



Summary

Real Economy: December data showed healthy growth in consumer spending. Consumption growth in 2015 is likely to be strong following the recent Royal decrees.

Income Distribution In 2014, real income per capita grew by 1 percent year-on-year. Income inequality declined between 2007 and 2013 as measured by the GINI index.

Saudi Labor Market: The overall Saudi unemployment rate was unchanged at 11.7 in 2014. Annual growth in Saudi employment stood at 4.4 percent, mostly associated with employment growth by private rather than public entities.

Bank lending: Bank lending to the private sector recorded its second consecutive monthly decline in December.

Inflation: Data for December shows that CPI slowed for the fourth consecutive month.

Trade: Both non-oil exports and imports rebounded in November following a fall in the previous month.

Oil –Global: Oil prices dropped in January, month-on-month, as global oil balances remained in surplus.

Oil –Regional: Saudi production remained unchanged, month-on-month, in December. The policy of cutting prices to maintain/expand market share resulted in Saudi exports increasing in November.

Exchange rates: In January, further quantitative easing (QE) by the European Central Bank (ECB) contributed to the euro approaching an 11 year low against US dollar.

Stock market: The TASI rose nearly 7 percent in January, month-on-month. The recent Royal decrees, which reinforced the view that the government will not cut expenditure due to lower oil prices, will add renewed confidence to investors going forward.

Volumes: Average daily turnover declined 8 percent in January, month-on-month.

Valuations: TASI's price-to-earnings (PE) trended upwards moving just beyond the two year average in January.

Sectoral performance: A general uplift in investor sentiment saw all sectors, except for telecoms, performing positively in January.

Full year 2014 results: Net income of listed companies totaled SR114.7 billion in 2014, up by 9 percent, year-on-year.

For comments and queries please contact:

Fahad M. Alturki
Chief Economist and Head of Research
falturki@jadwa.com

Asad Khan
Senior Economist
rkhan@jadwa.com

Rakan Alsheikh
Research Analyst
ralsheikh@jadwa.com

Head office:
Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

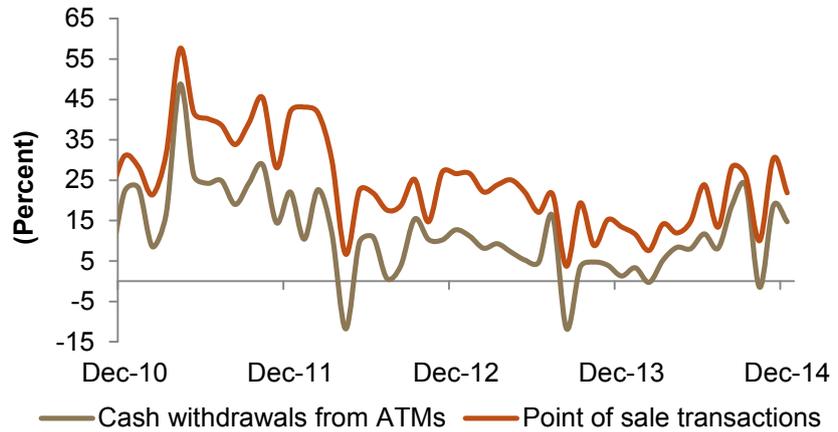


Real Economy

December data showed healthy growth in both cash withdrawals from ATMs and point of sale transaction. Consumption growth in 2015 is likely to be strong following the recent Royal decrees. Cement sales reached an all time high in December, while sales for 2014 grew by 0.8 percent year-on-year.

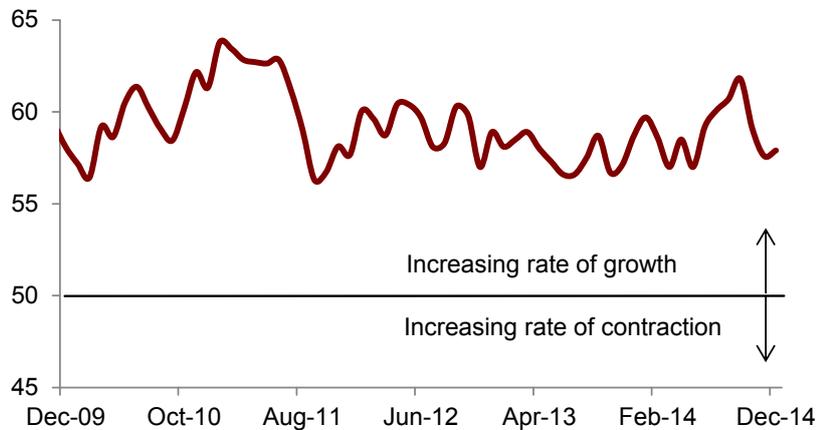
Cash withdrawals from ATMs reached SR 64.6 billion in December, growing by 14.7 year-on-year, while point of sale transactions stood at SR 15.7 billion.

Indicators of consumer spending
(year-on-year change)



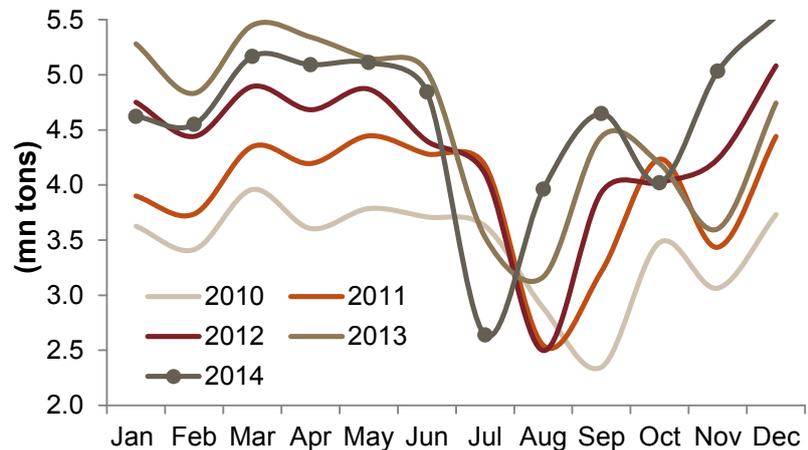
PMI increased to 57.9 in December following a slowdown in the previous two months, pointing to a sustained growth and a continued expansion in the non-oil economy.

HSBC/Markit Purchasing Managers Index (PMI)



During December, cement sales reached an all time high of 5.5 million tons. Year-on-year growth of total cement sold stood at 0.8 percent in 2014.

Cement Sales

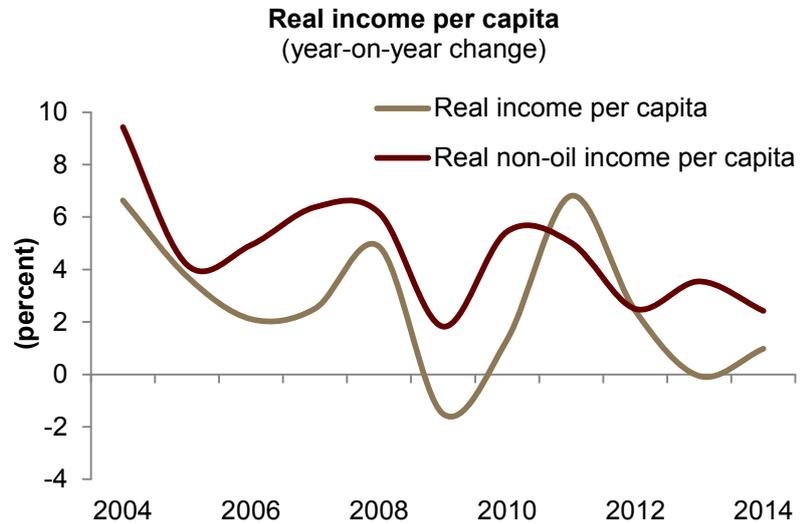




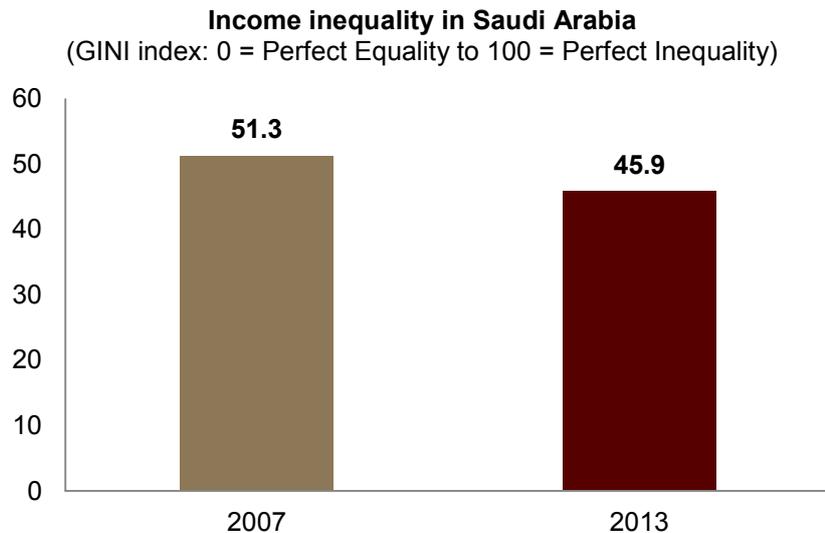
Income Distribution

In 2014, real income per capita grew by 1 percent. For the first time, the Central Department of Statistics & Information (CDSI) published the GINI index for income inequality, showing a decline in inequality between 2007 and 2013. The kingdom is the first GCC country to publish its GINI index.

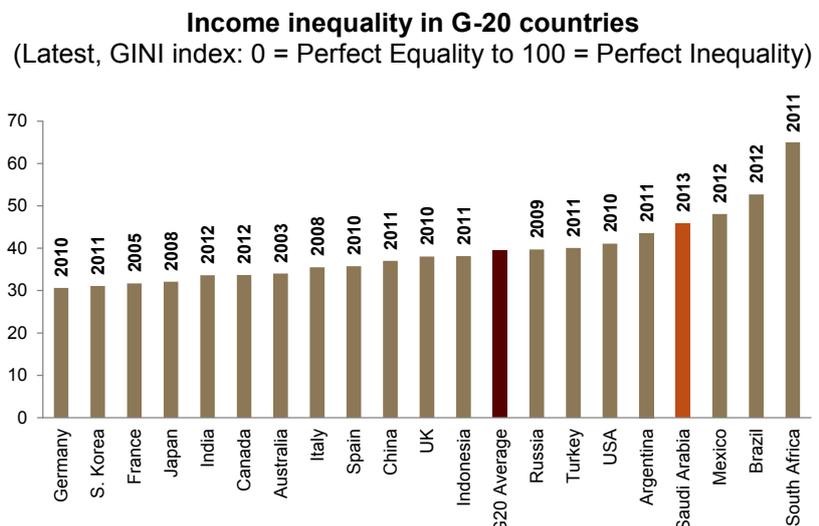
After remaining flat in 2013, real income per capita grew by 1 percent, year-on-year to reach \$21,101 in 2014. In contrast, real non-oil income per capita growth slowed to 2.4 percent in 2014, compared to a growth of 3.6 percent in the previous year.



For the first time, CDSI published the GINI index for Saudi Arabia, showing a score of 46 in 2013, improving from 51 in 2007...



...placing the Kingdom at the far-end of inequality compared to most other G-20 economies, but in line with other emerging markets.



Note: Year refers to latest officially published GINI for each country

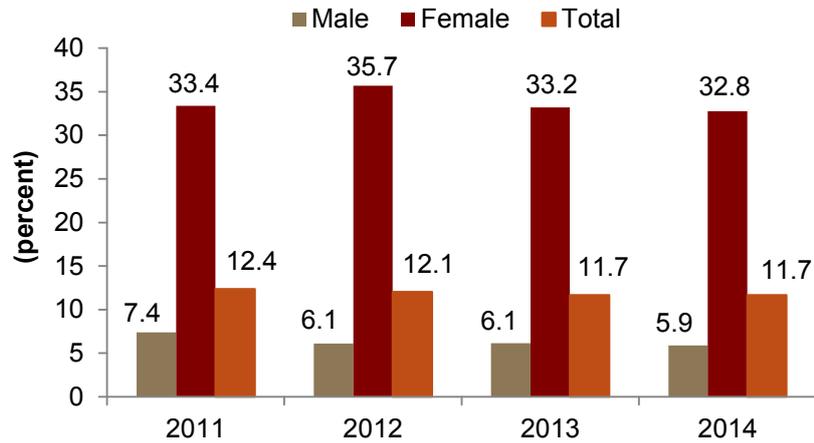


Saudi Labor Market

CDSI released its labor force survey for 2014, showing that overall unemployment rate was unchanged at 11.7 percent. However, the data showed that more females entered the labor force across all age groups. Annual growth in employment of Saudis stood at 4.4 percent, with most of the growth stemming from the private sector.

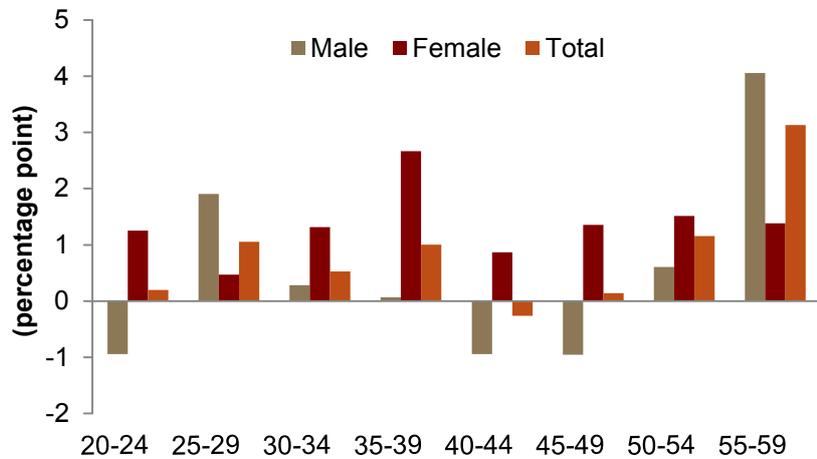
The overall Saudi unemployment rate was unchanged at 11.7 percent in 2014, with slight declines to both male and female unemployment...

Saudi unemployment rate



... while more working-age Saudi females entered the labor force across all age groups (as shown by their improved participation rates).

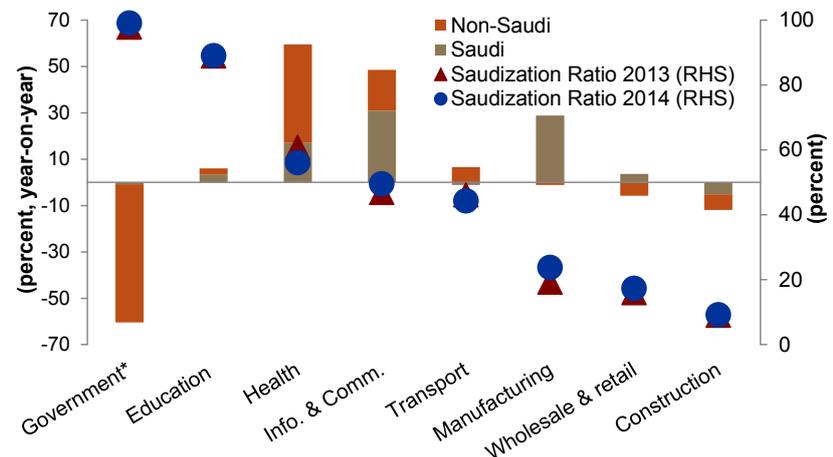
Change in Saudi participation rates by age group (year-on-year)



Note: Participation rates are defined as the share of working age population in the labor force.

In 2014, Saudi employment growth stood at 4.4 percent, year-on-year, which was mostly associated with private rather than public entities. This has also resulted in an improvement to their Saudization rates.

Growth in employment and Saudization rates by sector



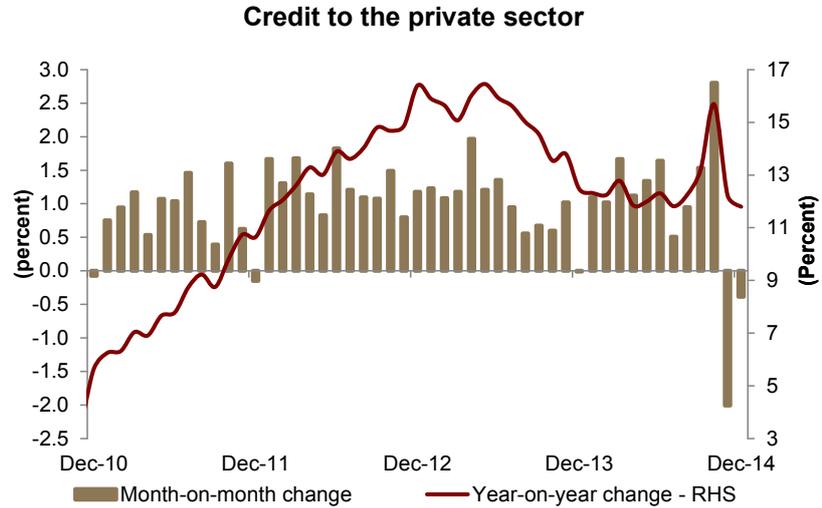
Note: * refers to public administration, defense, and compulsory social security



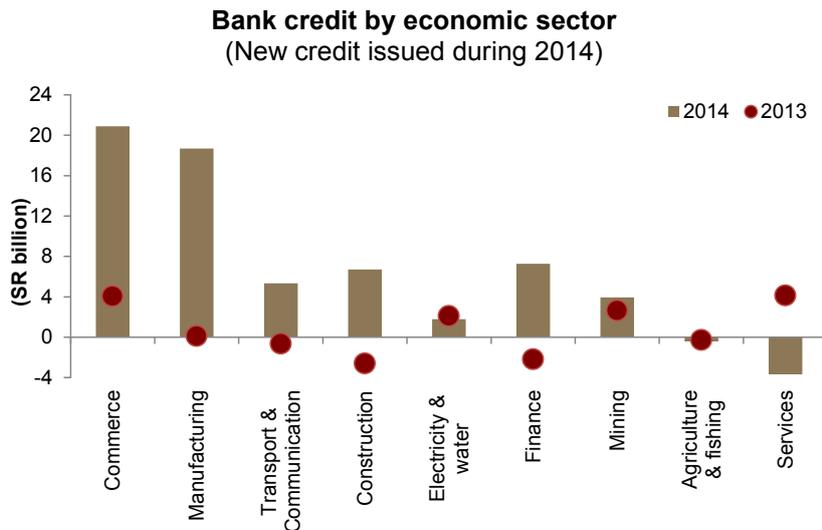
Bank lending

Bank lending to the private sector recorded its second consecutive monthly decline in December, but sustained double digit annual growth. Credit to commerce and manufacturing was the highest during 2014. The loan-to-deposit ratio fell further to 79.4, dragged down by lower lending activity while growth in deposits was sustained.

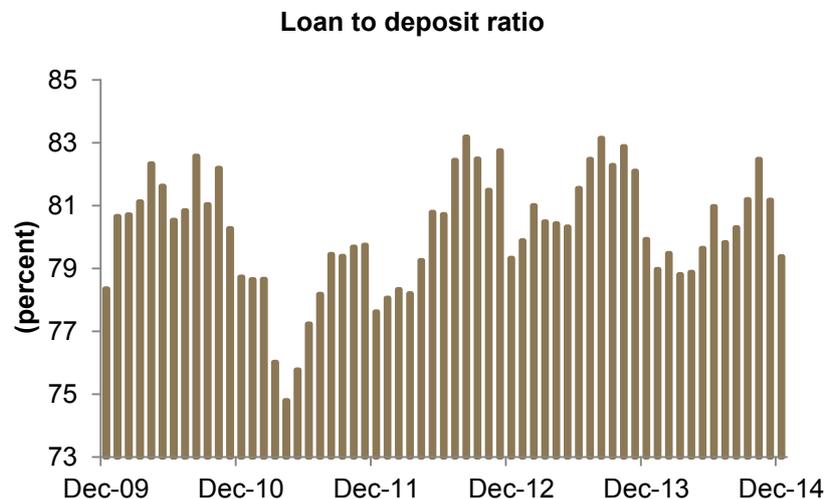
Month-on-month bank lending to the private sector fell for the second consecutive month, but sustained positive, double digit annual growth.



Within the private sector, commerce and manufacturing have been the main recipients of new lending during 2014.



The continued monthly fall in lending coupled with sustained growth in deposits has caused the loan-to-deposit ratio to further decline to 79.4.

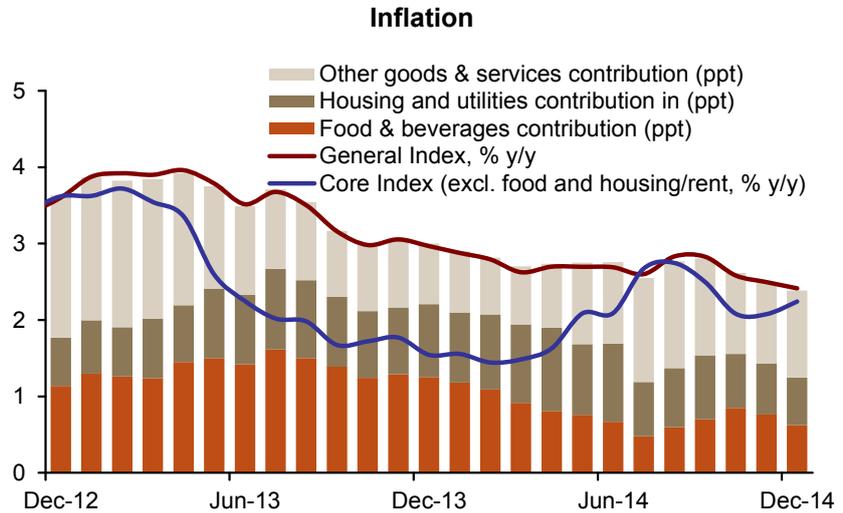




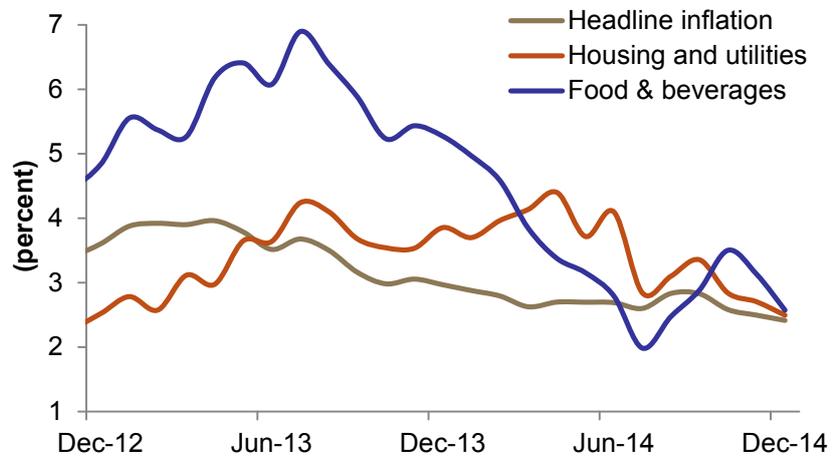
Inflation

Data for December shows that CPI slowed for the fourth consecutive month. Both foodstuffs and housing components continued to slow, year-on-year, for the third consecutive month to reach 2.6 percent, and 2.5 percent respectively. Foodstuffs slowed as international food prices continued to decline at a faster rate.

Data for December shows that CPI slowed for the fourth consecutive month to 2.4 percent, year-on-year.

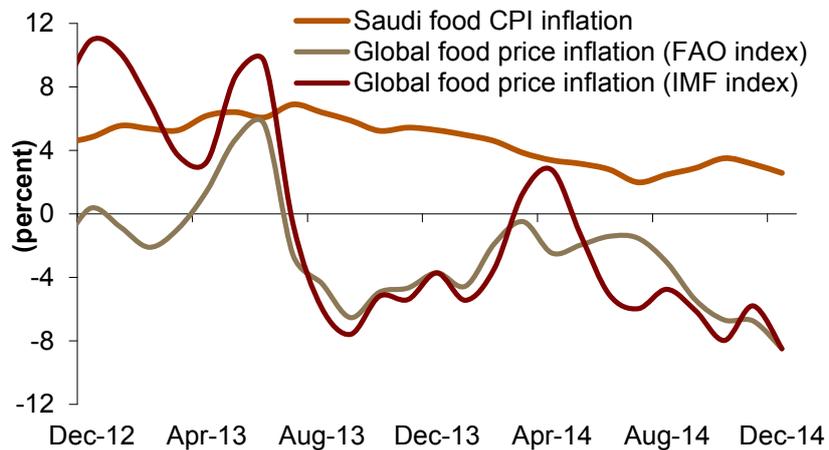


Food, housing, and headline inflation
(year-on-year change)



Both foodstuffs and housing components continued to slow, year-on-year, for the third consecutive month to reach 2.6 percent, and 2.5 percent respectively.

Food price inflation
(year-on-year change)



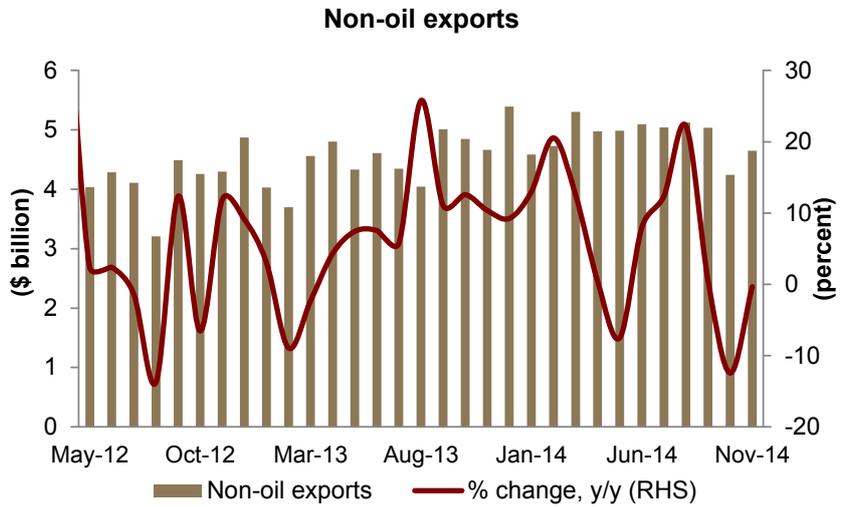
Foodstuffs slowed as international food prices continued to decline at a faster rate.



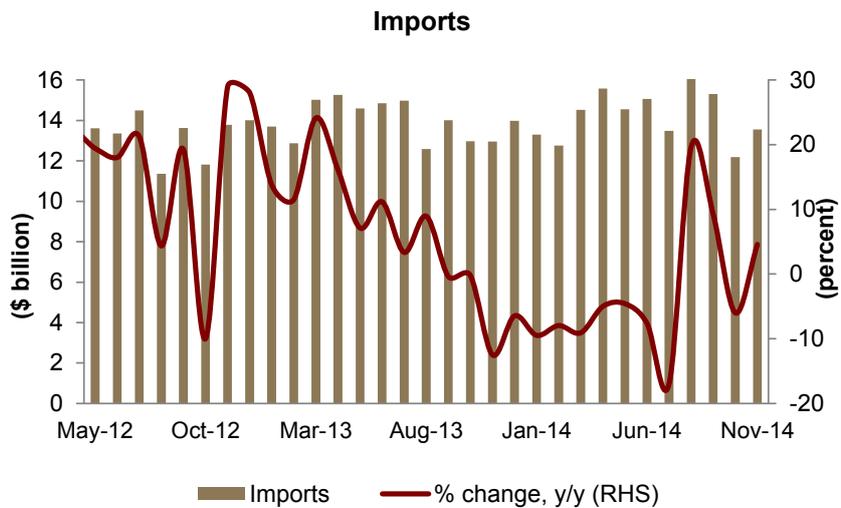
Trade

Latest data shows that non-oil exports rebounded in November following a fall in the previous month. Imports grew by 4.6 percent year-on-year in November. Import activity is likely to be strong in 2015 following the recent Royal decrees. New LOCs also suggest a continued increase in import activity in upcoming months.

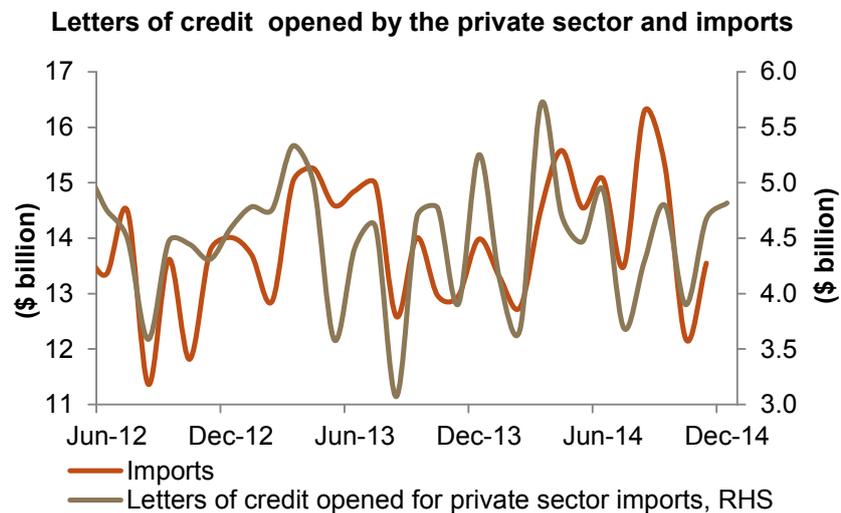
Non-oil exports rebounded in November following a fall in the previous month, increasing by 9.5 percent, month-on-month, but stayed unchanged in year-on-year terms at -0.3 percent...



...while imports grew by 11.2 percent, month-on-month and 4.6 percent year-on-year.



New LOCs opened suggest a continued increase in import activity in upcoming months.

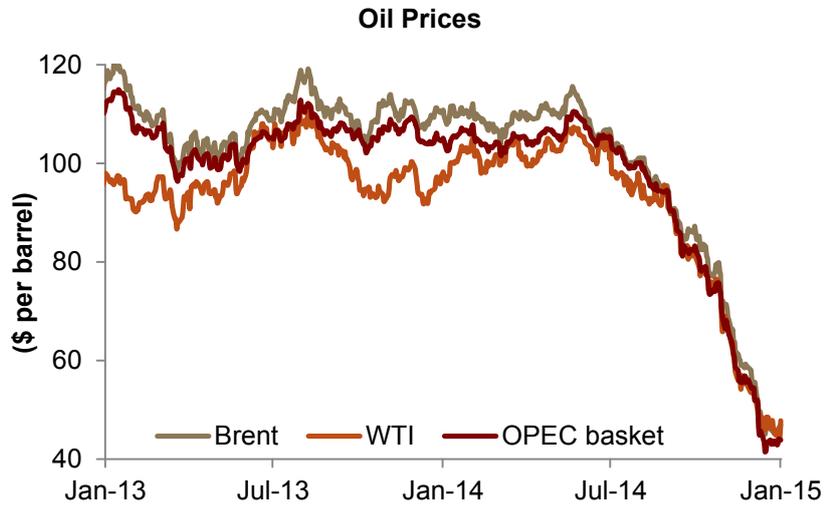




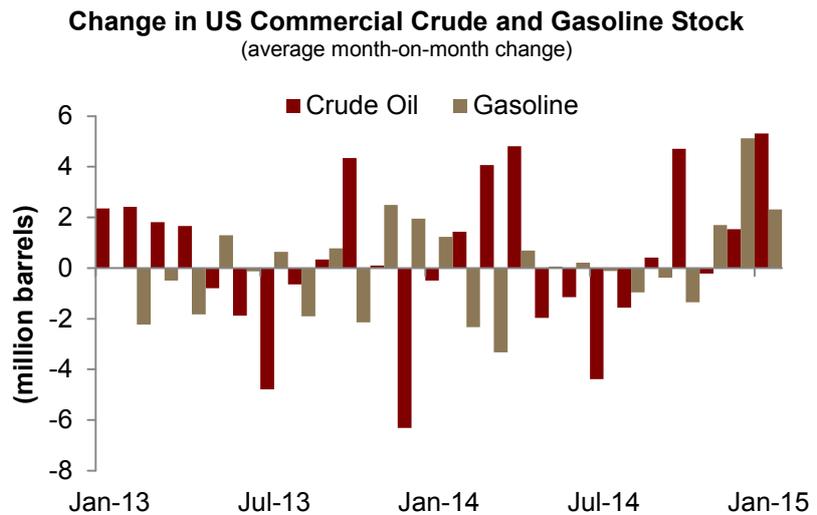
Oil - Global

Oil prices dropped in January, month-on-month, as global oil balances remained in surplus. As future oil prices moved into contango, stocks of both crude and gasoline rose for the second consecutive month. Meanwhile, lower oil prices resulted in US land rigs being down for the third consecutive month in January.

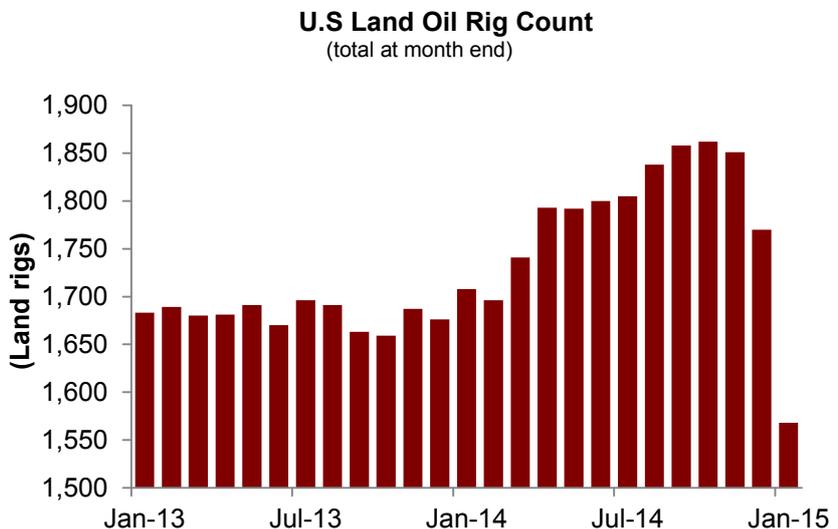
Oil prices dropped again in January due to no slow down in supply and demand remaining subdued.



The combination of ample supply and the oil price forward curve moving into contango resulted in steep increases in commercial stocks.



US land oil rigs dropped by 202, month-on-month, in January, the largest monthly drop in six years.

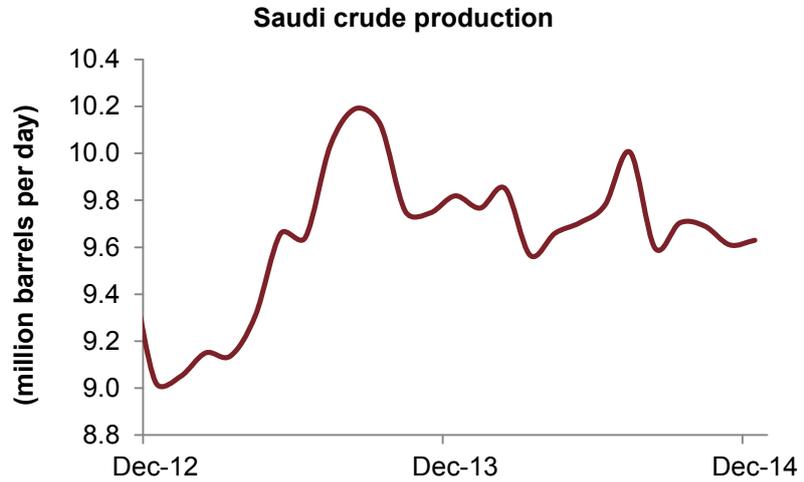




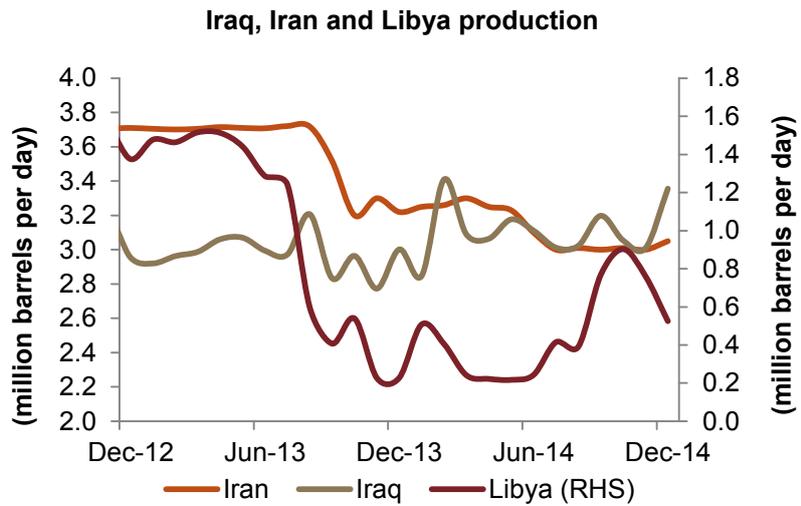
Oil - Regional

Saudi production remained unchanged, month-on-month, in December. OPEC production held above 30 mbpd regardless of a sharp drop in Libyan supply, as this fall was compensated by a rise in Iraqi production. The policy of cutting prices to maintain/expand market share resulted in Saudi exports increasing in November.

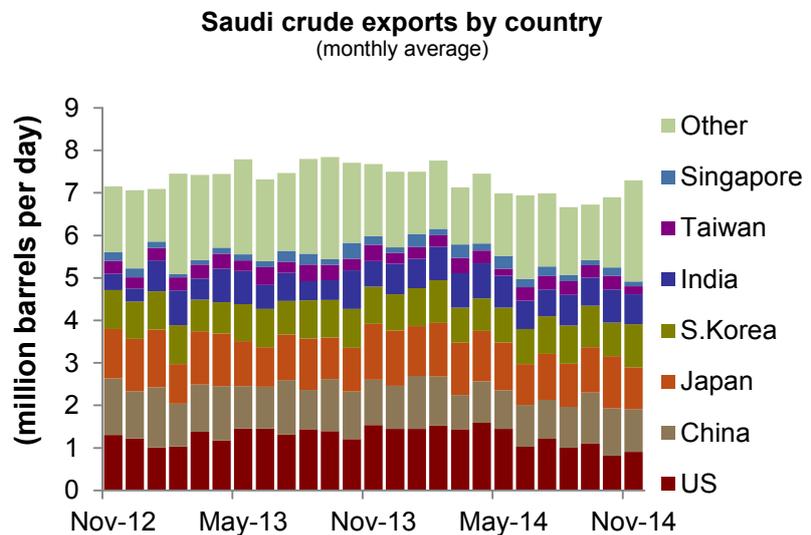
Saudi production averaged 9.6 mbpd in December.



A decline in Libyan production was more than compensated by rises in Iraqi production in December.



Latest data shows that Saudi exports in November increased, month-on-month, to back above 7 mbpd, which was last achieved in April 2014.

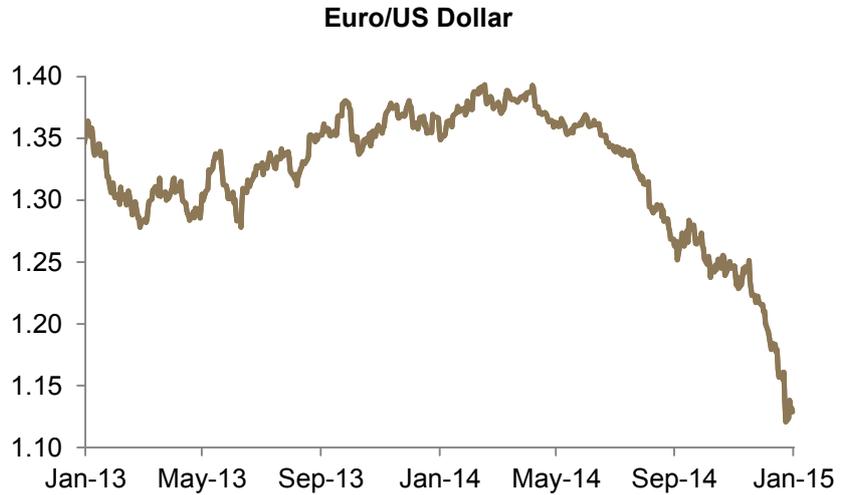




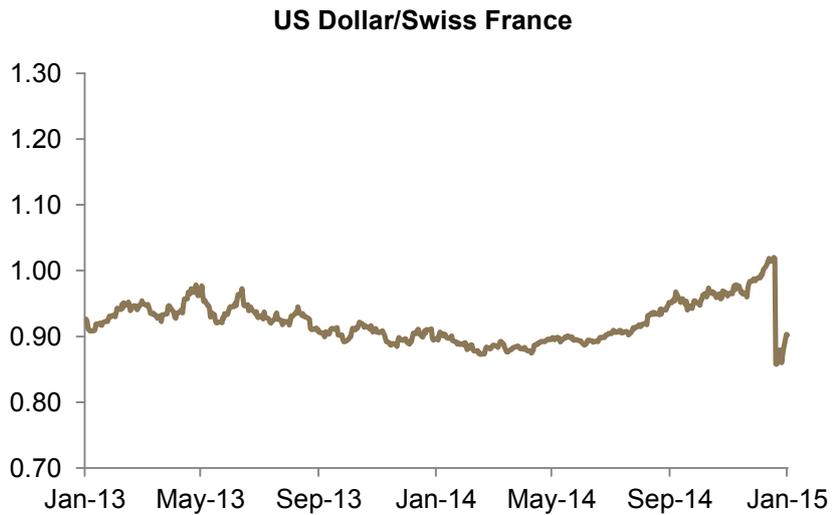
Exchange Rates

In January, a combination of the further quantitative easing (QE) by the European Central Bank (ECB) and question marks over Greece's membership to the European Union led to the euro approaching an 11 year low against US dollar. Speculative activity resulted in the one year forward US dollar/riyal rate rising sharply.

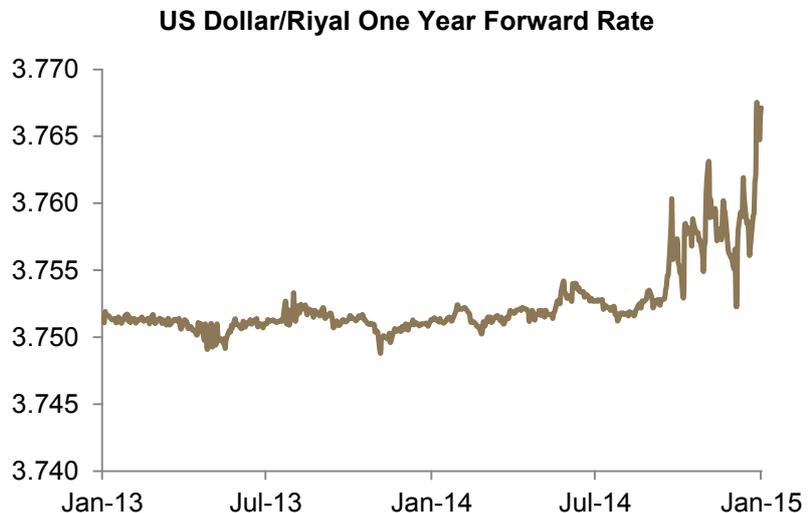
The euro lost value as the ECB announced a record QE program, whilst elections in Greece brought in an anti-austerity government...



...further pressure was piled on the euro as the Swiss National Bank (SNB) decided to end the policy of keeping a minimum exchange rate for the Swiss franc against the euro.



A generally lower oil price environment resulted in speculation against the Saudi riyal rising sharply.



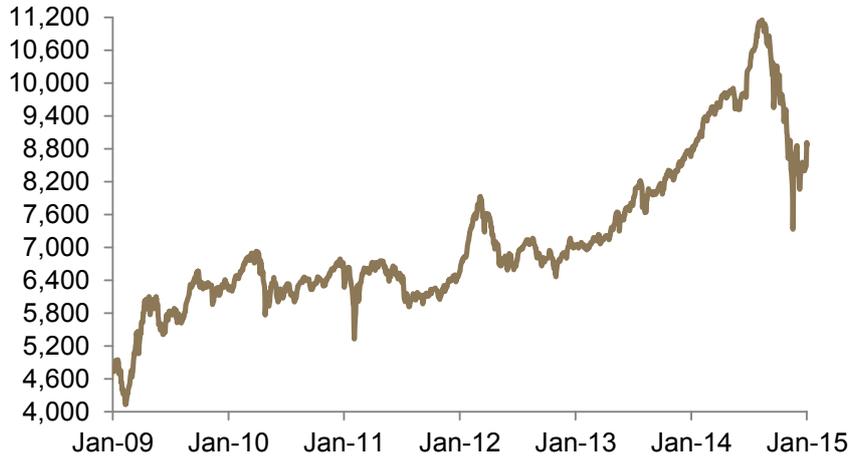


Stock Market

The TASI rose nearly 7 percent in January, month-on-month. The recent Royal decrees, which reinforced the view that the government will not cut expenditure due to lower oil prices, will add renewed confidence to investors going forward. Retail sectors in particular will see better performance in the next few months.

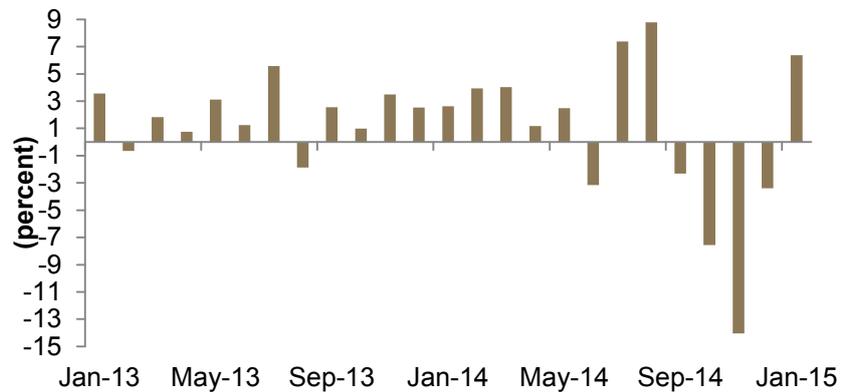
The TASI rose by nearly 7 percent, month-on-month, in January...

TASI



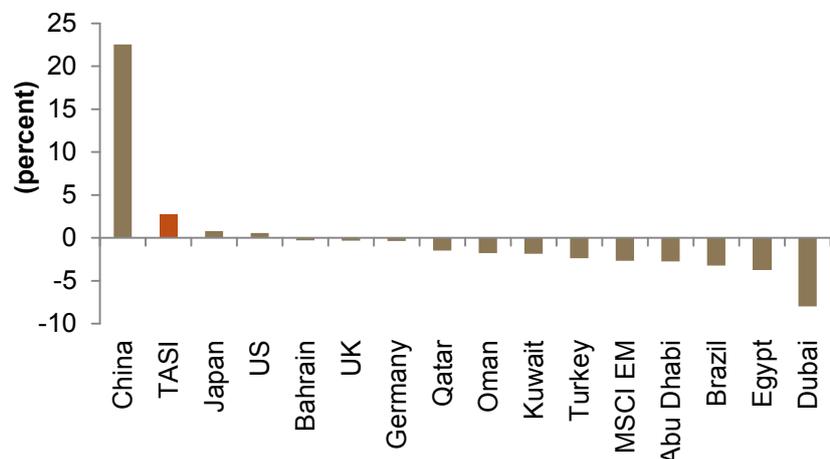
...after four consecutive months of falls...

TASI monthly performance
(January 2015)



...resulting in the TASI outperforming most comparative benchmarks, aside from China.

Comparative stock market performance
(monthly performance, January 2015)



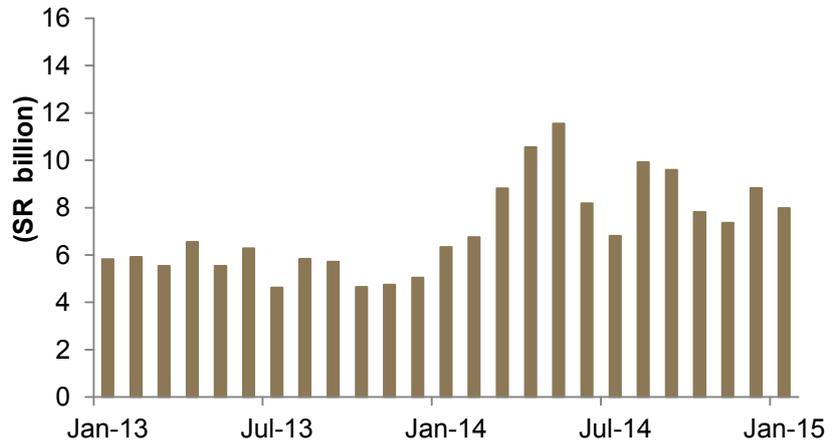


Volumes

Average daily turnover declined 8 percent in January, month-on-month. Banks and insurance sectors dominated daily turnover but turnover was more prominent amongst the smaller sectors, when considering market capitalization, largely due to speculative activity.

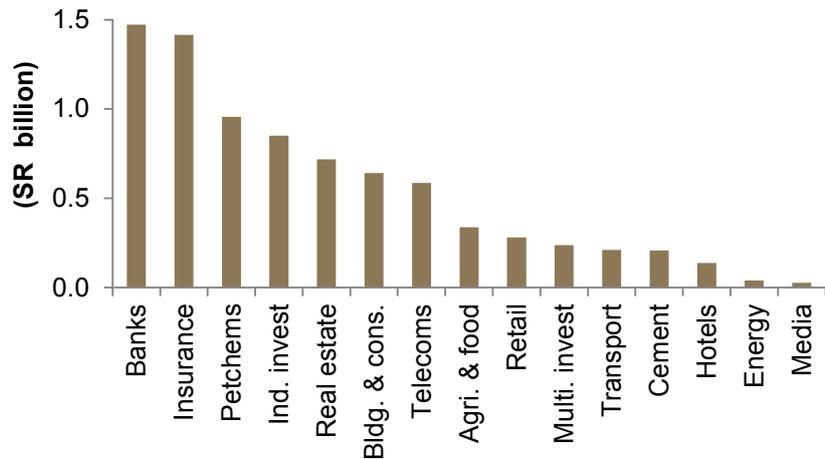
Average daily turnover declined 8 percent in January, month-on-month.

Daily average stock market turnover



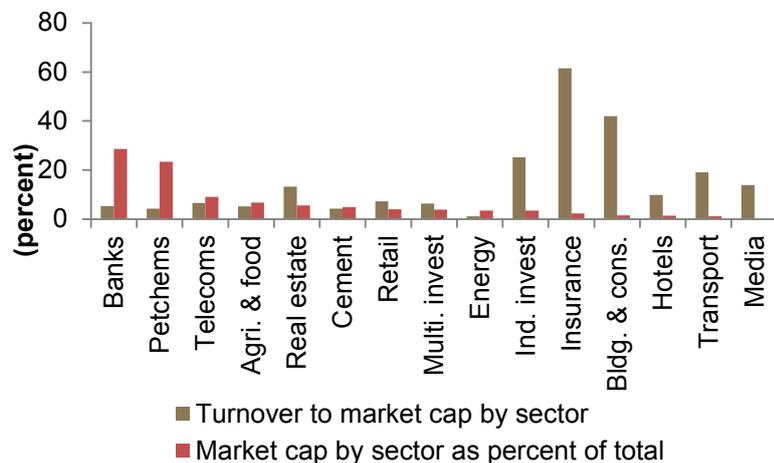
Banks, insurance and petchems., again, dominated turnover...

Turnover by sector (daily average)



...but speculation amongst smaller stocks was apparent when considering the higher turnover to market capitalization.

Turnover as percent of market cap (January, 2015)

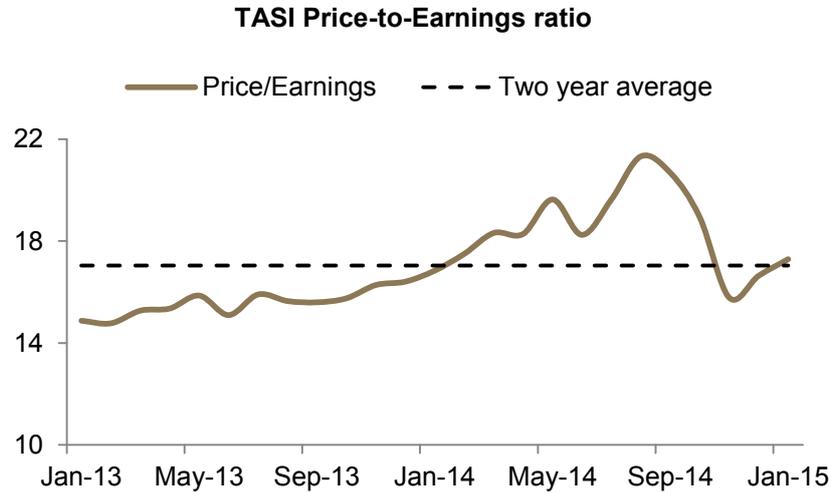




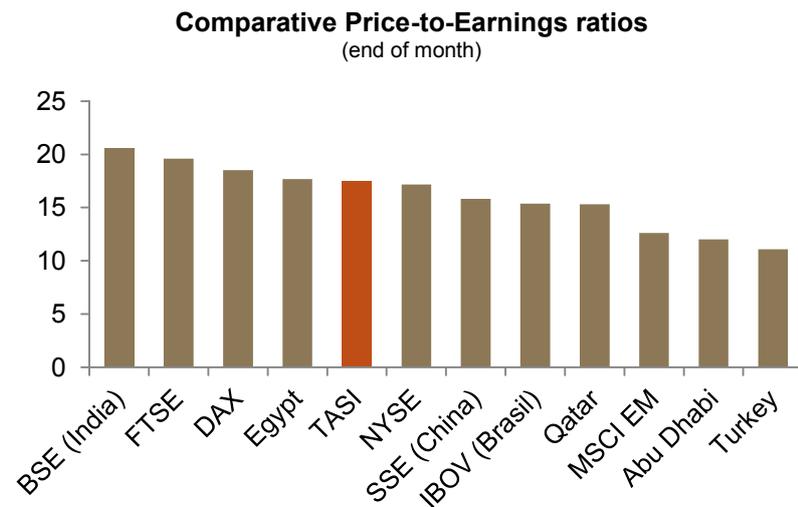
Valuations

The TASI's price-to-earnings (PE) picked up in January, month-on-month. PE trended upwards moving just beyond the two year average with TASI's PE in line with comparative stock markets. TASI's dividend yields remain moderate when compared globally, but on the lower end when compared regionally.

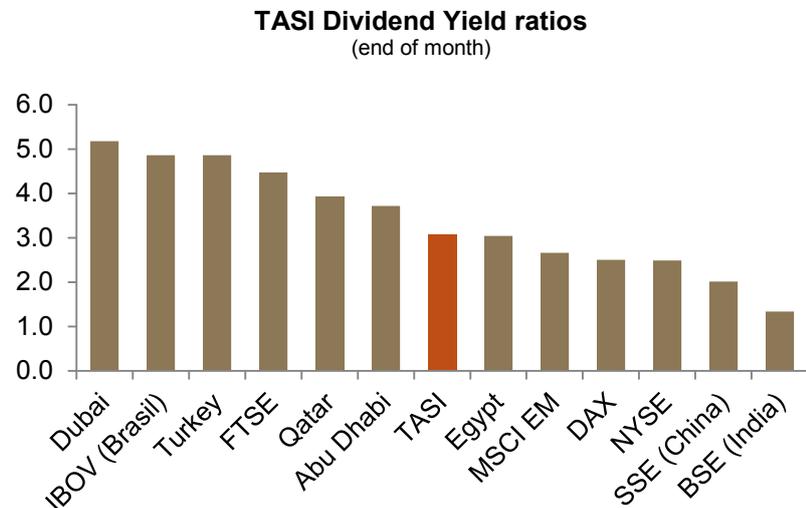
PE rose in January, month-on-month, to just above the two year average...



...which is in line with major regional and global indices.



Dividend yields are moderate, but on the lower end when compared against regional benchmarks.

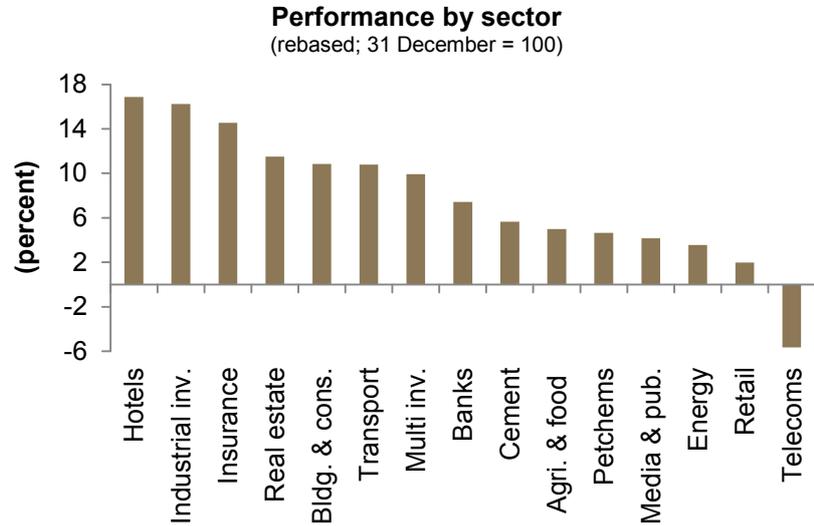




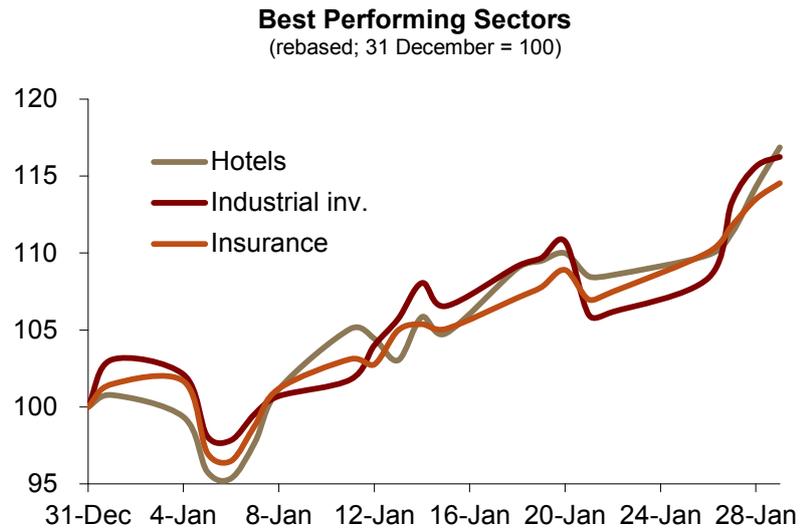
Sectoral Performance

A general uplift in investor sentiment saw all sectors, except for telecoms, performing positively in January with smaller sectors gaining the most. Amongst the worst performers, energy and retail gains were modest whilst telecoms recorded negative performance.

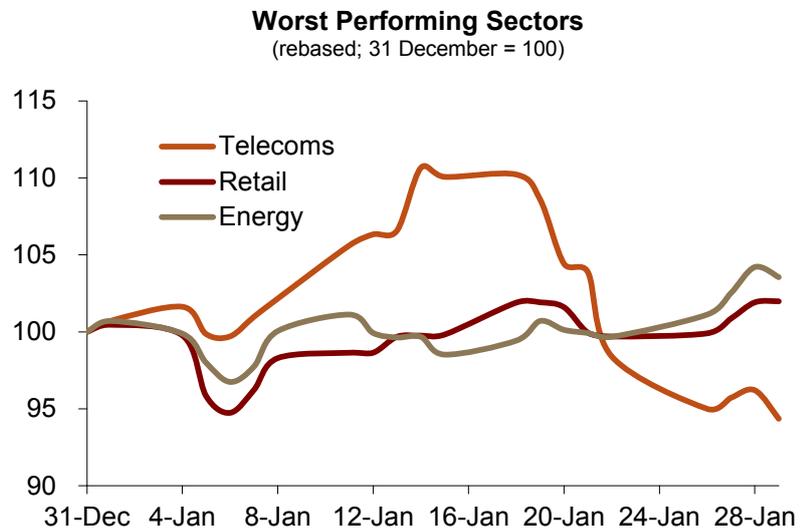
All sectors, except telecoms, were up in January...



...smaller sectors benefited most from renewed investor confidence...



...telecoms, energy and retail were affected by below par results in Q4 2014.



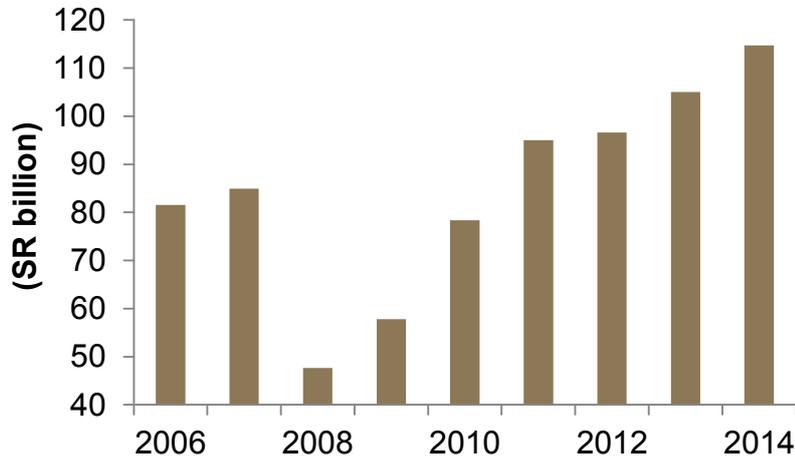


Full year 2014 results

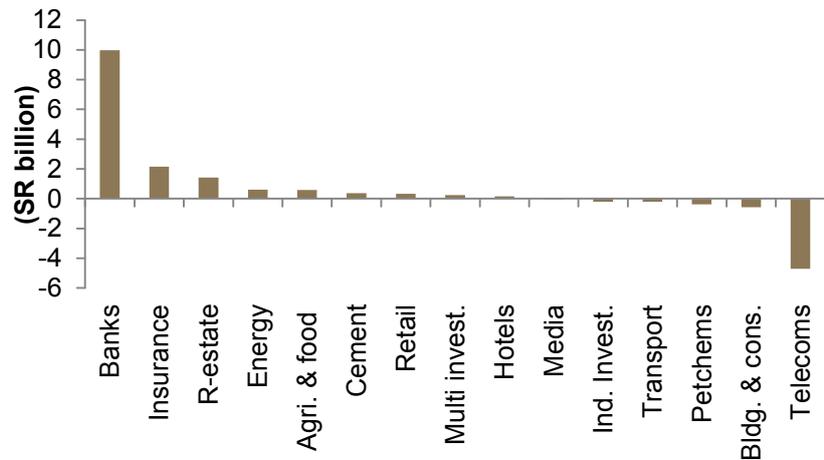
Net income of listed companies totaled SR114.7 billion in 2014, up by 9 percent, year-on-year. Banks were the stand out performers with the largest increase in net income, year-on-year, up SR10 billion, whilst telecoms losses amounted to nearly SR5 billion, year-on-year.

Net income was up 9.2 percent year-on-year, but quarter-on-quarter was down 38 percent, due to losses in the petchems., telecom and energy sectors.

Net income of listed companies

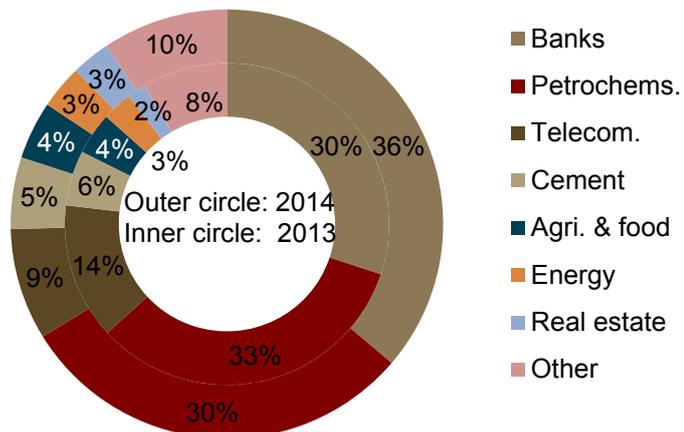


Net Income by sector
(year-on-year change)



Of the larger sectors petchems. and telecoms profit fared the worst in 2014, year-on-year...

Net income by sector
(2014 vs. 2013)



...resulting in their contribution to profits amongst all listed companies declining.



Key Data

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 E | 2015 F | 2016 F |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP | | | | | | | | | |
| (SR billion) | 1,949 | 1,609 | 1,976 | 2,511 | 2,752 | 2,791 | 2,822 | 2,759 | 2,875 |
| (\$ billion) | 519.8 | 429.1 | 526.8 | 669.5 | 734.0 | 744.3 | 752.5 | 735.8 | 766.7 |
| (% change) | 25.0 | -17.4 | 22.8 | 27.1 | 9.6 | 1.4 | 1.1 | -2.2 | 4.2 |
| Real GDP (% change) | | | | | | | | | |
| Oil | 4.3 | -8.0 | -0.1 | 12.2 | 5.1 | -1.6 | 1.7 | -0.6 | -1.6 |
| Non-oil private sector | 11.1 | 4.9 | 9.7 | 8.0 | 5.5 | 7.0 | 5.7 | 5.3 | 4.7 |
| Government | 6.2 | 6.3 | 7.4 | 8.4 | 5.3 | 5.1 | 3.7 | 3.5 | 3.3 |
| Total | 8.4 | 1.8 | 4.8 | 10.0 | 5.4 | 2.7 | 3.6 | 2.5 | 1.8 |
| Oil indicators (average) | | | | | | | | | |
| Brent (\$/b) | 97.2 | 61.7 | 79.8 | 112.2 | 112.4 | 109.6 | 99.5 | 79.0 | 83.0 |
| Saudi (\$/b) | 94.0 | 60.4 | 77.5 | 103.9 | 106.1 | 104.2 | 95.5 | 75.0 | 79.0 |
| Production (million b/d) | 9.2 | 8.2 | 8.2 | 9.3 | 9.8 | 9.6 | 9.7 | 9.6 | 9.4 |
| Budgetary indicators (SR billion) | | | | | | | | | |
| Government revenue | 1,101 | 510 | 742 | 1,118 | 1,247 | 1,156 | 1,046 | 836 | 737 |
| Government expenditure | 520 | 596 | 654 | 827 | 873 | 976 | 1,100 | 1,003 | 968 |
| Budget balance | 581 | -87 | 88 | 291 | 374 | 180 | -54 | -167 | -231 |
| (% GDP) | 29.8 | -5.4 | 4.4 | 11.6 | 13.6 | 6.5 | -1.9 | -6.1 | -8.0 |
| Domestic debt | 235 | 225 | 167 | 135 | 99 | 60 | 44 | 40 | 38 |
| (% GDP) | 12.1 | 14.0 | 8.5 | 5.4 | 3.6 | 2.2 | 1.6 | 1.4 | 1.3 |
| Monetary indicators (average) | | | | | | | | | |
| Inflation (% change) | 6.1 | 4.1 | 3.8 | 3.7 | 2.9 | 3.5 | 2.7 | 2.6 | 2.9 |
| SAMA base lending rate (% , year end) | 2.5 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.25 |
| External trade indicators (\$ billion) | | | | | | | | | |
| Oil export revenues | 284.1 | 166.9 | 215.2 | 317.6 | 337.5 | 323.1 | 270.3 | 214.1 | 191.4 |
| Total export revenues | 313.5 | 192.3 | 251.1 | 364.7 | 388.4 | 377.0 | 325.8 | 272.1 | 254.8 |
| Imports | 100.6 | 86.4 | 97.4 | 120.0 | 141.8 | 152.7 | 150.4 | 154.7 | 158.6 |
| Trade balance | 212.8 | 105.9 | 153.7 | 244.7 | 246.6 | 224.3 | 175.4 | 117.4 | 96.1 |
| Current account balance | 132.3 | 21.0 | 66.8 | 158.5 | 164.8 | 134.3 | 125.1 | 27.1 | 2.5 |
| (% GDP) | 25.5 | 4.9 | 12.7 | 23.7 | 22.4 | 18.0 | 16.6 | 3.7 | 0.3 |
| Official reserve assets | 442.7 | 410.1 | 445.1 | 544.0 | 656.6 | 725.7 | 765.9 | 779.0 | 796.1 |
| Social and demographic indicators | | | | | | | | | |
| Population (million) | 25.8 | 26.7 | 27.6 | 28.4 | 29.2 | 30.0 | 30.8 | 31.7 | 32.5 |
| Saudi unemployment (15+, %) | 10.0 | 10.5 | 11.2 | 12.4 | 12.0 | 11.7 | 11.7 | 11.3 | 11.1 |
| GDP per capita (\$) | 20,157 | 16,095 | 19,113 | 23,594 | 25,139 | 24,816 | 24,454 | 23,213 | 23,537 |

Sources: Jadwa estimates for 2014 and forecasts for 2015-16. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. Central Department of Statistics & Information and Jadwa estimates for oil, social and demographic indicators.



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