

**Nadec CP: SAR 27.80 FV: SAR 28.34 Rating: Hold**

### Higher input cost and selling expenses offset the growth in sales

- **Nadec's sales increased by 10%, YoY basis, to SAR 544 million in Q2 13**, 1% below our expectations. The revenues of the dairy and food processing sectors increased by 16% to SAR 434 million as the company is pursuing an aggressive selling strategy. Cost of sales augmented by 11.2%, on a yearly basis, reaching SAR 359 million.
- Therefore, **gross profit increased by 8%, on a yearly basis, to SAR 185 million in Q2 13, 5% below our expectations**. Gross margin dropped to 34.1% in Q2 13, from 34.8% in Q2 12 because of higher input cost as mentioned by the company.
- Operating expenses increased by 13%, on a yearly basis, to SAR 147 million, due to higher selling and marketing expenses. **Operating profit of SAR 38 million was recorded in Q2 13, just 1% higher than Q2 12. Operating margin dropped to 6.9% in Q2 13 from 7.6% in Q2 12.**
- Nadec recorded other expenses of about SAR 5 million in Q2 13 (compared to SAR 6 million in Q2 12) and Zakat expenses of SAR 3 million (SAR 5 million in Q2 12). As a result, **net income of SAR 30.0 million was reported in Q2 13, 10% higher than Q2 12, but 8% below our expectations**. Net margin remained stable at 5.5%.
- The company recorded cash outflow from operating activities of SAR 33 million in Q2 13, compared to cash inflow of SAR 86 million in Q2 12. Capital expenditures reached SAR 135 million in Q2 13, mainly financed from loans. Total debt increased to SAR 1.4 billion in Q2 13 from SAR 1 billion in Q2 12.
- The growth in revenues is accompanied by a higher increase in cost. Input cost for Nadec increased despite that peers' cost dropped. On the other hand, the growth in net income is due to a drop in non operating expenses. In addition, higher debt will result in higher financing cost in the coming quarters. The stock trades at PE 13e of 17.4x compared to peers average of 18.6x because of lower profitability margins and slower growth. **We retain our fair value of SAR 28.34 but we downgraded our recommendation from Accumulate to Hold, due to the latest 8% rally in the stock price.**

	Q2 12	Q1 13	Q2 13	ASIB Est.	YoY	Vs. ASIB
Revenues	495	424	<b>544</b>	550	9.9%	-1.1%
Gross Profit	172	162	<b>185</b>	195	7.6%	-5.0%
Gross Margin	34.8%	38.1%	<b>34.1%</b>	35.5%		
Operating Profit	37.5	26.2	<b>37.7</b>	40.1	0.7%	-5.9%
Operating Margin	7.6%	6.2%	<b>6.9%</b>	7.3%		
Net Profit	27.2	22.3	<b>30.0</b>	32.6	10.3%	-7.9%
Net Margin	5.5%	5.3%	<b>5.5%</b>	5.9%		

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