

Agriculture & Food Industries Outlook 2016: Food consumption in the Kingdom is expected to remain buoyant and reach USD 66bn in 2016. Retail sale of packaged food in Saudi Arabia is expected to increase at a CAGR of about 6.2% to about USD 27bn during 2015–19. In addition to the overall favorable economic and demographic trends, we believe social upliftment will drive innovation and growth in the food sector. Furthermore, securing quality imports will play an important role in the food sector's growth in the Kingdom. On an average, KSA imports ~80% of its food requirement. Being a major import item, food accounts for ~15% of its total imports by the country. Initiatives to save water like gradual reduction in wheat cultivation and stopping green fodder farming could make the Kingdom more reliant on food imports in the long term. On the other hand, the government has taken initiatives to develop and support the organic agricultural sector by creating awareness about organic food and initiating market development programs through Saudi Organic Farming Association (SOFA). The number of organic farms increased to 145 in 2015 growing diverse products. However, the Saudi government's recent decision to suspend domestic production of green fodder could be a headwind for domestic food production, specifically dairy products.

Fuel re-pricing: In December 2015, the Saudi government announced substantial increase in energy, fuel, electricity, and water prices, effective from January 2016. We expect such rise in the prices of basic utilities to pose near-term challenges to protect margins in the industry. Transportation cost, higher operating expenses, and price increase by local suppliers could directly or indirectly impact margin of major players in the industry such as Almarai, Al-Jouf, and Halwani Bros. We believe the increase in costs could affect the operating margins of Halwani Bros by about 3–5% in 2016. Also, Almarai and Al-Jouf's operating expenses are expected to increase SAR 300mn and SAR 32mn, respectively, in 2016 due to increase in fuel and other utility prices.

Companies	Impact of Fuel/utility price increase
Al-Jouf Agricultural Development Co.	SAR 32mn annual increase in operating expenses
Almarai Co.	SAR 300mn annual increase in operating expenses
Halwani Bros. Co.	3-5% hit on operating margin

End to domestic green fodder production: The Saudi government has taken policy initiatives to stop domestic production of green fodder in the next three years for the purpose of water conservation. In the near term, this could pose challenges for the domestic food industry since companies will have to import green fodder to feed livestock. We believe the impact will be limited to the dairy, meat, and green fodder farming companies like Al-Jouf. According to Almarai, such initiatives will result in an incremental cost of SAR 200mn initially, which would further rise with 100% reliance on imported green fodder. Almarai has made investments of USD 31.8mn in California to secure supply of alfalfa hay. In the long term, we believe such initiatives are expected to eventually help the agricultural sector due to streamlining of limited water resources to more productive farming.

Updated key financials & investment recommendations

Company	12-month TP (SAR)	Investment recommendation	Profitability (SAR in mn)		EPS (SAR mn)		PE (x)*		PBV (x)*		Dividend yield*
			2015	2016E	2015	2016E	2015	2016E	2015	2016E	
Halwani Bros	81.70	Overweight	115.1	118.4	4.03	4.15	17.47	17.75	3.06	2.94	3.4%
Al-Jouf Agri	30.10	Overweight	91.10	94.0	3.04	3.13	10.98	7.74	1.19	0.79	4.1%
Al Marai	73.80	Neutral	1916	1973	3.19	3.29	24.50	21.15	4.53	3.60	1.7%

Source: AlJazira Capital* we have taken respective December closing prices for 2015, while for years 2016 & onwards we used closing price of 02nd Mar. 2015.

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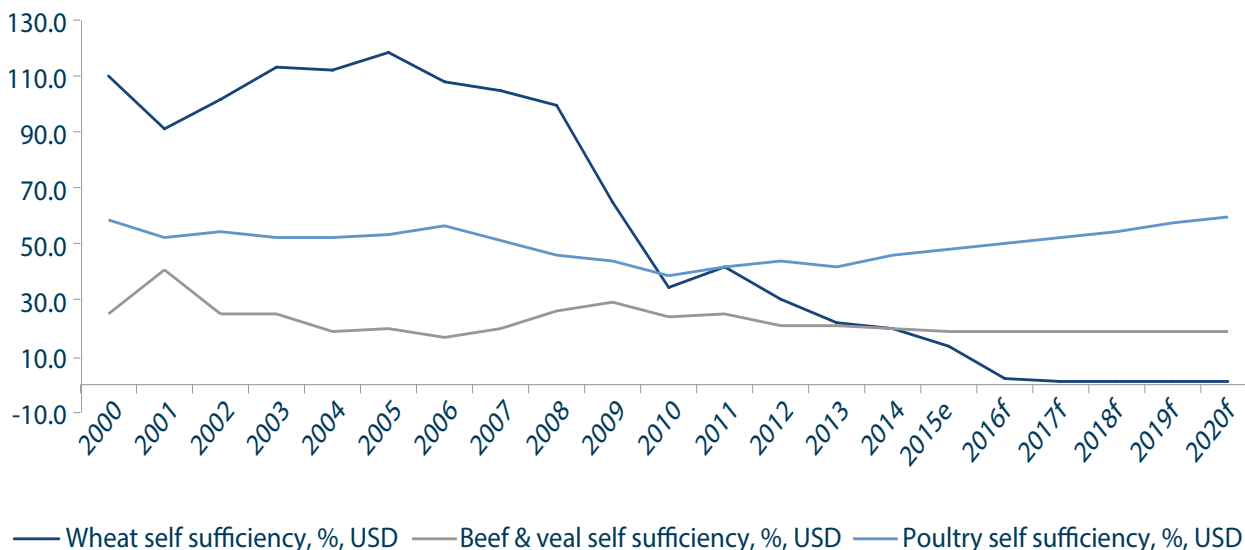
Highly vulnerable to volatile grains and feed prices, but more expansion in poultry segment: Saudi Arabia will gradually be reliant more on grains imports, as the country has decided to phase out domestic grains production in a bid to preserve the country's water supply. On the other hand, the government will keep its strategy of self-sufficiency in poultry that has been ramping up incentives to expand production capacity. This strategy has paid off, as the three major producers in the sector have all started heavy investment initiatives. However, the country will remain highly vulnerable to volatile grains and feed prices. Recent spikes in feed prices have turned us more cautious on margins for dairy and livestock producers in the country, especially those that import inputs from abroad.

The country is also trying to increase agricultural investments abroad, targeting wheat, rice, barley, yellow corn and green forage in order to re-export these grains back to Saudi Arabia. Producing grains abroad with Saudi companies will help the country count on more stable supplies. The creation of a joint-venture in April 2015 between state-owned Saudi Agricultural & Livestock Investment Company (Salic) and the agricultural trading house Bunge to acquire 50.1% of CWB, Canada's wheat and barley marketing organization, is a clear feature of this strategy to secure stable sources of food imports.

Key Forecasts

- **Wheat production:** Wheat production will be almost completely phased out in the coming years and Saudi Arabia will become entirely dependent on imports for its grain needs.
- **Beef consumption:** Beef consumption will not grow as fast as poultry in the coming years, as beef meat remains more expensive than chicken. However, the expansion in GDP per capita and population will support a moderate increase in beef demand.
- **Poultry production:** This spectacular growth will mainly come from the effects of three major poultry farms' (Al-Watania, Al-Fakieh and Almarai) capacity expansion, along with continuous government support.

Structural Changes



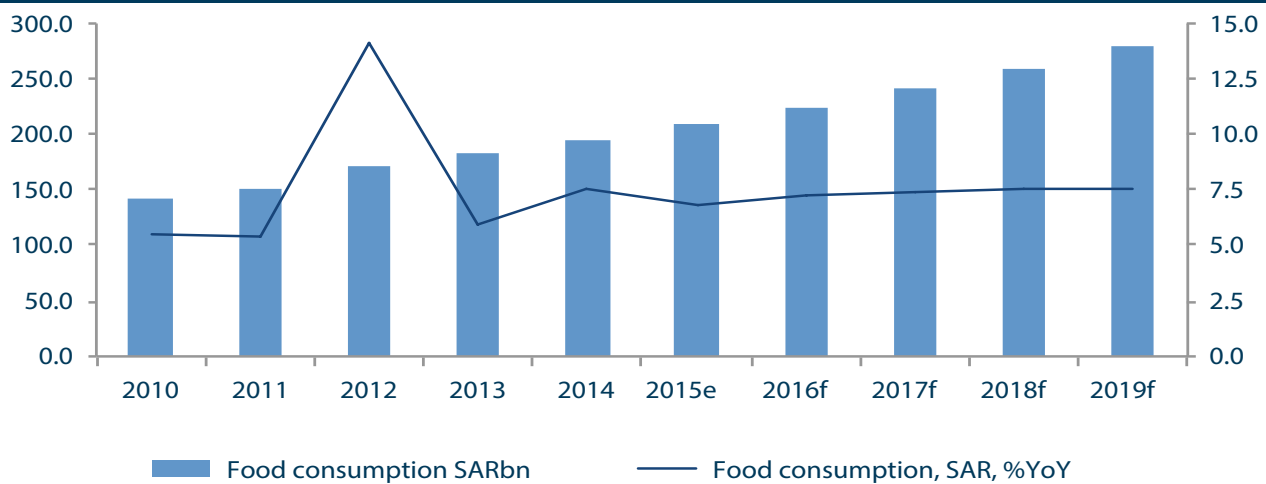
Source: BMI Calculation, AlJazira Capital

Dairy sector to grow, but government subsidies is a key risk: The dairy sector will continue to grow in Saudi Arabia, amidst foreign investors' interest and continued government subsidies. However, the risks posed to the Saudi economy by low oil prices may darken the outlook for production and consumption should the government decide to cut its support for the sector. Beyond these issues, dairy production will be held back by the country's dependence on grains imports, environmental constraints and elevated production costs.

Food Industry in Saudi Arabia remains one of the most attractive in the region: Despite short-term economic headwinds, Saudi Arabia's food industry remains one of the most attractive in the region, with strong sales growth figures forecast over our forecast period to 2019. Industry expansion will be driven by sustained private consumption and favorable demographic prospects. While Saudi Arabia's economic and private consumption growth is expected to face a slowdown in 2016, we believe that the food and drink sector will benefit from structural factors, including favorable demographics and increasing levels of urbanization, and the increasing participation of Saudi nationals in the private sector as a result of the government's 'Saudization' programme. Incremental social changes are also slowly letting women take a greater role in the workplace (particularly in some segments of the retail sector), boosting households' purchasing power.

Saudi Arabia's food processing sector is continuing to attract strong investment, particularly in the key segments (for example dairy), which are contributing to the growth in local food consumption as consumers increasingly prefer higher-value, processed food products. The ongoing development of organized retail channels also contributes to food consumption growth. The expansion of organized retailing will continue to strengthen internal trade systems, which are expected to contribute to lower overheads and cost savings that can be passed on to consumers.

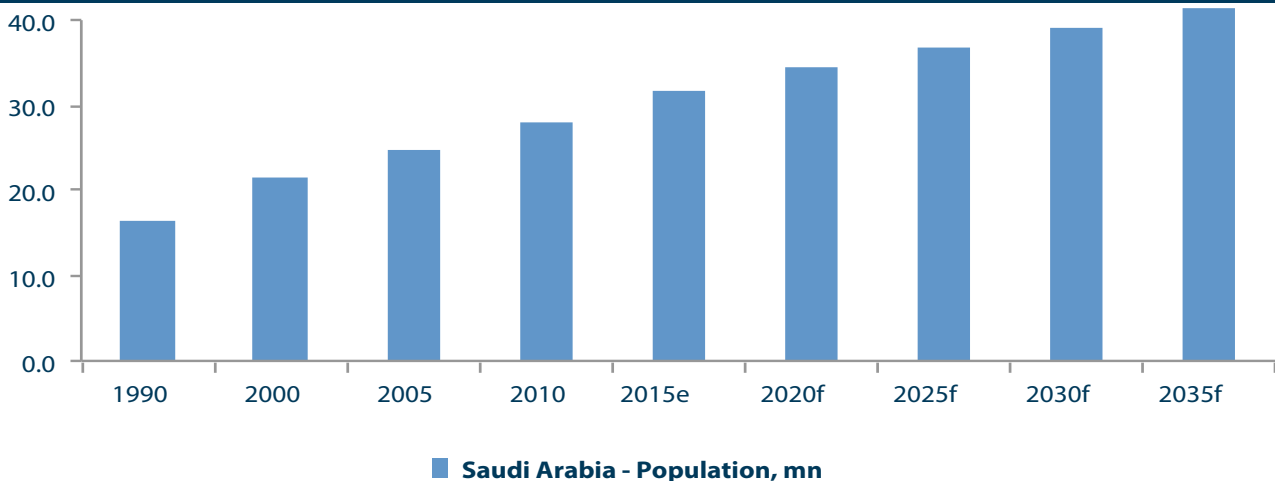
Figure1: Food Consumption



Source: Ministry of Economy and Planning, Central Department of Statistics, AlJazira Capital

Saudi Arabia's population is expected to reach nearly 33.8mn by 2019, (up from 30.9mn in 2014) making it the only market in the Gulf region that can realistically provide investors with long-term volume growth potential. Driven by the rise in consumer confidence, premiumisation will also be an important growth factor in Saudi Arabia. Saudi Arabia's expatriate population is expected to be one of the key drivers for premiumisation. The upside of this is that Saudi Arabia is also much less reliant on attracting expatriates to maintain the size of the consumer base than markets, such as the UAE.

Figure2: Population



Source: World Bank/UN/BMI, AlJazira Capital

AlJouf Agriculture: Higher cost of sales and OPEX expenses led to muted performance in 4Q2015; Highly vulnerable to wheat and green fodder production, but more expansion in Olive oil; "Overweight" recommendation reiterated.

Rise in revenue but decline in margin in FY2015: Al-Jouf Agricultural Development Co. reported a 5.3%YoY increase in revenue for FY2015 to SAR 369.0mn. In FY2015, the company's gross margin fell 530 bps YoY to 38.1% owing to a 15.2%YoY rise in cost of sales due to a decline in the production of agricultural crops. It reported a 7.6%YoY fall in gross profit for FY2015 to SAR 140.4mn. Selling and distribution expenses witnessed a 6.7%YoY increase in FY2015. The company registered a 13.1%YoY fall in operating profit for FY2015 to SAR 90.4mn, with operating profit margin declining 520 bps YoY to 24.5%. During the period, other income decreased SAR 2.2mn (28.3%) and net income fell 14.9%YoY to SAR 91.1mn.

Rise in energy prices to increase operating expenses by SAR 32mn annually: Saudi government's initiative to increase energy prices is likely to directly increase Al-Jouf Agricultural Development Co.'s operating expenses by SAR 26mn annually. In addition, indirectly, operating expenses are expected to rise by SAR 6mn annually. The financial impact would be reflected in FY2016 financials. However, the company is planning to increase efficiencies to counter the adverse impact of the rise in energy prices. Based on our revised assumptions, AlJouf's net income of our updated estimates would decline by about 25.5% in 2016. Consequently, the net income of AlJouf Agri Co. for FY2016 stands revised to SAR 94.01mn from earlier estimate of SAR 126.2mn.

Highly vulnerable to wheat and green fodder production, but more expansion in Olive oil: In 2015, Al-Jouf Agricultural Development Co.'s revenue increased by 5.4% YoY to SAR 369.0mn. Revenue from crop segment rose marginally by 0.8% YoY to SAR 266.0mn. However, within the crop segment, Yellow and Sudani Corn revenue increased by 10.9% YoY while Potatoes revenue rose by 13.4% YoY to SAR 45.5mn and SAR 75.7mn respectively. Highest growth was observed in olive oil segment where revenue rose by 16.3% YoY to SAR 75.0mn. 2015 revenue green fodder was also skewed towards olive oil which accounted for 20.3% of the total revenue from 18.4% in 2014.

We believe that government initiative to stop domestic production of green fodder would impact Al-Jouf's total revenue from green fodder from 2016 onwards to stand at 6.1% in FY2019, as compared to 21.7% in FY2015. Additionally, revenue and contribution from Olive oil segment is expected to rise from 2016 onwards to stand at 30% of revenues in 2019, as compared to 20.3% in 2015. Revenue from smaller segments such as Onion, Fruits, and miscellaneous is also expected to increase. Overall, we estimate 3.4% and 3.7% YoY increase in revenue in 2016 and 2017 respectively.

Olive oil - a crucial project: the company is striving hard to increase its exposure in olive business; which include the cultivation of olive and processing it to produce olive oil. According to the given information, the number of olive trees was recorded at 3.0mn in 2014 as compared to 0.5mn trees recorded in 2008 and expected to reach 5mn in 2016. On the other hand, the capacity to produce olive oil reached 360 tons/day of olive in 2014; where, the capacity is expected to reach 400 tons/day of olive in the coming years.

Key concerns: Agriculture crops are much sensitive to climatic factors; especially rain fall & water supply. Hence, any unprecedented event in these factors would reflect accordingly on the cultivation & yield of a particular crop and lead us to make subsequent adjustments in our estimations and valuations.

Financial growth: We expect the successful expansions in olive cultivation will help the company to lower the impact of wheat cultivation & green fodder production decline and leading overall sales revenue to increase at a CAGR of 2.3%, during 2015-19. However, the company's net profitability is expected to increase at a CAGR of 2.0%, during 2015-18. Operating costs are expected to increase at a faster step than the increase in revenues due to increase in energy prices. We expect that the company's tendency to sell a large part of the crops before harvest would decrease the future input cost. In FY2015, the company generated operating cash flow of SAR 166.05 (up 77.7%YoY) and free cash flow of SAR 72.56mn (up 96.5%YoY). The company has consistently operated at net cash level, indicating a solid balance sheet with low leverage (Net debt/Equity stood at 7.0% as on 2015. Al-Jouf maintains a strong shareholder remuneration policy (2015 dividend yield: 3.0%), supported by comfortable liquidity. The company is trading at a forward P/E multiples of 7.74x compared to the current sector PE of 16.23x.

Recommendation	Overweight
Current Price* (SAR)	24.25
Target Price (SAR)	30.10
Upside / (Downside)	24.1%

*prices as of 02nd of March 2016

Key Financials

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Revenues	350.3	369.0	381.5	395.6
Growth %	2.7%	5.3%	3.4%	3.7%
Net Income	107.0	91.10	94.01	96.08
Growth %	4.8%	-14.9%	3.2%	2.2%
EPS	3.57	3.04	3.13	3.20

Source: Company reports, Aljazira Capital

Our estimates and valuation: AlJouf Agriculture Co. is expected to post SAR 94.01mn in net income (3.13 EPS) for 2016, recording an increase of 3.2%YoY despite the impact of Increase in energy and water prices. Thus, we remain our 'Overweight' for the stock with lower target price at **SAR 30.10/share**; indicating a potential upside of 24.1% over current market price of SAR 24.25/share (as of 02nd March 2016). The company is trading at a forward PE and PB of 7.74x and 0.81x respectively based on our 2016 earnings forecast. We anticipate the company to remain its dividend payment at SAR 1.0 DPS (4.1% D/Y) in 2016. At the end of 2015, Aljouf's debt-to-equity ratio stood at 7.0%, with gross debt at around SAR 58.8mn. Going forward, we believe a strong balance sheet and sustainable cash flows would be sufficient for the company to repay existing debt and having the flexibility to increase the dividend payment beyond 2016.

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Gross Margin	43.4%	38.1%	40.1%	39.5%
EBITDA Margin	48.7%	37.0%	40.0%	40.3%
Net Margin	30.5%	24.7%	24.6%	24.3%
P/E	11.44x	10.98x	7.74x	7.57x
P/B	1.57x	1.19x	0.81x	0.75x
EV/EBITDA (x)	7.21x	7.51x	4.59x	4.19x
ROE	14.5%	11.3%	10.8%	10.3%
ROA	12.4%	9.7%	9.5%	9.3%
Dividend Yield	2.4%	3.0%	4.1%	4.1%

Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Fitaihi Holding Group Company	11.44%
Riyad M. A. Al Humaidan	9.44%
Public	79.12%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(mn)	732.0
YTD %	-27.3%
52 Week (High)	51.25
52 Week (Low)	18.60
Shares Outstanding (mn)	30.0

Source: Bloomberg, Aljazira Capital

Almarai: Increase in energy prices and fodder costs to reduce the Cash flows and raise concern for dividend payment in 2016; SAR21.0bn expansions plan to contribute higher future growth in the core business. 'Neutral' recommendation reiterated.

Amount in SAR mn; unless specified	Forecasts 4Q-15	Actual 4Q-15	Deviation (%)
Revenue	3,509.5	3,584.2	2.1%
Net profit	509.6	483.7	-5.0%
EPS (SAR)	0.85	0.81	

Better cost management, lower poultry losses lead to improved margin in 4Q2015: Q4-15 net profit came in line with our expectation and showed a deviation of -5.0% from our estimates and -1.4% from the Bloomberg market Consensus of SAR 490.33mn. Almarai Company posted net income of SAR 483.7mn; indicating an increase of 13.0%YoY and a fall of 18.7%QoQ. The company reported a 7.6% YoY increase in revenue for 4Q2015 to SAR 3.6bn. Its key segments registered significant growth in sales. Bakery led with a 20.3% YoY rise, followed by Poultry (up 12.8% YoY) and Dairy & Juice (up 5.2% YoY). In 4Q2015, the company's gross margin rose 90 bps YoY to 37.3% due to lower input costs and efficient cost management. Almarai Company reported a 10.3% YoY rise in gross profit for 4Q2015 to SAR 1.3bn. The Poultry segment's losses declined 32.1% YoY to SAR 48.9mn in 4Q2015 from SAR 72.0mn in 4Q2014. The increase in gross margin expansion supported net income, which rose 13.0% YoY to SAR 483.7mn in 4Q2015.

Rise in expenses in 4Q2015 in line with ongoing expansion: Almarai Company reported an 8.8% YoY increase in selling and distribution expenses for 4Q2015 due to a rise in distribution outlets, key product categories, and geographical spread. It registered a 28.7% YoY rise in general and administration expenses for 4Q2015 due to investments in infrastructure. During the period, depreciation increased 11.2% YoY due to continued capital investments.

Poultry sector continued marked improvement, 2017 to turn green: The Company managed in 2015 to reduce the operating losses at the poultry segments by 46.1% to SAR 213.9mn, down from 2014 loss of SAR 397.3mn; indicating higher operating efficiency and a sign of recovery in the near future. Almarai has expanded its capacity at poultry segment to 200mn birds by adding the 3rd production line in 2014 on the back of large CAPEX (SAR4.3bn); raising its market share of fresh chicken in Saudi Arabia to about 43%. Furthermore, the poultry division is expected to gradually improve to reach breakeven in H2-2016 and turning profitable in 2017 to increase the company's exposure in non-dairy products.

Increase in energy prices, fodder costs to lead to surge in operating expenses from 2016: In December 2015, the Saudi government announced an increase in energy, fuel, electricity, and water prices effective from January 2016. This is likely to directly increase Almarai Company's operating expenses by about SAR 200mn annually. In addition, price increase by local suppliers is likely to cause an indirect increase of about SAR 100mn annually in the company's operating expenses.

In July 2015, the Saudi government passed a resolution to suspend the domestic production of green fodder in the country. It indicated that all fodder requirements would be met through imports by January 2019. Almarai Company estimates an annual increase of about SAR 200mn in input costs from 2016 to January 2019. However, we believe the company would continue to focus on business efficiency and cost optimization to mitigate the impact of high costs to around SAR 350-400mn. Based on our revised assumptions, Almarai's net income of our estimates would decline by about 15.5% in 2016. Consequently, the net income of Almarai for 2016 stands revised to SAR 1,973mn from earlier estimate of SAR 2,336mn.

Lower Cash flows to raise concern about dividend payment: From 2016, Almarai Company's operating costs are likely to increase by about SAR 500mn due to a rise in energy prices and fodder costs. The company plans to incur a SAR 21.0bn capex over 2016-20. As per the plan, the company is expected to invest about SAR 4.0bn per year. At the end of FY2015, Almarai had a long-term debt of SAR 9.3bn. To fund its capex plans, it would need to raise a debt of about SAR 2.0 - 2.5bn annually over 2016-18. Additional debt is expected to lead to an increase in interest. Higher operating costs and interest are likely to have a negative impact on the company's profitability. Furthermore, declining profitability is likely to affect its dividend payout policy. Almarai Company's debt/equity ratio increased to 0.90 in FY2015 from 0.82 in FY2014 and is expected to rise further in light of additional debt. The company is expected to generate cash flows of over SAR 400mn from 2019, which are expected to exceed SAR 1.0bn from 2021. Thus, strong cash flow generation would help Almarai fund a part of long-term strategic capex plans without weighing down its balance sheet. The company's fresh dairy business is expected to drive this revenue increase at a CAGR of 6.1% during 2016-20, while the bakery business is expected to increase at a CAGR of 4.1% during the same period.

Recommendation	Neutral
Current Price* (SAR)	69.6
Target Price (SAR)	73.80
Upside / (Downside)	6.0%

*Prices as of 2nd of March 2016

Key Financials

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Revenues	12,606	13,795	14,756	15,596
Growth %	12.4%	9.4%	7.0%	5.7%
Net Income	1,653	1,916	1,973	2,083
Growth %	10.1%	15.9%	3.0%	5.6%
EPS	2.79	3.19	3.29	3.47

Source: Company reports, Aljazira Capital

Investment consideration: Our estimates and valuation have been already adjusted for the 2016-20 CAPEX plan and an increase in energy prices and fodder costs. Accordingly, we have arrived at a 12-month price target of **SAR 73.80/share**. This indicates that the stock, at the current market price of SAR 69.6/share (as of March 02, 2016), is offering a potential upside of 6.0%. Based on our estimates, Almarai trades at forward PE and PB multiples of 21.15x and 3.60x, respectively, for FY16E, and the dividend yield is estimated to be 1.7% in 2016. Almarai Company's debt/equity ratio increased to 0.90 in FY2015 from 0.82 in FY2014 and is expected to slightly rise in light of additional debt. We, therefore, maintain our **'Neutral'** recommendation for the stock, as the positive story is already priced in.

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Gross Margin	36.0%	38.3%	37.5%	37.0%
EBITDA Margin	27.0%	27.9%	26.0%	26.4%
Net Margin	13.1%	13.9%	13.4%	13.4%
P/E	27.49x	24.50	21.15	20.05
P/B	5.01x	4.53	3.60	3.23
EV/EBITDA (x)	16.10x	14.62x	12.68x	12.01x
ROE	15.0%	15.8%	14.9%	14.2%
ROA	7.1%	7.5%	6.9%	6.6%
Dividend Yield	1.3%	1.3%	1.7%	1.7%

Source: Company reports, Aljazira Capital price

Shareholders Pattern

Shareholders Pattern	Holding
Savola Group Co.	36.52%
Prince Sultan Bin MOHD Al Saud	28.69%
Omran M. Al Omran & partners Co.	5.70%
Public	29.09%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	44.1
YTD %	-6.1%
52 Week (High)	98.0
52 Week (Low)	54.5
Shares Outstanding (mn)	600.0

Source: Bloomberg, Aljazira Capital

Halwani Bros: lower raw material costs and capacity expansions in core business to drive growth in 2016; industrial complex in Jeddah projected to be fully operation by the end of Q1-2016; "Overweight" recommendation.

Improved margin performance in 4Q2015 due to lower raw material costs, income from insurance claim: Q4-15 net profit came above our expectation and showed a deviation of 22.8% from our estimates and 26.6% from market consensus of SAR 30.55mn. Halwani Bros. Co. (Halwani) reported a 0.5% YoY fall in revenue for 4Q2015 to SAR 262.7mn. The fall was due to lower exports owing to unfavorable political conditions. In 4Q2015, the company's gross margin rose 440 bps YoY to 31.7%, primarily due to a fall in key raw materials' costs. Halwani reported a 15.6% YoY rise in gross profit for 4Q2015 to SAR 83.2mn. It's selling, general, and administrative expenses rose 13.0% YoY to SAR 46.0mn in 4Q2015. Halwani registered an 18.8% YoY rise in operating profit for 4Q2015 to SAR 37.2mn, with operating profit margin gaining 230 bps YoY to 14.2%. During the period, net income increased 64.0% YoY to SAR 38.7mn, supported by income from insurance claim of SAR 2.2mn (from the boiler breakage accident in 2014) and lower provision for doubtful debts despite higher inventory provisioning for spare parts to execute the disposal plan for old machinery.

FY2015 performance benefitted from lower raw material costs, income from insurance claim, lower tax rate for Egyptian subsidiary, higher investment income from subsidiary, and others: Halwani reported a 1.0% YoY rise in revenue for FY2015 to SAR 1.07bn. Gross margin for the period rose 210 bps YoY to 31.1% owing to a decline in costs of key raw materials. In FY2015, its operating margin rose 120 bps YoY to 13.8%, with operating profit at SAR 148.7mn. Changes in corporate income tax rate for its Egyptian subsidiary boosted the company's profitability and offset the impact of the devaluation of the Egyptian pound against the US dollar. In addition, its subsidiary's income from Islamic Murabaha led to a 26.8% YoY increase in FY2015 net income to SAR 115.1mn from SAR 90.8mn in FY2014. Increased inventory provisioning for spare parts had a negative impact on the company's financial performance in FY2015.

Increase in energy and water prices to increase operating expenses for the company: Saudi government's decision to increase energy and water prices is likely to increase Halwani Bros. Co.'s operating costs both directly and indirectly. Given the scale of operations for the company, we believe that the increase in costs could impact the operating margins by about 2-3%. The adverse impact of increase in energy and water prices would be reflected in FY2016 financials. Based on our revised assumptions, Halwani's net income of our updated estimates would decline by about 6.9% in 2016. Consequently, the net income of HB Co. for FY2016 stands revised to SAR 118.44mn from earlier estimate of SAR 127.16mn.

Capacity Expansions at core business to drive growth in 2016 ; Halwani Bros had already completed the phase two of relocating its factories in the Industrial City in Jeddah, where the company will be able to expand its capacity of the main products (Halawa, Tahina, meat and dairy). Hence, we believe this will lead the revenues from local operation to increase at 2015-19CAGR of 4.6%. Experimental operations are still being conducted at other facilities in the Jeddah complex, including the halawa, tahini, meat and dairy plants. The company's industrial complex in Jeddah is projected to come into full operation by the end of Q1-2016.

Strong presence in Egypt with essential potential in future expansion; Halwani is a market share leader in meat products in Egypt. In order to cater high increase in demand, the company completed its first 50% capacity expansion at its meat plant in 2012, while the remaining 50% expansion is assumed to be completed at the end of 2016. In addition, we believe high demand in Egyptian market will lead the company to run its post expansion meat facilities on higher capacity utilization rate. Moreover, Egypt-based poultry plant is expected to start commercial operations in March 2016. Trial runs were completed for all production lines at the EGP 80mn facility by the end of 2015. Consequently, we believe revenues from meat segment will increase at 2015-19CAGR of 4.43%.

Focusing strategic locations: An industrial land in King Abdullah Economic City worth SAR44.7mn is owned by the company for its long term investment which goes beyond the scope of 5 years; where the location advantages being close to the King Abdullah seaport along with the potential future expansions.

Key concerns: the absence of currency hedges could adversely impact the company's sales revenue, where almost 47.6% of the total revenue comes from Egypt. In 2015, the Egyptian pound devaluated by 8.8% against USD due to the deteriorating of economic conditions, which directly impact the company's revenue and slightly push up the raw material costs.

Financial growth and higher dividend payment in 2015: Based on our expectations, the company's revenue will increase at a CAGR of 4.35%, during 2015-19; where the growth in revenues is mainly based on increase in sales due to robust demand in the local market and improved capacity utilization in meat operations and other facilities in Jeddah's complex(as discussed earlier). Moreover, Halwani Bros showed some improvement in net margin of 10.7% during 2015 (an average of 9.3% 2012/14) due to lower raw material cost and margin expansion. We expect the company to post on average net margins of 10.9% over the forecasted three years, where the company's net profitability is expected to increase by CAGR of 5.2% at 2015-19. Based on our forecast estimates, HB Co. is trading at a forward PE multiple of 17.75x for FY16E, with an expected dividend yield of about 3.4%, which indicates that HB Co. is expected to maintain the dividend payment of SAR 2.5 DPS. (SAR 2 DPS in 2014).

Recommendation	Overweight
Current Price* (SAR)	73.60
Target Price (SAR)	81.70
Upside / (Downside)	11.0%

*Prices as of 2nd of March 2016

Key Financials

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Revenues	1,065	1,075.3	1,110.6	1,142.7
Growth %	11.1%	0.97%	3.28%	2.89%
Net Income	90.8	115.1	118.4	126.8
Growth %	-1.8%	26.8%	2.9%	7.1%
EPS	3.18	4.03	4.15	4.40

Source: Company reports, Aljazira Capital

Our estimates and valuation: HB Co. is expected to post SAR 118.4mn in net income (4.15 EPS) for 2016, recording an increase of 2.9%YoY due to higher operating rate and despite of the impact of Increase in energy and water prices. Thus, we update our recommendation to 'Overweight' for the stock with higher target price of SAR 81.70/share; indicating a potential upside of 11.0% over current market price of SAR 73.60/share (as of 02nd March 2016). The company is trading at a forward PE and PB of 17.75x and 2.94x respectively based on our 2016 earnings forecast. We anticipate the company to maintain its dividend payment at SAR 2.50 DPS (3.4% D/Y) in 2016. At the end of 2015, HB's debt-to-equity ratio stood at 31.2%, with gross debt at around SAR 205.8mn. Going forward, we believe a strong balance sheet and sustainable cash flows would be sufficient for the company to repay existing debt and having the flexibility to increase the dividend payment beyond 2016.

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E	FY17E
Gross Margin	29.0%	31.1%	30.3%	30.1%
EBITDA Margin	15.0%	16.1%	16.2%	16.5%
Net Margin	8.5%	10.7%	10.7%	11.1%
P/E	25.04	17.47	17.75	16.71
P/B	5.01x	3.06	2.94	2.70
EV/EBITDA (x)	14.88	12.09	11.66	11.09
ROE	15.2%	18.2%	17.3%	16.9%
ROA	10.0%	11.1%	10.6%	10.6%
Dividend Yield	2.5%	3.6%	3.4%	3.4%

Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Aseer Arabian for Industrial Investment co.	55.51%
Mohamed Abdelhamid Mahmoud Halwani	7.0%
Halwani International Company	3.50%
Fawaz Mohammed Halwani	1.75%
Mohammed Fawaz Halwani	0.49%
Public	31.75%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	2.12
YTD %	5.8%
52 Week (High)	95.25
52 Week (Low)	56.50
Shares Outstanding (mn)	28.57

Source: Bloomberg, Aljazira Capital

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RATING TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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