

Food for Thought

Saudi Agriculture and Food Sector
Detailed Coverage | 2017



- ❑ Food provides essential nutrients needed by living beings for survival, therefore food has a definite demand irrespective of the circumstances.
- ❑ According to the Food and Agriculture Organization (FAO), global food markets are expected to remain generally well balanced in 2016-17 amid large export availabilities and relatively low and more stable international prices.
- ❑ Revenue from food and beverages in Saudi Arabia reached SAR ~224 billion by 2015, growing at a CAGR of 6.9% from 2011–2015. Further, we expect it to reach SAR 266.8 billion by 2018, growing at a CAGR of 6%.
- ❑ Average monthly expenditure on food and beverages in Saudi Arabia was recorded at SAR 2,488 in 2013, which constitutes 17.9% of the total average monthly general expenditure of a household, earlier in 2007 this figure was recorded at 17.4%. Going forward, we expect food and beverages continue to claim major portion of the expenditure of a household.
- ❑ According to the world bank’s commodity forecast, prices of cereals are expected to gradually recover going forward, which we expect to aid in the expansion of margins of refiners such as Savola.
- ❑ Currently, cereal-based food is being consumed more than protein-based food. Going forward, we expect greater consumption of protein-based food than cereals-based food on the back of rise in income level.

EXECUTIVE SUMMARY



Factors expected to drive sector growth:

Factors	Future Expectations
Population	We expect Saudi population to reach ~35 million by 2020, growing at CAGR of 2.0%
Life expectancy	Life expectancy expected to be ~80 years by 2030, inline with the government’s vision 2030
Expenditure on food	Going forward, we expect average expenditure on food to increase with the proportionate increase in income level.

- ❑ Cost of living general index of Saudi Arabia has reached 137.8 in October 2016, showing an increase of 14.7% during the last five years.
- ❑ Subject to the scale of operations in Egypt, devaluation of Egyptian pound will have adverse impact on the companies such as, Savola and Almarai.
- ❑ As one of the steps of the Kingdom towards the conservation of water reserves by complete cessation of local production of alfalfa by 2019 is expected to have incremental effect on the animal feed cost.
- ❑ Low Skimmed Milk Powder (SMP) and Whole Milk Powder (WMP) prices have supported the margins of milk producers like Almarai. However, we expect SMP and WMP prices to slightly recover in the upcoming years.
- ❑ We expect the imposition of public service fee for carrying out business activities, subject to the size, nature and location of businesses having outlets, ranging from SAR 0.01 to SAR 8 per square meter, is expected to put additional burden on the cost structure of Herfy and Savola.
- ❑ As envisaged in the Vision 2030 program, the Kingdom has a plan to accommodate more pilgrims in the future i.e. 30 million pilgrims per annum by 2030, consequently requiring more food availability to cater to the needs of pilgrims during the Haj and Umrah seasons.

EXECUTIVE SUMMARY cont'd



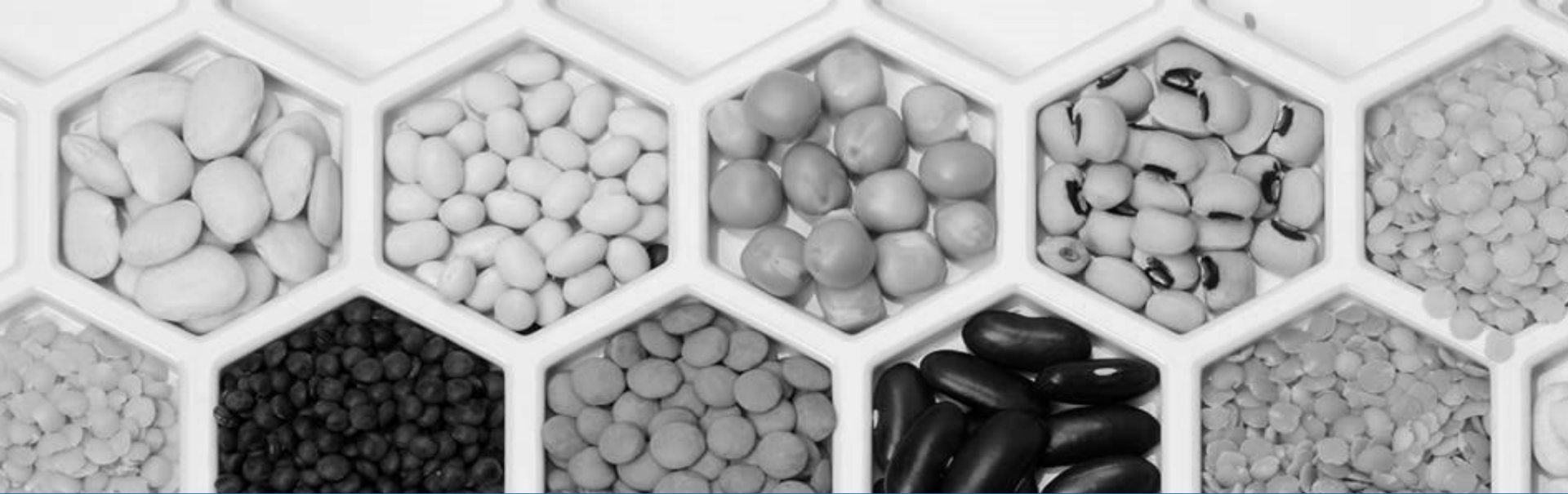
We have covered five agriculture and food players listed on Tadawul. Based on our valuation and analysis, our recommendation summary is as follows:

Company	Recommendation	Fair Value SAR	Total Upside Potential*	Closing Price SAR
Savola	Overweight	47.0	24.7%	38.5
Almarai	Neutral	70.0	5.8%	67.0
Nadec	Neutral	26.5	12.5%	24.0
Herfy	Neutral	89.5	9.4%	84.8
Catering	Overweight	120.0	21.2%	104.8

*Inclusive of dividend yield

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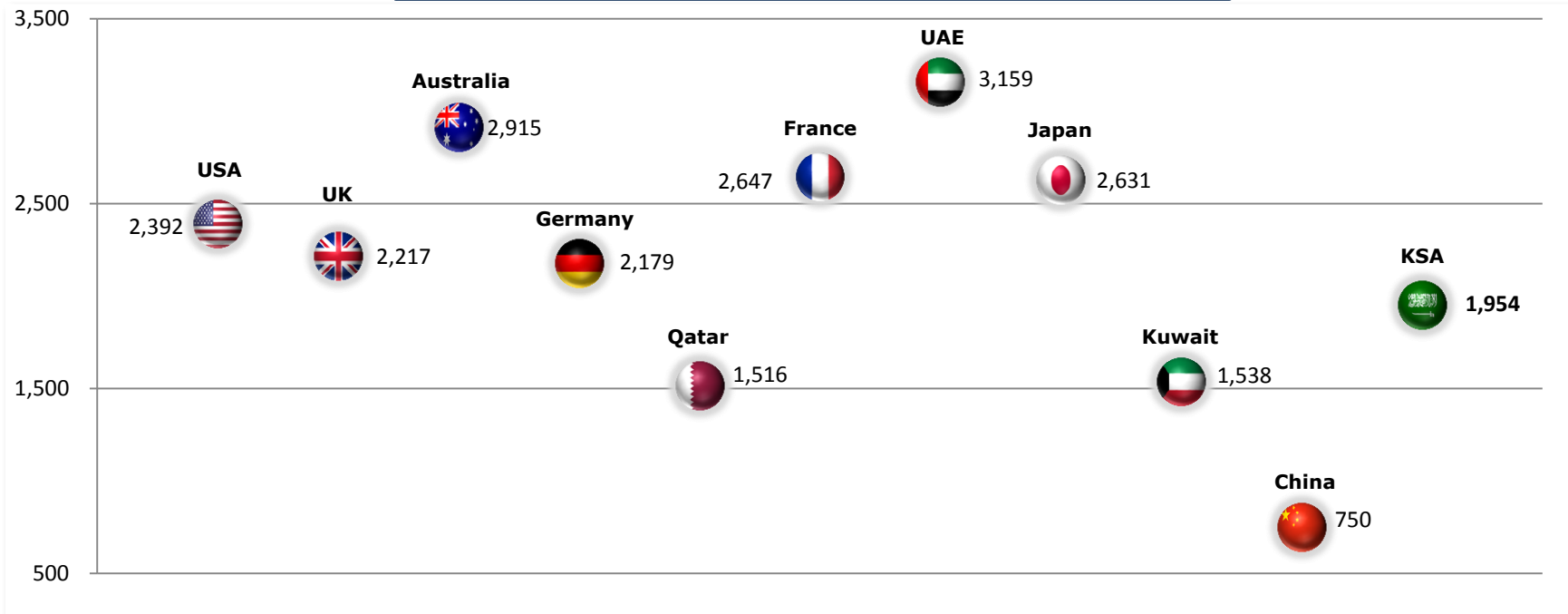
1.0 Agriculture and Food



1.1 Sector Introduction

- Food is essential for living beings, as it contains nutrients essential for survival. A particular food item may not contain all the required nutrients required by a human body, therefore a mix of edible items is consumed by humans.
- According to the USDA, expenditure on food per capita in KSA at home, in 2015, stood at USD 1,954, this figure is in comparison with USD ~1,500, the average of selected countries.

Expenditure on Food per Capita at Home (US\$)

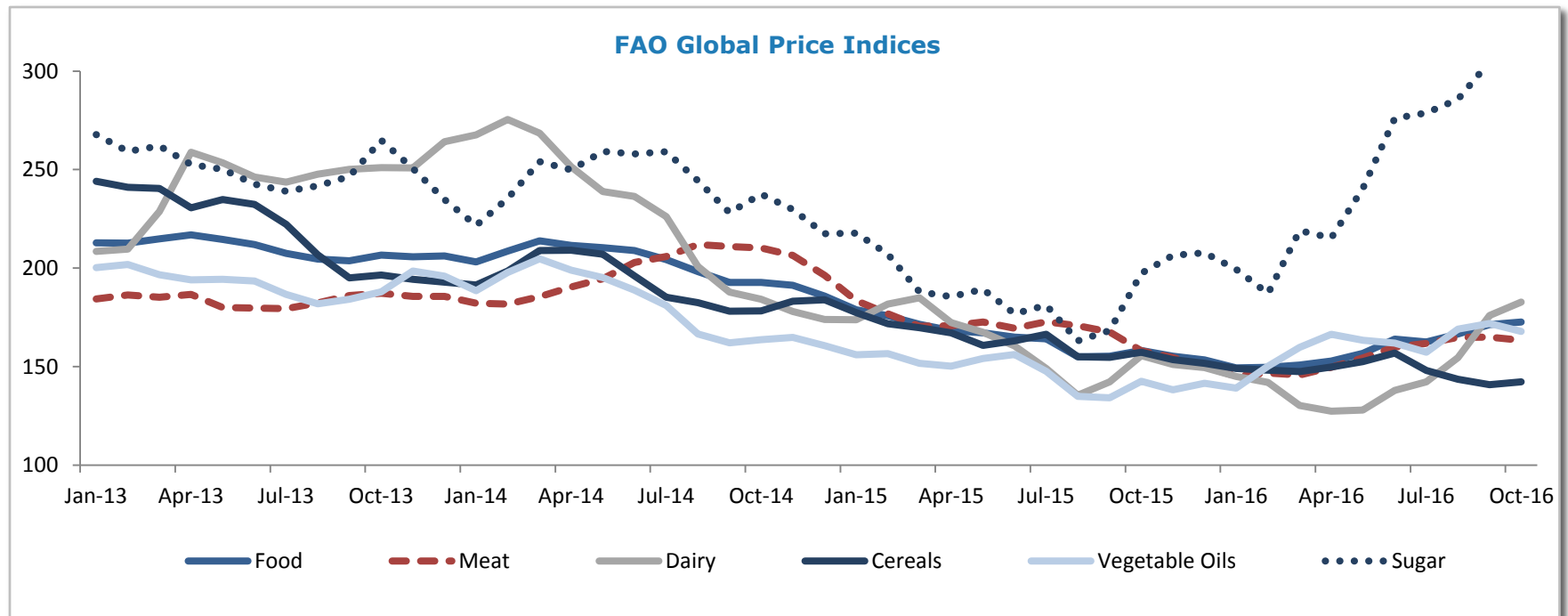


Source(s): USDA

As of 2015

1.1 Sector Introduction

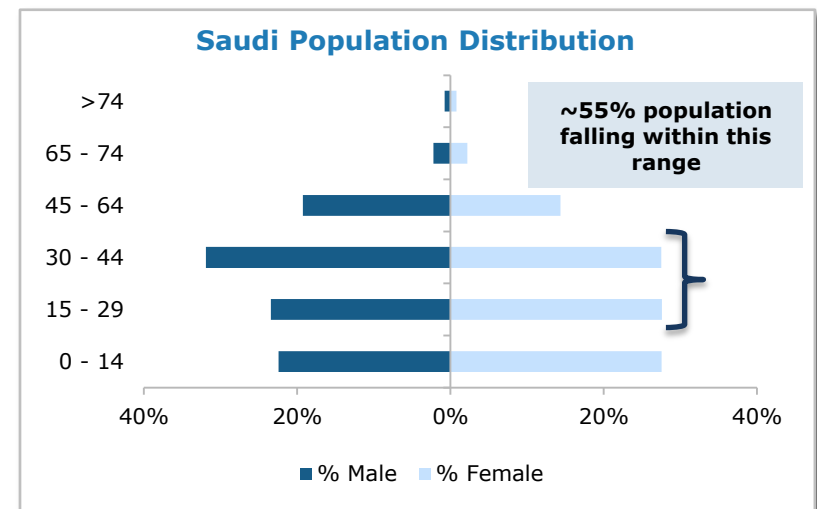
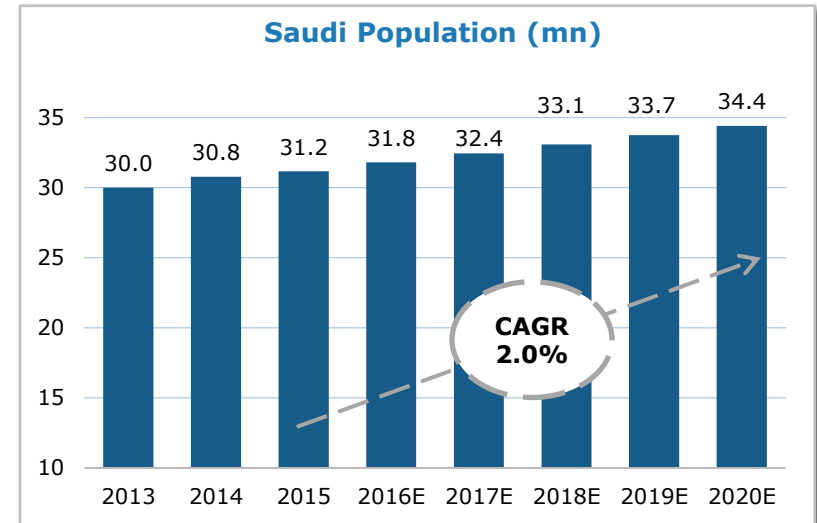
- Commodity prices are still at relatively low levels, however limited recovery has been witnessed in the recent past. The Food and Agriculture Organization's food price index reached 172.6, registering 12.5% increase this year till October 2016, the sugar price index showed the greatest recovery reaching 315.3 (51.7% increase) whereas cereals price index declined by 6.1% during the same period.
- According to the World Bank's commodity prices forecast, prices of cereals, vegetable oil and beef meat are expected to gradually move upward in the upcoming years whereas decline is expected in the prices of poultry meat and sugar.



Source(s): FAO Outlook 2016-2025

1.2 Key Growth Factors

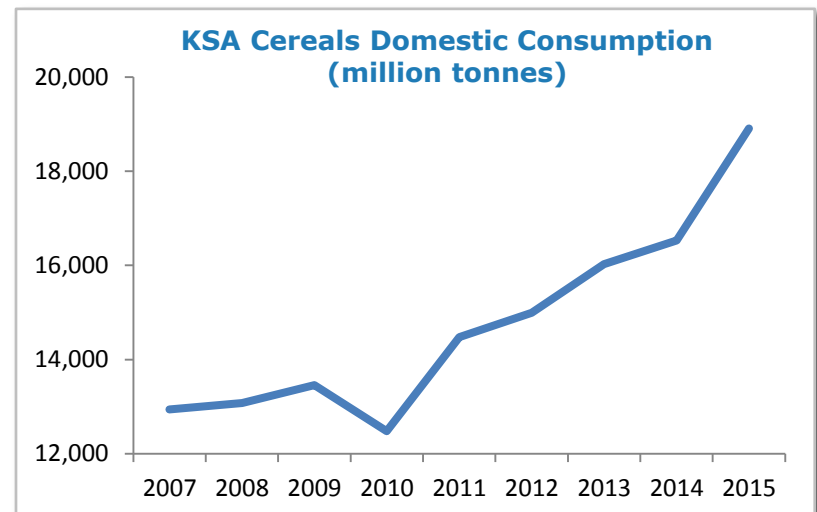
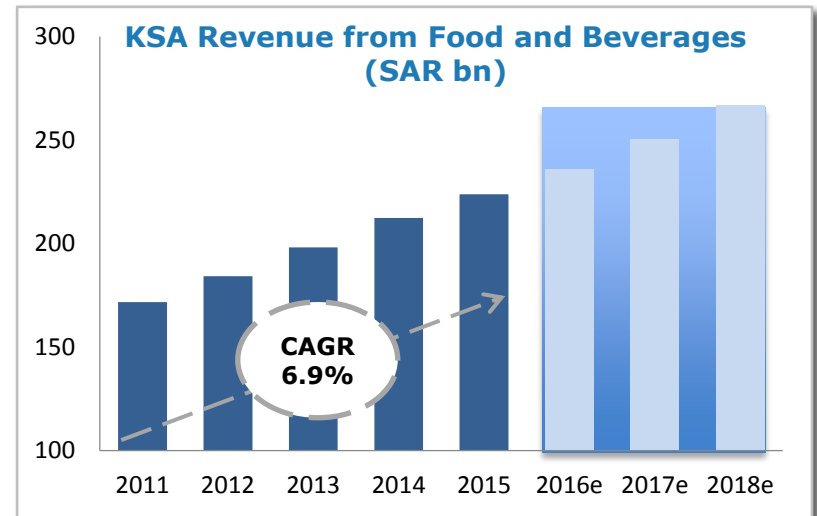
- ❑ Food consumption is mainly driven by population growth. According to the demographic indicators released by the Kingdom's Central Department of Statistics and Information (CDSI), the population of Saudi Arabia reached over 31.2 million by the mid of 2015, growing at an average annual rate of 3.1% over the last ten years. Moreover, we expect the population to reach ~34.4 million by 2020 growing at 2% annually inline with the IMF's projection.
- ❑ Population distribution of Saudi Arabia is such that its more than 55% population falls within the age group of 15 and 44 years. This age interval is the main driver of food consumption. We expect that this age bracket will carry more weightage in the upcoming years, consequently more food consumption is expected going forward.
- ❑ In addition to the population growth, income level growth shifts food preferences, for example, high income group food consumers prefer higher-quality and well balanced diets.
- ❑ Currently, cereal-based food is more consumed than protein-based food, going forward on the back of increase in income level, we expect consumption of protein-based food to grow at a greater rate than cereal-based food.



Source(s): CDSI, MoH, Arbah Capital

1.3 Food Consumption in KSA

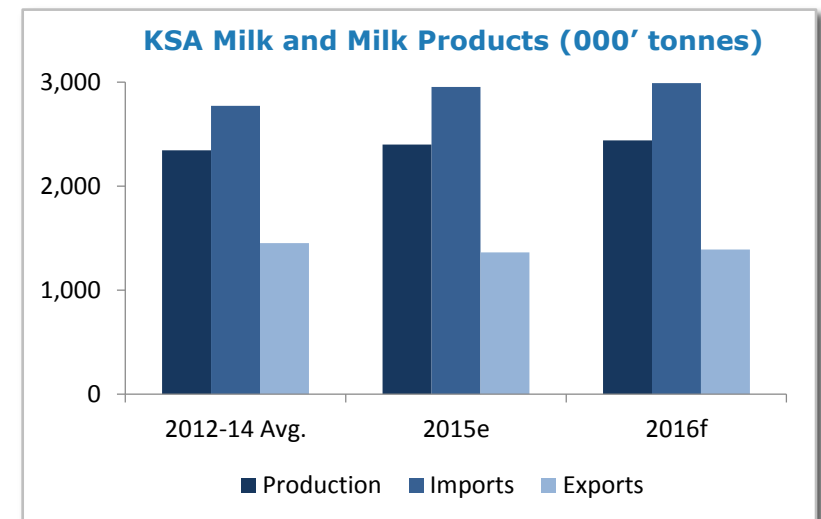
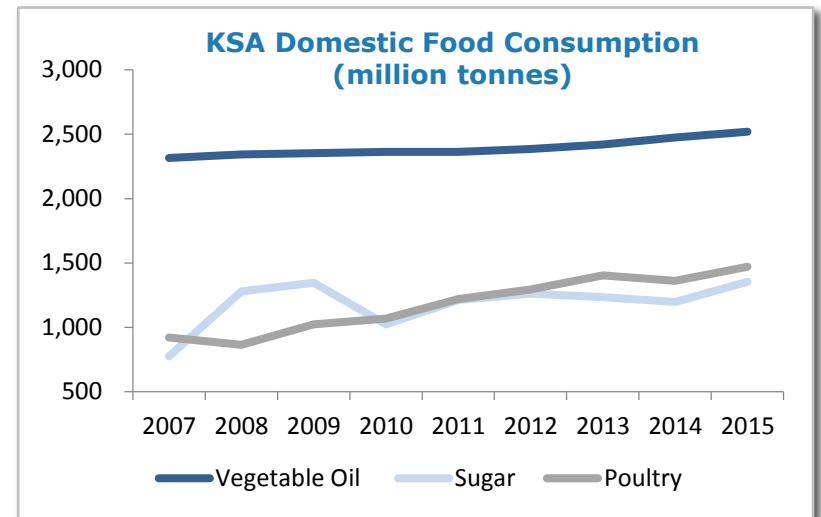
- ❑ Saudi Arabia amongst the GCC countries is the largest food consumer, on the back of its largest population base in the region. Saudi Arabia meets its food requirements by importing ~80% of the food items across the globe.
- ❑ Based on the FAO outlook 2016-2025, we estimate Saudi per capita food consumption of 348 kg in 2015, this figure is in comparison with the global average food consumption of 320 kg.
- ❑ As per the annual economic survey of enterprises 2015, revenue from food and beverages in Saudi Arabia reached SAR 223.8 billion, growing at a CAGR of 6.9% from 2011–2015. Moreover, we expect revenue from food and beverages in Saudi Arabia to reach SAR 266.8 billion by 2018, growing at a CAGR of 6.0%.
- ❑ Consumption of cereals in Saudi Arabia reached 18.9 MMT in 2015, growing at a CAGR of 4.9% since 2007. Saudi Arabia is the world's top barley importer, an average of 8.9/ annum MMT of barley was imported during the period 2011–2015. We expect cereal consumption continue to grow at the current levels.



Source(s): General Authority for Statistics – KSA, Arbah Capital

1.3 Food Consumption in KSA

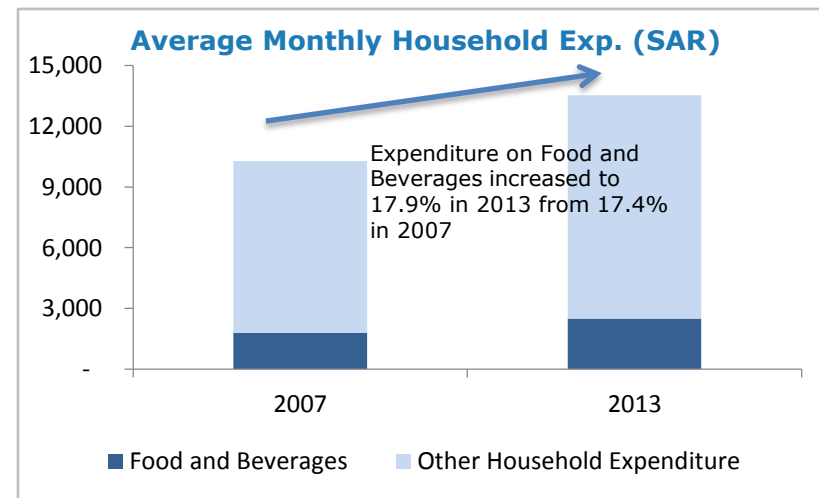
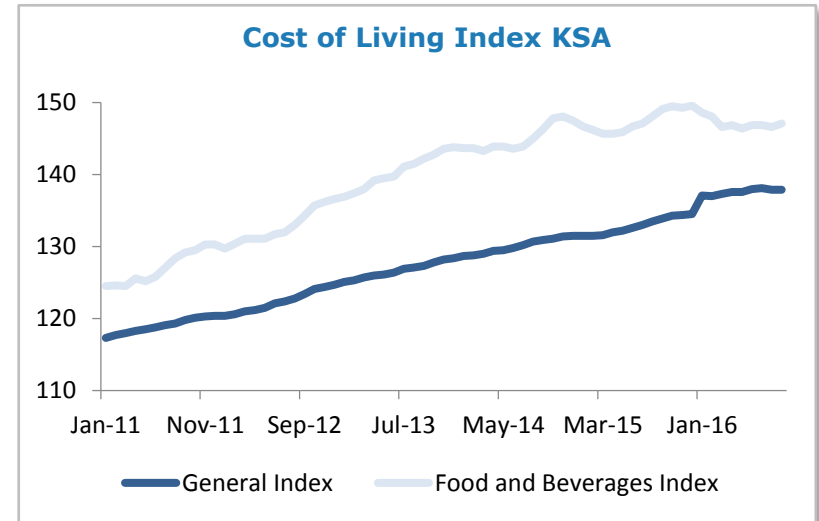
- Vegetable oil consumption has showed steady growth in Saudi Arabia, total consumption reached 2.5 MMT in 2015, growing at a CAGR of 1.1% from 2007 – 2015. We expect the subdued growth rate to continue in the future.
- Sugar consumption in Saudi Arabia reached 1.3 MMT in 2015, growing at a CAGR of 0.8% from 2007–2015. In the developed countries consumption of sugar is growing at a subdued rate due to health concerns raised by more consumption, likewise we expect sugar consumption in Saudi Arabia to grow at a subdued rate due to high prevalence of diabetes and obesity in adults.
- Total poultry consumption in Saudi Arabia reached 1.4 MMT in 2015. According to USDA broiler meat production in Saudi Arabia is expected to reach 0.67 MMT in 2016, 4.0% higher than 2015. Saudi broiler production is projected to further rise to 0.7 MMT in 2017.
- Milk and milk products form the part of regular diet in Saudi Arabia. Moreover, we believe the share of milk and fruits will increase in the future due to awareness among the people to address appropriately the health issues such as prevalence of obesity in adults.



Source(s): USDA, FAO

1.3 Food Consumption in KSA

- ❑ Cost of living general index of Saudi Arabia reached 137.8 by October 2016, showing an increase of 14.7% during the last five years whereas food and beverages index reached 146.3, showing an increase of 18.1% over the same period. Thus, prices of food and beverages rose more than the general increase in other household items.
- ❑ Prices of food and beverages are closely monitored by the governments, thus we do not expect any major change in the prices of food and beverages over the short period of time.
- ❑ According to the household expenditure and income surveys 2013 and 2007, consumer spending pattern showed that average monthly expenditure on food and beverages in Saudi Arabia stood at SAR 2,488 in 2013, which constituted 17.9% of the total average monthly general expenditure of a household, earlier in 2007 this figure was recorded at 17.4%.
- ❑ In terms of nature of expenditure, food and beverages expenditure was observed to be the second highest after expenditure on housing and utilities.



Source(s): General Authority for Statistics – KSA, Arbah Capital

1.4 Sector Pitfalls

Although agriculture and food sector is defensive in nature, we believe following are the pitfalls which may hamper growth of the sector:

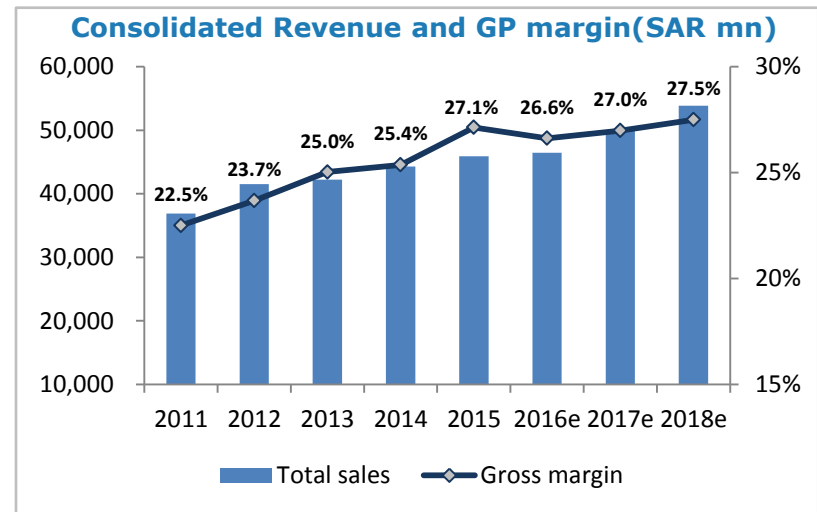
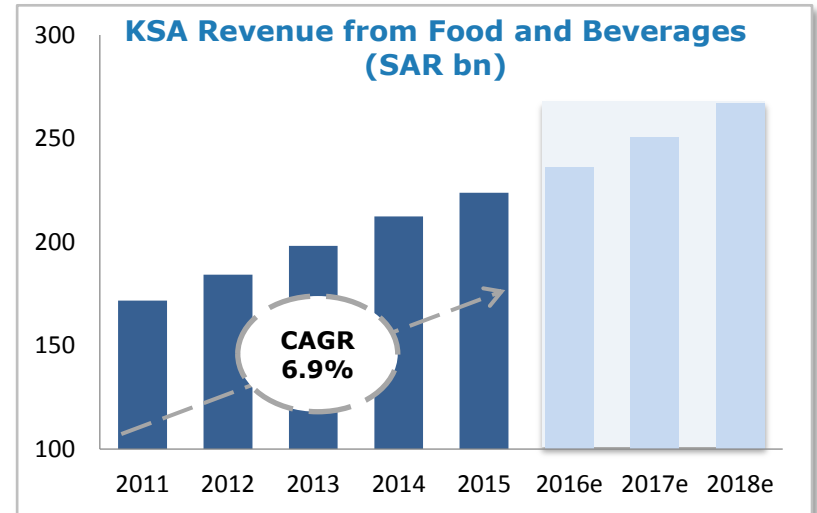
- ❑ Change in demographic structure and economy's dependence on oil may not provide the expected growth stimuli.
- ❑ As one of the steps of the Kingdom towards the conservation of water reserves by complete cessation of local production of alfalfa by 2019, is expected to have incremental effect on animal feed cost.
- ❑ Decline in the disposable income may adversely impact the growth of the sector, particularly in the case of companies which have Quick Service Restaurants (QSR) chain.
- ❑ Agricultural production is subject to suitable climatic conditions, unsuitable climatic conditions may affect the overall agricultural yield and may make difficult for the sector to find sufficient raw material.
- ❑ Further introduction of public service fee for carrying out business activities may put burden on the cost structure of the sector.
- ❑ Upward revision in borrowing cost (due to increase in SAIBOR) may make it costlier for the sector to incur necessary CAPEX.
- ❑ Implementation of new frameworks (such as IFRS) and IT infrastructure (for compilation and maintenance of electronic data) may increase employee training and development costs.



2.0 Weathering Out the Heat

2.1 Weathering the Foreseeable Heat

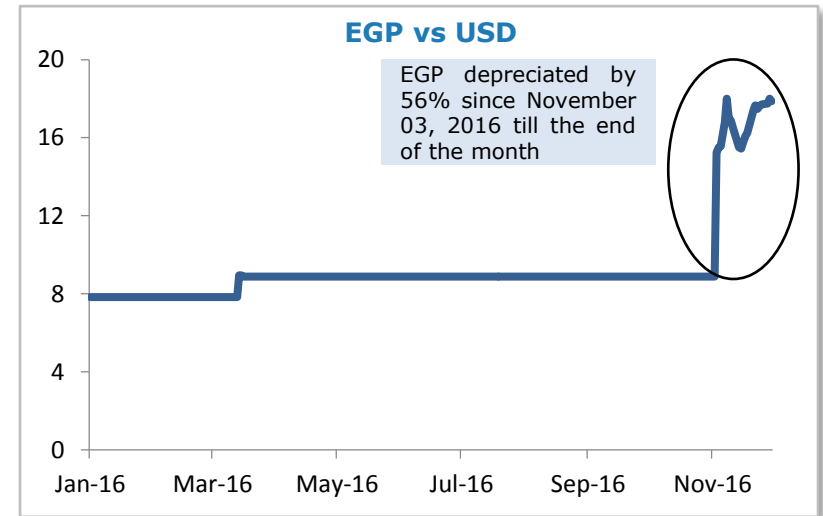
- As per the annual economic surveys of enterprises 2011-2015, revenue from food and beverages in Saudi Arabia reached SAR ~224 billion by 2015, growing at a CAGR of 6.9% from 2011–2015. Further, we expect it to reach SAR 266.8 billion by 2018, growing at a CAGR of 6.0%.
- We have consolidated revenue of the five Saudi food companies under our coverage, the consolidated revenue reached SAR 45.9 billion by 2015, growing at a CAGR of 5.6% through the period from 2011 to 2015. Gross profit margin increased to 27.1% from 22.5% in 2011.
- We expect the consolidated revenue to reach SAR 53.9 billion by 2018, growing at a CAGR of 5.4% with a limited improvement in gross profit margin reaching 27.5% from the 2015 level of 27.1%.
- We believe that Saudi agriculture and food sector has been weathering out the economic heat, further we expect more or less current level performance of the sector to continue going forward based on the favorable growth drivers and importantly defensive nature of the sector.



Source(s): General Authority for Statistics – KSA, Arbah Capital

2.2 Additional Cost Burden

- ❑ Devaluation of Egyptian Pound (EGP) will have adverse impact on the companies having sales operations in Egypt. The management of Savola expects, its wholly-owned subsidiary in Egypt, Savola Foods Company, will have a negative impact amounting to SAR 171 million on its earnings of Q4 2016 due to devaluation of EGP. We expect devaluation to have adverse impact on Almarai also by 1.0% - 1.5% on its sales.
- ❑ Imposition of service fees for carrying out business activities, subject to the size, nature and location of businesses activity, ranging from SAR 0.01 to SAR 8.0 per square meter, is expected to put trivial burden on the cost structure. We expect the service fees will put 0.5% to 1.0% additional cost burden on the agriculture and food companies on Savola and Herfy under our coverage.
- ❑ As one of the steps of the Kingdom, towards the conservation of water reserves by complete cessation of local production of alfalfa by 2019, is expected to have incremental effect on the animal feed cost of Nadec and Almarai.
- ❑ We expect that the Saudi food companies will not be able to pass complete incremental cost effect to its consumers as food fulfill physiological needs and prices are closely monitored by the governments.



Public Service Fees (area <5,000 sqm)

Public Service	Fee Range/ sqm (SAR)
Oil change, cash wash and car workshops	1.2 – 6.0
Restaurants and kitchens	1.6 – 8.0
Warehouses	0.2 – 1.0
Isteraha Wedding palaces Amusement parks Medical activities Educational activities Other activities	0.60 – 3.0

Source(s): CBE, MOMRA, Arbah Capital



3.0 Covered Saudi Agriculture and Food Listed Players

3.1 The Savola Group

SAVOLA AB

Company Overview:

The Savola Group was established in 1979, later in December 1991 the company was listed on Tadawul. With the geographically diversified business operations, the company currently has a workforce of 31,000 employees (approx.). The company operates through its three main business lines namely, food, investment and retail.

Business Model



1. Food Segment

The Savola group produces and refines the following food items:

- Sugar – with total refining capacity of 2.25 million tons per annum (KSA: 58.0% and Egypt: 42.0%).
- Edible oil – with refining capacity of 2.09 million tons per annum (KSA: 20.1%, Iran: 39.7%, Egypt: 10.7%, Algeria: 9.1%, Turkey: 4.8%, Sudan: 4.8% and Morocco: 4.8%)
- Pasta – with production capacity of 0.24 million tons per annum located in Egypt.

2. Investment Segment

The Savola group holds investment in the following companies:

- Almarai Company (36.5% owned by Savola)
- Herfy Food Services Company (49.0% owned by Savola)
- Kinan International Company for Real Estate Development (29.9% owned by Savola)
- Others

3. Retail Segment

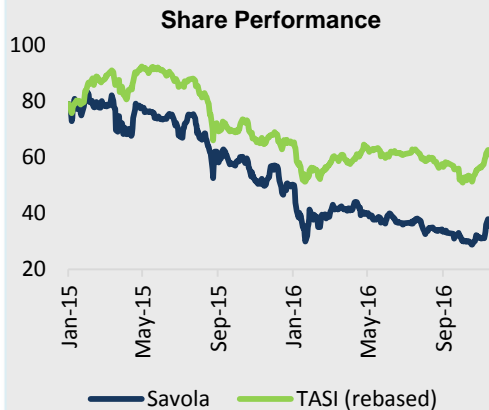
The group owns renowned retail name, Panda, comprising of the following number of stores along with their location and classification:

- HyperPanda 67 stores (KSA: 66 and UAE: 1)
- Panda 162 stores (KSA: 160 and Egypt: 2)
- Pandati 182 stores all located in KSA

Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.1 The Savola Group

Recommendation	Overweight
Fair value (SAR)	47.0
Last closing price (SAR)	38.5
Dividend yield (%)	2.6
Upside potential (%)	24.7
Outstanding shares (mn)	534.0
52-week range (SAR)	57/28
Market cap (SAR mn)	20,559
Free float to TASI (%)	2.2
YTD performance (%)	(22.7)
Beta	0.9



Note: Closing prices as of 13-12-16

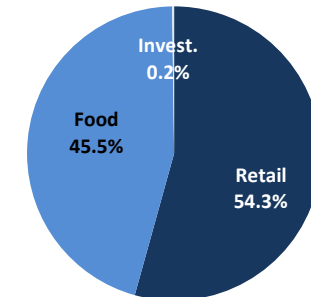
Investment Thesis

- Expected recovery in commodity prices and discount offers are likely to pose positive impact on the top-line growth of Savola.
- We expect gradual recovery in the retail segment due to ongoing restructuring and reduction in OPEX of pandati stores.
- Savola is expanding its retail segment in Egypt and UAE, which we believe will help it to uplift its retail segment revenue.
- The expected rise in sugar consumption together with improved pricing in Egypt, will support the sugar operations of Savola in Egypt.
- Listed investment associates of Savola, Almarai in particular, are increasing their contribution towards the profitability of the company.

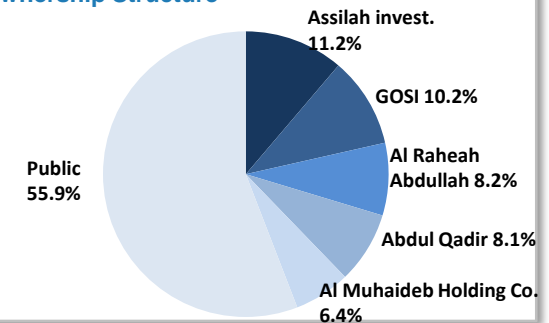
Risks

- Although the company added three hyper and ten super stores this year till September 2016, it closed 100 pandati stores during the same period.
- Devaluation of Egyptian pound is expected to have adverse impact amounting to SAR 171 million on the company's Q4 2016 earnings.
- Savola's Egyptian subsidiary, USCE, is going through restructuring, we expect restructuring to be completed by mid-2017.
- Emphasis on less oil consumption in Iran may adversely impact the company.

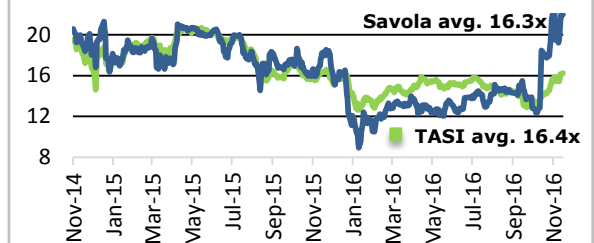
Revenue Dissection



Ownership Structure



Savola vs TASI 2 year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.1 The Savola Group

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	2,067	1,348	1,137	1,891
Inventories	4,840	4,430	4,695	4,930
Trade and other receivables	915	925	978	1,034
Other current assets	1,584	1,710	1,805	1,906
Total Current assets	9,406	8,412	8,615	9,761
Property, plant and equipment	9,020	9,811	10,113	10,291
Other non-current assets	8,607	8,771	8,953	9,139
Total non-current assets	17,628	18,582	19,066	19,430
Total assets	27,034	26,994	27,681	29,191
Accounts payable	3,126	3,019	3,192	3,376
Short term debt	4,962	4,650	4,516	4,774
Other current liabilities	2,104	2,382	2,519	2,641
Total current liabilities	10,192	10,052	10,227	10,791
Long term debt	4,579	4,292	4,168	4,406
Other non-current liabilities	757	780	811	843
Total non-current liabilities	5,336	5,072	4,979	5,249
Share capital	5,340	5,340	5,340	5,340
Retained earnings, reserves and others	6,166	6,531	7,135	7,811
Total equity and liabilities	27,034	26,994	27,681	29,191

3.1 The Savola Group

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Income Statement	2015	2016	2017	2018
Revenue	26,425	25,664	27,131	28,694
COGS	(21,332)	(20,799)	(22,047)	(23,149)
Gross profit	5,093	4,865	5,084	5,545
SG&A expenses	(4,064)	(4,153)	(4,180)	(4,501)
EBITDA	2,449	1,639	2,285	2,517
EBIT*	1,826	1,188	1,808	2,010
Others income/ (expenses)	223	(233)	(226)	(239)
Zakat	(138)	(64)	(118)	(150)
Net income	1,911	891	1,476	1,652
Outstanding shares (million)	534	534	534	534
Earnings per share (SAR)	3.6	1.7	2.8	3.1
Dividend per share (SAR)	2.0	1.0	1.8	2.3
Cash Flow Statement	2015	2016	2017	2018
Cash from operations	2,119	1,362	1,398	1,593
Cash from investing activities	(527)	(956)	(480)	(360)
Cash from financing activities	(1,001)	(1,125)	(1,129)	(479)
Opening cash balance	1,634	2,067	1,348	1,137
Increase/ (decrease) in cash	592	(719)	(211)	754
Closing cash balance	2,067	1,348	1,137	1,891

*Includes share of profit from associates

3.1 The Savola Group

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	(0.6%)	(2.9%)	5.7%	5.8%
EBITDA	(20.1%)	(33.1%)	39.4%	10.2%
Profitability				
Gross profit margin	19.3%	19.0%	18.7%	19.3%
EBITDA	13.0%	6.4%	8.4%	8.8%
EBIT	12.3%	4.6%	6.7%	7.0%
Net profit margin	7.2%	3.5%	5.4%	5.8%
ROA	3.8%	3.3%	5.3%	5.7%
ROE	10.1%	7.5%	11.8%	12.6%
Leverage				
Debt to equity	56.6%	75.3%	69.6%	69.8%
Debt to asset	35.3%	33.1%	31.4%	31.4%
Valuation				
Price to book value	1.8x	1.7x	1.6x	1.6x
Price to earnings	10.7x	22.6x	13.8x	12.4x
Price to sales	0.8x	0.8x	0.8x	0.7x
Dividend yield	5.2%	2.6%	4.7%	6.0%
EV/ Sales	1.0x	1.0x	0.9x	0.9x
EV/ EBITDA	10.2x	15.2x	11.0x	9.9x

3.1 The Savola Group

Valuation

We follow Sum of the Parts as our valuation methodology for Savola. We have assumed terminal growth rate of 3 percent and cost of equity of 14.0 percent for food and retail segments of Savola. Based on our valuation model Fair Value of Savola is SAR 47.0.

Valuation Summary

Terminal growth rate for DCF	3.0%
Cost of equity	14.0%
EV of Retail and Food segments of Savola	SAR 2,817 mn
EV of investment in Herfy and Almarai	SAR 20,219 mn
Market/ book value of other investments	SAR 2,003 mn
Total fair EV*	SAR 25,039 mn
No. of outstanding shares	534.0 mn
Fair value	SAR 47.0

*After the impact of liquidity discount @ 10.0%

Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
Global peers' weighted average	16,328	23.0x	5.4%	1.9%	9.5%
Savola	20,559	10.7x	(13.4%)	3.4%	10.1%

3.2 Almarai Company

ALMARAI AB

Company Overview:

Almarai Company initially started its operations from KSA in 1977, later in August 2005 Almarai was listed on Tadawul, presently it claims to be the world's largest vertically integrated dairy company with a workforce of more than 42,000 employees. Almarai has four main business lines: dairy, bakery, poultry and juices.

Business Model



1. Dairy

Almarai with a herd of more than 170,000 cows and calves has a automated milking parlor in Al Kharj near Riyadh and other one with almost herd of 10,000 milking cows in Jordan. Fresh milk, long life milk, milk shakes, laban (simple and flavored), yoghurt, cheese, butter and cream are the main dairy products of Almarai.

Almarai has arable farms to produce animal feed at its own, Almarai's arable farms are located at:

- Fondomonte, USA (owned land measuring 5.5K has)
- Fondomonte, Argentina (owned land measuring 12.3K has)
- Fondomonte, Argentina (rented land measuring 19.7K has)
- Poland (owned land measuring 2.1K has)
- Ukraine (rented land measuring 30.8K has)

2. Bakery

Bakery segment of Almarai operates under the two brand names L'usine and 7Days. Almarai has seven bakery production lines, four in Jeddah, two in Al Kharj and one in Hail.

3. Poultry

Almarai has a plant with three poultry production lines located in Hail region, the plant has the total production capacity of 200 mn birds per annum.

4. Juices

Almarai offers variety of juices with continuous innovation to address to the needs of customers with different tastes and preferences. Juice plant of Almarai is located at a distance of 130 KMs from Riyadh.

Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.2 Almarai Company

Recommendation	Neutral
Fair value (SAR)	70.0
Last closing price (SAR)	67.0
Dividend yield (%)	1.3
Upside potential (%)	5.8
Outstanding shares (mn)	800
52-week range (SAR)	67/41
Market cap (SAR mn)	53,600
Free float to TASI (%)	2.4
YTD performance (%)	14.0
Beta	0.7

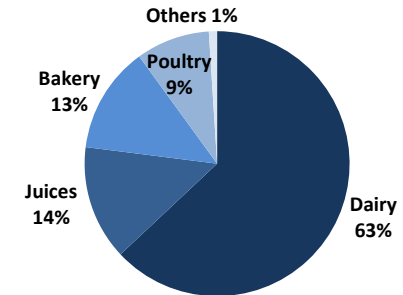
Investment Thesis

- Almarai's bakery segment showed strong growth aided by low commodity costs. However, we think recovery in commodity prices to impact margins to a very limited extent.
- Almarai has commissioned production at Hail bakery with four production lines to produce products with high margins such as, cupcakes.
- Poultry consumption in Saudi Arabia is increasing, further, we expect less imports of poultry from Brazil due to higher feed prices and strengthening of Brazilian Real. We expect poultry segment of Almarai to be profitable in 2018.
- Almarai launched 15 new products in 2015, Almarai consistently comes out with innovative food products to address the preferences of customers with different tastes.

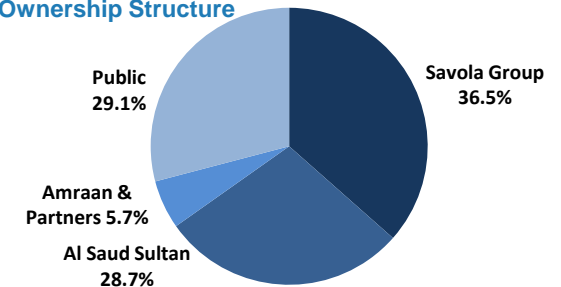
Risks

- Almarai has to rely on 100% imported animal feed, Alfalfa, by 2019. We expect importation of the feed will put additional burden on the cost structure of the company, may be more than SAR 200 mn earlier announced by the company.
- We expect devaluation of EGP to have adverse impact on Almarai by 1% - 1.5% on its sales.
- New launched powdered milk formula may be adversely impacted by the recovery in powdered milk raw material prices.

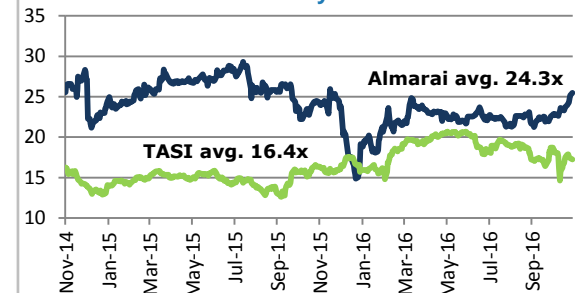
Revenue Dissection



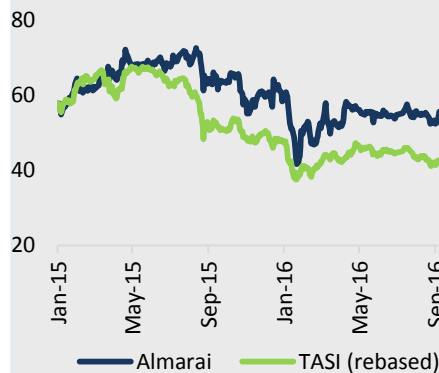
Ownership Structure



Almarai vs TASI 2 year Forward PE



Share Performance



Note: Closing prices as of 13-12-16

Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.2 Almarai Company

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	2,039	1,389	1,929	3,363
Inventories	2,836	3,117	3,367	3,726
Trade and other receivables	1,277	1,370	1,485	1,619
Other current assets	3	8	9	10
Total Current assets	6,155	5,884	6,789	8,717
Property, plant and equipment	19,924	23,886	25,436	26,260
Other non-current assets	1,094	1,554	1,684	1,837
Total non-current assets	21,216	25,619	27,318	28,295
Total assets	27,371	31,503	34,108	37,012
Accounts payable	2,730	2,691	2,906	3,216
Short term debt	1,821	2,020	2,189	2,387
Other current liabilities	255	284	306	339
Total current liabilities	4,807	4,994	5,402	5,942
Long term debt	9,343	10,015	10,871	11,839
Other non-current liabilities	603	670	724	801
Total non-current liabilities	9,946	10,685	11,595	12,640
Share capital	6,000	8,000	8,000	8,000
Retained earnings, reserves and others	6,618	7,823	9,111	10,418
Total equity and liabilities	27,371	31,503	34,108	37,012

3.2 Almarai Company

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Income Statement	2015	2016	2017	2018
Revenue	13,795	14,870	16,115	17,570
COGS	(8,511)	(9,468)	(10,226)	(11,316)
Gross profit	5,283	5,402	5,889	6,255
SG&A expenses	(3,021)	(3,257)	(3,565)	(3,916)
EBITDA	3,335	3,545	3,920	4,228
EBIT	2,262	2,145	2,324	2,339
Others income/ (expenses)	(280)	(124)	(134)	(146)
Zakat	(66)	(66)	(72)	(72)
Net income	1,916	1,955	2,118	2,121
Outstanding shares (million)	800	800	800	800
Earnings per share (SAR)	2.4	2.4	2.6	2.7
Dividend per share (SAR)	1.2	0.9	1.0	1.0
Cash Flow Statement	2015	2016	2017	2018
Cash from operations	4,932	2,965	3,586	3,858
Cash from investing activities	(4,409)	(5,803)	(3,296)	(2,866)
Cash from financing activities	732	2,188	249	442
Opening cash balance	797	2,039	1,389	1,929
Increase/ (decrease) in cash	1,255	(650)	540	1,434
Closing cash balance	2,039	1,389	1,929	3,363

3.2 Almarai Company

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	9.4%	7.8%	8.4%	9.0%
EBITDA	11.5%	6.3%	10.6%	7.9%
Profitability				
Gross profit margin	38.3%	36.3%	36.5%	35.6%
EBITDA	24.2%	23.8%	24.3%	24.1%
EBIT	16.4%	14.4%	14.4%	13.3%
Net profit margin	13.9%	13.1%	13.1%	12.1%
ROA	7.0%	6.2%	6.2%	5.7%
ROE	15.2%	12.3%	12.4%	11.5%
Leverage				
Debt to equity	88.5%	76.1%	76.3%	77.2%
Debt to asset	40.8%	38.2%	38.3%	38.4%
Valuation				
Price to book value	3.2x	3.4x	3.1x	2.9x
Price to earnings	27.9x	27.9x	25.8x	24.8x
Price to sales	2.9x	3.6x	3.3x	3.1x
Dividend yield	1.8%	1.3%	1.5%	1.5%
EV/ Sales	4.1x	3.8x	3.5x	3.2x
EV/ EBITDA	17.0x	15.9x	14.4x	13.4x

3.2 Almarai Company

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 10.0 percent. Based on our valuation model Fair Value of Almarai is SAR 70.0

DCF Summary

FCFE (2016- 2021)	SAR 15,221 mn
Discounted FCFE	SAR 10,488 mn
Terminal growth rate	3.0%
Terminal value	SAR 76,896 mn
Discounted terminal value	SAR 46,046 mn
EV	SAR 56,534 mn
Cost of equity	10.0%
No. of outstanding shares	800 mn
Fair value	SAR 70.0

Sensitivity analysis

		Cost of equity				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	2.0%	73.3	67.7	62.7	58.3	54.5
	2.5%	78.4	72.0	66.4	61.6	57.3
	3.0%	84.3	77.0	70.0	65.2	60.4
	3.5%	91.4	82.8	75.6	69.4	64.0
	4.0%	99.8	89.7	81.3	74.2	68.1

Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
Global peers' weighted average	72,061	23.0x	21.4%	1.9%	15.7%
Almarai	53,600	27.9x	14.4%	1.3%	16.8%

3.3 National Agriculture and Dev. Co.

NADEC AB

Company Overview:

Nadec was established in June 1981, later in January 1993 the company was listed on Tadawul. The company is engaged in the cultivation of fruits crops and production of milk and juices. The company harvests around 30,000 hectares of agricultural farms in the Kingdom, further, it is looking forward to expand arable farming in Sudan.

Business Model



1. Dairy

Nadec with a herd of more than 70,000 cows and calves, produces 382 million liter of milk per annum. Fresh milk, long life milk, laban, yoghurt, cheese, butter and cream are the main dairy products of Nadec. In addition to that, Nadec established new farm with the capacity of 12,000 in 2015.

2. Olives

Nadec cultivates Olives, it has 2.7 million trees of Olives planted on a covered area of 1,715 has.

3. Crops

Nadec has four arable farms in KSA and one in Sudan. Farms in KSA are located at Hard (9,000 has), Hail (11,000 has), Jof (5,000 has) and Dawasir (5,000 has) whereas Sudan farm is located at North Kordofan (3,200 has). Nadec cultivates different fruits and vegetables, in 2015 the company cultivated the following quantity of fruits and vegetables:

- 65,000 tons of potatoes
- 62,000 tons of wheat
- 21,700 tons of corn
- 10,000 tons of onion
- 216 tons of dates
- 1,170 tons of fruits

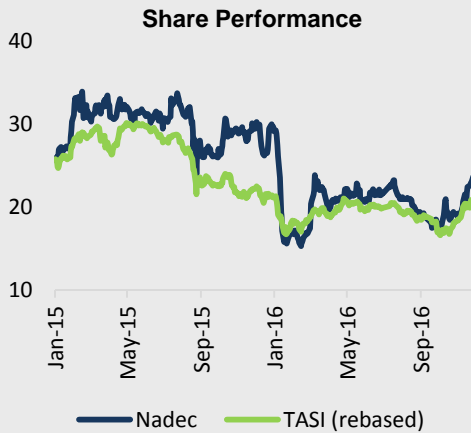
4. Juices

Like Almarai, Nadec also offers variety of juices. In 2015, the company installed four cold storages for juices, further market share of Nadec in juice segment increased to 24.7% by 2015 from 21.7% in 2010.

Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.3 National Agriculture and Dev. Co.

Recommendation	Neutral
Fair value (SAR)	26.5
Last closing price (SAR)	24.0
Dividend yield (%)	2.1
Upside potential (%)	12.5
Outstanding shares (mn)	77.0
52-week range (SAR)	32/15
Market cap (SAR mn)	1,848
Free float to TASI (%)	0.2
YTD performance (%)	(17.7)
Beta	1.2



Note: Closing prices as of 13-12-16

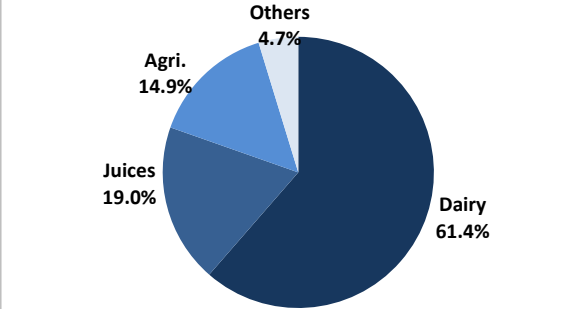
Investment Thesis

- Going forward, we expect the company will get aid from its arable farming expansion plan in Sudan.
- Nadec installed new juice and milk production lines in 2015 with total annual production capacity of 64,000 packs.
- On the back of herd appreciation, we expect total milk production of the company to increase in the future.
- We expect, meat segment of the company continue to show strong results.
- Nadec has established new farm for the appreciation of herd, the farm has the production capacity of 12,000 cows. Going forward, we expect more crop yield per acre of area.
- Nadec offers innovative products to address the different customer needs.

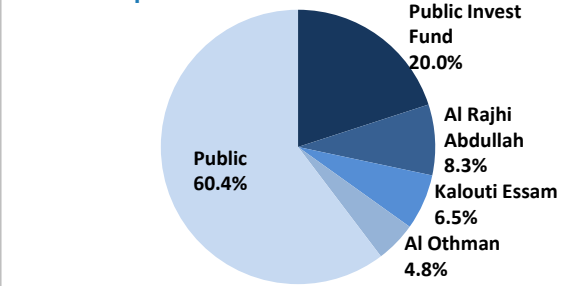
Risks

- Cessation of wheat cultivation in the Kingdom by 2019 will impact revenue of the company, in 2015 the company produced 62,000 tons of wheat.
- Nadec has to rely on 100% imported animal feed, Alfalfa, by 2019. We expect importation of the feed will put additional burden on the cost structure of the company.
- Unavailability of sufficient water may create serious concerns for crops cultivation.

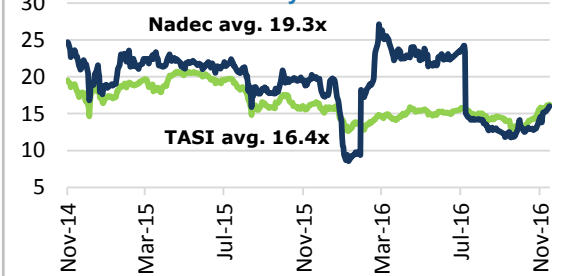
Revenue Dissection



Ownership Structure



Nadec vs TASI 2 year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.3 National Agriculture and Dev. Co.

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	101	61	195	356
Inventories	501	581	619	660
Trade and other receivables	351	399	428	460
Other current assets	43	48	51	55
Total Current assets	996	1,088	1,294	1,531
Property, plant and equipment	2,794	2,879	2,980	3,099
Other non-current assets	36	37	38	40
Total non-current assets	2,830	2,916	3,019	3,139
Total assets	3,826	4,004	4,312	4,670
Accounts payable	452	501	534	569
Short term debt	570	740	795	855
Other current liabilities	62	64	67	69
Total current liabilities	1,084	1,306	1,395	1,493
Long term debt	1,243	1,092	1,171	1,259
Other non-current liabilities	135	155	178	205
Total non-current liabilities	1,377	1,247	1,350	1,464
Share capital	770	770	770	770
Retained earnings, reserves and others	595	682	797	942
Total equity and liabilities	3,826	4,004	4,312	4,670

3.3 National Agriculture and Dev. Co.

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Income Statement	2015	2016	2017	2018
Revenue	2,354	2,391	2,567	2,759
COGS	(1,417)	(1,452)	(1,548)	(1,650)
Gross profit	937	940	1,019	1,109
SG&A expenses	(742)	(764)	(811)	(867)
EBITDA	460	380	418	460
EBIT	195	175	208	242
Others income/ (expenses)	(46)	(46)	(49)	(53)
Zakat	(8)	(4)	(5)	(6)
Net income	141	125	154	183
Outstanding shares (million)	77	77	77	77
Earnings per share (SAR)	1.8	1.6	2.0	2.4
Dividend per share (SAR)	0.5	0.5	0.5	0.5
Cash Flow Statement	2015	2016	2017	2018
Cash from operations	503	64	141	173
Cash from investing activities	(601)	(86)	(103)	(120)
Cash from financing activities	122	(18)	96	108
Opening cash balance	77	101	61	195
Increase/ (decrease) in cash	25	(40)	134	161
Closing cash balance	101	61	195	356

3.3 National Agriculture and Dev. Co.

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	13.6%	1.6%	7.4%	7.5%
EBITDA	23.3%	(17.4%)	10.0%	10.0%
Profitability				
Gross profit margin	39.8%	39.3%	39.7%	40.2%
EBITDA	19.5%	15.9%	16.3%	16.7%
EBIT	8.3%	7.3%	8.1%	8.8%
Net profit margin	6.0%	5.2%	6.0%	6.6%
ROA	3.7%	3.1%	3.6%	3.9%
ROE	10.3%	8.6%	9.8%	10.7%
Leverage				
Debt to equity	132.8%	126.2%	125.5%	123.5%
Debt to asset	47.4%	45.8%	45.6%	45.3%
Valuation				
Price to book value	1.3x	1.3x	1.2x	1.1x
Price to earnings	13.3x	15.0x	12.0x	10.0x
Price to sales	0.8x	0.8x	0.7x	0.7x
Dividend yield	2.1%	2.1%	2.1%	2.1%
EV/ Sales	0.9x	0.9x	0.8x	0.7x
EV/ EBITDA	4.4x	5.4x	4.9x	4.4x

3.3 National Agriculture and Dev. Co.

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 12.3 percent. Based on our valuation model Fair Value of Nadec is SAR 26.5.

DCF Summary

FCFE (2016- 2021)	SAR 797 mn
Discounted FCFE	SAR 523 mn
Terminal growth rate	3.0%
Terminal value	SAR 2,715 mn
Discounted terminal value	SAR 1,520 mn
EV	SAR 2,044 mn
Cost of equity	12.3%
No. of outstanding shares	77.0 mn
Fair value	SAR 26.5

Sensitivity analysis

		Cost of equity				
		11.5%	12.0%	12.3%	12.5%	13.0%
Terminal growth rate	2.0%	26.8	25.3	24.5	23.9	22.7
	2.5%	28.0	26.4	25.4	24.9	23.5
	3.0%	29.4	27.5	26.5	25.9	24.4
	3.5%	30.9	28.9	27.8	27.1	25.5
	4.0%	32.6	30.3	29.1	28.4	26.6

Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
Global peers' weighted average	391	27.0x	2.7%	2.8%	(12.0)%
Nadec	1,848	13.3x	32.2%	1.9%	9.2%

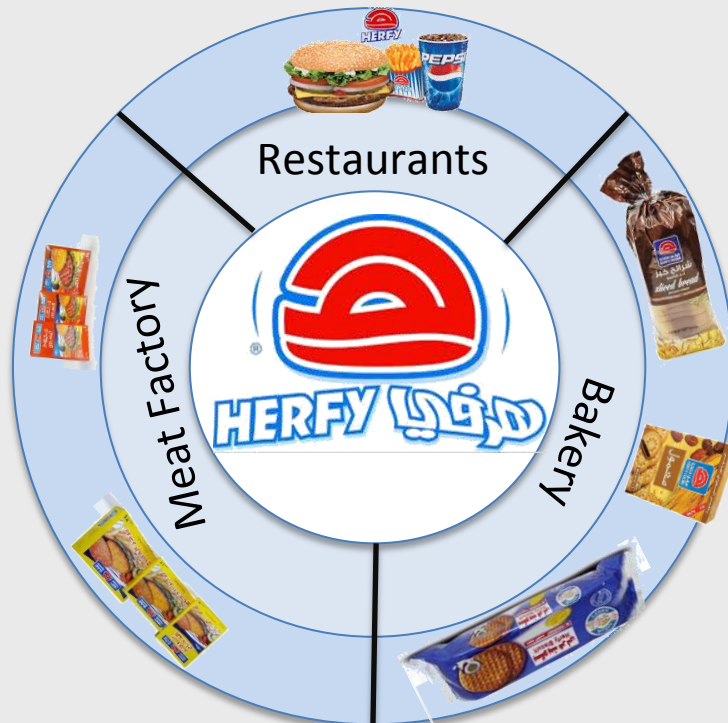
3.4 Herfy Food Services Company

HERFY AB

Company Overview:

Herfy Food Services Company was established in March 1981, later in February 2010 the company was listed on Tadawul. Herfy is mainly engaged in establishing and operating restaurants, production and sale of bakery items and the company also operates a meat factory in Riyadh.

Business Model



1. Restaurants

Herfy has large chain of restaurants, restaurant count of Herfy reached 323 by September 2016. Most of the restaurants of Herfy are on rent, as of September 2016 out of the 323 restaurants:

- 284 restaurants were on rent
- 39 restaurants were owned

Herfy earns revenue across the Kingdom, geography-wise Herfy's revenue mix is as follows:

- Central region – 61%
- Eastern region – 13%
- Southern region – 10%
- Western region – 9%
- Northern region – 7%

2. Bakery

Herfy established a bakery in Riyadh in 2003 for the production of sweets, pastries, cakes, bread and rusks. Later in 2012, the company established a cake factory also in Riyadh called "Cake Factory". Other products produced by the bakery segment are buns for hamburgers, croissants, cup cakes, cookies, donuts etc. As of 2015, outlets of bakery segment reached 16, all the outlets are located in Riyadh.

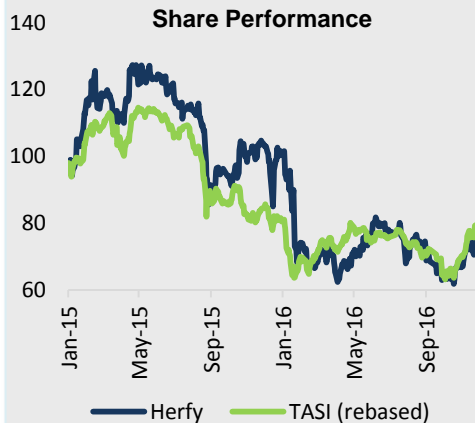
3. Meat Factory

In 2005, the company established a meat factory in Riyadh. Meat factory sales comprise of 91.6% to restaurants (internal sales) and other 8.4% sales are in the local market.

Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.4 Herfy Food Services Company

Recommendation	Neutral
Fair value (SAR)	89.5
Last closing price (SAR)	84.8
Dividend yield (%)	3.9
Upside potential (%)	9.4
Outstanding shares (mn)	46.2
52-week range (SAR)	105/61
Market cap (SAR mn)	3,918
Free float to TASI (%)	0.2
YTD performance (%)	(15.8)
Beta	0.8



Note: Closing prices as of 13-12-16

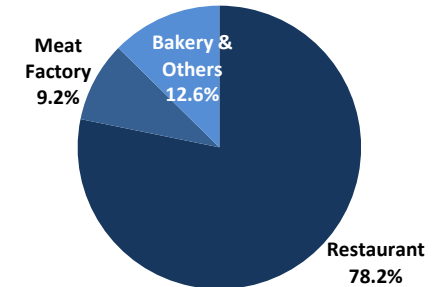
Investment Thesis

- ❑ The meat and bakery segments of the company continue to show strong results with high profit margins.
- ❑ Herfy added 23 new outlets this year till September 2016, the company has a plan to add 25 new outlets every year.
- ❑ QSRs usually bear high cost against advertisement, roughly Herfy spends 3.0% of the restaurant sales against the advertisement expenses which we believe is curtailed and feasibility of which is reflected in the restaurant sales.
- ❑ Herfy meets most of its meat requirements for restaurants from its own meat factory, which we believe aids its cost efficiency.
- ❑ We expect Herfy to maintain net profit margin within the range of 18 % - 21% in the upcoming years.

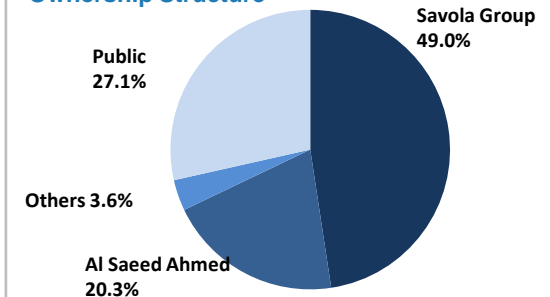
Risks

- ❑ The company earns major portion of its restaurant sales from the central region of Saudi Arabia, which we believe has high competition and the potential for LFL sales growth is less.
- ❑ We expect that the imposition of service fee on businesses having outlets will put up to 0.5% additional burden on the cost structure of the company.
- ❑ Restaurant sales of Herfy may be impacted by the current environment of low consumer spending.

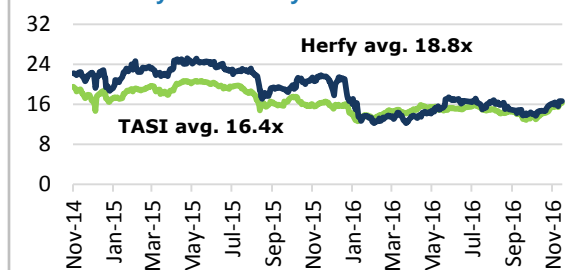
Revenue Dissection



Ownership Structure



Herfy vs TASI 2 year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.4 Herfy Food Services Company

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	23	87	110	145
Inventories	109	104	111	121
Trade and other receivables	23	25	28	30
Other current assets	97	104	115	126
Total Current assets	252	320	364	422
Property, plant and equipment	937	1,081	1,185	1,290
Other non-current assets	--	--	--	--
Total non-current assets	937	1,081	1,185	1,290
Total assets	1,189	1,402	1,548	1,712
Accounts payable	69	68	73	80
Short term debt	88	123	135	148
Other current liabilities	48	61	67	73
Total current liabilities	204	253	274	301
Long term debt	197	276	303	333
Other non-current liabilities	53	61	68	74
Total non-current liabilities	250	338	371	407
Share capital	462	462	462	462
Retained earnings, reserves and others	1,009	1,160	1,342	1,546
Total equity and liabilities	1,189	1,402	1,548	1,712

3.4 Herfy Food Services Company

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Income Statement	2015	2016	2017	2018
Revenue	1,077	1,248	1,371	1,503
COGS	(756)	(883)	(947)	(1,030)
Gross profit	321	364	425	474
SG&A expenses	(113)	(132)	(146)	(160)
EBITDA	288	286	342	386
EBIT	208	232	279	314
Others income/ (expenses)	3	2	2	2
Zakat	(4)	(4)	(5)	(6)
Net income	207	230	276	310
Outstanding shares (million)	46.2	46.2	46.2	46.2
Earnings per share (SAR)	4.5	5.0	6.0	6.7
Dividend per share (SAR)	3.0	3.3	4.0	4.5
Cash Flow Statement	2015	2016	2017	2018
Cash from operations	292	301	335	379
Cash from investing activities	(273)	(198)	(166)	(178)
Cash from financing activities	(25)	(39)	(146)	(166)
Opening cash balance	29	23	87	110
Increase/ (decrease) in cash	(6)	64	23	35
Closing cash balance	23	87	110	145

3.4 Herfy Food Services Company

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	18.3%	15.9%	9.9%	9.6%
EBITDA	15.9%	(0.7%)	19.6%	12.9%
Profitability				
Gross profit margin	29.8%	29.2%	31.0%	31.5%
EBITDA	27.1%	22.9%	24.9%	25.7%
EBIT	19.3%	18.6%	20.4%	20.9%
Net profit margin	18.8%	18.4%	20.1%	20.6%
ROA	17.4%	16.4%	17.8%	18.1%
ROE	14.1%	14.2%	15.3%	15.4%
Leverage				
Debt to equity	19.4%	24.6%	24.3%	24.0%
Debt to asset	24.0%	28.5%	28.3%	28.1%
Valuation				
Price to book value	2.7x	2.4x	2.2x	2.0x
Price to earnings	18.8x	17.0x	14.1x	12.7x
Price to sales	3.6x	3.1x	2.9x	2.6x
Dividend yield	3.5%	3.9%	4.7%	5.3%
EV/ Sales	3.8x	3.3x	3.0x	2.7x
EV/ EBITDA	14.3x	14.4	12.0x	10.7x

3.4 Herfy Food Services Company

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 10.0 percent. Based on our valuation model, Fair Value of Herfy is SAR 89.5.

DCF Summary

FCFE (2016- 2021)	SAR 1,530 mn
Discounted FCFE	SAR 1,189 mn
Terminal growth rate	3.0%
Terminal value	SAR 4,725 mn
Discounted terminal value	SAR 2,948 mn
EV	SAR 4,137 mn
Cost of equity	10.0%
No. of outstanding shares	46.2 mn
Fair value	SAR 89.5

Sensitivity analysis

		Cost of equity				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	2.0%	92.2	86.1	80.8	76.1	71.9
	2.5%	97.6	90.7	84.7	79.5	74.9
	3.0%	103.9	96.0	89.5	83.4	78.3
	3.5%	111.3	102.2	94.4	87.8	82.1
	4.0%	120.3	109.5	100.5	92.9	86.4

Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
Global peers' weighted average	5,289	29.4x	17.6%	3.3%	15.6%
Herfy	3,918	19.2x	(1.3%)	3.5%	28.7%

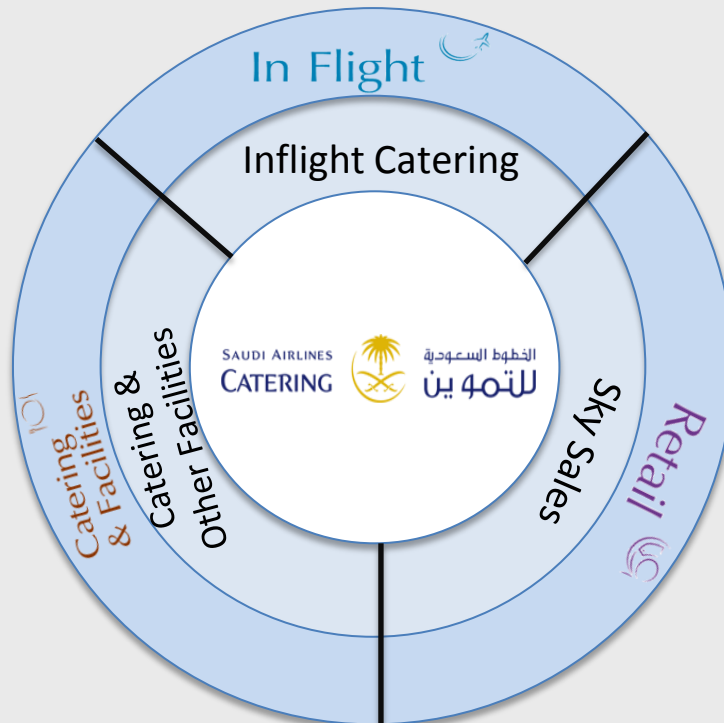
3.5 Saudi Airlines Catering Company

CATERING AB

Company Overview:

Saudi Airlines Catering Company (SACC) was listed on Tadawul in June 2012. SACC is engaged in the provision of catering services, sky sales, operation and management of business lounges and operation and management of central laundries.

Business Model



1. Inflight Catering

SACC provides inflight catering services to Saudi Arabian Airlines (Saudia) and other foreign airlines at the airports of Jeddah, Riyadh, Dammam and Madinah and Cairo. SACC has a central production unit located in Riyadh with a capacity of 27 million meals\ annum. Detail of SACC's catering units is as under:

Location	Capacity
King Khalid Int'l Airport, Riyadh	36,000 meals\ day
King Abdul Aziz Int'l Airport, Jeddah	39,000 meals\ day
Cairo Int'l Airport, Cairo	3,000 meals\ day
King Fahd Int'l Airport, Dam	9,000 meals\ day
Prince Mohammad Bin A. Aziz Int'l Airport, Medina	5,000 meals\ day

SACC manages Al Fursan and other business lounges, currently 23 (13 Int'l, 7 domestic and 3 other) lounges are being managed by the company.

2. Sky Sales

Under this segment SACC sales products such as watches, jewelry, perfumes, cosmetics etc. to its inflight and now through retail outlets to its ground customers.

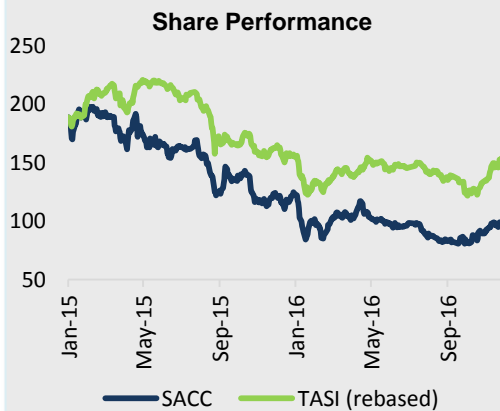
3. Catering and Other Facilities

This segment provides catering services to corporates and institutions at different sites, further, SACC also operates a central laundry.

Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.5 Saudi Airlines Catering Company

Recommendation	Overweight
Fair value (SAR)	120.0
Last closing price (SAR)	104.8
Dividend yield (%)	6.7
Upside potential (%)	21.2
Outstanding shares (mn)	82.0
52-week range (SAR)	126/80
Market cap (SAR mn)	8,593
Free float to TASI (%)	0.5
YTD performance (%)	(15.1)
Beta	0.8



Note: Closing prices as of 13-12-16

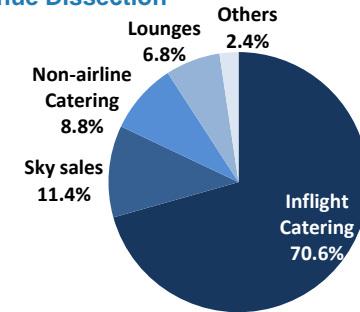
Investment Thesis

- ❑ SACC is consistently reducing its reliance on inflight catering and Saudia. Moreover, as per SACC's long term strategy by 2019 it wants to achieve revenue mix of 59% inflight catering (currently 70%) and 41% others (currently 30%).
- ❑ As per the Kingdom's vision 2030, to accommodate 30 million pilgrims per annum by 2030, is a positive for SACC.
- ❑ According to the company's strategy 2019, 56 more aircrafts will be added to Saudia's fleet by 2019, thus raising its total fleet to 175 aircrafts.
- ❑ According to the IATA forecast, passenger growth rate in the Middle East through 2015-2020 will be at a CAGR of 5.2%, this is in comparison with the world growth rate of 3.1%.
- ❑ We expect business lounges continue to generate strong result going forward, on the back of lounges addition.
- ❑ SACC has a high dividend yield of 6.8%

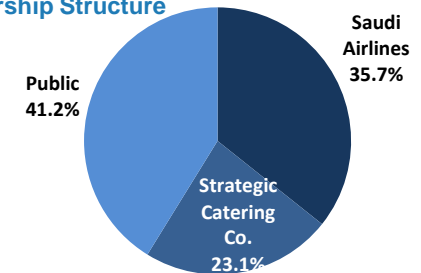
Risks

- ❑ Shareholding pattern of the company is changing i.e. public stake in the company is increasing, which we believe putting pressure on the market share price.
- ❑ Recovery in agricultural commodity prices may reduce the margin per meal.
- ❑ Cash and cash equivalent balance is persistently declining, currently the cash ratio of the company is 0.54.

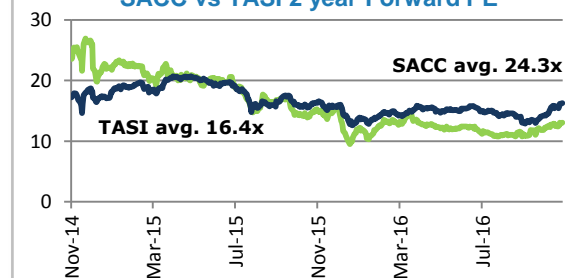
Revenue Dissection



Ownership Structure



SACC vs TASI 2 year Forward PE



Source(s): Company Reports, Tadawul, Bloomberg, Arbah Capital

3.5 Saudi Airlines Catering Company

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Balance Sheet	2015	2016	2017	2018
Cash and cash equivalents	304	181	158	162
Inventories	142	158	180	205
Trade and other receivables	553	747	839	943
Other current assets	335	317	341	378
Total Current assets	1,335	1,403	1,517	1,689
Property, plant and equipment	458	573	687	824
Other non-current assets	55	75	79	84
Total non-current assets	513	647	766	908
Total assets	1,848	2,051	2,283	2,598
Accounts payable	210	198	225	257
Short term debt	--	--	--	--
Other current liabilities	174	286	319	357
Total current liabilities	384	484	540	606
Long term debt	--	--	--	--
Other non-current liabilities	146	158	177	199
Total non-current liabilities	146	158	177	199
Share capital	820	820	820	820
Retained earnings, reserves and others	498	589	742	964
Total equity and liabilities	1,848	2,051	2,283	2,598

3.5 Saudi Airlines Catering Company

Financial Statements (year end December)

All figures are in SAR million unless otherwise stated

Income Statement	2015	2016	2017	2018
Revenue	2,261	2,308	2,598	2,887
COGS	(1,436)	(1,505)	(1,711)	(1,952)
Gross profit	825	803	887	980
SG&A expenses	(151)	(149)	(168)	(189)
EBITDA	693	703	780	864
EBIT	669	644	707	776
Others income/ (expenses)	18	21	22	21
Net income	687	665	729	797
Outstanding shares (million)	82	82	82	82
Earnings per share (SAR)	8.4	8.1	8.9	9.7
Dividend per share (SAR)	7.0	7.0	7.0	7.0
Cash Flow Statement	2015	2016	2017	2018
Cash from operations	579	517	652	710
Cash from investing activities	(187)	(134)	(119)	(142)
Cash from financing activities	(565)	(506)	(556)	(563)
Opening cash balance	477	304	181	158
Increase/ (decrease) in cash	(173)	(123)	(23)	(5)
Closing cash balance	304	181	158	162

3.5 Saudi Airlines Catering Company

Financial Ratios	2015	2016	2017	2018
Growth				
Revenue	5.8%	2.1%	12.6%	11.1%
EBITDA	6.4%	1.4%	11.0%	10.8%
Profitability				
Gross profit margin	36.5%	34.8%	34.1%	33.9%
EBITDA	30.7%	30.5%	30.0%	29.9%
EBIT	29.6%	27.9%	27.2%	26.9%
Net profit margin	30.9%	28.8%	28.0%	27.6%
ROA	32.9%	32.4%	31.8%	30.6%
ROE	48.6%	47.1%	46.5%	44.6%
Leverage				
Debt to equity	--	--	--	--
Debt to asset	--	--	--	--
Valuation				
Price to book value	6.5x	6.1x	5.5x	4.8x
Price to earnings	12.5x	12.9x	11.8x	10.8x
Price to sales	3.8x	3.7x	3.3x	3.0x
Dividend yield	6.7%	6.7%	6.7%	6.7%
EV/ Sales	4.3x	4.2x	3.8x	3.4x
EV/ EBITDA	14.2x	14.0x	12.6x	11.4x

3.5 Saudi Airlines Catering Company

Valuation

We follow Discounted Cash Flow as our valuation methodology. We have assumed terminal growth rate of 3 percent and cost of equity of 10.6 percent. Based on our valuation model Fair Value of SACC is SAR 120.0

DCF Summary

FCFE (2016- 2021)	SAR 4,040 mn
Discounted FCFE	SAR 3,094 mn
Terminal growth rate	3.0%
Terminal value	SAR 11,159 mn
Discounted terminal value	SAR 6,743 mn
EV	SAR 9,836 mn
Cost of equity	10.6%
No. of outstanding shares	82.0 mn
Fair value	SAR 120.0

Sensitivity analysis

		Cost of equity				
		9.5%	10.0%	10.6%	11.0%	11.5%
Terminal growth rate	2.0%	125.4	117.7	109.7	104.9	99.5
	2.5%	132.1	123.5	114.5	109.2	103.3
	3.0%	139.8	130.0	120.0	114.1	107.6
	3.5%	148.7	137.5	126.2	119.6	112.3
	4.0%	159.3	146.3	133.3	125.9	117.8

Peer comparison

	Market cap SAR mn	PE	EPS -1 Yr growth	Div. Yield TTM	ROE
Global peers' weighted average	8,165	26.0x	7.1%	2.3%	24.7%
SACC	8,593	13.5x	6.9%	6.7%	48.6%



4.0 The Bottom Line



4.0 The Bottom Line

- ❑ Agriculture and food sector is defensive in nature as it addresses to the physiological needs of living beings.
- ❑ We believe food market of the Kingdom has performed well over the years, we expect it to continue to show relatively moderate performance, even in the phase of economic slowdown.
- ❑ According to the Food and Agriculture Organization (FAO), global food markets are expected to remain generally well balanced in 2016-17 amid large export availabilities and relatively low and more stable international prices.
- ❑ Commodity prices are expected to recover slightly during the next three years, which will turn out to be helpful for the refiners whereas it will pose adverse impact on the manufacturers.
- ❑ The GCC has scarce water resources, which may compel the regulatory bodies to further expand stoppage of cultivation of crops which are more water intensive.
- ❑ The consolidated revenue of the five Saudi food companies under over coverage reached SAR 45.9 billion by 2015, growing at a CAGR of 5.6% through the period from 2011 to 2015. We expect consolidated revenue to reach SAR 53.9 billion by 2018, growing at a CAGR of 5.4%.
- ❑ Based on our rating methodology, our recommendation is neutral for Almarai (Fair Value: SAR 70.0, Upside Potential: 5.8%), Nadec (Fair Value: SAR 26.5, Upside Potential: 12.5%) and Herfy (Fair Value: SAR 89.5, Upside Potential: 9.4%) whereas our recommendation is overweight for: SACC (Fair Value: SAR 120.0, Upside Potential: 21.2%) and Savola (Fair Value: SAR 47.0, Upside Potential: 24.7%).

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Recommendation Methodology

Upside/ Downside Potential	Recommendation
Greater than or equal to +15%	Overweight
Between +15% and -14%	Neutral
Less than or equal to -15%	Underweight

The above mentioned recommendation methodology may not be followed in exceptional circumstances or an analyst at discretion may deviate from the above mentioned recommendation methodology in exceptional circumstances.

Arriving at Fair Value involves use of assumptions and estimates. The computed Fair Values are for 12 months horizon.

Figures have been rounded off to the nearest unit as and when considered necessary.

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