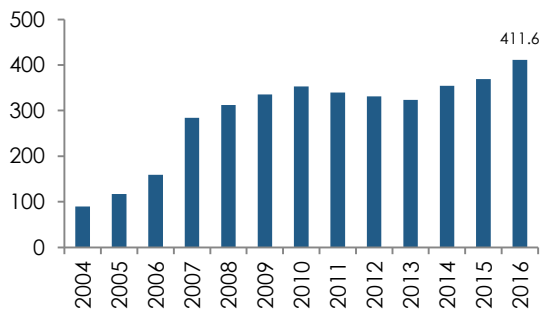
Source: SAMA

Figure 16: KSA breakeven oil price (USD/bl)



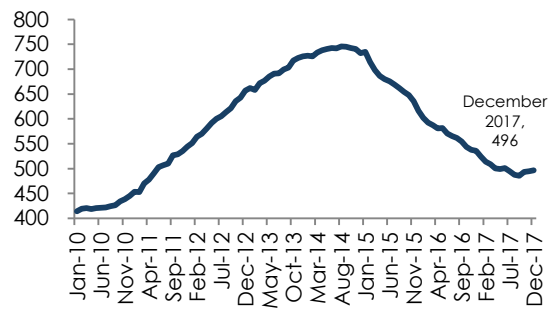
Source: Ministry of Finance, Thomson Reuters, MEFIC estimate

Figure 17: Total External Debt (SAR bn)



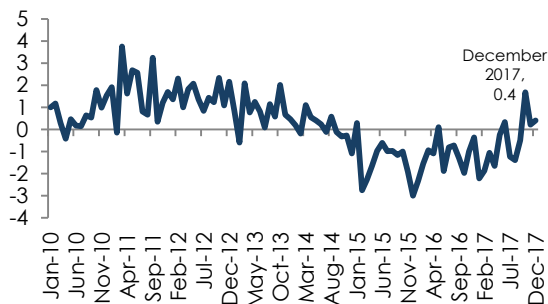
Source: SAMA

Figure 18: SAMA Reserve Assets* (USD bn)



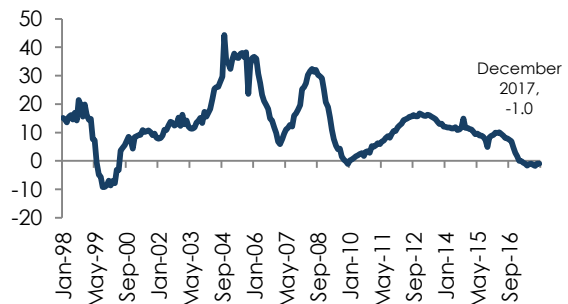
Source: SAMA, *- includes special drawing rights

Figure 19: Reserve Assets (% MoM)



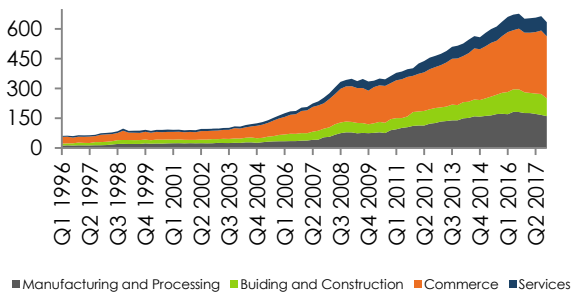
Source: SAMA

Figure 20: Bank credit growth (% YoY)



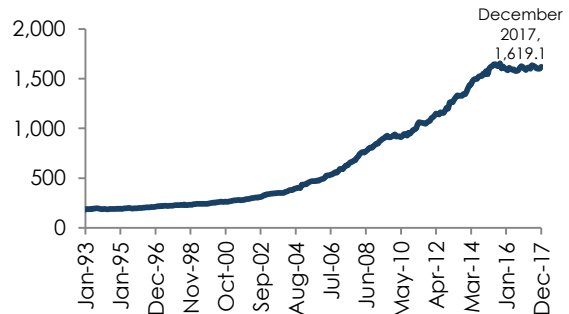
Source: SAMA

Figure 21: Bank credit across major sectors (SAR bn)



Source: SAMA

Figure 22: Bank Deposits (SAR bn)



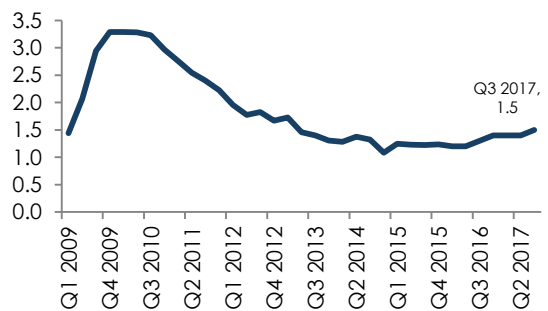
Source: SAMA

Figure 23: Loan-to-Deposit Ratio (%)



Source: SAMA

Figure 24: NPL-to-Total Loans (%)



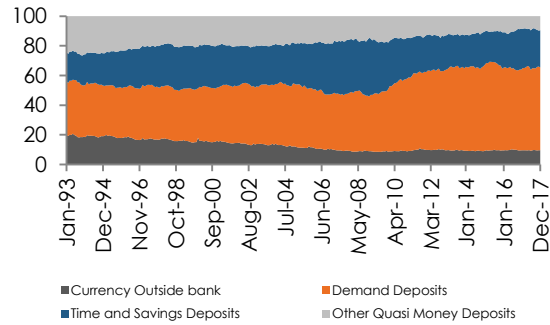
Source: SAMA

Figure 25: Money Supply/M3 growth (% YoY)



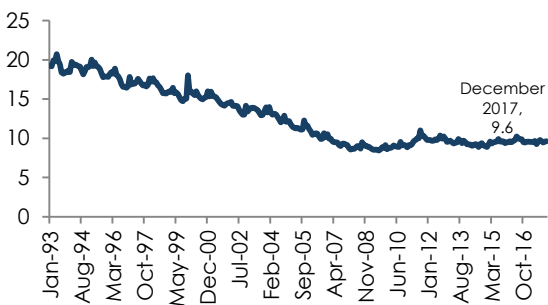
Source: SAMA

Figure 26: Composition of M3 money supply (% share)



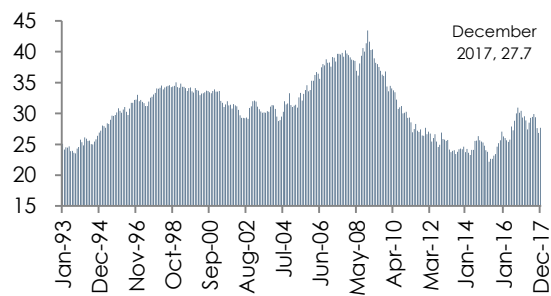
Source: SAMA

Figure 27: Currency Outside Banks (% share of M3)



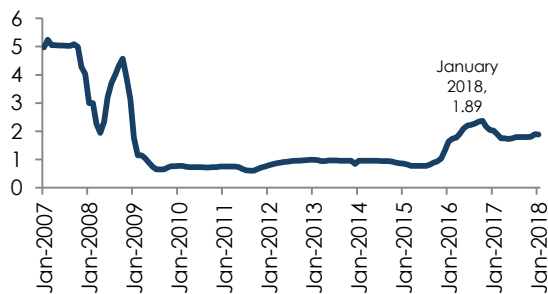
Source: SAMA

Figure 28: Time & Savings Deposits/Total Deposits (%)



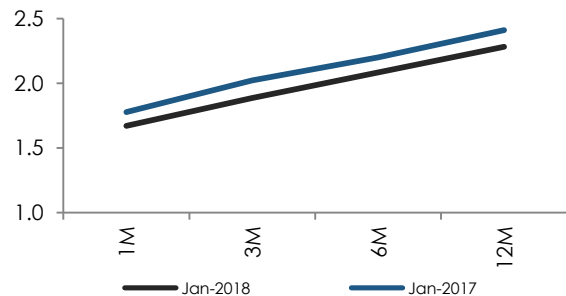
Source: SAMA

Figure 29: 3M SIBOR (%)



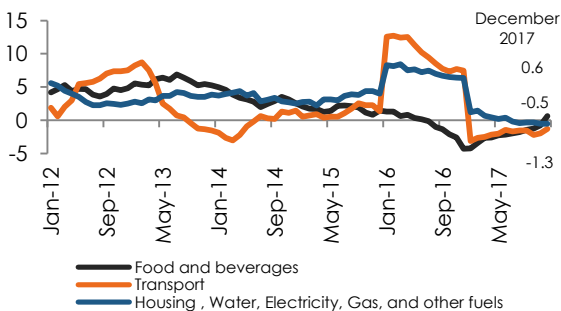
Source: SAMA

Figure 30: Short term interest rate curve (1w to 52 w)



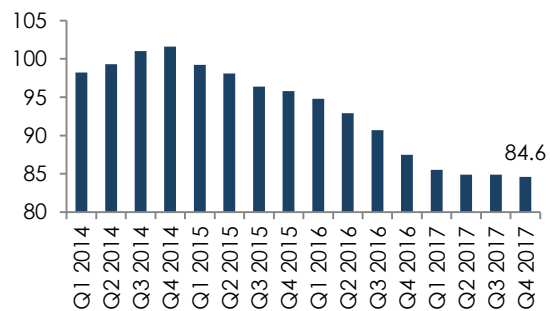
Source: SAMA

Figure 31: Inflation (major sub-indices)



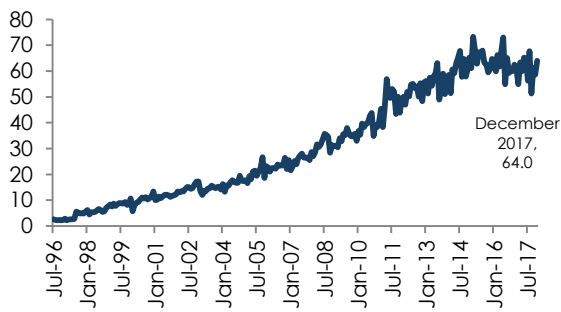
Source: SAMA

Figure 32: Real Estate Price Index (100=2013)



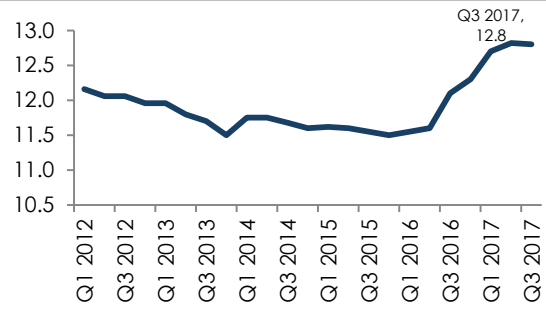
Source: General Authority for Statistics

Figure 33: ATM Cash Withdrawals (SAR bn)



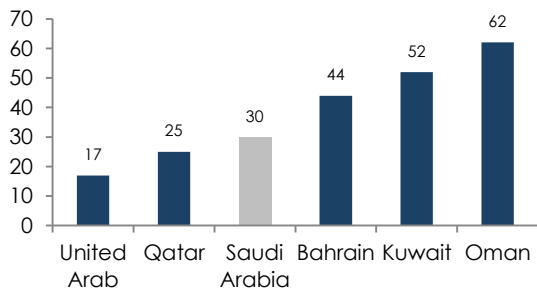
Source: SAMA

Figure 34: Saudi unemployment rate (%)



Source: Bloomberg

Figure 35: Competitiveness ranking/indicator



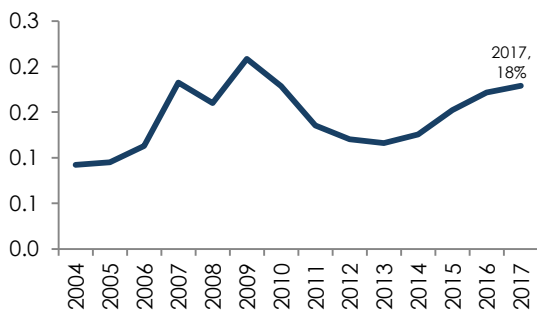
Source: World Economic Forum (2017-2018)

Figure 36: FDI (accumulated, SAR billions)



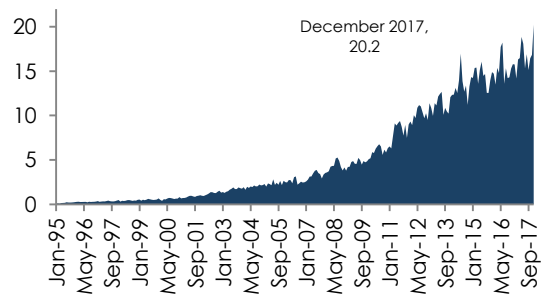
Source: SAMA

Figure 37: External debt-to-GDP (%)



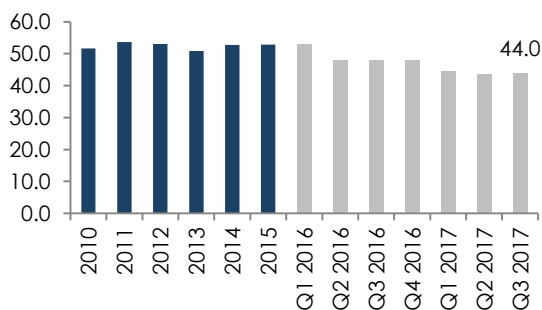
Source: International Monetary Fund

Figure 38: POS Transactions Sales (SAR bn)



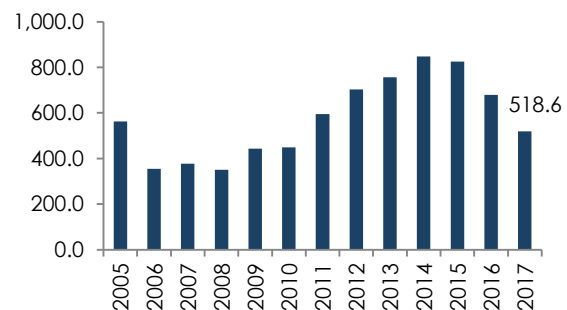
Source: SAMA

Figure 39: Mobile/Telecom Subscribers (mn)



Source: Ministry of Communication and IT, Q3 2016 taken as average of Q2 and Q4 2016

Figure 40: Automobile Sales ('000s)



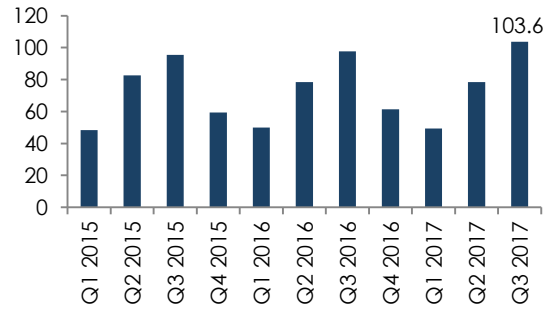
Source: Car Sales Base

Figure 41: Electricity Generation (TWh)



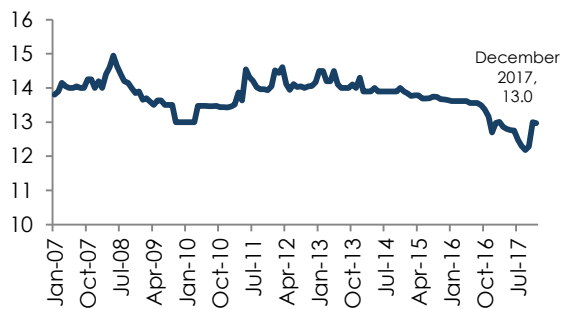
Source: Electricity and Cogeneration Regulatory Authority

Figure 42: Electricity Generation - Quarterly (TWh)



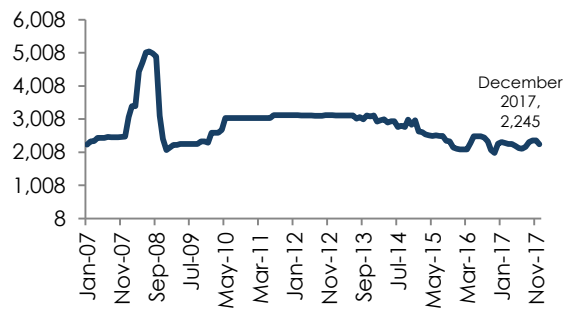
Source: Saudi Electric Company

Figure 43: Cement Prices (SAR, 50kg)



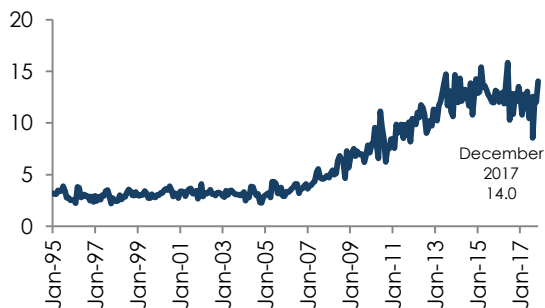
Source: General Authority of Statistics

Figure 44: Steel Prices (SAR/ton)



Source: General Authority of Statistics

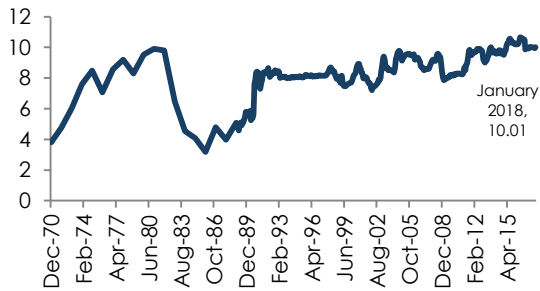
Figure 45: Expat Remittances (SAR bn)



Source: SAMA

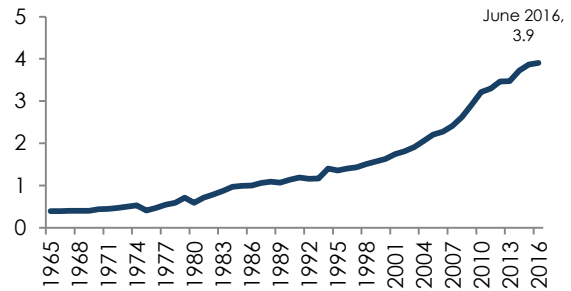
II. Oil Indicators

Figure 1: Saudi Oil Production (mbpd)



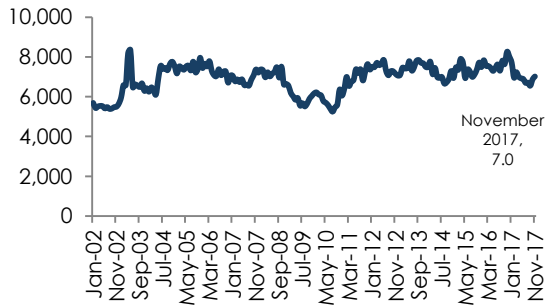
Source: Bloomberg

Figure 2: Saudi Domestic Consumption (mbpd)



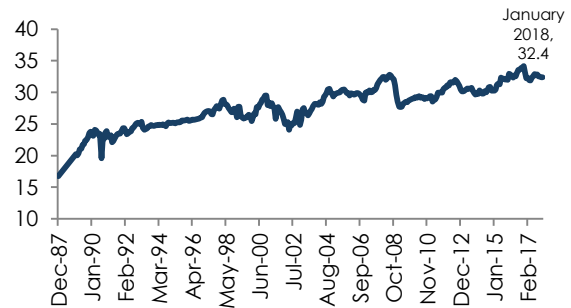
Source: Reuters Datastream

Figure 3: Saudi Oil Export (mbpd)



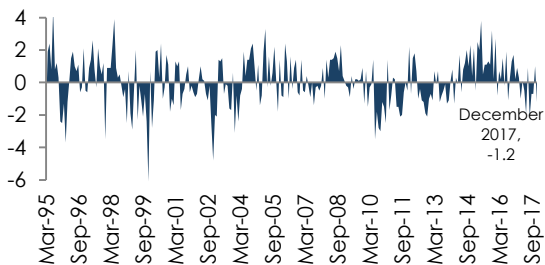
Source: Ministry of Petroleum, JODI,

Figure 4: OPEC Oil Production (mbpd)



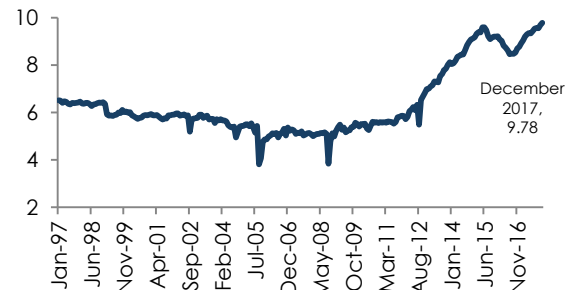
Source: Bloomberg

Figure 5: Global Oil Supply/Demand (mbpd)



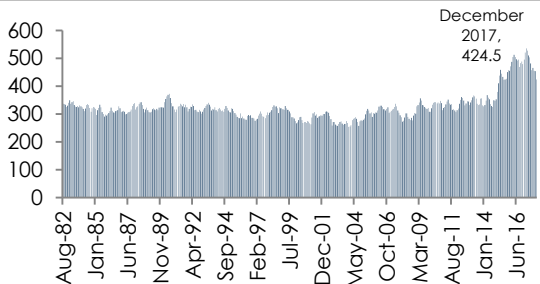
Source: Bloomberg

Figure 6: US Oil Production (mbpd)



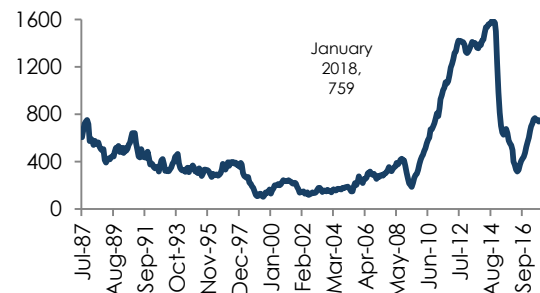
Source: Bloomberg

Figure 7: US Oil Inventory (mb)



Source: Reuters Eikon

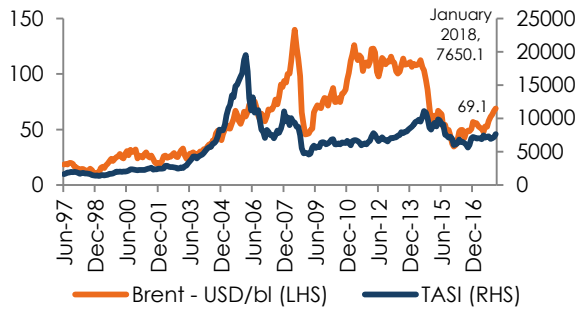
Figure 8: US Rig Count



Source: Bloomberg

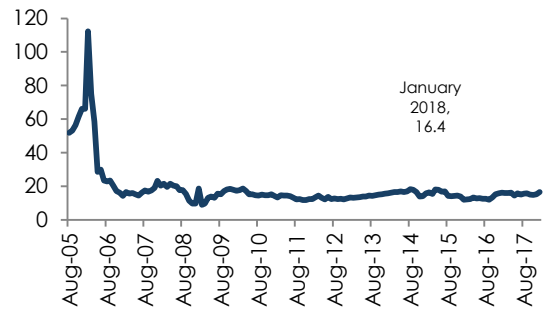
III. Stock Market Indicators

Figure 1: TASI and Oil



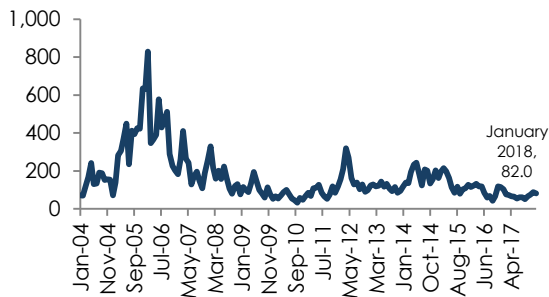
Source: Bloomberg

Figure 2: TASI Price-to-Earnings Ratio (x)



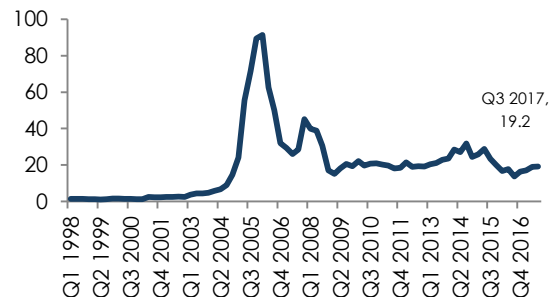
Source: SAMA, Tadawul

Figure 3: Stock Market Turnover (SAR bn)



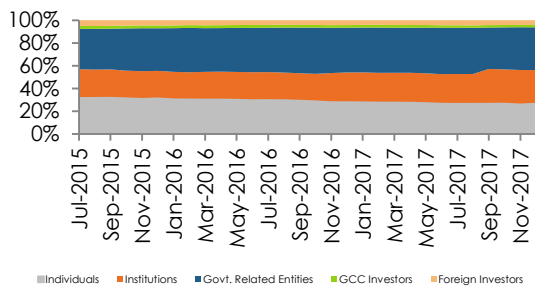
Source: Tadawul, SAMA

Figure 4: Domestic Shares held by Domestic Investment Funds (SAR bn)



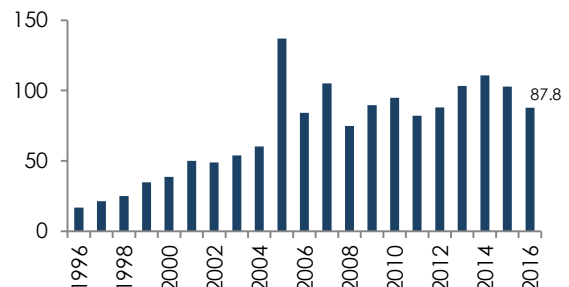
Source: SAMA

Figure 5: Share Ownership Status



Source: SAMA

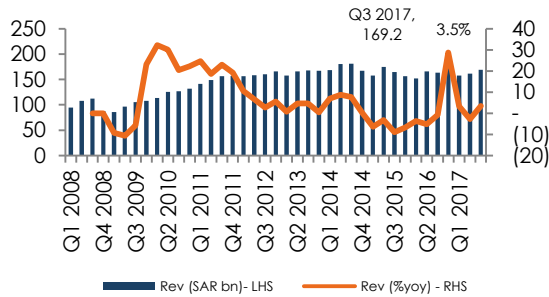
Figure 6: Total Assets of Investment funds (SAR bn)



Source: SAMA

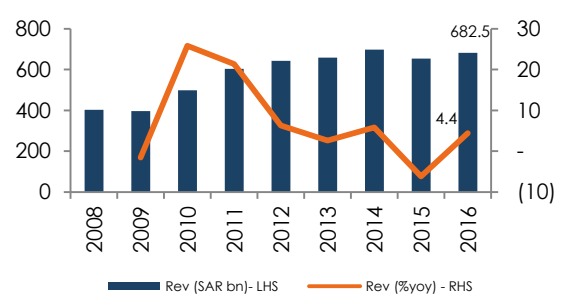
IV. Corporate earnings

Figure 1: TASI Revenue and YoY growth (Quarterly)



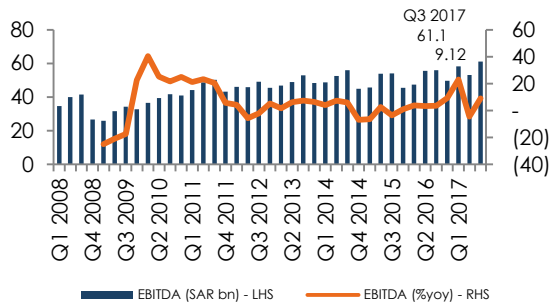
Source: Reuters Eikon

Figure 2: TASI Revenue and YoY growth (Annual)



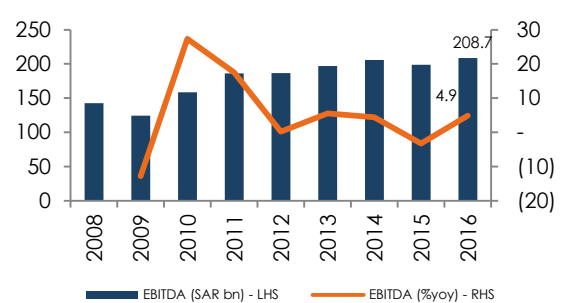
Source: Reuters Eikon

Figure 3: TASI EBITDA and YoY growth (Quarterly)



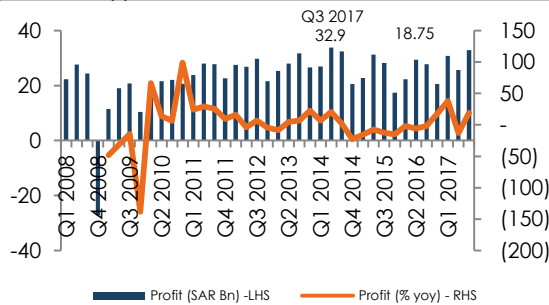
Source: Reuters Eikon

Figure 4: TASI EBITDA and YoY growth (Annual)



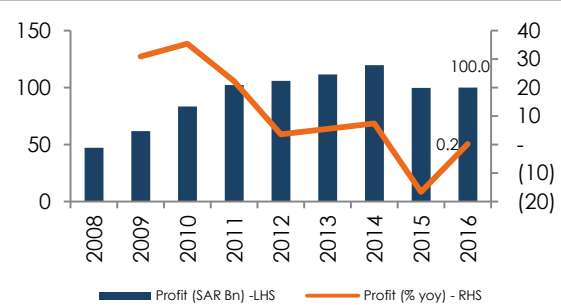
Source: Reuters Eikon

Figure 5: TASI PAT and YoY growth (Quarterly)



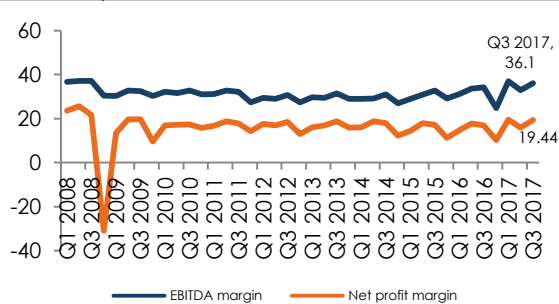
Source: Reuters Eikon

Figure 6: TASI PAT and YoY growth (Annual)



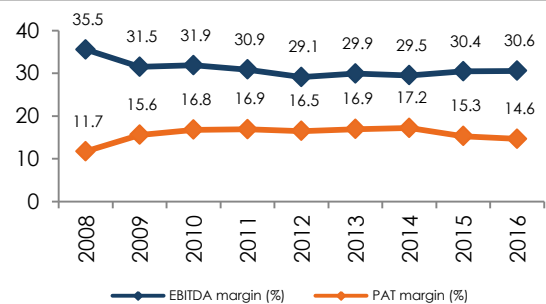
Source: Reuters Eikon

Figure 7: TASI EBITDA and PAT margin (%) - Quarterly



Source: Reuters Eikon

Figure 8: TASI EBITDA and PAT margin (%) - Annual



Source: Reuters Eikon

V. Tadawul Sector Earnings Performance

Earnings (SAR mn)	Market Cap (SAR mn)	Q3 2017	Q3 2016	Q2 2017	% YoY	% QoQ
Materials	544,281	8,702.4	7,908.4	6,077.1	10.0	43.2
Banks	456,991	11,374.1	9,951.1	11,324.0	14.3	0.4
Telecommunication Services	155,386	2,390.0	1,664.4	2,203.6	43.6	8.5
Real Estate	109,896	381.0	288.0	351.1	32.3	8.5
Utilities	103,876	5,300.6	4,434.4	2,269.4	19.5	133.6
Food, Beverage & Tobacco	91,005	1,585.0	952.1	1,011.0	66.5	56.8
Insurance	40,929	740.9	851.9	287.9	-13.0	157.3
Diversified Financials	33,989	261.5	134.3	227.2	94.7	15.1
Health Care	26,910	292.0	274.4	277.1	6.4	5.4
Retailing	26,689	295.9	348.3	275.6	-15.1	7.3
Energy	26,046	784.9	118.9	486.8	560.4	61.2
Consumer Services	13,311	285.8	341.6	243.8	-16.3	17.2
Transportation	12,918	232.9	355.7	314.2	-34.5	-25.9
Capital Goods	9,250	0.4	-33.9	28.2	-101.1	-98.7
Commercial Services	7,523	125.9	137.7	118.2	-8.6	6.5
Food & Staples Retailing	7,413	152.8	63.1	89.0	142.3	71.6
Media	5,388	17.9	-69.3	-16.0	-125.8	-212.1
Pharmaceuticals	3,479	7.9	6.8	46.6	17.3	-83.0
Consumer Durables & Apparel	3,157	-53.7	-40.5	-6.6	32.5	711.3
Total	1,678,435	32,878	27,687	25,608	18.7	28.4

Source: Bloomberg, MCap and results as of January 05, 2017

C. Saudi Arabia Key Statistics

Data	2011	2012	2013	2014	2015	2016	2017E	2018F
Economic Output								
Nominal GDP (USD bn)	669.5	734.0	744.3	753.8	653.2	646.4	678.5	708.5
Nominal GDP YoY (%)	27.1	9.6	1.4	1.3	-13.3	-2.1	5.0	6.1
Real GDP YoY (%)	10.0	5.4	2.7	3.6	3.4	1.2	1.9	2.7
Budget								
Revenue (SAR bn)	1117.8	1247.4	1156.4	1044.4	615.9	519.0	696.0	783.0
Oil Revenue (SAR bn)	1034.4	1144.8	1035.0	913.3	446.4	329.0	440.0	492.0
Non-oil Revenue (SAR bn)	83.4	102.6	121.3	131.0	169.5	190.0	256.0	291.0
Expenditure (SAR bn)	826.7	873.3	976.0	1109.9	978.1	830.0	926.0	978.0
Surplus/(Deficit) (SAR bn)	291.1	374.1	180.3	-65.5	-362.2	-311.0	-230.0	-195.0
Surplus/(Deficit) (% GDP)	11.6	13.6	6.5	-2.3	-15.0	-12.8	-8.9	-7.3
Gross Public Debt (SAR bn)	135.5	83.8	60.1	44.3	142.3	316.5	438.0	555.0
Gross Public Debt (% GDP)	5.4	3.0	2.2	1.6	5.9	12.3	17.0	21.0
Oil statistics								
Production (mbpd)	9.3	9.8	9.6	9.7	10.2	10.2	10.0	10.0
Exports (mb)	2634.6	2783.8	2763.3	2611.0	2614.5	2799.0	2540.4	2540.4
Domestic consumption (mb)	1321.4	1408.6	1423.8	1516.8	1586.5	1535.1	1583.2	1609.1
Trade & External sector								
Exports (US\$ bn)	364.7	388.4	375.9	342.4	203.6	183.6	239.8	242.2
Oil Exports (US\$ bn)	317.6	337.5	321.9	284.6	152.9	136.2	136.3	147.3
Imports (US\$ bn)	131.6	155.6	168.2	173.8	174.7	140.2	204.3	208.1
Trade surplus/(deficit) (US\$ bn)	233.1	232.8	207.7	168.6	28.9	43.4	35.5	34.1
Current Account (US\$ bn)	158.5	164.8	135.4	73.8	-56.7	-24.9	10.8	15.1
Current Account (% GDP)	23.7	22.4	18.2	9.8	-8.7	-3.9	1.5	2.0
SAMA forex reserves (US\$ bn)	544.0	656.6	725.7	732.4	616.4	535.8	496.4	NA
Inflation (%)								
	3.7	2.9	3.5	2.7	2.2	3.5	0.4	5.0
Demographics								
Population (mn)	28.4	29.2	30.0	30.8	31.4	31.7	32.7	33.3
Saudi unemployment rate (% population)	12.4	12.1	11.7	11.7	11.5	12.3	12.3	12.0

Source: SAMA, General Authority of Statistics, Reuters, IMF, MEFIC Research

Notes

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