

**Halwani Brothers CP: SAR 63.25 FV: SAR 58.0 Rating: Hold**

Lower than expected net income on high provisions and zakat expenses. we increase our fair value to SAR 58.0 from SAR 49.5 per share and we retain our recommendation to Hold.

- **Halwani Brothers reported revenues of SAR 224 million in Q2 13, flat YoY, but 5% below our expectations.** We believe that the depreciation of the pound negatively affected the growth in revenues in Q2 13, as Egypt constitutes more than 40% of the consolidated revenues.
- Cost of sales dropped by 3% to SAR 151 million, as the company succeeded in reducing the packaging cost. As a result, **gross profit increased by 6%, yoy basis, to SAR 73 million in Q2 13.** Gross margin showed a noticeable improvement to 32.6%, up from 30.7% in Q2 12.
- Operating expenses dropped by 3%, YoY basis, to SAR 40.6 million in Q2 13. Zakat expenses tripled to SAR 7.5 million in Q2 13.
- **Net income of SAR 23 million was reported in Q2 13, flat YoY, but 21% below consensus.** Net margin remains stable at 10.2%, despite the improvement in gross margin. HB contributed this to high provisions against doubtful debt and inventory and higher zakat expenses.
- Going forward, HB is in process of expanding its factory in Jeddah which is expected to be completed before year end. HB is also expanding the capacity of its factories in Egypt, namely the meat and the halawi factories and completion is expected to be completed this year. Moreover, the company is studying the option of introducing new sweet and bakery products to the market in KSA and Egypt. We believe that the expansion will offset the loss resulted from the depreciation of the pound. Moreover, the drop in the input cost will positively affect margins in 2013. The stock trades at trailing PE of 18.2x, much higher than its historical average of 15.4x and peers average of 17.1x. We updated our model to reflect the latest developments and we increase our fair value to SAR 58.0 from SAR 49.5 per share and we retain our recommendation to Hold.

SAR mn unless otherwise stated	Q2 12	Q1 13	Q2 13	ASIB	Consensus	YoY	Vs Asib	Vs Consensus
Revenues	224	250	<b>224</b>	237	255	0.2%	-5.4%	-12.2%
Gross Profit	69	86	<b>73</b>	75	NA	6.6%	-2.7%	
Gross margin	30.7%	34.6%	<b>32.6%</b>	31.7%	NA			
Net Profit	23	31	<b>23</b>	30	29	-0.1%	-23.1%	-21.4%
Net Margin	10.2%	12.4%	<b>10.2%</b>	12.7%	11.4%			

Alaa Ghanem, CFA, CVA  
Alaa.Ghanem@asib.com

	SAR mn unless Otherwise Stated			Changes to Our Forecasts	
	2012	2013e	2014e	2013e	2014e
Sales	892	997	1,135	2%	3%
<i>Sales Growth</i>	9.7%	11.7%	13.9%		
COGS	(616)	(676)	(768)	-2%	1%
<b>Gross Profit</b>	<b>276</b>	<b>321</b>	<b>367</b>	14%	9%
<i>Gross Margin</i>	31.0%	32.2%	32.3%		
Selling & Distribution Expenses	(103)	(116)	(129)	1%	0%
G&A Expenses	(47)	(51)	(57)	2%	1%
Net Finance Charges	(2)	(0)	(1)	-97%	-87%
Others	(5)	(2)	(1)	-50%	-67%
<b>EBITDA</b>	<b>145</b>	<b>180</b>	<b>214</b>	26%	18%
<i>EBITDA Margin</i>	16.2%	18.1%	18.8%		
<b>EBIT</b>	<b>121</b>	<b>151</b>	<b>180</b>	32%	21%
<i>EBIT Margin</i>	13.5%	15.1%	15.8%		
Zakat	(10)	(14)	(16)	37%	28%
Income Tax	(23)	(30)	(36)	37%	28%
<b>Net Income</b>	<b>87</b>	<b>107</b>	<b>127</b>	37%	28%
<i>Net Margin</i>	9.8%	10.7%	11.2%		

	SAR mn unless Otherwise Stated		
	2012	2013e	2014e
Cash & Equivalents	144	148	152
Account receivable	115	125	140
Inventories	177	193	207
Others	22	22	25
<b>Total Current Assets</b>	<b>458</b>	<b>488</b>	<b>524</b>
PPE	287	352	405
<b>Total Assets</b>	<b>745</b>	<b>839</b>	<b>930</b>
Current Portion of Term Loan	1	3	5
Account Payable	62	68	77
Others	66	88	74
<b>Total Current Liabilities</b>	<b>129</b>	<b>159</b>	<b>156</b>
Term Loan	23	42	85
Others	31	32	34
<b>Total Non Current Liabilities</b>	<b>54</b>	<b>75</b>	<b>119</b>
<b>Total Liabilities</b>	<b>184</b>	<b>233</b>	<b>275</b>
<b>Shareholders Equity</b>	<b>561</b>	<b>606</b>	<b>654</b>

## DISCLAIMER

"All rights reserved. This research document (the "Document") is prepared by Audi Saradar Investment Bank SAL ("ASIB"), being an entity of Audi Saradar Group, for the use of the clients of ASIB and/or the clients of any entity within the Audi Saradar Group.

This Document is disclosed to you on a confidential basis. Receipt and/or review of this Document constitute your agreement not to copy, modify, redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this Document prior to public disclosure of the same by ASIB or the Audi Saradar Group or without the express prior written consent of ASIB.

This Document is not intended for dissemination, distribution to, or use by, any person or entity in any country or jurisdiction which would subject ASIB or any entity within the Audi Saradar Group, to any registration or licensing requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this Document is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching any applicable legal or regulatory requirements. In any case, this Document shall not be distributed in the Republic of Egypt.

Your attention is drawn to the fact that you should not access this Document if the regulations of your country of citizenship and/or residency or any applicable regulations prohibit it. In any case, persons who are subject to any restrictions in any country, such as US persons are not permitted to access information contained herein.

Neither the information, nor any opinion expressed herein constitutes an offer or an invitation or a recommendation to make an offer, to buy or sell any security or other investment product related to such security or investment. This Document provides general information only, is not intended to provide personal investment advice or recommendation and does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive it. You should seek financial, legal or tax advice regarding the appropriateness and suitability in investing in any security, other investment or investment strategy discussed or forecasted in this Document.

You should carefully read the definitions of the Rating Guide provided in this Document. In addition you should read this Document in its entirety and not conclude its contents from the ratings solely.

The information herein was obtained from various public sources believed in good faith to be reliable. Neither ASIB nor any entity within the Audi Saradar Group represents that the information contained in this Document is complete, accurate or free from any error and makes no representations or warranties whatsoever as to the data, information and opinions provided herein.

This Document and any information, opinion and prospect contained herein reflect a judgment at its original date of publication by ASIB and are subject to change without notice. ASIB and/or any entity within the Audi Saradar Group may have issued, and may in the future issue, other research documents that are inconsistent with, and reach different conclusions from, the information, opinions and prospects presented in this Document.

This Document reflects the different assumptions, views and analytical methods of the analysts who prepared them; ASIB, and the Audi Saradar Group are under no obligation to ensure that such other research documents are brought to the attention of any recipient of this Document.

ASIB, any entity within the Audi Saradar Group, one or more of their affiliates and/or their officers (including but not limited to their strategists, analysts and sales staff) may have a financial interest in securities of the issuer(s) or related investments, may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this Document and may take a view that is inconsistent with that taken herein.

The price, value of and income from any of the securities or financial instruments mentioned in this Document can fall as well as rise. The value of securities and financial instruments is subject to market conditions, volatility, exchange rate fluctuation and credit quality of any issuer that may have a positive or adverse effect on the price or income of such securities or financial instruments. Any forecasts on the economy, stock market, bond market or the economic trends of the markets are not necessarily a guide to future returns. You should understand that statements regarding future prospects may not be realized. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future returns. As a result of the preceding, you may lose, as the case may be, the amount originally invested.

None of ASIB, any entity within the Audi Saradar Group, any of their affiliates and/or their officers (including but not limited to their strategists, analysts and sales staff) shall be held liable for any loss or damage that may arise, directly or indirectly, from any use of the information contained in this Document nor for any decision or investment made on the basis of information contained herein."