

Savola CP: SAR 44.50 FV: SAR 45.90 Rating: Hold

Steady growth driven by the oil and retail sectors.

Revenues increased by 9%, on a yearly basis, reaching SAR 7.19 billion, in line with our expectations. Two factors contributed to this growth: higher revenues in the oil sector, and also the increase in Panda's revenues.

Cost of good sold augmented by 4%, YoY basis, to SAR 5.83 billion. As such, the company reported **gross profit of SAR 1.36 billion, 37% higher than Q1 12.** Gross margin improved to 18.9% in Q1 13, compared to 15.1% in Q1 12.

Other revenues, including share of income from Almarai and Herfy, enlarged to SAR 143 million, 15% higher than Q1 12. Operating expenses increased by 6% to SAR 721 million. Thus, **operating income increased by 62% in Q1 13, reaching SAR 711 million.**

The company reported other expenses of SAR 316 million and zakat expenses of SAR 130 million. As such, Savola reported **NI of SAR 295 million, 22% higher than Q1 12 and also 13% higher than the company's previous expectations of SAR 260 million.** Net margin improved to 4.1% in Q1 13, from 3.7% in Q1 12

We view positively the increase in revenues and the improvement in operations, mainly in the retail sector in KSA, in addition to the improvement in the profitability margin of the food sector. Moreover, the company is continuing its strategy to acquire minority stakes. In this context, it purchased Muhaydib's stake in its subsidiary, Savola for Food, raising its ownership from 90% to 100%. Muhaydib also sold its 18.6% stake in Panda for Savola, which increased its stake to 93%. The total value of these two transactions is SAR 1.3 billion and Savola will issue 33.98 million shares in return at a price of SAR 39.4 per share, reflecting the average of the last 60 trading days. Therefore, outstanding shares for Savola will increase from 500 million to 533.9 million, and Muhaidib stake in the mother company will be raised from 8.52% to 14.34%. We adjust our model to reflect these changes. As such, **we increase our fair value by 10% to SAR 45.9, and we retain our recommendation to hold the stock.**

SAR mn unless otherwise stated	Q1 12	Q4 12	Q1 13	ASIB est.	YoY	Vs ASIB
Revenues	6,589	6,927	7,190	7,150	9.1%	0.6%
Gross Profit	996	1,412	1,362	1,350	36.8%	0.9%
Gross Margin	15.1%	20.4%	18.9%	18.9%		
Net Profit	242	413	295	268	21.7%	10.0%
Net Margin	3.7%	6.0%	4.1%	3.7%		

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