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Global Research - Saudi Arabia

Investment Update

Saudia Dairy & Foodstuff Company (SADAFCO)

- Volumetric growth at a CAGR of 4.3% during 2009-13.
- Deeping production line & expanding target market.
- Strong brand image of 'Saudia' & marketing alliance.

BUY

Target Price SR 51.3

Market Data

Bloomberg Code:	SADAFCO AB
Reuters Code:	2270.SE
CMP (10th Mar 2010):	SR44.9
O/S (mn):	32.5
Market Cap (SRmn):	1,459.3
Market Cap (US$mn):	389.1
P/E 2010e (x):	12.5
P/Bv 2010e (x):	2.3

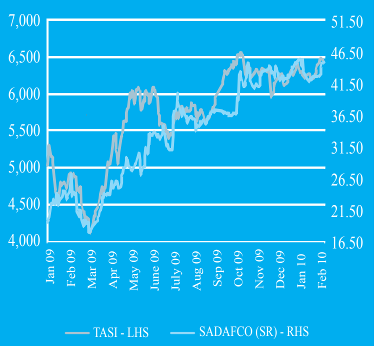
Price Performance 1-Yr

High / Low (SR):	45.3 / 17.9
Average Volume:	381,064

Market Data

	1m	3m	12m
Absolute	4.4%	2.3%	135.3%
Relative	1.0%	-0.1%	88.4%

Price Index Performance



Source: Tadawul & Zawya

Core business activity - Immunity against global economic slowdown

Saudia Dairy & Foodstuff Company (SADAFCO) has the key advantage of having limited impact of economic slowdown on the volumetric growth, which is mainly based on the (i) high per capita dairy and foodstuff consumption in the GCC region, (ii) immunity in the regional spending power against financial & economic crisis and (iii) population growth rate. However, we cannot ruled out the impact of feedstock prices on the average prices of dairy and foodstuffs due to the global economic slowdown. Moreover, the company's 'Saudia' brand is among the key growth driver, which will lead the company to (i) counter the increasing competition in the local market and (ii) further strengthen its market share. Therefore, as compared to 2009, the company's sales volume is expected to show YoY growth of 16.4% in 2010 and lead to increase the company's overall sales revenues by 13.2% during 2010.

Marketing strategies - Offer improved versions

We believe the company's ongoing marketing strategy is among those factors, which will help the company to deal with the rising competition. Hence, the company is expected to spend more on the marketing research rather than making acquisition and expansion. The company has recently introduced 'triangular cheese', which help the company to expand the target market from household use to outside i.e. office lunch, picnic lunch and so on. Moreover, in order to further strengthened the brand name, the company has focus mainly to make marketing alliance and other promotional scheme.

Upward price trend

We believe the average prices of the company's related dairy & foodstuff prices will continue its upward trend and expected to increase at a CAGR of 3.4% during 2009-13. The average prices per ton during 2010-13 of the company's related milk, yoghurt, cheese, ice cream and beverages are expected to remain in the range of US$2,500 - 3,300, US$450 -700, US$3,400 - 4,350, US$2,800 - 3,250 and US$3,800 - 4,400, respectively.

Valuation

We have updated our DCF base valuation to SR51.3, which offers the potential upside of 14.2% from the current market price of SR44.9 (as on 10th Mar 2010), while the stock is trading at the prospective 2009/10 P/E and 2010/11 P/E of 12.5x and 10.1x, respectively. We, therefore, recommend **BUY** for the stock.

Table 01: Investment Indicators

	Net Profit (SRmn)	EPS (SR)	BVPS (SR)	ROA (%)	P/E (x)	P/BV (x)
2013 (E)	156.3	4.8	24.9	14.9	9.33	1.80
2012 (E)	149.3	4.6	23.3	15.0	9.77	1.93
2011 (E)	144.7	4.5	21.9	15.6	10.09	2.05
2010 (E)	116.8	3.6	19.6	14.5	12.50	2.30
2009 (A)	28.4	0.9	15.5	3.8	27.58	1.56

*Source: Company Annual Reports & **Global** Research*
**Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on closing prices on the Tadawul as of 10th March 2010.*

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Valuation & Recommendation

DCF Method

We have used discounted cash flow (DCF) methodology to value SADAFCO and used Capital Asset Pricing Model (CAPM) to calculate the cost of the equity, which is based on the following assumptions:

- A risk-free rate of 5.6% has been assumed.
- A market risk premium of 6.0% has been assumed.
- Beta taken from Bloomberg and taken at 1.2.
- The cost of equity derived from the above assumptions using the Capital Asset Pricing Model (CAPM) is 12.8%.
- The cost of debt has been assumed at 7.0%.

Based on the above assumptions, the Weighted Average Cost of Capital (WACC) works out to be 12.8%. We have assumed the terminal growth rate at 3.25%. Based on our future earnings projections and the above assumptions for, we have arrived at the DCF base value of SR51.3 for SADAFCO.

Table 02: DCF Base Valuation

(SR Mn)		2010 (E)	2011 (E)	2012 (E)	2013 (E)
FCF		136.9	108.5	117.5	129.7
Discounted Cash Flow		134.5	94.5	90.7	88.8
Terminal Value	1,407.0				
Primary Value	408.5				
Terminal Value (discounted)	963.6				
Company's Net Present Value	**1,372.1**				
Long-Term Debt	-				
Add: Investments & Cash Equivalents	294.3				
Net Worth	**1,666.4**				
Shares Outstanding ('000)	32,500				
Fair Value Per Share	**51.3**				

*Source: **Global** Research*

Sensitivity Analysis

A sensitivity analysis for different estimated long-run future growth rates and weighted cost of capital is shown in table below. The table provides estimated DCF based fair values for SADAFCO share based on a range of varying inputs. The shaded area at the center shows the most probable range of alternatives.

Table 03: DCF Base Valuation

		Terminal Growth Rates				
		1.25%	2.25%	**3.25%**	4.25%	5.25%
WACC	10.77%	52.7	56.7	61.7	68.2	77.1
	11.77%	48.9	52.0	55.9	60.8	67.2
	12.77%	45.7	48.2	**51.3**	55.1	59.9
	13.77%	43.0	45.1	47.6	50.6	54.3
	14.77%	40.7	42.4	44.5	46.9	49.9

*Source: **Global** Research*

Valuation

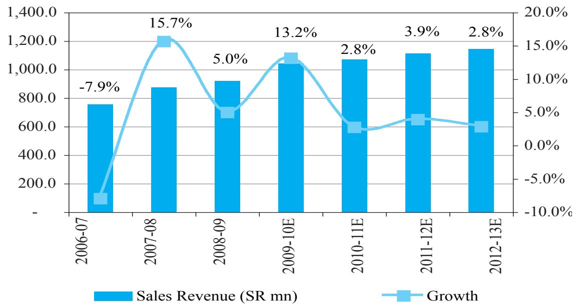
Based on our valuations, at present, the stock is trading at a prospective 2010 and 2011 P/E of 12.4x and 10.0x, and offering the potential upside of 14.2% from the current market price of SR44.7 as on 10th March 2010. We, therefore, recommend **BUY** for the stock.

Saudia Dairy & Foodstuff Company - Financial Update

Competitive Marketing Strategies - Expanding Target Market & Sales Revenue Growth

On account of rising competition in local and regional markets, we believe the company key focus is to expand its existing target market through the introduction of new and improved versions of existing products i.e. triangular cheese, which has led the company to target beyond the domestic (household). Furthermore, in order to further strengthened the company's brand image the company has recently made marketing alliance with well known electronic media and also use the promotional schemes to strengthen its presence in the market.

Chart 01: SADAFCO Sales Revenue



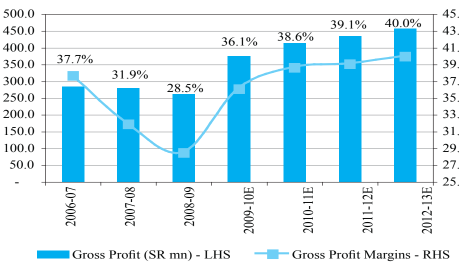
*Source: Company Reports & **Global** Research*

Based on the effective implementation of the recent marketing strategies, we believe the company will record the sales revenue of SR1.04bn during 2009-10, which is showing YoY growth of 13.2% over the revenues recorded in 2008-09. The expected growth in the company's top line, during 2009-10, is mainly based on the expected production growth of 16.4%, while the average prices of related products remained on lower side as compared to corresponding period last year. However, the expected improvement in the production and average prices will lead the company's sales revenue to increase at a CAGR of 5.6% during 2008/09-2012/13.

Improving Gross Margins - Price recovery and lower Plant Property & Equipment (PPE) growth

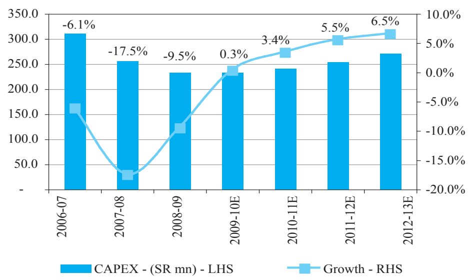
The company has witnessed a fall in gross profit to 28.5% during 2008-09 as compared to the gross margins of 31.9% recorded in 2007-08. The rise in cost of production (excluding depreciation) was mainly due to the decline in the company's gross margins, which was mainly due to the YoY decline in the average prices of related products in international markets on the back of fall in the average prices of feedstock. .

Chart 02: SADAFCO Gross Margins



*Source: Company Reports & **Global** Research*

Chart 03: SADAFCO PPE Growth



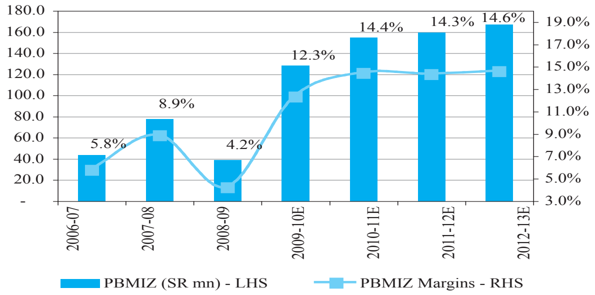
*Source: Company Reports & **Global** Research*

Going forward, based on the expected improvement in the prices, and economies of scale due to the effective implementations of marketing strategies, we expect the company will be able to dilute the impact of its cost of production, which will lead the company to maintain its gross profit margins in the average range of 38.5% during 2009/10-2012/13. Beside the expected improvement in the average prices of the related products, we believe the lower depreciation expenses will also play a vital role to make improvement in the company's prospective gross profit margins. The expected lower depreciation is mainly based on the company's marketing policy to focus more on the introduction of improved products and marketing rather than expansion in its capacity, which will lead the company's overall PPE to show the average growth of 3.9% during 2009/10-2012/13 to SR270.9mn in 2012/13.

Profit Before Minority Interest & Zakat Growth - Lower Financial Charges & Improvement in Other Income

The company's before Zakat and minority interest (PBMIZ) remained on lower side and recorded at SR38.9mn in 2008-09, which was translated into PBMIZ margin of 4.2% as compared to 8.9% in 2007-08. The massive fall in the company's PBMIZ, during 2008-09, was mainly due to the rise in unusual costs, which was mainly based on the higher write-off provision against receivable amounting SR26.3mn as compared to SR9.9mn in 2007-08. Furthermore, we cannot ruled out the impact of the decline in other income, which kept the PBMIZ on lower side.

Chart 04: SADAFCO Profit Before Minority Interest & Zakat



*Source: Company Reports & **Global** Research*

The company's PBMIZ is expected to resume its upward movement and reach SR128.5mn in 2009-10, which will be translated in to PBMIZ margin of 12.3%. Going forward, the company's expected PBMIZ will continue its upward movement, which will lead the company to maintain its PBMIZ margin at the average of 13.9% during 2009/10-2012/13. In addition, the improvement in the company's PBMIZ margin is mainly based on the expected improvement in the gross profit margins. Furthermore, besides the improvement in GP margins, we believe the following factors are expected to play the supporting role to keep the company's PBMIZ margins on higher side:

(i) Improvement in investment income, which is mainly based on the forecasted improvement in the investment markets.

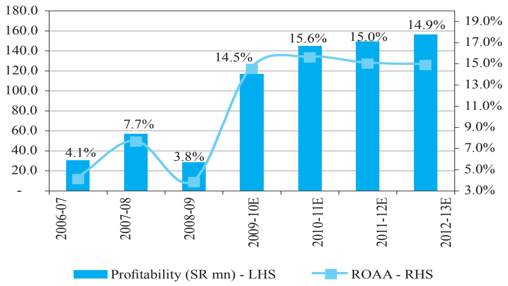
(ii) No write-offs and provisions.

(iii) Lower financial costs on account of lower interest rates scenario.

Profitability Growth

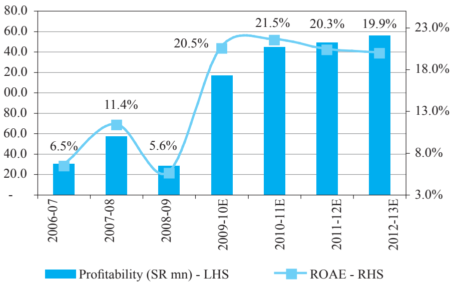
The company has posted after tax profit of SR28.4mn during 2008-09, which is 50.4% lower than the profitability recorded in 2007-08. The major reason of the decline in the company's bottom line was the (i) decline in other income and (ii) higher unusual cost, which was mainly based on the write-off of SR26.3mn under provision against affiliate receivable.

Chart 05: Profitability & ROAA



*Source: Company Reports & **Global** Research*

Chart 06: Profitability & ROAE



Source: Company Reports & **Global** *Research*

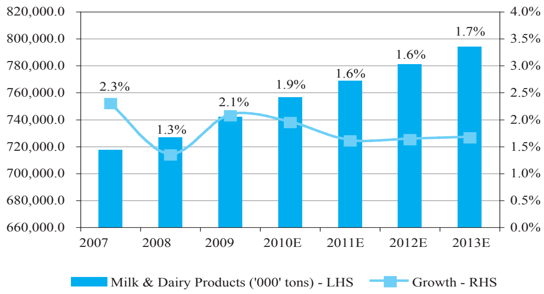
However, based on the expected improvement in the other income and absence of write off charges, the company's profitability is expected to show a growth of 311.2% to SR116.8mn during 2009-10 and increase at a CAGR of 53.3% during 2009/10-2012/13. Moreover, the expected we cannot rule out the impact of low base in 2008-09 in the bottom line of the company. Subsequently, the company's ROAA and ROAE is expected to remain at the average of 13.9% and 15.0% during 2009/10-2012/13, respectively.

Food & Agriculture Sector

World Milk & Dairy Sector

Based on the Food & Agriculture Policy Research 2009 (FAPRI), the overall production of milk & dairy products (including butter, cheese, whole milk powder & skim milk) around the globe by the end of 2009 has recorded at 742.3mn tons, which is expected to increase by 1.9% in 2010. However, in term of CAGR the world production is expected to increase at a CAGR of 1.7% during 2009-13 to 794.3mn tons. We believe the growth in the milk and dairy products is mainly associated with the forecasted increase in the world's population at a CAGR of 1.8% during 2009-13.

Chart 07: World Milk & Dairy Production



*Source: FAO & **Global** Research*

Based on FAPRI 2009, majority of the milk and dairy production is directed from European Union (EU) and India, where the production has recorded at 147.0mn tons and 111.6mn tons, respectively, during 2009. Furthermore, the production from EU and India is expected to reach 149.3mn tons and 115.2mn tons during 2010, respectively, followed by US where the production is forecasted to reach 91.8mn tons

Table 04: Country-Wise Milk & Dairy Production

	2007	2008	2009	2010E	2011E	2012E	2013E
Argentine	1.4%	1.5%	1.6%	1.6%	1.6%	1.6%	1.7%
Australia	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.5%
Brazil	3.9%	4.2%	4.3%	4.4%	4.5%	4.7%	4.8%
Canada	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%
China	5.7%	5.4%	5.8%	6.0%	6.3%	6.4%	6.6%
Colombia	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Egypt	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
European Union	20.0%	19.9%	19.8%	19.7%	19.4%	19.1%	18.7%
India	14.2%	14.9%	15.0%	15.2%	15.3%	15.4%	15.5%
Japan	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%
Mexico	1.5%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%
New Zealand	2.4%	2.4%	2.4%	2.4%	2.4%	2.5%	2.5%
Peru	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%
Romania	0.7%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%
Russia	4.6%	4.6%	4.6%	4.5%	4.5%	4.5%	4.5%
South Korean	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Switzerland	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%
Ukraine	1.9%	1.6%	1.4%	1.3%	1.3%	1.2%	1.2%
Uruguay	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
United States	12.5%	12.7%	12.4%	12.1%	12.0%	12.0%	11.9%
Production From Other Countries	24.8%	24.3%	24.3%	24.3%	24.3%	24.3%	24.4%

*Source: FAPRI & **Global** Research*

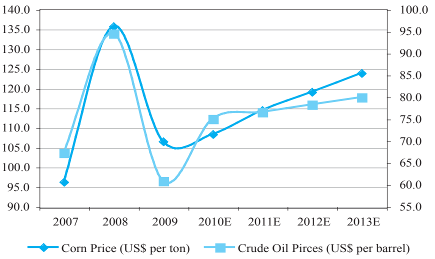
Furthermore, the weighted average per capita consumption of the world's dairy products, as per FAPRI 2009, has shown improvement during 2009 and recorded at 58.8Kg as compared to 57.6Kg in 2008. Going forward, the weighted average per capita consumption of dairy products is expected to continue its upward trend and reach at 60.0Kg by the end of 2013. We believe the increase in per capita is mainly based on the expected massive marketing alliance and promotion campaigns coupled with the expansions of retail outlets in major consuming areas of the world, which will lead to the easy availability of these products in the market, going forward.

Milk & Dairy Product Prices

The main feedstock price in dairy food industry is the price of corns and grains, which are used to feed the cow. Moreover, prices of these products have a major impact on the cost of producing raw milk, which consequently have an impact of the prices of end of products. In addition, the price of corns is correlated with the price of crude oil, since corn is also use to make ethanol fuel (alternative fuel). Hence, higher the price of crude oil the higher will it leads to an increase in the demand for ethanol, which requires corn as a feedstock. Consequently, this creates shortage of corns for cow feeding thus leading to an increase in prices.

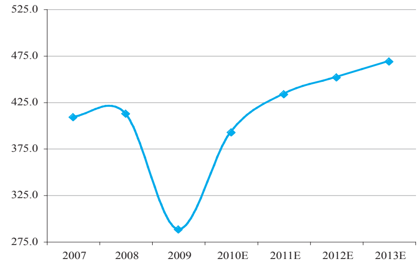
We expect the average prices corn will remain in the range of US$100.0 to US$105.0 per ton during 2010, while we have updated the average long-term prices of corn to remain in range of US$100.0-US$120.0 per ton during 2010-13.

Chart 08: Feedstock & Crude Oil Prices



*Source: USDA & **Global** Research*

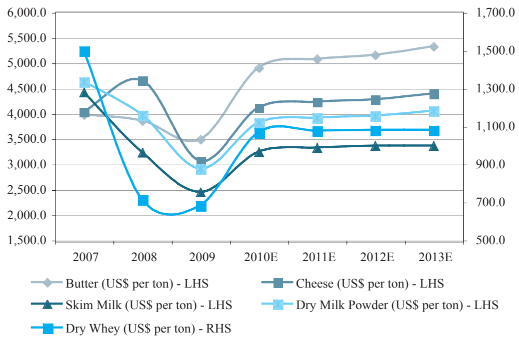
Chart 09: Raw Milk Price (US$ per ton)



*Source: Agriculture & Applied Economics & **Global** research*

According to California Department of Food & Agriculture (CFDA) pricing mechanism the price of raw milk is differentiate on the basis of end use, which provides the basis to classify raw milk into different classes. Moreover, the prices of each class of milk is different and again based on the end use of that particular milk class and hence represent as the feedstock for dairy products.

Chart 10: Prices of Dairy Products



*Source: Bloomberg, Agriculture & Applied Economics & **Global** research*

Middle East Milk & Dairy Sector - High Potential

We expect the regional milk and dairy market is expected to increase at a CAGR of 2.6% during 2009-13 to 7.7mn tons, which is mainly based on the (i) expected increase in the Middle East population at a CAGR of 2.6% during 2009-13 to 115.5mn and (ii) strong spending power in the regional countries, particularly in GCC member countries.

Table 05: Regional Milk & Dairy Consumption

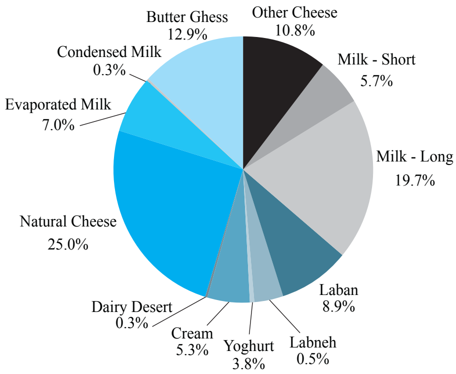
'000' tons	2007	2008	2009*	2010E	2011E	2012E	2013E
Saudi Arabia	3,950	4,029	4,110	4,193	4,277	4,363	4,451
Kuwait	434	450	462	473	485	497	510
Bahrain	154	156	160	164	168	173	177
Qatar	164	166	171	176	181	187	192
UAE	711	739	765	792	819	848	878
Oman	474	489	501	514	527	540	554
Iraq	284	290	305	321	337	355	373
Yemen	103	106	113	121	129	139	148
Jordan	239	244	256	268	280	294	307
Lebanon	127	129	131	135	138	141	144
Total	**6,641**	**6,798**	**6,974**	**7,156**	**7,343**	**7,536**	**7,734**

*Source: Almarai Prospectus & **Global** Research*

**Based on our calculations*

It is worth mentioning that the Kingdom is expected to remain the leading consumer of the milk and dairy products in the region followed by UAE, which is mainly due to the population size in these two countries. However, the lower spending power in the other regional countries like Yemen and Iraq is the major factor of low consumption though the population is high in these areas.

Chart 11: Regional Product Wise Consumption Composition



*Source: Company Reports & **Global** Research*

Based on our calculations, by the end of 2009, the regional milk & dairy product consumption is mainly based on the long-life products i.e. cheese, milk-long and butter. Since the taste preference & demographic factors are rigid to change, so we are expecting constant product wise composition during 2009-13.

KSA Milk & Dairy Sector - Leading Regional Market

Among the regional countries Saudi Arabia has the largest in-house milk production facility. Based on our calculations, KSA has a capacity to handle cattle stock of more than 138,000 by the end of 2009 with the annual capacity to produce 7.8 tons of per head. Going forward, the Kingdom's cattle stock is expected to increase at a CAGR of 3.1% during 2009-13, while the per head annual production is expected to remain constant at 7.8 tons per head during 2010-13.

Table 06: Regional Milk & Dairy Consumption

	2007	2008	2009*	2010E	2011E	2012E	2013E
Milk - Short	171	175	178	182	185	189	193
Milk - Long	803	819	835	852	869	887	904
Laban	439	448	456	466	475	484	494
Yoghurt	127	129	132	135	137	140	143
Labneh	19	20	20	20	21	21	22
Cream	226	231	235	240	245	250	255
Dairy Desert	11	11	11	12	12	12	12
Natural Cheese	1,038	1,058	1,079	1,101	1,123	1,146	1,168
Evaporated Milk	218	222	227	231	236	241	246
Condensate Milk	11	11	11	12	12	12	12
Butter Ghee	411	419	428	436	445	454	463
Other Cheese	411	419	428	436	445	454	463
Ice Cream	64	66	68	70	71	73	76
Total	**3,950**	**4,029**	**4,110**	**4,193**	**4,277**	**4,363**	**4,451**

*Source: Almarai Prospectus & **Global** Research*

**Based on our calculations*

We believe the consumption in Saudi dairy market is expected to increase at a CAGR of 2.0% during 2009-13, which is proportionately linked with expected growth in the domestic population. It is worth mentioning that the majority of the consumption inside the Kingdom is based on the associated with fat rich and long life dairy products i.e. butter and cheese.

Balance Sheet

	Saudia Dairy & Foodstuff Company - SADAFCO						
(SR '000')	**2006-07**	**2007-08**	**2008-09**	**2009-10E**	**2010-11E**	**2011-12E**	**2012-13E**
Current Assets							
Cash & Equivalent	104,492	82,831	49,870	181,986	214,733	224,322	241,492
Trading Investments	36,205	27,004	-	-	-	-	-
Account R/A	101,393	126,749	155,042	156,533	160,856	172,775	183,418
Deposits & Prepayments	15,062	14,788	21,943	33,350	32,906	37,353	41,296
Inventories	109,861	188,761	158,824	170,086	197,435	203,746	206,479
Total Current Assets	**367,013**	**440,133**	**385,679**	**541,955**	**605,930**	**638,196**	**672,685**
Non Current & Fixed Assets							
Investments	35,133	30,998	23,868	25,061	27,568	30,324	33,357
Available - For - Sales Instruments	-	24,984	63,175	88,445	92,867	97,511	102,386
Dairy Livestock	16,057	-	-	-	-	-	-
Intangible Assets	2,872	1,417	709	744	782	821	862
Property, Plant & Equipment	311,224	256,772	232,341	233,099	241,005	254,286	270,924
Assets Relating to Subsidiaries	-	9,627	13,559	-	-	-	-
Total Non Current & Fixed Assets	**365,286**	**323,798**	**333,652**	**347,350**	**362,221**	**382,941**	**407,529**
Total Assets	**732,299**	**763,931**	**719,331**	**889,306**	**968,151**	**1,021,138**	**1,080,214**
Liabilities & Equity							
Current Liabilities							
Short - Term Bank Debts	20,904	6,281	1,243	932	1,119	1,175	1,233
Account P/A	82,566	88,431	41,529	41,688	41,132	42,447	44,737
P/A to Affiliates & Shareholders	11,862	7,322	8,892	9,070	9,977	10,975	12,072
Accruals & Other Liabilities	48,812	61,116	70,789	120,060	121,752	122,247	123,888
Accrued Zakat	13,152	14,571	13,817	14,508	15,959	17,554	19,310
Unpaid Dividend	-	293	726	762	800	840	882
Current Portion of Long-Term Debt	574	-	-	-	-	-	-
Total Current Liabilities	**177,870**	**178,014**	**136,996**	**187,020**	**190,739**	**195,239**	**202,123**
Non-Current Liabilities							
Employees' End Of Service Benefits	61,157	60,549	62,838	66,608	67,274	67,947	68,627
Long - Term Bank Debt	934	47	-	-	-	-	-
Liabilities Relating to Subsidiary Held For Disposal	-	10,042	16,872	-	-	-	-
Total Non-Current Liabilities	**62,091**	**70,638**	**79,710**	**66,608**	**67,274**	**67,947**	**68,627**
Total Liabilities	**239,961**	**248,652**	**216,706**	**253,629**	**258,013**	**263,186**	**270,749**
Shareholders' Equity							
Capital	325,000	325,000	325,000	325,000	325,000	325,000	325,001
Statutory Reserves	111,743	117,590	120,421	132,123	146,661	161,664	177,371
Voluntary Reserves	53,437	26,784	78,365	41,317	128,203	175,385	195,995
Dividend Declared	-	-	(48,750)	-	(72,347)	(104,526)	(109,430)
Unrealized Gain On AFS Investment	-	492	4,761	21,879	24,067	26,474	29,121
Foreign Currency Translation Adjustments	(8,840)	(6,984)	(1,979)	(1,999)	(2,019)	(2,039)	(2,059)
Retained Earnings	6,599	51,977	24,476	116,694	159,250	173,347	188,172
Parent Shareholders' Equity	**487,939**	**514,859**	**502,294**	**635,015**	**708,815**	**755,304**	**804,170**
Minority Interest	4,399	420	331	662	1,324	2,648	5,296
Total Shareholders' Equity	**492,338**	**515,279**	**502,625**	**635,677**	**710,138**	**757,952**	**809,465**
Total Liabilities & Shareholders' Equity	**732,299**	**763,931**	**719,331**	**889,306**	**968,151**	**1,021,138**	**1,080,214**

Source: Company Reports, ***Global*** *Research*

Income Statement

	Saudia Dairy & Foodstuff Company - SADAFCO						
(SR '000')	**2006-07**	**2007-08**	**2008-09**	**2009-10E**	**2010-11E**	**2011-12E**	**2012-13E**
Sales Revenue	759,373	878,229	922,274	1,043,556	1,072,372	1,114,679	1,146,360
			5.0%				
Cost of Sales	(473,372)	(597,998)	(659,687)	(667,002)	(658,117)	(679,153)	(688,265)
Gross Profit	**286,001**	**280,231**	**262,587**	**376,554**	**414,255**	**435,526**	**458,095**
Selling & Distribution Expenses	(186,144)	(168,225)	(154,664)	(194,564)	(203,014)	(216,032)	(228,109)
General & Administrative Expenses	(54,480)	(52,401)	(44,729)	(60,822)	(57,670)	(61,368)	(64,799)
Operating Income	**45,377**	**59,605**	**63,194**	**121,168**	**153,572**	**158,126**	**165,187**
Realized & Unrealized Gain On Trading Investments	6,625	11,352	(2,354)	-	-	-	-
Investment Income	3,045	2,987	3,060	(351)	3,106	3,314	3,587
Other (Expenses) Income	66	(113)	111	1,710	-	-	-
Gain On Sale of Land	-	15,355	2,662	-	-	-	-
Financial Charges	(5,225)	(1,036)	(1,456)	(2,435)	(1,851)	(1,666)	(1,499)
Loss On Sale of Investment	-	(466)	-	8,375	-	-	-
Write Off / Provision Against Affiliate R/A	(6,032)	(9,953)	(26,296)	-	-	-	-
Income Before Minority Interest & Zakat	**43,856**	**77,731**	**38,921**	**128,467**	**154,827**	**159,774**	**167,274**
Zakat Charges	(5,800)	(7,500)	(7,500)	(10,249)	(10,838)	(11,184)	(11,709)
Income Before Minority Interest & Continuing Operation	**38,056**	**70,231**	**31,421**	**118,218**	**143,989**	**148,589**	**155,565**
Net Income / (Loss) From Discontinuing Operation	(7,233)	(12,948)	(3,021)	(1,450)	705	734	764
Net Income For the Year	**30,823**	**57,283**	**28,400**	**116,768**	**144,695**	**149,323**	**156,329**
P&L Appropriation A/C							
Opening Balance	(23,159)	6,599	51,977	24,476	116,694	159,250	173,347
Transfer to Statutory Reserves	(3,306)	(5,847)	(2,831)	(11,702)	(14,538)	(15,003)	(15,707)
Transfer to Volunteer Reserves	-	(5,847)	(2,831)	(11,702)	(14,538)	(15,003)	(15,707)
Dividend Declared	-	-	(48,750)	-	(72,347)	(104,526)	(109,430)
Board of Director Remuneration	-	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)
Ending Balance	**6,599**	**51,977**	**24,476**	**116,694**	**159,250**	**173,347**	**188,171**

Source: Company Reports, ***Global*** *Research*

Cash Flow Statement

	Saudia Dairy & Foodstuff Company - SADAFCO						
(SR '000')	**2006-07**	**2007-08**	**2008-09**	**2009-10E**	**2010-11E**	**2011-12E**	**2012-13E**
OPERATING ACTIVITIES							
Net Income For the Year Attributable to Equity Shareholders	33,064	58,472	28,311	117,023	145,379	150,029	157,068
Depreciation & Amortization	53,709	44,889	38,547	39,527	41,503	43,786	46,303
Minority Interest	(2,241)	(3,979)	(385)	(255)	(684)	(706)	(739)
Other Operating Activities	(7,846)	(21,730)	23,001	(5,849)	(1,961)	(2,382)	(2,851)
Change in Working Capital	128,336	(74,721)	(31,975)	26,761	(26,350)	(16,204)	(7,106)
Net Cash from operating activities	**205,022**	**2,931**	**57,499**	**177,206**	**157,887**	**174,524**	**192,675**
INVESTING ACTIVITIES							
Plant & Property	(22,674)	(4,487)	(29,102)	(40,285)	(49,408)	(57,067)	(62,942)
Net Movement In Investments	(29,580)	(3,321)	(23,925)	(1,193)	(2,506)	(2,757)	(3,032)
Other Investment Activities	8,273	15,408	8,657	13,636	1,520	1,752	2,061
Cash Flows from Investing Activities	**(43,981)**	**7,600**	**(44,370)**	**(27,843)**	**(50,394)**	**(58,072)**	**(63,913)**
FINANCING ACTIVITIES							
Net Movement of Long-Term & Short Term Loans	(116,488)	(1,548)	(326)	(17,183)	186	56	59
Dividend Paid	-	(32,500)	(48,750)	-	(72,347)	(104,526)	(109,430)
Other Financing Activities	-	-		(65)	(2,585)	(2,393)	(2,220)
Cash Flows from Financing Activities	**(116,488)**	**(34,048)**	**(49,076)**	**(17,248)**	**(74,746)**	**(106,863)**	**(111,591)**
Effect of Exchange Rate Fluctuations	9	1,856	2,986				
Increase/Decrease in Cash	**44,562**	**(21,661)**	**(32,961)**	**132,116**	**32,747**	**9,589**	**17,170**
Cash Beginning Balance	59,930	104,492	82,831	49,870	181,986	214,733	224,322
Cash Ending Balance	**104,492**	**82,831**	**49,870**	**181,986**	**214,733**	**224,322**	**241,492**

*Source: Company Reports, **Global** Research*

Fact Sheet

	Saudia Dairy & Foodstuff Company - SADAFCO						
	2006-07	**2007-08**	**2008-09**	**2009-10E**	**2010-11E**	**2011-12E**	**2012-13E**
Liquidity Ratios							
Current Ratio	2.06	2.47	2.82	2.90	3.18	3.27	3.33
Cash Ratio	0.59	0.47	0.36	0.97	1.13	1.15	1.19
Profitability Ratios							
Gross Margin	37.7%	31.9%	28.5%	36.1%	38.6%	39.1%	40.0%
EBITDA Margin	17.2%	16.8%	8.5%	16.3%	18.5%	18.4%	18.8%
EBIT Margin	6.0%	6.8%	6.9%	11.6%	14.3%	14.2%	14.4%
Net Profit Margin	4.1%	6.5%	3.1%	11.2%	13.5%	13.4%	13.6%
ROAE	6.5%	11.4%	5.6%	20.5%	21.5%	20.3%	19.9%
ROAA	4.1%	7.7%	3.8%	14.5%	15.6%	15.0%	14.9%
Leverage Ratios							
Debt to Asset	39.9%	7.0%	2.5%	0.5%	0.4%	0.5%	0.5%
Liabilities/Total Assets (x)	0.40	0.33	0.33	0.30	0.29	0.27	0.26
Growth Rates							
Revenue Growth Rate	-7.9%	15.7%	5.0%	13.2%	2.8%	3.9%	2.8%
Net Income Growth Rate	n/a	85.8%	-50.4%	311.2%	23.9%	3.2%	4.7%
Equity Growth Rate	6.6%	4.7%	-2.5%	26.5%	11.7%	6.7%	6.8%
Total Asset Growth Rate	-4.9%	4.3%	-5.8%	23.6%	8.9%	5.5%	5.8%
Ratios Use for Valuation							
Number of Shares (mn)	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Par value per share (SR)	10	10	10	10	10	10	10
BV per share (SR)	15.1	15.9	15.5	19.6	21.9	23.3	24.9
EPS (SR)	0.9	1.8	0.9	3.6	4.5	4.6	4.8
Market Price	33.25	33.00	24.10	44.9	44.9	44.9	44.9
Market Cap in (SR Mn)	1,081	1,073	783	1,459	1,459	1,459	1,459
EV (SR Mn)	976.1	989.7	733.4	1,277.3	1,244.5	1,234.9	1,217.8
EV/EBITDA	7.48	6.72	9.38	7.49	6.28	6.02	5.66
P/E Ratio	35.06	18.72	27.58	12.50	10.09	9.77	9.33
P/BV Ratio	2.19	2.08	1.56	2.30	2.05	1.93	1.80

*Source: Company Reports, **Global** Research*

**Historical P/E & P/BV multiples pertain to respective 31st March end prices, while those for future years are based on closing prices on the Tadawul as of March 10th 2010.*

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Company	Recommendation	Ticker	Price	Disclosure
Saudia Dairy & Foodstuff Company (SADAFCO)	Buy	SADAFCO AB 2270.SE	SR44.9	1, 10

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