



Seeking Topline Revival

Slower than expected topline growth is eroding advantage from favorable gross margins as 2Q16 EPS of SAR 0.44 (+6% Y/Y) missed our SAR 0.63 estimate. Meanwhile opex increase is poorly timed in the business cycle, compounded by rising borrowing costs. Good news is that the impact of higher energy costs appears manageable and could force further efficiencies. Until signs of turnaround emerge, we maintain our Hold rating and SAR 20 target price.

Topline struggling

Food sales, which comprised 87% of 2015 revenues, gained +6% Y/Y while agriculture declined -37% Y/Y. Consequently, total revenues were down -1.5% Y/Y to SAR 675 mln while we were projecting a tamed +4% growth despite seasonally strong Ramadan. Contracting agri segment should have been countered by robust food business, however it appears that NADEC's market share is sliding as topline fails to impress.

Gross margins remain strong

Announced gross profit of SAR 281 mln was inline with our estimate thanks to stronger than projected margins. Favorable materials prices and efficiency measures were cited as contributing factors.

Higher SG&A expense hurt operating profit

SG&A expenses increased +7% Y/Y during the quarter to SAR 207 mln due to expansion in food sector. As a result, operating profit of SAR 56 mln (+13% Y/Y) fell short of our SAR 71 mln forecast.

Earnings disappoint though subsidy impact minimal

Impact of higher energy costs remained benign during the quarter, however other line items posed headwinds, including higher borrowing costs, which led to earnings miss. Net income of SAR 37 mln (+6% Y/Y) disappointed versus our SAR 54 mln forecast. In our view, Ramadan presented a missed opportunity to lift quarterly performance which suggests deepening weakness in 2H16. We have previously argued that the initially announced SAR 110 mln cost hit from higher utilities poses partial challenge while the bigger issue is increasingly becoming NADEC's ability to grow core business.

NADEC (SAR mln)	2Q16	2Q16E	2Q15	Y/Y Chg	1Q16	Q/Q Chg
Revenues	675	713	686	-1.5%	535	26.2%
Gross profit	281	282	251	12.1%	228	23.3%
Gross margin	41.6%	39.5%	36.6%		42.6%	
Operating profit	56	71	50	13.1%	40	42.5%
Operating margin	8.4%	10.0%	7.3%		7.4%	
Net income	37	54	35	5.6%	25	46.8%
Net margin	5.5%	7.5%	5.1%		4.7%	
EPS	0.44	0.63	0.41	5.6%	0.30	46.8%

SAR 20

12-Month Target price

Hold

Recommendation

Stock Details

Last Close Price	SAR	21.35
Upside to target	%	(6.5)
Market Capitalization	SAR mln	1,808
Shares Outstanding	mln	84.7
52-Week High	SAR	32.90
52-Week Low	SAR	15.15
Price Change (YTD)	%	(27.1)
12-Mth ADTV	thd	836
EPS 2016E	SAR	1.83
Reuters / Bloomberg	6010.SE	NADEC AB

SFC Estimates

	2016E	2017E
Revenues (mln)	2,433	2,511
Gross Margin	40%	39%
EBIT (mln)	220	203
Net Income (mln)	155	123

Price Multiples

	2015	2016E	2017E
P / E	12.8x	11.7x	14.7x
EV / EBITDA	8.1x	7.2x	7.1x
P / S	0.8x	0.7x	0.7x
P / B	1.3x	1.2x	1.1x

1-Year Share Performance



Source: Bloomberg, Tadawul, SFC

Asim Bukhtiar, CFA
abukhtiar@fransicapital.com.sa
+966 11 282 6844

Yazeed Al-Saikhan
yalsaikhan@fransicapital.com.sa
+966 11 282 6608



Research and Advisory Department

Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

Saudi Fransi Capital

Call Center | 800 125 9999

www.sfc.sa

Commercial Registration | 1010231217

Research and Advisory

P.O. Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

research&advisory@fransicapital.com.sa

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Saudi Fransi Capital LLC

C.R. 1010231217

P.O Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

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