US$6.40bn	35.8%	US$2.900mn
Market cap	Free float	Avg. daily volume

Target price	237.4	15.2% over current
Consensus price	218.0	5.8% over current
Current price	206.0	as at 09/10/2010

Research Department
Khalid Alruwaigh, Investment Analyst
Tel 966 1 211 9310, alruwaighka@alrajhi-capital.com

Underweight | Neutral | **Overweight**

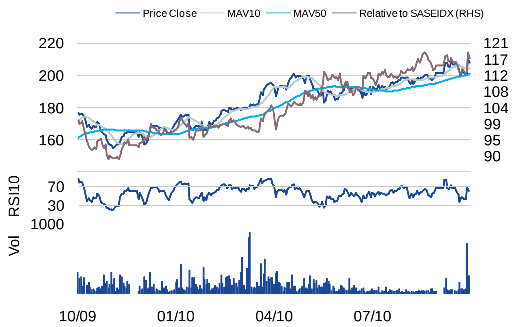
Key themes

We believe that the food industry will continue to grow strongly. Almarai has a very strong position in the GCC dairy market. We believe that Almarai will continue to enter new segments through start-ups or acquisitions to maintain its outstanding growth.

Implications

Almarai is our preferred stock in the agriculture & food sector. Almarai is performing well operationally and offers growth in the near term at a reasonable valuation. We expect high transparency to continue to support Almarai's share price, and think it will find favour with international investors if the Saudi stock market is fully opened up.

Performance

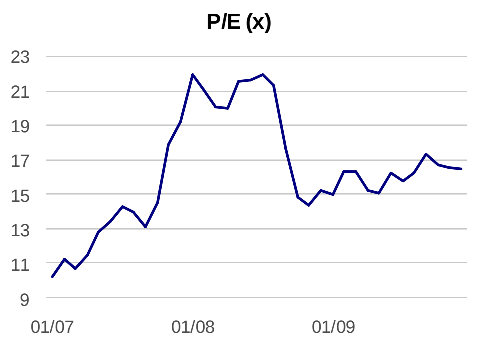


Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	5,869	6,921	7,982	9,189
Revenue Growth	16.7%	17.9%	15.3%	15.1%
EBITDA (SARmn)	1,732	2,077	2,271	2,620
EBITDA Growth	19.5%	19.9%	9.3%	15.4%
EPS	9.79	11.45	13.54	15.97
EPS Growth	9.1%	16.9%	18.3%	17.9%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Almarai
Consistently delightful

Almarai released Q3 results with high growth in both sales and net profit. All segments grew strongly, but bakery and juice again showed the highest sales growth. The gross margin of 43.4% was higher than that in Q2 and Q1, though it was down slightly year-on-year. Almarai announced board approval of a plan to boost share capital by 100% through stock dividends. We see this news positively as it shows Almarai's commitment to its expansion plans and also increases the stock's liquidity in the market. We think Almarai will maintain its strong growth during Q4 and 2011. Therefore, we remain Overweight with a revised target price of SAR237.4, implying 15.2% upside potential.

Strong top line supports our stance: Almarai reported year-on-year sales growth of 18.5% from SAR1.55bn in Q2 2009 to SAR1.84bn in Q2 2010, slightly below our forecast of 18.8% sales growth but supporting our positive stance on the company. All segments grew impressively; as we had expected, bakery and juice showed the highest sales growth of 32.3% and 18.7% respectively. This growth came mainly from higher volumes rather than from higher prices. We believe that the growth can be attributed to population growth, market share expansion, and consumers' conversion to healthy products.

Margins are better than Q1 and Q2: Although the gross margin dropped from 45.1% in Q3 2009 to 43.4% in Q3 2010, it has considerably improved from 36.6% in Q1 2010 and 40.3% in Q2 2010. We believe that Almarai's gross margin is still affected by pre-investment costs associated with the new bakery plant and other costs related to improving quality in the poultry segment. Nevertheless, the Q3 gross margin was higher than that of the two previous quarters due to good sales of cream products (a high-margin product) and high sales in Ramadan (which took place in Q3 this year). Almarai's net income grew by 16.8% to reach SAR424mn, slightly higher than our estimate of SAR415mn. The modest discrepancy compared to our forecast of net income can be explained mainly by lower administrative costs than we had expected.

Raising capital shows commitment to expansion: As we had expected and as we mentioned in our initial coverage report published on 3rd April, Almarai announced its intention to increase its share capital 100% through stock dividends. This shows the company's commitment to its aggressive expansion plans. Although shareholders like stock dividends, this plan has no direct impact on the share price. However, we believe it could stimulate the share price as it will create more liquidity in the stock. This is because, while many investors perceive Almarai as an expensive company due to its high absolute share price, the share price will automatically halve following the stock dividend.

Valuation: Almarai announced strong Q3 results in terms of both revenues and profits. It also announced a plan to increase share capital by 100% through stock dividends which not only shows its commitment to expansion plans but will also create more liquidity in the stock. The company has an aggressive expansion plans and an objective of doubling its sales by 2015 and we believe in its capability to attain to this aim. Therefore, we have raised our estimate of 2012 revenues by 2% and our assumption of long-run revenue growth by 1% (due in part to expected infant food sales). This has resulted in a higher target price of SAR237.4 (SAR118.7 adjusted for the stock dividend). Hence we retain our positive view on Almarai and our Overweight rating.

الراجحي المالية
Al Rajhi Capital

Corporate summary

Almarai is the largest integrated dairy foods company in the world, with a reputation for quality in the Gulf states in which it operates. Almarai began in 1976 under the leadership of HH Prince Sultan bin Mohammed bin Saud Al Kabeer, as it remains to this day. The company is based in Riyadh, the capital of Saudi Arabia. Almarai's network extends throughout the Arabian Peninsula, leading and influencing the agricultural, dairy processing and food distribution industries. Almarai started as a pure dairy company and has greatly expanded to include cheese, bakery, juice, and poultry.

Share information

Market cap (SAR/US$)	23.90bn / 6.40bn
52-week range	155.0 - 210.5
Daily avg volume (US$)	2.900mn
Shares outstanding	115.0mn
Free float (est)	35.8%

Performance:	1M	3M	12M
Absolute	3.2%	7.9%	20.2%
Relative to index	1.4%	3.1%	19%

Major Shareholder:	
Savola Al-Azizia United Co	29.9%
Al-Saud Sultan Mohamed	28.6%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	5,869	6,921	7,982	9,189
EBITDA (SARmn)	1,732	2,077	2,271	2,620
Net Profit (SARmn)	1,100	1,337	1,576	1,858
EPS (SAR)	9.79	11.45	13.54	15.97
DPS (SAR)	4.00	4.00	4.40	4.84
EPS Growth	9.1%	16.9%	18.3%	17.9%
EV/EBITDA (x)	15.7	13.9	12.8	11.0
P/E (x)	21.3	18.2	15.4	13.0
P/B (x)	4.4	3.9	3.3	2.8
Dividend Yield	1.9%	1.9%	2.1%	2.3%

Source: Company data, Al Rajhi Capital

Q3: all segments are growing in line with our assumptions

Almarai achieved strong growth in both the top and bottom lines

Almarai reported year-on-year sales growth of 18.5% from SAR1.55bn in Q2 2009 to SAR1.84bn in Q3 2010, slightly below our forecast of 18.8% sales growth and supporting our positive stance on the company. All segments showed strong revenue growth. As we had expected, the bakery and juice segments achieved the highest sales growth of 32.3% and 18.7% respectively. Long life milk sales grew by an impressive 18%, above our estimate of 15%. Poultry is still under development and achieved sales of SAR49mn, less than our estimate of SAR70mn. Overall, total Q3 revenues of SAR1.835bn matched our estimate of SAR1.840bn. Nevertheless, net income of SAR424mn was slightly higher than our forecast of SAR415mn due to lower administrative costs than we had assumed.

Figure 1. Almarai: 2009Q1 vs. 2010Q1E vs. 2010Q1A

(SAR) mn	2009Q3A	2010Q3E	2010Q3A	YOY % chg.
Fresh Dairy	801.7	889.9	890.6	11.1%
Long Life Dairy	130.2	145.9	153.7	18.0%
Fruit Juice	176.3	208.1	209.3	18.7%
Cheese & Butter	281.5	309.7	319.9	13.6%
Bakery	152.8	191.0	202.1	32.3%
Poultry	N/A	70.0	49.9	N/A
Arable & Horiculture	N/A	20.2	3.7	N/A
Other	4.9	5.3	4.6	-6.1%
Total Revenues	**1,547.4**	**1,839.9**	**1,833.8**	**18.5%**
Gross Profit	697.6	804.0	796.5	14.2%
	45.1%	43.7%	43.4%	
EBITDA	**536.0**	**616.4**	**644.6**	**20.3%**
EBITDA margin (%)	34.6%	33.5%	35.2%	
Net Income	**363.4**	**414.6**	**424.5**	**16.8%**

Source: Company data, Al Rajhi Capital

Looking forward
we expect strong full year results

2009 Q4 was a strong quarter for Almarai in terms of revenues as it was the only quarter that included poultry sales in 2009. Thus, we estimate Q4 2010 revenue growth of 15.6%, slightly weaker than growth in previous quarters. However, as the Hadco acquisition happened in Q4 last year and resulted in lower net profit due to associated one-time costs, we expect next quarter's net income to reach SAR315mn, implying year-on-year growth of 26.6%. This would be a stronger outcome than in the previous three quarters.

We estimate decent revenues growth in Q4, but strong profits growth

Based on our estimates for Q4, we expect full-year revenue to grow by 17.9% and reach SAR6.923bn. Although we think it will be hard for Almarai to replicate its 2009 gross margin of 40.3%, we think the company can boost its gross margin over the last quarter and so achieve a gross margin of 39.8% in 2010. We further expect full-year net income to reach SAR1.316bn, implying 20% growth from the level of 2009.

Figure 2. Almarai: 2010Q4E & FY2009A vs. FY2010E

(SAR) mn	2009Q4A	2010Q4E	YOY % chg.	FY2009A	FY2010E	YOY % chg.
Fresh Dairy	704	788.8	12.0%	2,817.6	3,147.1	11.7%
Long Life Dairy	154	183.1	19.0%	562.6	668.8	18.9%
Fruit Juice	155	183.2	18.0%	620.2	740.5	19.4%
Cheese & Butter	286	317.5	11.0%	1,143.0	1,272.9	11.4%
Bakery	171	223.7	31.0%	618.1	820.6	32.8%
Poultry	45	53.4	20.0%	44.5	181.5	307.9%
Arable & Horiculture	28	34.1	20.0%	28.4	65.7	131.5%
Other	5	5.4	8.0%	34.4	24.2	-29.8%
Total Revenues	**1,548.2**	**1,789.2**	**15.6%**	**5,868.8**	**6,921.4**	**17.9%**
Gross Profit	568.6	688.9	21.1%	2,365.8	2,756.5	16.5%
	36.7%	38.5%		40.3%	39.8%	-1.2%
EBITDA	**436.3**	**513.0**	**17.6%**	**1,784.1**	**2,112.7**	**18.4%**
EBITDA margin (%)	28.2%	28.7%		30.4%	30.5%	0.4%
Net Income	**248.8**	**315.0**	**26.6%**	**1,096.7**	**1,316.6**	**20.1%**

Source: Company data, Al Rajhi Capital

We expect revenues to reach SAR6.92bn this year

We expect Almarai to maintain strong sales growth of above 15% over the next three years

We estimate a decent gross margin of about 39.8% in 2010

EV/EBITDA is high; however, we still see upside to fair value

Income Statement (SARmn)	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Revenue	**5,030**	**5,869**	**6,921**	**7,982**	**9,189**
Cost of Goods Sold	(2,963)	(3,503)	(4,165)	(4,752)	(5,467)
Gross Profit	**2,067**	**2,366**	**2,756**	**3,231**	**3,722**
Government Charges					
S.G. & A. Costs	(938)	(1,087)	(1,255)	(1,456)	(1,672)
Operating EBIT	**1,129**	**1,279**	**1,502**	**1,774**	**2,049**
Cash Operating Costs	(3,580)	(4,136)	(4,844)	(5,711)	(6,569)
EBITDA	1,450	1,732	2,077	2,271	2,620
Depreciation and Amortisation	(321)	(454)	(575)	(497)	(571)
Operating Profit	**1,129**	**1,279**	**1,502**	**1,774**	**2,049**
Net financing income/(costs)	(125)	(150)	(135)	(159)	(144)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	-	-	-	-	-
Other Expenses	-	-	(2)	-	-
Net Profit Before Taxes	**1,003**	**1,129**	**1,365**	**1,616**	**1,905**
Taxes	(25)	(29)	(29)	(40)	(47)
Minority Interests	(1)	(3)	(20)	(18)	(22)
Net profit available to shareholders	**978**	**1,097**	**1,317**	**1,557**	**1,836**
Dividends	(380)	(460)	(460)	(506)	(557)
Transfer to Capital Reserve	-	-	-	-	-

	12/08A	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Adjusted Shares Out (mn)	109.0	115.0	115.0	115.0	115.0
CFPS (SAR)	11.93	13.87	16.63	18.02	21.12
EPS (SAR)	8.97	9.79	11.45	13.54	15.97
DPS (SAR)	3.490	4.000	4.000	4.400	4.840

Growth	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Revenue Growth	33.4%	16.7%	17.9%	15.3%	15.1%
Gross Profit Growth	38.4%	14.5%	16.5%	17.2%	15.2%
EBITDA Growth	42.2%	19.5%	19.9%	9.3%	15.4%
Operating Profit Growth	44.6%	13.3%	17.4%	18.2%	15.5%
Net Profit Growth	46.5%	12.2%	20.1%	18.3%	17.9%
EPS Growth	46.5%	9.1%	16.9%	18.3%	17.9%

Margins	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
Gross profit margin	41.1%	40.3%	39.8%	40.5%	40.5%
EBITDA margin	28.8%	29.5%	30.0%	28.5%	28.5%
Operating Margin	22.4%	21.8%	21.7%	22.2%	22.0%
Pretax profit margin	19.9%	19.2%	19.7%	20.2%	20.4%
Net profit margin	19.4%	18.7%	19.0%	19.5%	19.7%

Other Ratios	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
ROCE	16.7%	13.6%	13.5%	14.0%	14.6%
ROIC	19.5%	17.1%	15.0%	15.1%	15.3%
ROE	29.3%	24.4%	22.8%	23.1%	23.1%
Effective Tax Rate	2.5%	2.6%	2.1%	2.5%	2.5%
Capex/Sales	31.3%	20.9%	27.8%	20.2%	15.0%
Dividend Payout Ratio	38.9%	41.9%	34.9%	32.5%	30.3%

Valuation Measures	**12/08A**	**12/09A**	**12/10E**	**12/11E**	**12/12E**
P/E (x)	23.2	21.3	18.2	15.4	13.0
P/CF (x)	17.5	15.0	12.5	11.6	9.9
P/B (x)	6.3	4.4	3.9	3.3	2.8
EV/Sales (x)	5.2	4.6	4.2	3.6	3.1
EV/EBITDA (x)	18.1	15.7	13.9	12.8	11.0
EV/EBIT (x)	23.2	21.2	19.2	16.4	14.0
EV/IC (x)	3.6	2.9	2.5	2.2	2.0
Dividend Yield	1.7%	1.9%	1.9%	2.1%	2.3%

Source: Company data, Al Rajhi Capital

Balance sheet is expanding as a result of aggressive expansion

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	247	508	500	760	1,177
Current Receivables	294	455	716	834	919
Inventories	1,097	1,219	1,288	1,501	1,654
Other current assets	107	-	-	-	-
Total Current Assets	**1,760**	**2,182**	**2,504**	**3,095**	**3,750**
Fixed Assets	5,343	7,049	8,462	9,579	10,387
Investments	489	963	942	942	942
Goodwill	549	793	793	793	793
Other Intangible Assets	40	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	**6,422**	**8,805**	**10,197**	**11,314**	**12,122**
Total Assets	**8,181**	**10,987**	**12,701**	**14,409**	**15,872**
Short Term Debt	511	396	357	357	357
Trade Payables					
Dividends Payable	-	-	-	-	-
Other Current Liabilities					
Total Current Liabilities	**1,266**	**1,440**	**1,375**	**1,529**	**1,639**
Long-Term Debt	3,133	3,981	4,890	5,328	5,328
Other LT Payables	-	-	-	-	-
Provisions	151	166	194	194	194
Total Non-current Liabilities	**3,284**	**4,147**	**5,084**	**5,522**	**5,522**
Minority interests	14	17	50	69	90
Paid-up share capital	1,090	1,150	1,150	1,150	1,150
Total Reserves	2,527	4,233	5,042	6,139	7,470
Total Shareholders' Equity	**3,617**	**5,383**	**6,192**	**7,289**	**8,620**
Total Equity	**3,631**	**5,400**	**6,242**	**7,358**	**8,710**
Total Liabilities & Shareholders' Equity	**8,181**	**10,987**	**12,701**	**14,409**	**15,872**

Almarai's ratios are healthy

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	3,391	3,869	4,747	4,925	4,508
Net Debt/EBITDA (x)	2.34	2.23	2.29	2.17	1.72
Net Debt to Equity	93.4%	71.7%	76.0%	66.9%	51.8%
EBITDA Interest Cover (x)	11.6	11.6	15.4	14.3	18.2
BVPS (SAR)	33.18	46.81	53.84	63.38	74.95

Almarai enjoys strong cash position

Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	**1,003**	**1,129**	**1,365**	**1,616**	**1,905**
Depreciation & Amortisation	321	454	575	497	571
Decrease in Working Capital	(296)	163	(427)	(177)	(127)
Other Operating Cashflow	23	37	30	(40)	(47)
Cashflow from Operations	**1,051**	**1,783**	**1,543**	**1,895**	**2,302**
Capital Expenditure	(1,572)	(1,227)	(1,922)	(1,614)	(1,378)
New Investments	-	(484)	-	-	-
Others	-	-	(61)	-	-
Cashflow from investing activities	**(1,572)**	**(1,711)**	**(1,984)**	**(1,614)**	**(1,378)**
Net Operating Cashflow	**(521)**	**72**	**(440)**	**281**	**923**
Dividends paid to ordinary shareholders	(271)	(381)	(455)	(460)	(506)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(117)	9	(77)	-	-
Cashflow from financing activities	**665**	**170**	**337**	**(22)**	**(506)**
Total cash generated	144	242	(103)	260	417
Cash at beginning of period	138	247	508	500	760
Implied cash at end of year	**282**	**489**	**404**	**760**	**1,177**

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	31.3%	20.9%	27.8%	20.2%	15.0%

Source: Company data, Al Rajhi Capital

الراجحي المالية
Al Rajhi Capital

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Dr. Saleh Alsuhaibani
Head of Research
Tel : +966 1 2119434
alsuhaibanis@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital, a subsidiary of Al Rajhi Bank, is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.