Astra Industrial Group
Diversified Operations – Industrial
ASTRA AB: Saudi Arabia
22 January 2014

US$1.082bn	56%	US$3.584mn
Market cap	Free float	Avg. daily volume

Target price	53.2.00	-5.26% over current
Current price	56.00	as at 21/1/2014

Existing rating

Underweight	**Neutral**	Overweight

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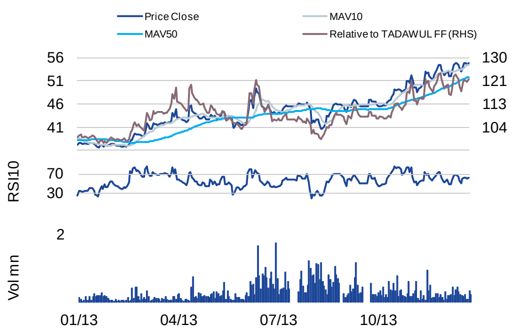
Astra Industrial Group
Robust net profit growth

Astra reported a Q4 net profit of SAR72mn (14% y-o-y), beating our estimate of SAR60mn. The company attributed the better performance to higher income from pharma segment and other income. However, the company's operating profit came in at SAR33mn, significantly lower than our SAR46mn estimate. The company has not given any reason for the lower than estimated operating profits, which we believe is due to higher SG& A and depreciation expenses, as a result of the commencement of commercial production at Al-Inma'a factory (a 100% owned subsidiary of Al Tanmiya Steel) in Iraq. For now, we reiterate our Neutral rating on the stock with a target price of SAR53.2 per share.

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings vs our forecast	**Above**	In Line	Below
Likely impact:			
Earnings estimates	Up	**No Change**	Down
Dividend estimates	Up	**No Change**	Down
Recommendation	Upgrade	**No Change**	Downgrade
Long term view	Stronger	**Confirmed**	Weaker

Earnings

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	1,621	2,232	2,498	2,657
Revenue Growth	17.3%	37.7%	11.9%	6.4%
EBITDA (mn)	243	377	488	554
EBITDA Growth	13.0%	54.9%	29.6%	13.6%
EPS	3.48	4.62	5.52	6.47
EPS Growth	3.8%	33.0%	19.3%	17.4%

Source: Company data, Al Rajhi Capital

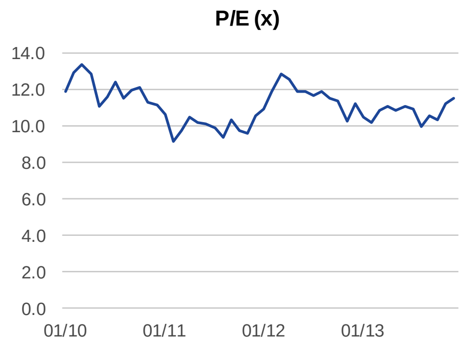
Revenues: Astra is yet to release its Q4 revenue. Looking at the operating performance, we expect revenue to be slightly higher than our SAR443mn estimate.

Gross profit and operating profit: Astra reported a gross profit of SAR175mn (20% y-o-y and 10% q-o-q) beating our expectation of SAR165 mn on the back of pharma segment's higher revenue growth, which also enjoys the highest gross margin amongst Astra's operating segments. The operating profit however, came in at SAR33mn, down 22% y-o-y and 9% q-o-q, (vs. our SAR 46mn estimate), due to higher SG&A and depreciation expenses in Q4. The higher expenses are most likely due to the new operation in Iraq, which commenced its commercial production last December.

Net profit: Astra's Q4 net profit grew by 14% y-o-y to SAR73mn, beating our estimate of SAR60mn. This is on the back of the higher other income compared to our estimate, as operating profit fell short of our estimates.

Conclusion: Astra's Q4 net profit rose by 14% y-o-y on the back of increase in revenue from the pharma segment and other income. However, the operating profit declined by 22% y-o-y, most likely due to higher expenses associated with the new operation (Al-Inma'a factory) in Iraq. For now, we maintain our Neutral rating on the stock with a target price of SAR53.2 per share.

Valuation



Source: Company data, Al Rajhi Capital

Figure 1 Astra: Summary of Q4 2013 results

(SAR mn)	Q4 2012	Q3 2013	Q4 2013	% chg y-o-y	% chg q-o-q	ARC est
Revenue	409.0	360.2	Not disclosed	n.a.	n.a.	443.3
EBITDA	55.5	47.4	Not disclosed	n.a.	n.a.	57.4
EBITDA margin (%)	13.6%	13.2%	n.a.			12.9%
Operating profit	42.8	36.6	33.3	-22.3%	-9.0%	46.2
Net profit	63.4	50.7	72.0	13.5%	42.0%	60.3

Source: Company data, Al Rajhi Capital

Major Q4 Development:

Astra announced the commercial production of Al-Inma'a

Astra announced the commencement of the commercial production at Al-Inma'a factory in Iraq, a 100% owned subsidiary of Tanmiya Steel Company, a Jordanian offshore holding company, in which Astra has a 51% stake. We believe, this operation will boost the company's top line by an estimated SAR200-300mn in 2014.

We had published a detailed note on Astra (dated 04th December 2013) highlighting the significance of this operation and potential upside. The stock has gained about 15% in line with our expectations during the last seven weeks.

Disclaimer and additional disclosures for Equity Research

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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.

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