



US\$13.09bn Market cap
36% Free float
US\$5.72mn Avg. daily volume

Target price **175.1** 18.9% over current
 Consensus price **150.9** 2.4% over current
 Current price **147.3** as at 20/10/2013

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Existing rating

Underweight **Neutral** **Overweight**

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

Period End (SAR)	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	4,980	4,799	5,038	7,819
Revenue Growth	-1.4%	-3.6%	5.0%	55.2%
EBITDA (mn)	3,869	3,775	3,958	6,318
EBITDA Growth	-3.0%	-2.4%	4.8%	59.6%
EPS	11.60	11.22	11.83	18.52
EPS Growth	-5.9%	-3.3%	5.5%	56.5%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

SAFCO
Q3 meets expectations

SAFCO posted a Q3 net profit of SAR734mn (+5.9% q-o-q), largely in line with our expectations (SAR722.1mn), although it beat the Bloomberg consensus (SAR689.3mn) by a fair margin. We attribute higher net profit to the agriculture season in Asia that coincided with the company's Q3 period. The company's gross and operating profits too were in line with our forecasts. With fundamentals intact, we expect SAFCO report healthy performance over the near-term. We await detailed financials to further analyze the company's performance. For now, we reiterate our Overweight rating on the stock with a target price of SAR175.1 per share.

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

- Revenues not yet announced:** SAFCO is yet to report Q3 top line numbers. Given the in line performance, we expect revenues to closely match our estimates of SAR998.3mn (consensus: SAR990.4mn).
- Gross and operating profit meet our estimates:** SAFCO posted a gross profit of SAR695mn for Q3, up 6.6% q-o-q and largely in line with our expectation of SAR678.9mn, while operating profit stood at SAR676mn (+6.8% q-o-q) compared to our estimate of SAR658.9mn.
- Net profit in line with our expectation:** The company's net income increased q-o-q on the back of higher sales volume, which more than compensated a decline in urea price (11.2% q-o-q) during the quarter. However, a strong y-o-y drop in urea prices (22.2% y-o-y) dragged down the bottom line by 36.1% y-o-y.
- Valuation and Conclusion:** SAFCO's Q3 performance was supported by the agriculture season; although, declining product prices have been a worry for the company. Historically, Q4 numbers have been better than Q3 and we expect similar trend this year as well. For now, we remain Overweight on SAFCO with a target price of SAR175.1 per share.

Figure 1 SAFCO: Summary of Q3 2013 results

SAR (mn)	Q3 2012	Q2 2013	Q3 2013	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,398	983	Not disclosed	n.a.	n.a.	998
EBITDA	1,128	715	Not disclosed	n.a.	n.a.	737
EBITDA margin	80.6%	72.7%	n.a.			73.8%
Operating profit	1,040	633	676	-35.0%	6.8%	659
Net profit	1,149	693	734	-36.1%	5.9%	722

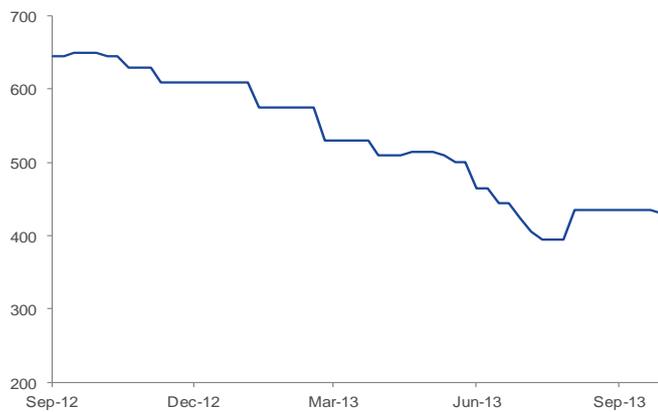
Source: Company data, Al Rajhi Capital

Major Q3 Developments

Fertilizer prices continued to decline

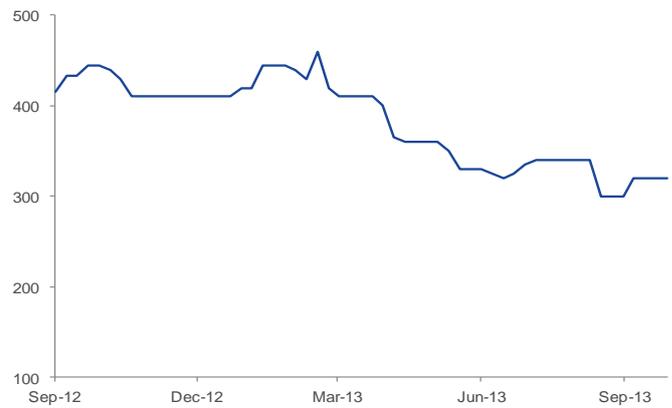
Ammonia and urea prices have been on a decline over the past few quarters on account of a rise in output from China. According to National Bureau of Statistics of China, the country's urea output increased around 10% y-o-y in July 2013 to 2.8mn tons. Moreover, fertilizer companies across North America are opening up and debottlenecking their capacities to take advantage of shale gas availability. These factors are exerting a downward pressure on ammonia and urea prices. While ammonia prices dropped 16.4% q-o-q (31.3% y-o-y) to US\$427/ton, urea prices declined 11.2% q-o-q (22.2% y-o-y) to US\$326/ton. This has negatively impacted SAFCO's revenue and profit numbers y-o-y.

Figure 2 Ammonia (US\$/ton)



Source: Bloomberg, Al Rajhi Capital

Figure 3 Urea (US\$/ton)



Source: Bloomberg, Al Rajhi Capital



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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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