

Nadec CP: SAR 25.70 FV: SAR 28.34 Rating: Accumulate

Strong Growth

- **Nadec's sales increased by 15.3%, YoY basis, to SAR 424 million in Q1 13**, 1.5% above our expectations. The revenues of the dairy and food processing sectors increased by 19% to SAR 378 million as the company is pursuing an aggressive selling strategy. Cost of sales augmented by 14.9%, on a yearly basis, reaching SAR 263 million.
- Therefore, **gross profit increased by 16% on a yearly basis to SAR 162 million in Q1 13, 2% higher than our expectations**. Gross margin improved to 38.1% in Q1 13, from 37.9% in Q1 12.
- Operating expenses increased by 6%, on a yearly basis, to SAR 124 million. **Operating profit of SAR 26.3 million was recorded in Q1 13, 18% higher than Q1 12.**
- Nadec recorded other expenses of SAR 2.4 million (compared to income of SAR 1.5 million in Q1 12) and Zakat expenses of SAR 1.5 million. As a result, **net income of SAR 22.3 million was reported in Q1 13, in line with our expectations, but 4% higher than Q1 12**. Net margin dropped to 5.2% in Q1 13 from 5.8% in Q1 12.
- The increase in the company's revenues was accompanied with the improvement in the operating profitability margins. The stock trades at a trailing PE of 16.0x, compared to historical average of 18.7x. **We retain our fair value of SAR 28.34 but we upgrade our recommendation from Hold to Accumulate, due to the latest 7% drop in the stock price.**

SAR mn unless otherwise stated	Q1 12	Q4 12	Q1 13	ASIB Est.	YoY	Vs. ASIB
Revenues	368	412	424	418	15.3%	1.5%
Gross Profit	140	149	162	159	15.9%	1.8%
Gross Margin	37.9%	36.1%	38.1%	38.0%		
Operating Profit	22.3	20.1	26.3	26.3	17.8%	-0.1%
Operating Margin	6.1%	4.9%	6.2%	6.3%		
Net Profit	21.5	14.3	22.3	22.2	4.0%	0.6%
Net Margin	5.8%	3.5%	5.3%	5.3%		

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