

# Saudi Marketing Co. (Farm Superstores)

Q2 2016

## Recommendation

**Overweight**

**Fair Value (SAR) 50.45**

Price as of July 26, 2016 40.89

Expected Return 23.4%

## Company Data

Tadawul Symbol 4006.SE

52 Week High (SAR) 58.75

52 Week Low (SAR) 30.60

YTD Change -13.7%

3-Month Average Volume (Thousand Shares) 69

Market Cap. (SAR Million) 1,840

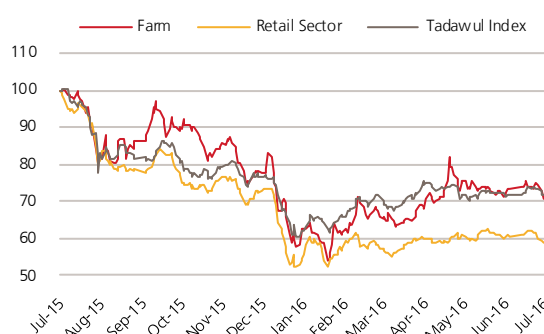
Market Cap. (USD Million) 491

Outstanding Shares (Million Shares) 45

## Major Shareholders ( > 5% )

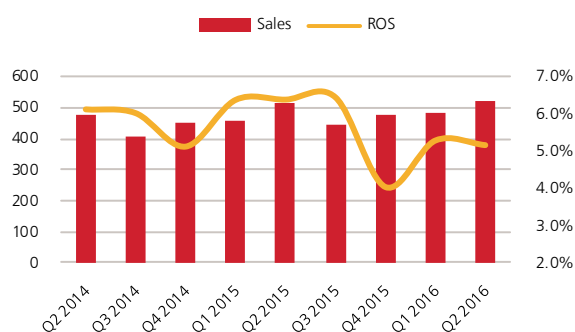
Hazem Fayeze Khalid Al Aswad 52.5%

52-week Stock Price Movement



Source: Tadawul

Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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The interim financial statements of Farm Superstores (SAMCO) for Q2 2016 unveiled net profit of SAR 27.1 million compared to SAR 32.8 million in Q2 2015, slumping 17%, nevertheless revenues stretched 2.1% YoY recording SAR 524.8 million versus SAR 513.8 million in Q2 2015. The bottom line fell short below our estimate of SAR 29 million. In addition, H1 2016 net income posted SAR 52.6 million versus SAR 61.9 million in Q2 2015 tumbling 15% while H1 2016 sales surged 3.9% from SAR 969.3 million in H1 2015 to SAR 1,007 million.

Gross profit totaled SAR 226.3 million in H1 2016 falling 0.6% YoY while operating income from the same period shrank 14.1% YoY posting SAR 57.4 million compared to SAR 66.8 million in the comparable period of last year.

The company attributed the slump in H1 2016 net income, despite mounting revenues, to the following:

- Lower wholesales from the household goods segment, Adventures World and the impact of discounts offered to customers.
- A 5% increase in SG&A expenses driven by rising costs in addition to higher electricity, water and maintenance expenses coupled with the growth in the number of outlets to 59 outlets by the end of H1 2016 compared to 54 outlets in H1 2015.
- Lower sales of the company's subsidiary in Lebanon which booked a net loss of SAR 1.5 million fueled by the ongoing political situations.
- Rising non-operating expenses from currency exchange and investment income difference in addition to increased financing expenses.

The bottom line came short below our expectation of SAR 27 million. We estimate FY16 sales at SAR 1,819 million with a bottom line of SAR 122 million.

After revising our prior assumptions for revenues and profits margins, our fair value is maintained at SAR 50.45 per share (adjusted for the non-cash increase in the company's paid in capital).

FY - Ending December	2015A	2016F	2017F	2018F
EV/EBITDA	13.30	12.09	10.63	9.33
EV/Sales	1.16	1.00	0.88	0.78
P/E	16.69	15.03	12.75	11.37
Dividend Yield	%2.9	%4.3	%4.9	%4.9
P/BV	3.32	2.95	2.67	2.42
P/Revenue	1.12	1.01	0.91	0.84
Current Ratio	1.20	1.29	1.24	1.24
Revenue Growth	%9.0	%10.5	%11.0	%9.1

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016E	2017F	2018F
Sales	1,462.0	1,541.0	1,648.7	1,819.6	2,019.2
Rent revenues	164.3	200.0	249.2	276.9	308.8
<b>Total Revenues</b>	<b>1,626.3</b>	<b>1,741.0</b>	<b>1,897.9</b>	<b>2,096.5</b>	<b>2,328.0</b>
COGS	1,272.3	1,337.7	1,435.2	1,604.6	1,784.6
SG&A	230.4	259.3	297.1	318.3	349.9
<b>EBITDA</b>	<b>123.6</b>	<b>144.0</b>	<b>165.7</b>	<b>173.6</b>	<b>193.4</b>
EBITDA Margin	7.6%	8.3%	8.7%	8.3%	8.3%
Depreciation and Amortization	29.4	31.8	38.9	41.3	44.6
<b>EBIT</b>	<b>94.2</b>	<b>112.1</b>	<b>126.8</b>	<b>132.3</b>	<b>148.8</b>
Net Interest Income	(4.6)	(6.1)	(7.4)	(9.3)	(8.2)
Others (Net)	9.05	2.72	(5.70)	3.28	8.16
<b>Pre-Tax Income</b>	<b>98.7</b>	<b>108.8</b>	<b>113.7</b>	<b>126.3</b>	<b>148.8</b>
Tax and Zakat	3.2	4.0	3.2	3.6	4.2
<b>Net Income</b>	<b>95.4</b>	<b>104.7</b>	<b>110.5</b>	<b>122.7</b>	<b>144.5</b>
Minority	0.3	0.3	0.2	0.3	0.3
<b>NAI</b>	<b>95.1</b>	<b>104.5</b>	<b>110.2</b>	<b>122.4</b>	<b>144.3</b>
ROS	5.9%	6.0%	5.8%	5.8%	6.2%
Balance Sheet (SAR mn)	2014A	2015A	2016E	2017F	2018F
Cash and Marketable securities	24.7	22.1	16.7	74.5	102.9
Accounts Receivables	28.6	26.7	35.6	39.3	43.7
Inventory	273.9	365.5	494.6	499.9	542.8
Others	49.5	41.1	41.5	39.5	43.9
<b>Total ST Assets</b>	<b>376.7</b>	<b>455.3</b>	<b>588.3</b>	<b>653.3</b>	<b>733.2</b>
Net Fixed Assets and Projects Under Implementation	546.9	627.9	717.1	714.0	736.2
Intangible assets	3.8	2.0	1.2	0.5	0.2
Others	1.8	1.6	4.9	5.0	5.2
<b>Total LT Assets</b>	<b>552.5</b>	<b>631.5</b>	<b>723.1</b>	<b>719.5</b>	<b>741.6</b>
<b>Total Assets</b>	<b>929.2</b>	<b>1,086.8</b>	<b>1,311.4</b>	<b>1,372.8</b>	<b>1,474.8</b>
Short Term Debt and CPLTD	144.0	155.8	162.4	145.0	176.4
Accrued Expenses	314.5	312.9	329.0	363.1	402.7
<b>Total ST Liabilities</b>	<b>458.5</b>	<b>468.7</b>	<b>491.4</b>	<b>508.0</b>	<b>579.1</b>
Total Long Term Debt	49.4	83.9	222.9	188.0	125.3
Other Non-Current Liabilities	29.07	37.56	42.70	52.41	63.01
<b>Equity</b>	<b>392.2</b>	<b>496.7</b>	<b>554.4</b>	<b>624.3</b>	<b>707.4</b>
<b>Total Liabilities and Equity</b>	<b>929.2</b>	<b>1,086.8</b>	<b>1,311.4</b>	<b>1,372.8</b>	<b>1,474.8</b>

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

<b>Overweight:</b>	The Target share price exceeds the current share price by $\geq 10\%$ . We expect the share price to reach the Target price over the next 9-12 months
<b>Neutral:</b>	The Target share price is either more or less than the current share price by $< 10\%$ We expect the share price to reach the Target price over the next 9-12 months
<b>Underweight:</b>	The Target share price is less than the current share price by $\geq 10\%$ . We expect the share price to reach the Target price over the next 9-12 months
<b>To be Revised:</b>	No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials , waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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