Almarai Company

Neutral

Target price (SR)	200.0
Current price (SR)	201.0

Stock details

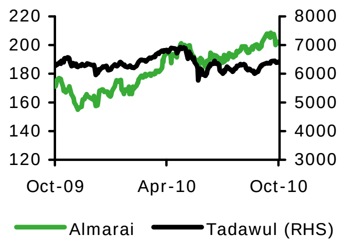
52-week range H/L (SR)			209/155
Market cap ($mn)			6,172
Shares outstanding (mn)			115
Listed on exchanges			TADAWUL
Price perf. (%)	**1M**	**3M**	**12M**
Absolute	1.3	7.1	17.4
Rel. to market	(0.7)	0.5	15.9
Avg daily turn.(mn)		**SR**	**US$**
3M		8.7	2.3
12M		21.1	5.6
Reuters code			2280.SE
Bloomberg code			ALMARAI AB
Website			www.almarai.com

Valuation multiples

	09	10E	11E
Reported P/E (x)	19.5	16.8	14.2
Adjusted P/E* (x)	19.2	16.5	14.0
Reported P/B (x)	4.0	3.6	3.1
Adjusted P/B* (x)	3.9	3.5	3.0
EV/EBITDA (x)	15.2	13.2	11.6
Div yield (%)	2.1	2.3	2.8

Source: NCBC Research estimates
*MCap adj for dividends as well as MV of listed investments divided by net incomes

Share price performance



Source: Bloomberg

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Lower margins hurt bottom line

Almarai announced 3Q10 results on 5 October 2010 reporting good sales growth, although lower margins YoY. Revenues grew by 18.5% YoY to SR1,834mn, with net income up 16.8% YoY to SR425mn in 3Q10. However, gross/net margins declined by 165bps and 34bps YoY due to higher material costs.

- **Sales:** 3Q10 came in at SR1,834mn vs. NCBC estimate of SR1,852mn. 3Q10 was an increase of 18.5% YoY (SR1,547mn in 3Q09)
- **Gross profit:** 3Q10 came in at SR797mn vs. NCBC estimate of SR824mn. 3Q10 was an increase of 14.2% YoY (SR698mn in 3Q09)
- **Net profit:** 3Q10 came in at SR425mn vs. NCBC estimate of SR449mn. 3Q10 was an increase of 16.8% YoY (SR363mn in 3Q09)
- **EPS:** 3Q10 came in at SR3.69 vs. NCBC estimate of SR3.91 3Q10 was an increase of 10.7% YoY (SR3.33mn in 3Q09)
- Sales growth was strong across the board, although YoY growth in Fresh Dairy and Fruit Juice was 1-2% below our estimate. YoY growth in 3Q10 was highest in Bakery (+32%) and lowest in Fresh Dairy (+11%)
- Margins fell in 3Q10; gross margin declined 165bps YoY to 43.4% during the quarter due to increased raw material costs. Net margin also fell 34bps YoY to 23.1% during the quarter.
- Management announced it is looking to double its share capital to SR2.3bn through the distribution of one bonus share per outstanding share. Technically, this does not change the valuation of the company, although sentiment around the stock may improve, leading the stock to move up in the coming few days. A key aim of this issuance of bonus shares may be to increase the liquidity of the stock as it will reduce the share price to around SR100 per share against the current average of SR200.
- We await further details on the results from the management in the analyst's conference call on 5 October 2010. Post this, we will update our model and PT.

Results summary

		3Q10A	3Q10E	3Q09A	YoY chg (%)	Variance(%)*
Sales	SR mn	1,834	1,852	1,547	18.5	(1.0)
Operating income	SR mn	475	500	414	14.7	(5.1)
Net income	SR mn	425	449	363	16.8	(5.5)
EPS	SR	3.69	3.91	3.33**	10.7	(5.5)

Source: Company, NCBC Research estimates
* Variance of actual numbers against NCBC estimates ** Calculated on 109mn shares outstanding, while currently it has 115mn shares outstanding due to issuance of shares for purchase of HADCO

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Corporate website	www.ncbc.com

NCBC INVESTMENT RATINGS

Overweight:	Target price represents expected returns in excess of 15% in the next 12 months
Neutral:	Target price represents expected returns between -10% and +15% in the next 12 months
Underweight:	Target price represents a fall in share price exceeding 10% in the next 12 months
Price Target:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

OTHER DEFINITIONS

NR:	Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
CS:	Coverage Suspended. NCBC has suspended coverage of this company
NC:	Not Covered. NCBC does not cover this company