



Right Place at the Right Time

SADAFCO announced strong 4Q15 results after market close yesterday. EPS of SAR 2.46 (+172% Y/Y) comfortably beat our SAR 1.71 estimate. Full-year 2015 saw topline growth of +10% to SAR 1,982 mln and earnings at SAR 261 mln (+84% Y/Y). Slowing sales growth during the quarter is concerning and might propel management to seek geographical or segmental growth drivers. We highlight SADAFCO as our preferred name in the retail / consumer space and reiterate our Buy rating and SAR 160 target price.

Revenue growth slowed to +4%

Total revenues of SAR 484 mln (+4% Y/Y and -2% Q/Q) were weaker than our estimate SAR 511 mln. We note that topline growth averaged +12% in the trailing three quarters and sudden slowdown highlights even staples were affected by cautionary consumer spending. We believe the outgoing quarter may have been impacted by shrinking basket size and substitution to lower priced alternatives, however the concerns should ease post-NTP (National Transformation Program) announcement. Growth drivers will be demographics and new product launches. For F2015, revenues gained +10% Y/Y to SAR 1,982 mln compared to +16% in the previous year.

Lower commodity prices boost margins

Ingredients and commodity prices (cheese, butter, powder) helped boost gross margins to 39% versus 35% in the corresponding period of last year. Whether this sustains for the remainder of the year remains to be seen. As expected, higher utilities and fuel costs failed to dent SADAFCO margins, underscoring advantage over fresh dairy producers.

Cost control supported operating income

Overhead expenses were reduced by SAR 17 mln leading to superior operating profit at SAR 83 mln. The Company attributed extraordinary items (salaries, inventory revaluation) to higher expenses in 4Q14.

Strong earnings beat

SAR 80 mln net income (+172% Y/Y and +17% Q/Q) comfortably topped our SAR 55 mln estimate. For the full-year 2015, net income jumped +84% Y/Y to SAR 261 mln. SADAFCO is hitting all the right notes, the question arises what comes next? Potential further operational and logistical efficiencies can be squeezed but topline growth should be the focus. Potentially the Company may seek geographical or segmental expansion. SADAFCO is comfortably positioned to pursue M&A activity which we believe can add an interesting dynamic to this story.

SADAFCO (SAR mln)	4Q15	4Q15E	4Q14	Y/Y Chg	3Q15	Q/Q Chg	F2014	F2015	Y/Y Chg
Revenues	484	511	464	4%	496	-2%	1,807	1,982	10%
Gross profit	191	177	159	20%	172	11%	552	709	28%
Gross margin	39.4%	34.6%	34.2%		34.6%		30.6%	35.8%	
Operating profit	83	61	34	145%	72	16%	156	276	77%
Operating margin	17.2%	12.0%	7.3%		14.5%		8.6%	13.9%	
Net income	80	55	29	172%	68	17%	141	261	84%
Net margin	16.5%	10.9%	6.3%		13.8%		7.8%	13.2%	

SAR 160

12-Month Target price

Buy

Recommendation

Stock Details		
Last Close Price	SAR	136.00
Upside to target	%	17.6
Market Capitalization	SAR mln	4,420
Shares Outstanding	mln	33
52-Week High	SAR	153.00
52-Week Low	SAR	99.50
Price Change (YTD)	%	21.4
12-Mth ADTV	thd	44
EPS 2016E	SAR	7.26
Reuters / Bloomberg	2270.SE	SADAFCO AB

4Q2015 (SAR)	Actual	SFC Est
Revenues (mln)	484	511
Gross Margin	39.4%	34.6%
EBIT (mln)	83	61
Net Income (mln)	80	55

Price Multiples			
	2014	2015E	2016E
P / E	31.4x	16.9x	19.8x
EV / EBITDA	18.5x	12.3x	12.1x
P / S	2.4x	2.2x	2.0x
P / B	4.7x	4.1x	3.8x

1-Year Share Performance



Source: Bloomberg, Tadawul, SFC

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Research and Advisory Department

Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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