



US\$3.453bn Market cap **60.1%** Free float **US\$1.550mn** Avg. daily volume

Target price **32.90** 26.5% over current
 Consensus price **32.00** 23.0% over current
 Current price **26.00** as at 13/11/2011

Research Department

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Underweight **Neutral** **Overweight**

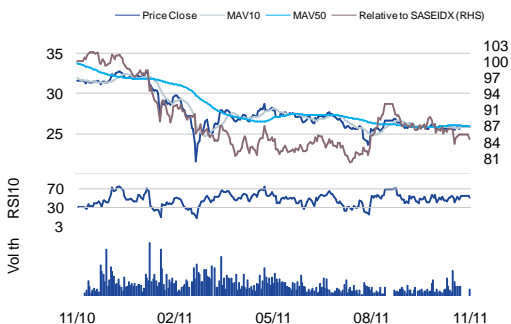
Key themes

Driven by rising population and improving education, we expect the food sector in Saudi Arabia to continue growing. Rising shopping in supermarkets and hypermarkets should support food sales and benefit Savola with its presence in retailing as well as food.

Implications

Savola is one of our top picks in the food sector. It has attractive financial ratios that reflect its improvement. It is performing well operationally and offers growth in the near term at a reasonable valuation.

Performance

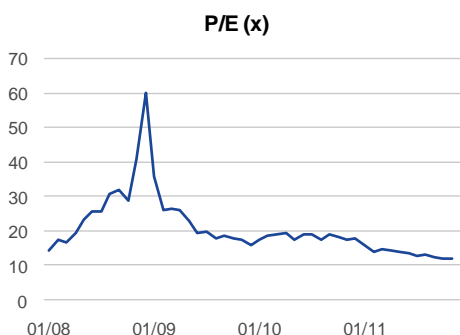


Earnings

| Period End (SAR) | 12/10A | 12/11E | 12/12E | 12/13E |
|------------------|--------|--------|--------|--------|
| Revenue (mn) | 21,070 | 25,542 | 27,880 | 30,418 |
| Revenue Growth | 17.6% | 21.2% | 9.2% | 9.1% |
| EBITDA (mn) | 1,698 | 1,727 | 1,989 | 2,243 |
| EBITDA Growth | 19.6% | 1.7% | 15.2% | 12.8% |
| EPS | 1.77 | 2.17 | 2.45 | 3.01 |
| EPS Growth | -6.8% | 22.4% | 12.7% | 23.1% |

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Savola

Q3: Satisfying results

Savola released Q3 results with revenue and net profit growth of 21% and 9% respectively. Food segment continued its solid growth as edible oil and sugar prices stabilised while retail's net profit remained subdued despite satisfying revenue growth. As part of Savola's plan to add new categories to its food segment, the group announced acquiring a 78% stake in Al-Malika & Al-Farasha companies (specialized in pasta). Also, as a gradual exit plan from non-core businesses, the group sold its 75% stake in a real-estate property in Riyadh to Kinan Company. This will generate SAR76mn in profits which will be reflected in Q4 results. We have maintained our target price of SAR32.9. This implies 26% upside potential, we remain overweight.

Revenues up 21%: On the back of a strong growth from the food segment, Savola achieved a strong y-o-y revenue growth of 21%, above our estimate of 16.5%. Manufacturing revenues (oil, sugar and plastics) grew by 26.4% y-o-y. We believe edible oil and sugar will continue to drive growth benefiting from increasing volumes.

Continuous growth in international operations: Sales in Egypt showed a robust y-o-y growth of 24%. The consistent growth in the last two quarters is a positive sign that operations are back on track after recent political turmoil. As for Iran, revenues grew by 18% y-o-y benefitting from its strong position in the Iranian market and lower international competition.

Retail's profitability remains questionable: Retail's revenues grew y-o-y by 14.5% benefitting from a strong Ramadan season. However, the continuous growth in sales has not been translated into strong profits as net margin of this segment remains weak at 1.9% so far in 2011 (compared to Alotaim's net margin of 4%). We suspect that the integration of operations for recently acquired stores hurt profitability. That said, improvement in retail margin could be a catalyst as this segment comprises more than 40% of aggregate revenues.

Acquisition of Al-Malika and Al-Farasha: Savola announced that it will acquire a 78% stake of Al-Malika and Al-Farasha companies. Both companies are based in Egypt and are specialized in manufacturing pasta. The aggregate capacity of both their factories is 120 kton per annum with market share of 30%. In our view, this acquisition is encouraging as it not only adds to the company's basket, but also paves the road for further forward integration in food division.

Capital gain to boost bottom line in Q4: Savola reported decent net profit growth of 8.8%. Looking ahead, we expect Savola to achieve solid Q4 profits of SAR306mn (excluding capital gains). That said, Savola announced that it would sell its 75% stake in Alyasmin land in Riyadh to Kinan (Savola owns 30% of Kinan) which will generate SAR76mn of profits and this will be reflected in Q4 results. By adding that, we expect Savola to report after-zakat net profit (including capital gains) of SAR374mn for Q4.

Conclusion: Q3 results were respectable and mostly in line with our estimates. We have marginally revised our near term forecasts on the back of Q3 results. Nonetheless, we have maintained our Overweight rating and target price of SAR32.9. Savola trades on a 2012 PE & EV/EBITDA multiples of 10.6x & 5.3x. It's worth noting that we expect higher dividends of SAR0.4 per share for Q4.



Corporate summary

Savola, one of the leading companies in food and retail industries, is a group that holds several companies that operate in different industries. The Group operates its businesses through four Core Sectors; these are "Savola Foods Sector", including Edible Oils, Foods, and Sugar, "Savola Retail Sector", including Retail (Panda - and Hyper Panda), Real Estate Sector (Kinan International) and Savola Plastics Sector. Furthermore, Savola has a major investment in the leading dairy company in the GCC (Almarai) and in Herfy Foods Company with stakes of 29.9% and 49% respectively.

Share information

| | | | |
|-------------------------------------------|-------------------|------|------|
| Market cap (SAR/US\$) | 12.95bn / 3.453bn | | |
| 52-week range | 21.65 - 32.80 | | |
| Daily avg volume (US\$) | 1.550mn | | |
| Shares outstanding | 500.0mn | | |
| Free float (est) | 60.1% | | |
| Performance: | 1M | 3M | 12M |
| Absolute | 0.4% | 6.6% | -18% |
| Relative to index | -2% | 3.1% | -15% |
| Major Shareholder: | | | |
| Mohammed Ibramim Alisa | 11.9% | | |
| General Oraganistion for Social Insurance | 10.9% | | |

Source: Bloomberg, Al Rajhi Capital

Valuation

| Period End | 12/10A | 12/11E | 12/12E | 12/13E |
|--------------------|--------|--------|--------|--------|
| Revenue (SARmn) | 21,070 | 25,542 | 27,880 | 30,418 |
| EBITDA (SARmn) | 1,698 | 1,727 | 1,989 | 2,243 |
| Net Profit (SARmn) | 887 | 1,085 | 1,224 | 1,506 |
| EPS (SAR) | 1.77 | 2.17 | 2.45 | 3.01 |
| DPS (SAR) | 1.25 | 1.15 | 1.00 | 1.27 |
| EPS Growth | -6.8% | 22.4% | 12.7% | 23.1% |
| EV/EBITDA (x) | 6.2 | 6.1 | 5.3 | 4.5 |
| P/E (x) | 14.6 | 11.9 | 10.6 | 8.6 |
| P/B (x) | 1.8 | 1.7 | 1.6 | 1.4 |
| Dividend Yield | 4.8% | 4.4% | 3.9% | 4.9% |

Source: Company data, Al Rajhi Capital

Q3 results: in line with our estimates

Below we present Savola's Q3 results versus our estimates.

Figure 1. SAVOLA: 2010Q3A vs. 2011Q3A vs. 2011Q3E

| (SAR) mn | 2010Q3A | 2011Q3A | YOY % chg. | 2011Q3E |
|-----------------------|--------------|--------------|--------------|--------------|
| Total Revenues | 5,613 | 6,817 | 21.4% | 6,519 |
| Gross Profit | 861 | 982 | 14.0% | 1,030 |
| Gross margin | 15.3% | 14.4% | | 15.8% |
| Net Income | 283 | 308 | 8.8% | 306 |

Source: Company data, Al Rajhi Capital

Q4 results: exceptional bottom line

Looking ahead, we expect Savola to achieve solid Q4 profits of SAR306mn from core business (excluding capital gains). However, net profit will be boosted by another SAR76mn capital gain coming from the sale of Alyasmin land in Riyadh to Kinan. It's worth noting that we expect Savola to increase its dividends for Q4 as a result of this capital gain. Below we present our estimates for Q4 and 2011 full year.

Figure 2. SAVOLA: 2010Q4A vs. 2011Q4E & FY2010A vs. FY2011E

| (SAR) mn | 2010Q4A | 2011Q4E | YOY % chg. | FY2010A | FY2011E | YOY % chg. |
|-----------------------|--------------|--------------|---------------|---------------|---------------|------------|
| Total Revenues | 5,810 | 6,771 | 17% | 21,070 | 25,542 | 21% |
| Gross Profit | 971 | 1,049 | 8% | 3,346 | 3,858 | 15% |
| Gross margin | 17% | 16% | | 16% | 15% | |
| Net Income | 2 | 374* | 18452% | 887 | 1,085 | 22% |

*Including a capital gain of SAR76mn

Source: Company data, Al Rajhi Capital



We expect net profit to exceed SAR1.1bn this year

Revenue growth set to remain above 9% over the next three years

We expect gross margin to slightly improve next year

EV/EBITDA of 6.1x is attractive

| Income Statement (SARmn) | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
|---------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 17,917 | 21,070 | 25,542 | 27,880 | 30,418 |
| Cost of Goods Sold | (14,810) | (17,723) | (21,684) | (23,407) | (25,551) |
| Gross Profit | 3,107 | 3,346 | 3,858 | 4,474 | 4,867 |
| Government Charges | | | | | |
| S.G. & A. Costs | (2,162) | (2,494) | (2,704) | (3,148) | (3,346) |
| Operating EBIT | 945 | 852 | 1,154 | 1,326 | 1,521 |
| Cash Operating Costs | (16,497) | (19,372) | (23,815) | (25,891) | (28,174) |
| EBITDA | 1,420 | 1,698 | 1,727 | 1,989 | 2,243 |
| Depreciation and Amortisation | (475) | (846) | (573) | (664) | (722) |
| Operating Profit | 945 | 852 | 1,154 | 1,326 | 1,521 |
| Net financing income/(costs) | (227) | (210) | (309) | (240) | (240) |
| Forex and Related Gains | - | - | - | - | - |
| Provisions | - | - | - | - | - |
| Other Income | 751 | 728 | 596 | 495 | 495 |
| Other Expenses | (222) | (217) | - | - | - |
| Net Profit Before Taxes | 1,247 | 1,152 | 1,441 | 1,581 | 1,776 |
| Taxes | (63) | (128) | (129) | (151) | (39) |
| Minority Interests | (232) | (137) | (226) | (206) | (232) |
| Net profit available to shareholders | 952 | 887 | 1,085 | 1,224 | 1,506 |
| Dividends | (500) | (625) | (575) | (500) | (634) |
| Transfer to Capital Reserve | - | - | - | - | - |
| | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| Adjusted Shares Out (mn) | 500.0 | 500.0 | 500.0 | 500.0 | 500.0 |
| CFPS (SAR) | 3.317 | 3.739 | 3.769 | 4.187 | 4.920 |
| EPS (SAR) | 1.903 | 1.773 | 2.171 | 2.447 | 3.012 |
| DPS (SAR) | 1.000 | 1.250 | 1.150 | 1.000 | 1.268 |
| Growth | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| Revenue Growth | 29.9% | 17.6% | 21.2% | 9.2% | 9.1% |
| Gross Profit Growth | 73.7% | 7.7% | 15.3% | 16.0% | 8.8% |
| EBITDA Growth | 167.6% | 19.6% | 1.7% | 15.2% | 12.8% |
| Operating Profit Growth | 369.4% | -9.8% | 35.4% | 14.9% | 14.7% |
| Net Profit Growth | 370.2% | -6.8% | 22.4% | 12.7% | 23.1% |
| EPS Growth | 370.2% | -6.8% | 22.4% | 12.7% | 23.1% |
| Margins | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| Gross profit margin | 17.3% | 15.9% | 15.1% | 16.0% | 16.0% |
| EBITDA margin | 7.9% | 8.1% | 6.8% | 7.1% | 7.4% |
| Operating Margin | 5.3% | 4.0% | 4.5% | 4.8% | 5.0% |
| Pretax profit margin | 7.0% | 5.5% | 5.6% | 5.7% | 5.8% |
| Net profit margin | 5.3% | 4.2% | 4.2% | 4.4% | 5.0% |
| Other Ratios | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| ROCE | 8.9% | 7.9% | 10.2% | 10.9% | 11.4% |
| ROIC | 14.6% | 10.2% | 15.9% | 16.7% | 18.8% |
| ROE | 14.3% | 12.7% | 14.9% | 15.6% | 17.5% |
| Effective Tax Rate | 5.1% | 11.1% | 9.0% | 9.6% | 2.2% |
| Capex/Sales | 5.3% | 3.0% | 3.3% | 3.8% | 4.7% |
| Dividend Payout Ratio | 52.5% | 70.5% | 53.0% | 40.9% | 42.1% |
| Valuation Measures | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| P/E (x) | 13.6 | 14.6 | 11.9 | 10.6 | 8.6 |
| P/CF (x) | 7.8 | 6.9 | 6.9 | 6.2 | 5.3 |
| P/B (x) | 1.9 | 1.8 | 1.7 | 1.6 | 1.4 |
| EV/Sales (x) | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 |
| EV/EBITDA (x) | 7.2 | 6.2 | 6.1 | 5.3 | 4.5 |
| EV/EBIT (x) | 10.9 | 12.3 | 9.1 | 7.9 | 6.6 |
| EV/IC (x) | 1.4 | 1.6 | 1.5 | 1.3 | 1.2 |
| Dividend Yield | 3.9% | 4.8% | 4.4% | 3.9% | 4.9% |

Source: Company data, Al Rajhi Capital



Balance sheet is expanding due to retail and international expansion

| Balance Sheet (SARmn) | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
|------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and Cash Equivalents | 1,001 | 660 | 1,264 | 1,402 | 1,968 |
| Current Receivables | 1,507 | 1,518 | 2,085 | 2,365 | 2,738 |
| Inventories | 2,297 | 2,513 | 2,979 | 2,956 | 3,042 |
| Other current assets | 836 | 1,166 | 1,367 | 1,367 | 1,367 |
| Total Current Assets | 5,634 | 5,858 | 7,695 | 8,090 | 9,114 |
| Fixed Assets | 5,537 | 4,719 | 5,044 | 5,441 | 6,148 |
| Investments | 5,056 | 6,123 | 6,421 | 6,421 | 6,421 |
| Goodwill | 918 | 1,020 | 989 | 989 | 989 |
| Other Intangible Assets | 112 | - | - | - | - |
| Total Other Assets | - | - | - | - | - |
| Total Non-current Assets | 11,623 | 11,862 | 12,455 | 12,851 | 13,558 |
| Total Assets | 17,257 | 17,720 | 20,149 | 20,941 | 22,672 |
| Short Term Debt | 3,022 | 2,783 | 3,697 | 3,697 | 3,697 |
| Accounts Payable | 1,830 | 2,003 | 2,708 | 2,838 | 3,194 |
| Accrued Expenses | 503 | 1,689 | 1,896 | 1,892 | 2,129 |
| Dividends Payable | - | - | - | - | - |
| Other Current Liabilities | 564 | 186 | 189 | - | - |
| Total Current Liabilities | 6,313 | 6,662 | 8,490 | 8,427 | 9,020 |
| Long-Term Debt | 1,996 | 2,393 | 2,294 | 2,294 | 2,294 |
| Other LT Payables | 61 | 171 | 173 | 173 | 173 |
| Provisions | 358 | 276 | 307 | 307 | 307 |
| Total Non-current Liabilities | 2,415 | 2,840 | 2,774 | 2,774 | 2,774 |
| Minority interests | 1,567 | 1,188 | 1,358 | 1,564 | 1,796 |
| Paid-up share capital | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Total Reserves | 1,961 | 2,031 | 2,528 | 3,177 | 4,083 |
| Total Shareholders' Equity | 6,961 | 7,031 | 7,528 | 8,177 | 9,083 |
| Total Equity | 8,528 | 8,218 | 8,886 | 9,741 | 10,879 |
| Total Liabilities & Shareholders' Equity | 17,257 | 17,720 | 20,149 | 20,941 | 22,672 |
| Ratios | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| Net Debt (SARmn) | 3,927 | 4,516 | 4,726 | 4,588 | 4,023 |
| Net Debt/EBITDA (x) | 2.77 | 2.66 | 2.74 | 2.31 | 1.79 |
| Net Debt to Equity | 46.1% | 54.9% | 53.2% | 47.1% | 37.0% |
| EBITDA Interest Cover (x) | 6.2 | 8.1 | 5.6 | 8.3 | 9.4 |
| BVPS (SAR) | 13.92 | 14.06 | 15.06 | 16.35 | 18.17 |
| Cashflow Statement (SARmn) | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| Net Income before Tax & Minority Interest | 1,247 | 1,152 | 1,441 | 1,581 | 1,776 |
| Depreciation & Amortisation | 475 | 846 | 573 | 664 | 722 |
| Decrease in Working Capital | 534 | (86) | (288) | (320) | 135 |
| Other Operating Cashflow | 201 | 222 | 362 | (151) | (39) |
| Cashflow from Operations | 2,456 | 2,133 | 2,088 | 1,774 | 2,595 |
| Capital Expenditure | (945) | (634) | (850) | (1,060) | (1,430) |
| New Investments | (129) | (601) | (360) | - | - |
| Others | (427) | (20) | (22) | - | - |
| Cashflow from investing activities | (1,500) | (1,255) | (1,232) | (1,060) | (1,430) |
| Net Operating Cashflow | 956 | 878 | 856 | 714 | 1,166 |
| Dividends paid to ordinary shareholders | (513) | (627) | (502) | (575) | (600) |
| Proceeds from issue of shares | - | - | - | - | - |
| Effects of Exchange Rates on Cash | - | - | - | - | - |
| Other Financing Cashflow | (316) | (669) | (225) | - | - |
| Cashflow from financing activities | (444) | (979) | 90 | (575) | (600) |
| Total cash generated | 512 | (102) | 946 | 139 | 565 |
| Cash at beginning of period | 604 | 1,001 | 660 | 1,264 | 1,402 |
| Implied cash at end of year | 1,116 | 899 | 1,607 | 1,402 | 1,968 |
| Ratios | 12/09A | 12/10A | 12/11E | 12/12E | 12/13E |
| Capex/Sales | 5.3% | 3.0% | 3.3% | 3.8% | 4.7% |

Source: Company data, Al Rajhi Capital

We expect capex to remain close to current levels



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1. 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 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"**Neutral**": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"**Underweight**": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"**Time horizon**": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"**Fair value**": We estimate fair 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.

"**Target price**": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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.

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