



US\$10.46bn Market cap **60%** Free float **US\$9.32mn** Avg. daily volume

Target price **UR***
Consensus price **71.30** -2.9% over current
Current price **73.43** as at 21/4/2014

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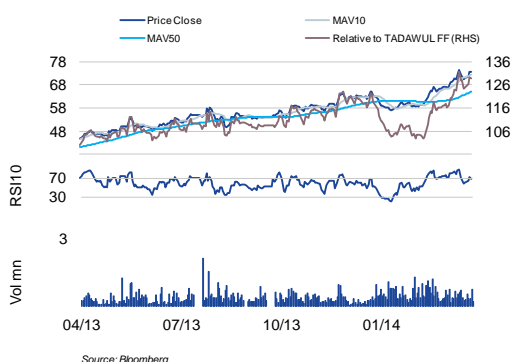
Existing rating

Underweight **Under Review** 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 | 12/13A | 12/14E | 12/15E |
|------------------|--------|--------|--------|--------|
| Revenue (mn) | 27,391 | 26,365 | 31,872 | 34,458 |
| Revenue Growth | 8.7% | -3.7% | 20.9% | 8.1% |
| EBITDA (mn) | 2,368 | 2,474 | 3,220 | 3,567 |
| EBITDA Growth | 30.0% | 4.5% | 30.2% | 10.8% |
| EPS | 2.80 | 3.04 | 4.07 | 4.65 |
| EPS Growth | 16.6% | 8.5% | 33.9% | 14.1% |

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital
UR* - Under Review

Savola Group
Wide miss in Q1 results

Savola's Q1 2014 results missed our estimates as its gross and operating profits were lower than our estimates, even though its net profit beat our forecasts by a wide margin. The company delivered a strong bottom-line performance despite the political tension in Egypt and economic troubles in Iran & Sudan. Going forward, Savola has provided a net profit guidance of SAR410mn (+5.7% y-o-y) for Q2. We had a Neutral rating on Savola with a target price of SAR62, but the stock has run up sharply over the last couple of months. We will come out with a detailed note on the company after a discussion with the management and release of the detailed financial results. For now, we put the rating and target price on Savola "Under Review".

| 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:** Savola has not disclosed its Q1 2014 revenue figures as yet. We had expected a top-line of SAR6.7bn (-7% y-o-y), whereas the consensus forecast stood at SAR7.3bn. Nevertheless, the company did disclose that it witnessed an increase in revenues and market share in the retail segment.
- Gross and operating profit:** Gross profit fell 19.8% y-o-y to SAR1,115mn, missing our SAR1,257mn estimate. Similarly, the company's operating profit slipped 24% y-o-y to SAR540mn, coming in below our SAR596mn estimate (consensus estimate: SAR648.5mn). The commencement of beet sugar operations in Egypt led to a spike in costs. In addition, the accounting impact of the company's operations in Iran and Sudan, which are in hyper inflationary state, also led to an increase in costs, resulting in lower gross and operating profits.
- Net profit:** Savola's bottom-line came in at SAR423mn (+43.4% y-o-y) despite the lower gross and operating profits, as compared to a guidance of SAR310mn, beating our (SAR320mn), as well as consensus (SAR339.3mn) estimates by a huge margin. The company attributed its strong bottom-line performance to lower interest, zakat and minority interest charges, in addition to the increase in net income of Kinan International (Savola holds 29.9% stake in the firm).

Figure 1 Savola: Summary of Q1 2014 results

| (SAR mn) | Q1 2013 | Q4 2013 | Q1 2014 | % chg y-o-y | % chg q-o-q | ARC est |
|-------------------------|---------|---------|---------|-------------|-------------|---------|
| Revenue | 7,190 | 6,132 | - | n.a. | n.a. | 6,687 |
| Gross profit | 1,391.0 | 1,127.0 | 1,115.0 | -19.8% | -1.1% | 1,257.1 |
| Gross profit margin (%) | 19.3% | 18.4% | n.a. | | | 18.8% |
| Operating profit | 711.0 | 563.0 | 540.0 | -24.1% | -4.1% | 596.2 |
| Net profit | 295.0 | 564.0 | 423.0 | 43.4% | -25.0% | 319.8 |

Source: Company data, Al Rajhi Capital



Conclusion: Despite the prevailing political tension in Egypt and the economic troubles in Iran & Sudan, Savola beat its guidance for the quarter (SAR310mn) as well as our and consensus net profit estimates by a huge margin. The company finally commissioned its beet sugar operations in Egypt, which led to a spike in costs, pulling the gross and operating profits lower during the quarter. We believe Savola will gradually scale up production from this new unit over the next couple of quarters. The company's retailing business continues to fare well, consolidating its market leadership position. For Q2, the management has provided a net profit guidance of SAR410mn (+5.7% y-o-y). We have put Savola's rating and target price "Under Review" as the stock has gained sharply over the last couple of months to SAR73.4, compared to our earlier target price of SAR62. We would revise our estimates and come out with a detailed note on Savola after a discussion with the management and release of the detailed financial results.

Major Developments

Savola announces a dividend of SAR0.5 per share

Savola's board of directors has approved a dividend of SAR0.5 per share for Q1 2014, amounting to a total of SAR267mn. This is in line with Savola's policy to distribute quarterly dividends.



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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