

Sadafco CP: SAR 63.75 FV: SAR 64.83 Rating: Hold

NI dropped 17% to SAR 35.6 million on unexpected impairment losses.

- **The company's sales increased by 11.9% on a yearly basis reaching SAR 383 million in Q4 12, 2% higher than our expectations.** The key activity which enabled this growth was the renovation of the ice cream products.
- Cost of sales augmented by 11.5% attaining SAR 267 million in Q4 12. **As a result, gross profit of SAR 116 million was reported in Q4 12, 13% and 1% higher than our Q4 11 and our expectations, respectively.** Gross margin of 30.2% was reported in Q4 12, higher than the 30.0% reported in the same period last year, as the company succeeded in enhancing efficiencies across various functions.
- On the other hand, selling and administrative expenses rose by 18%, YoY basis, attaining SAR 71 million in Q4 12, 1% above our expectations. Furthermore, the company reported other expenses of SAR 5.6 million including impairment losses due to the revaluation of its inventories and costs related to the production of Dammam factory. Crispy snacks and tomato paste are produced in Dammam and other products, that were previously manufactured by third-party contractors, will be added in a phased roll-out. Important to note that the company complies with the Saudization targets and so it will not incur additional costs related to the latest law requiring non-complying firms to pay penalties.
- Therefore, **operating profit of SAR 39.1 million was reported in Q4 12, 8% and 11% lower than Q4 11 and our expectations, respectively.** Operating margin dropped from 12.4% in Q4 11 to 10.2% in Q4 12.
- Zakat expenses of SAR 4.4 million were reported in Q4 12, reflecting a 36% increase on a yearly basis. No major changes occurred to other items. As such, Sadafco reported **net income of SAR 35.6 million, 17% and 13% lower than Q4 11 and our expectations, respectively.** Net margin decreased from 12.5% in Q4 11 to 9.3% in Q4 12. The stock trades at trailing PE of 13.3 and forward PE of 13.0. **We retain our fair value of SAR 64.83 and our recommendation to Hold the stock.**

SAR mn unless otherwise stated	Q4 11	Q4 12	ASIB	Consensus	YoY	Vs ASIB	Vs Cons.
Sales	342.4	383.1	375.2	400.0	12%	2%	-4%
Gross Profit	102.7	115.8	114.4	NA	13%	1%	NA
Gross Margin	30.0%	30.2%	30.5%	NA			
Operating Expenses	(60.2)	(71.1)	(70.3)	NA	18%	1%	NA
One Time Cost	0	(5.6)	0	NA	NA	NA	NA
Operating Profit	42.4	39.1	44.1	48.0	-8%	-11%	-19%
Operating Margin	12.4%	10.2%	11.8%	13.8%			
Net Income	42.7	35.6	40.7	47.0	-17%	-13%	-24%
Net Margin	12.5%	9.3%	10.9%	13.5%			

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