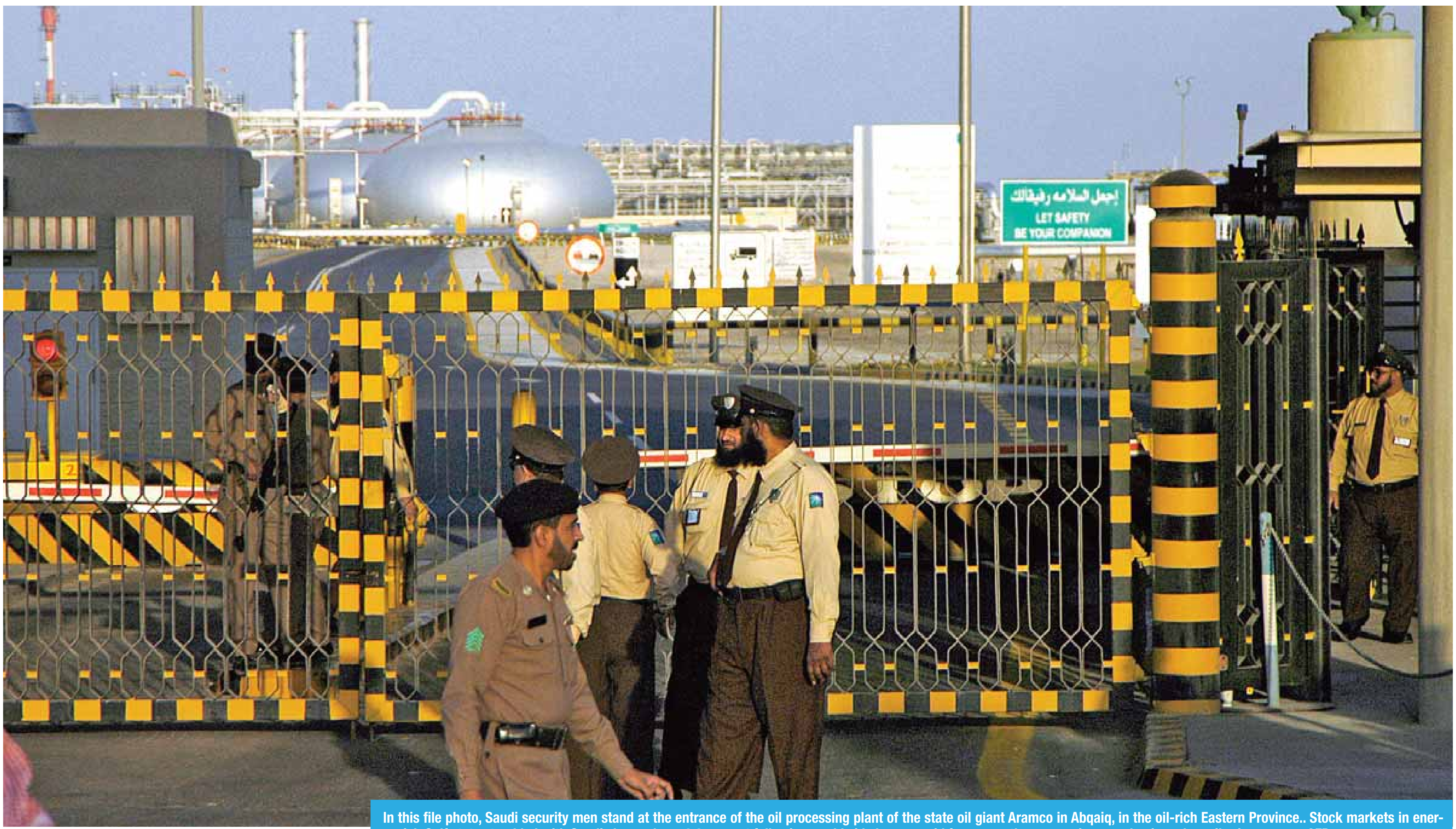
Kuwait Times
Established 1961

Business

WEDNESDAY, MAY 13, 2020



In this file photo, Saudi security men stand at the entrance of the oil processing plant of the state oil giant Aramco in Abqaiq, in the oil-rich Eastern Province.. Stock markets in energy-rich Gulf states tumbled with Saudi shares down 3.0 percent following worldwide losses amid fears over the coronavirus pandemic and an oil price war. — AFP

Aramco Q1 profit slides as oil prices fall

Q1 dividends of $18.75bn, highest of any listed company

DUBAI: Saudi Arabian state oil giant Aramco yesterday reported a 25 percent fall in first-quarter net profit, missing analyst estimates, but its quarterly dividend was in line with a plan for a $75 billion base payout to shareholders for the year.

Brent crude prices fell 65.6 percent in the first quarter, before OPEC+ producers agreed to cut oil supply by a record 9.7 million barrel per day starting from May to help shore up plunging prices and curb oversupply.

Net profit fell to 62.48 billion riyals ($16.64 billion) after zakat and tax for the quarter to March 31 from 83.29 billion a year earlier. Analysts had expected a profit of $17.8 billion, according to the mean estimate from Egyptian investment bank EFG-Hermes, Saudi Arabia's Al-Rajhi Capital and Dubai-based Arqaam Capital.

Shares of Aramco were up 0.8 percent at 31.15 riyals at 0730 GMT, still trading below the IPO price of 32 riyals. The oil company, which went public last year, has said total dividends of $13.4 billion were paid in the first quarter, in respect of the fourth quarter of 2019.

Dividends of $18.75 billion for the first quarter of 2020 "are the highest of any listed company worldwide" and will be paid in the second quarter, Aramco said. It gave no more details. The dividend payment is in line with its plan to pay a base dividend of $75 billion for the year. Analysts were expecting a cut in the dividend to the Saudi government, but that the company was likely to maintain payouts to minority shareholders.

Aramco did not make any announcement on its future dividend policy, however.

Supply cut pact

Aramco said the results reflected "lower crude oil prices, as well as declining refining and chemicals margins and inventory re-measurement losses." "Looking ahead to the remainder of 2020, we expect the impact of the COVID-19 pandemic on global energy demand and oil prices to weigh on our earnings," Aramco's CEO Amin Nasser said in a statement.

"We continue to reinforce the business during this period by reducing our capex and driving operational excellence. Longer term we remain confident that demand for energy will rebound as global economies recover." Aramco said it continues to expect capital spending for 2020 to be between $25 billion and $30 billion. Capital expenditures for 2021 and beyond remain under review.

Brent prices fell 65% in first quarter

Capital expenditures in the first quarter were $7.4 billion, compared to $7.2 billion for the same period in 2019, "due to continued project development and upgrades at various facilities," Aramco said.

Aramco has kept its oil output at around 9.8 million barrels per day during the first three months of the year under an OPEC+ supply cut pact, before opening the oil taps in April after the collapse of earlier supply cut talks in early March.

Yousef Husseini, an analyst EFG Hermes, said there was no change to the dividend policy in the first quarter, but he still expects the share of the dividend paid to the government will be reduced.

"They will cut the share of the government in the second quarter but there is some upside if they renegotiate the SABIC deal which could save them some cashflow," he said, adding that keeping the dividend policy unchanged buys Aramco some time to see how the global economic situation develops. Aramco's cash flows from operating activities, stood at $22.4 billion in the first quarter, compared to $24.5 billion in the same period of 2019, the company said.

Aramco's gearing - net debt divided by balance sheet capital - was minus 4.9 percent at the end of March, down from minus 0.2 percent at the end of 2019, reflecting the strength of the company's balance sheet. Aramco plans to acquire a stake in Saudi petrochemical maker SABIC for around $70 billion, though sources told Reuters this week that the deal was likely to be restructured with the slump in oil prices due to the coronavirus.

It said earlier yesterday that its planned acquisition of a 70 percent equity stake in petrochemical maker SABIC is on track to close in the second quarter. – Reuters

US auto sector reopens as workers return to jobs

DETROIT: Factory workers began returning to assembly lines in Michigan on Monday, paving the way to reopen the US auto sector but stoking fears of a second wave of coronavirus infections as strict lockdowns are eased across the country.

With millions of Americans out of work and much of the economy at a virtual standstill, a growing number of states are relaxing tough restrictions on commerce and social life put in place to slow the outbreak.

Some auto suppliers in Michigan, a Midwest industrial powerhouse hard hit by the pandemic and its economic fallout, reopened plants on Monday with skeleton crews to get ready for a resumption of vehicle production next week.

Skilled-trades workers and salaried employees also began returning to auto assembly plants to prepare for the wider restart. "We're starting up our foundry this week in anticipation of the orders coming in next week," Joe Perkins, chief executive of Busche Performance Group, an engineering, casting and machining firm, said in a telephone interview.

Factory workers will be issued face masks, checked for fever and required to submit health-screening questionnaires. "All of that's ready to go," Perkins said. "The big question is are people going to be buying cars and trucks."

Musk defies lockdown

The manufacturing reopening approved last week by Governor Gretchen Whitmer was crucial not only to auto plants in Michigan but to vehicle production elsewhere because so many key parts suppliers are based in and around the automaking hub of Detroit.

Detroit's Big Three automakers – General Motors Co, Ford Motor Co and Fiat Chrysler Automobiles NV - said last week they planned to restart production at North American plants on May 18. The target date was set after tacit approval from the powerful United Auto Workers union, which previously opposed a May restart as "too soon and too risky." Ford said it had adopted safety protocols from China, where car production resumed in late February, including personal protective garments on assembly lines, barriers separating employees clustered together and heavily sanitized work areas. Much is at stake. The auto sector accounts for 6 percent of US economic output and employs more than 835,000 Americans. – Reuters

Norway shatters wealth fund spending cap

OSLO: Norway will sharply raise spending this year from its one trillion-dollar sovereign wealth fund, exceeding a self-imposed cap for the first time in over a decade to aid an economy hobbled by the coronavirus pandemic. The withdrawal from the fund is projected to hit a record 419.6 billion crowns ($40.6 billion), a revised budget from the finance ministry showed yesterday, up from 243.6 billion crowns forecast last October. The wealth fund - which invests proceeds from the country's oil industry in foreign stocks, bonds and property, - is worth about $190,000 for every Norwegian man, woman and child. Annual withdrawals from it, known as the structural non-oil deficit, are capped at 3 percent of its value, though that can be exceeded in times of economic hardship.

Statistics Norway said on Tuesday the mainland economy contracted by 2.1 percent in March from February, and by 6.9 percent in the first quarter, bigger falls than preliminary readings reported on April 24.

Norway last exceeded the fund ceiling during the 2008-2009 financial crisis, withdrawing 4.1 percent at a time when the cap was set at 4.0 percent. It was lowered in 2017 to the current 3.0 percent to reflect lower expected future returns. This year's withdrawal will now reach 4.2 percent of the fund's Jan. 1 value rather than the originally planned 2.6 percent, the government said.

The extra spending will help to offset a tax shortfall and cover initiatives announced since a partial lockdown began on March 12, including extra unemployment benefits, cash support for companies and oil industry investment incentives, the finance ministry said.

As its rate of COVID-19 infection declines, Norway is gradually easing the curbs and will soon publish a long-term recovery plan. The ministry has predicted the economy will contract this year by 4.0 percent, and last week the central bank cut its key policy rate to zero percent for the first time.

The ministry also said it planned to introduce a new tax on its fish farming sector, the country's second-largest industry after oil production.

The tax, of 0.40 crowns per kilo of fish and payable from 2022, should raise some 500 million crowns for local and regional governments from 2022, the ministry predicted. Listed fish farmers include the world's largest, Mowi , Salmar and Leroey Seafood.

The crown currency initially weakened slightly following the budget and the GDP data, but traded slightly stronger at 11.13 per euro at 0732 GMT. – Reuters