alinma capital

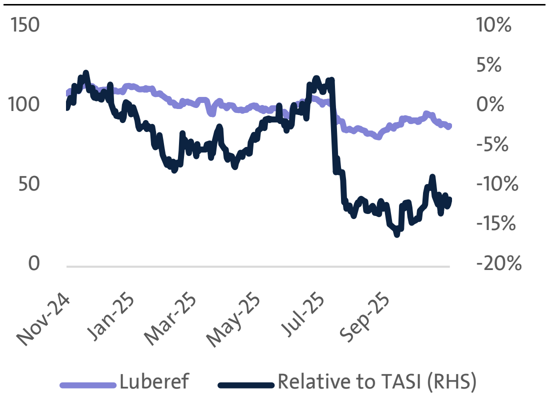
Strong earnings delivery in 3Q, optimism on projects remains; Buy

Recommendation	BUY
Market Price	88.0
Target Price	129.0
Upside/Downside	47%

Stock Data

Market Cap Total/FF (USDmn)	4,212/1263
Shares Total/FF (mn)	168.7/50.5
52 Week Hi-Low(SAR)	117/81
3/6/12 M Volume Traded (mnsh)	0.2/0.22/0.2
3/6/12 M Value Traded (USDmn)	6.0/5.5/6.0
3/6/12 M Relative Performance (%)	0.5/-12/-12

Luberef Stock Price Performance VS TASI



Source: AC

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Luberef: Strong earnings delivery in 3Q despite drop in volumes

Luberef delivered solid 3Q25 earnings of SAR279mn, outperforming consensus expectations by 11% amid strong crack margins. Luberef recorded 23% YoY growth in 3Q25 earnings, taking 9M2025 earnings to SAR746mn, down 2%. Overall, updates on the company's various projects are positive, in our view and have the potential to drive future upgrades in consensus expectations. We make nominal changes to our earnings estimate and reiterate Buy on the stock with TP of SAR129.

Key highlights of 3Q25 results

Crack margins have recorded further sequential improvement in 3Q and were up 8% QoQ driven primarily by relative stability in product prices and 6% QoQ drop in feedstock prices. The backdrop for base oil cracks remained favourable, given relative stickiness in product prices and weak dynamics for fuel oil.

Volumes dropped 3% QoQ as operations in Yanbu facility remained below optimal levels dragged by a technical issue. The management has planned a 45-day shutdown in 4Q to fix the issue, besides undertaking other scheduled maintenance work.

Capex guidance revised down due to slower-than-expected progress on Growth II project YTD. Overall, management expects to spend SAR550mn in capex in 2025, up 120% YoY.

EBITDA jumped 10% QoQ, taking YTD EBITDA to SAR978mn, down by a marginal 2% YoY. Higher crack margins remained a primary driver of relative strength seen in EBITDA.

FCF generation has hugely improved QoQ but remained low YTD due to an uptick in capex YTD and higher working capital burden in 2Q. Management has highlighted the possibility of further improvement in working capital in 4Q. Lower FCF generation has a direct bearing on the company's cash payout. We expect 39% YoY drop in dividends based on the current dividend policy (60-80% of payout from FCF)

Project updates are largely positive. We continue to see reasons for a positive update on the Jeddah facility. Management has highlighted new initiatives to improve product spread for byproducts and cost savings. The timeline for commissioning of Growth II project has expectedly been pushed back to 2026.

Luberef: Financial Highlights (SARmn)

Year to Dec	CY23	CY24	CY25E	CY26E	CY27E	CY28E
Revenues	9489	10036	7963	8619	8224	8316
Growth	-10.6%	5.8%	-20.7%	8.2%	-4.6%	1.1%
PAT	1510	972	878	1034	1337	1336
EPS (SAR)	9.0	5.8	5.2	6.2	7.9	7.9
Growth	-24%	-36%	-10%	18%	29%	0%
DPS (SAR)	10.0	6.7	2.6	5.2	6.8	7.4
P/E (X)	10.5	16.3	18.1	15.4	11.9	11.9
D/Y (%)	10.6%	7.1%	2.7%	5.5%	7.2%	7.8%
EV/EBITDA (%)	8.1	12.5	13.5	11.8	9.4	9.4

Source: Luberef, ACC Estimates

Luberef: 3Q2025 Earnings Review

Luberef's 3Q2025 earnings of SAR279mn came ahead of the consensus average by 11% supported by robust crack margins. Luberef recorded 23% YoY growth in 3Q2025 earnings which takes 9M2025 earnings to SAR746mn, down by a marginal 2%. We largely maintain our estimates post earnings call and highlight positive progress on a number of projects and new initiatives aimed at cost saving or higher product spreads. We reiterate Buy on the stock with TP of SAR129.

Luberef 3Q2025 Earnings Review

SARmn	1Q25	2Q25	3Q25	QoQ	9M24	9M25	YoY
Sales	**2128**	**2249**	**2157**	**-4%**	**7408**	**6534**	**-12%**
Gross Profit	288	320	364	14%	997	972	-3%
Operating Profit	226	257	293	14%	779	776	0%
EBITDA	**294**	**325**	**359**	**10%**	**993**	**978**	**-1%**
Profit Before Zakat/taxes	231	250	288	15%	773	769	0%
Net Profit	**222**	**245**	**279**	14%	764	746	-2%
EPS	1.3	1.5	1.7	14%	4.5	4.4	-2%
Gross Margin	13.5%	14.2%	16.9%	262	13.5%	14.9%	140
EBITDA Margin	**13.8%**	**14.5%**	**16.6%**	219	13.4%	15.0%	154
Net Margin	10.4%	10.9%	12.9%	202	10.3%	11.4%	110
Volumes (000'ton)	272	308	299	-3%	929	879	-5%
Crack Margin (USD/ton)	1755	1893	1994	5%	5181	5642	9%

Source: Company Announcement

Encouraging update on the projects/management initiatives

Growth II Project: The management has expectedly pushed back the target commissioning of Growth II project to 2026 (no specific timeline provided) from previous guidance of Dec-25 while maintaining the capex guidance of SAR750mn. Given the current progress, we now expect commissioning in 3Q25 and optimization in 4Q (earlier late 3Q).

Progress on Growth III project: The management expects to take a decision on the Pre-FEED of Growth III project in 4Q25 following completion of an assessment of future configuration of the plant based on target feed. Just to highlight, the expected capex for the project is quoted at USD300-400mn with IRR of 40%.

Extension of Operations of Jeddah Facility: We continue to see a number of reasons for a possible positive outcome of the ongoing discussions with a number of stakeholders for the extension of operations at the Jeddah Facility. The management expects to announce the final outcome by the end of 4Q. We see upside in earnings of as much as 20-25% over 2026-2029.

Freight arrangement with Bahri: Luberef has finalized a Contract of Affreightment (COA) with Bahri for the export of its key products. The new agreement can deliver savings in freight costs and improve the netback margin of the company.

ULSD sales agreement with Aramco: Luberef has entered a new marketing arrangement with Aramco for one of its key byproducts, Ultra Low Sulfur Diesel (ULSD). The new arrangement promises to bring prices of Luberef's byproduct close to market prices and deliver USD-10-20/ton addition to product spread. Under the arrangement, Luberef will sell up to 6500bpd of ULSD (10ppm) to Aramco at close to market prices as opposed to the previous practice of selling the byproduct at prices of 500-1000ppm gasoil. We estimate SAR18-20mn upside to the company's earnings and highlight the possibility of further upside once Growth II project comes online.

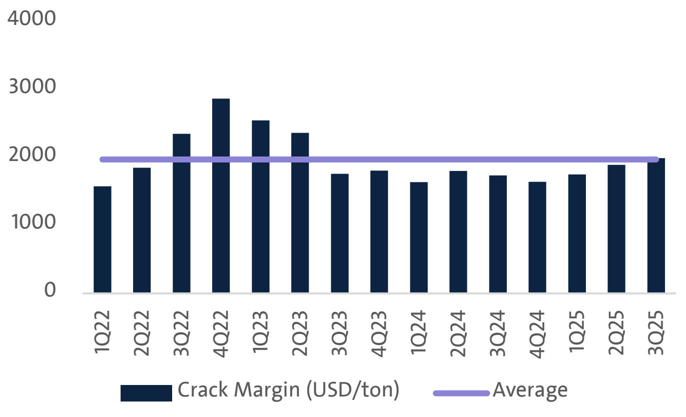
Why Buy rating despite negative performance

Attractive valuation due to a steep underperformance of the stock price in the past 12 months coupled with strong EBITDA, 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) A timely and successful completion of a scheduled turnaround at the Yanbu facility remains crucial for increasing the plant's reliability, optimizing the production of high-margin products to its previous levels and undertaking activities relating to Growth II project (ii) general risks associated with the optimization of plant post revamp under Growth II project,(iii) volatility in base-oil margin and volumes due to ongoing tariff friction, and (iv) by-product margin.

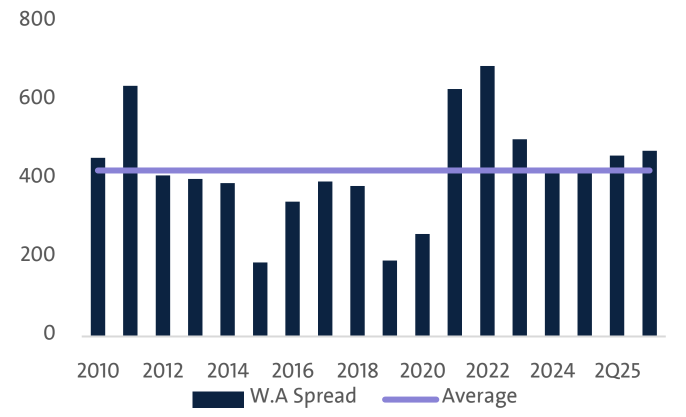
Luberef: Key Quarterly Trends

Luberef: Trend in Crack margin (USD/ton)



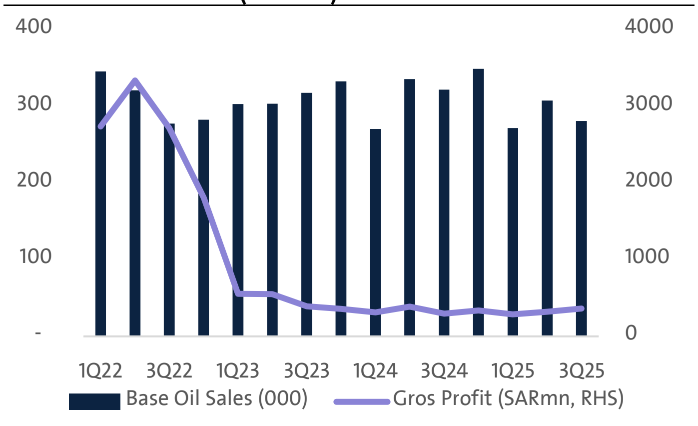
Source: Luberef, AC Estimates

Luberef: Trend in Weighted Average* Spread (USD/ton)



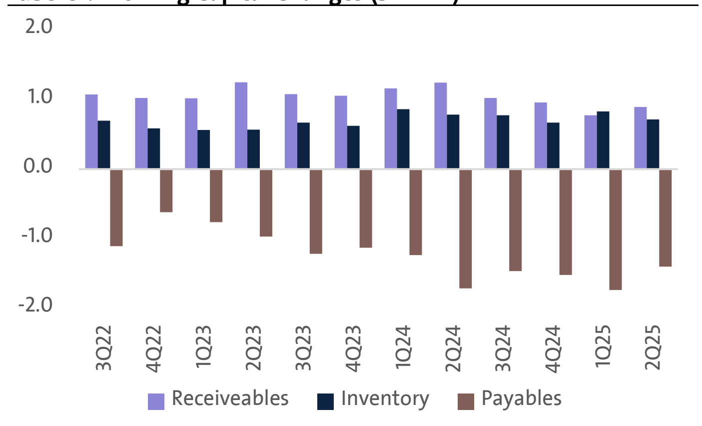
Weight=35% GI, 65% GII Source: Luberef, AC Estimates

Luberef: Base oil sales (000 ton) trend



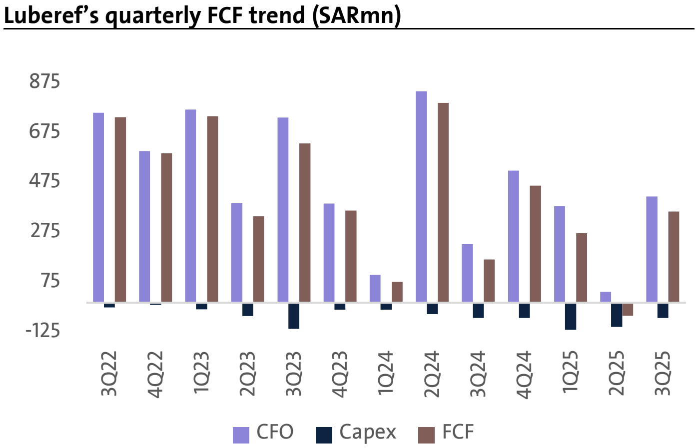
Source: Luberef, AC Estimates

Luberef: Working Capital Changes (SARmn)



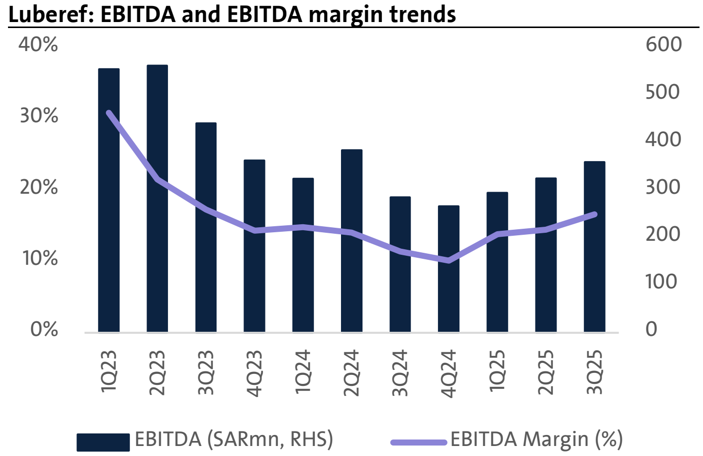
Source: Luberef, AC Estimates

Luberef's quarterly FCF trend (SARmn)



Source: Luberef, AC Estimates

Luberef: EBITDA and EBITDA margin trends



Source: Luberef, AC Estimates

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA,** 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 05 November, 2025.

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