

**Savola CP: SAR 52.75 FV: SAR 58.00 Rating: Hold**

**Steady growth in net income combined with increase in dividends.**

**Savola reported revenues of SAR 6,723 million in Q2 13, in line with our expectations and 4% lower than Q2 12.** The main reason behind the drop is the depreciation of the currencies in some countries in North Africa and Levant regions where Savola has operations.

Cost of good sold dropped by 6%, YoY basis, to SAR 5,474million in Q2 13. As such, the company reported **gross profit of SAR 1,250 million, 5% higher than Q2 12.** Gross margin improved to 18.6% in Q2 13, compared to 17.1% in Q2 12.

Other revenues, including share of income from Almarai and Herfy, enlarged to SAR 196 million, 37% higher than Q2 12. Operating expenses dropped by 3% to SAR 725 million. Thus, **operating income increased by 17%, YoY basis, to SAR 525 million in Q2 13.**

Savola reported **NI of SAR 388 million, 14% higher than Q2 12.** Net margin improved to 5.8% in Q2 13, from 4.9% in Q2 12. The company announced that it will pay cash dividend of SAR 0.5 per share with ex-date on 22 July 2013. This came above our expectations of SAR 0.4 and Q2 12 DPS of SAR 0.3. We raise 2013 DPS expected to SAR 2.0 from SAR 1.7.

The depreciation of foreign currencies has minimal impact on the company's revenues but it is not impacting the profitability. The drop in input cost is expected to positively affect margins in the coming quarters. 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. 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 from 45.9 to SAR 58.0, and we retain our recommendation to hold the stock.**

SAR mn unless otherwise stated	Q2 12	Q1 13	Q2 13	ASIB est.	YoY	Vs ASIB
Revenues	6,989	7,190	<b>6,723</b>	6,770	-3.8%	-0.7%
Gross Profit	1,193	1,362	<b>1,250</b>	1,260	4.7%	-0.8%
Gross Margin	17.1%	18.9%	<b>18.6%</b>	18.6%		
Net Profit	341	295	<b>388</b>	395	13.6%	-1.8%
Net Margin	4.9%	4.1%	<b>5.8%</b>	5.8%		

	SAR million unless otherwise stated			Changes to Our Forecasts	
	2012	2013e	2014e	2013e	2014e
Revenues-net	27,375	28,330	30,760	-6%	-4%
<i>Revenues Growth</i>	8.6%	3.5%	8.6%		
COGS	(22,612)	(23,168)	(25,148)	-8%	-6%
<b>Gross Profit</b>	<b>4,762</b>	<b>5,163</b>	<b>5,612</b>	7%	5%
<i>Gross Margin</i>	17.4%	18.2%	18.2%		
Selling & Marketing	(2,381)	(2,606)	(2,768)	0%	-4%
G&A Expenses	(569)	(652)	(677)	8%	5%
Share of Profit of Associated	557	703	784	1%	-8%
Other Income-net	129	80	80	-11%	-11%
Financial Charges	(430)	(484)	(508)	29%	35%
<b>EBIT</b>	<b>2,499</b>	<b>2,687</b>	<b>3,030</b>	11%	10%
<i>EBIT Margin</i>	9.1%	9.5%	9.9%		
<b>EBITDA</b>	<b>3,045</b>	<b>3,295</b>	<b>3,732</b>	5%	6%
<i>EBITDA Margin</i>	11.1%	11.6%	12.1%		
Zakat & Tax	(265)	(275)	(315)	15%	5%
Minority interest	(402)	(386)	(441)	-1%	-2%
<b>Net Income</b>	<b>1,402</b>	<b>1,543</b>	<b>1,765</b>	10%	9%
<i>Net Income Growth</i>	16.6%	10.0%	14.4%		
<i>Net Margin</i>	5.1%	5.4%	5.7%		

	SAR Million		
	2012	2013e	2014e
Cash& Equivalents	965	1,040	977
Trade Receivables	1,735	1,841	2,153
Inventories	3,977	3,614	3,898
Others	2,402	1,993	2,082
<b>Total Current Assets</b>	<b>9,080</b>	<b>8,489</b>	<b>9,110</b>
Investments	7,521	7,800	7,800
PP&E	5,750	5,787	6,684
Others	1,477	1,704	1,734
<b>Total Non current Assets</b>	<b>14,748</b>	<b>15,291</b>	<b>16,218</b>
<b>Total Assets</b>	<b>23,828</b>	<b>23,780</b>	<b>25,328</b>
Short Term Debts	4,512	4,400	4,536
Trade Payables	3,012	2,896	3,144
Others	2,250	1,940	1,960
<b>Total Current Liabilities</b>	<b>9,774</b>	<b>9,236</b>	<b>9,640</b>
Long Term Debts	3,608	3,600	3,864
Others	499	510	525
<b>Total Non Current Liabilities</b>	<b>4,108</b>	<b>4,110</b>	<b>4,389</b>
<b>Total Liabilities</b>	<b>13,881</b>	<b>13,345</b>	<b>14,029</b>
Total Equity	<b>9,947</b>	<b>10,435</b>	<b>11,299</b>

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