ALMARAI COMPANY RATING **NEUTRAL**

12 October 2010

3Q2010 Results: Seasonally Boosted, Tweaking Forecasts and Valuation Assumptions

المجموعة المالية هيرميس
EFG HERMES

RESULTS REVIEW | **FOOD AND BEVERAGE** | **SAUDI ARABIA**

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Raise Fair Value Slightly to SAR219/Share, Maintain Neutral

We raise our fair value (FV) to SAR219/share (6% upside potential) from SAR214/share, with minor adjustments to our forecasts after 9M2010 results and a reduction in our WACC assumption to reflect lower risk free rate. We reiterate our Neutral rating. Upside catalysts to our valuation include: i) developments in IDJ (JV with PepsiCo), like expansions in Egypt (through Beyti) or entering into new markets, ii) sustainability of higher margins, and iii) introduction of new food categories. Almarai trades on rich multiples versus global dairy peers' estimated 2011 median P/E of 12.8x and EV/EBITDA of 6.9x. This is partly justified by Almarai's higher margins and growth potential.

Core Operational Performance Ushers in Strong 3Q2010 Growth, in Line

Revenue grew 19% Y-o-Y to SAR1,843 million and net profit by 17%, with both coming broadly in line with our estimates. Dairy and juice (64% of revenue) rose 13% Y-o-Y, driven by growth in: i) long-life dairy (+18% Y-o-Y) on market share expansion, ii) baked goods (+32% Y-o-Y), owing to the near doubling of capacity in August 2010, and iii) juice (+19% Y-o-Y). EBITDA was in line at SAR600 million (+19% Y-o-Y) and its margin flat Y-o-Y at 32.7%, with lower-than-expected COGS offset by higher SG&A. Margins and net profit were boosted Q-o-Q by seasonality and Ramadan.

Expect Solid Growth in 4Q2010/FY2011

We expect sales of SAR1.78 billion (+15% Y-o-Y) in 4Q2010, with continued growth in bakery (+33%) and higher growth in juice (+25%) after an increase in processing capacity in 2Q2010. We forecast a 14% rise in EBITDA (with flat margin Y-o-Y) and an 18% rise in net profit to SAR293 million. For 2011, we forecast net profit to climb 16% Y-o-Y, driven by revenue growth, a nearly flat EBITDA margin, and a tightening in dairy and juice margins offset by widening bakery and poultry margins.

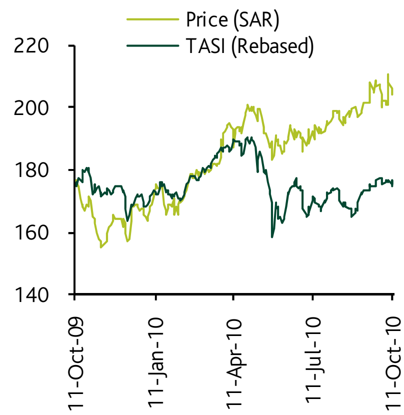
Bonus Share Issue to be proposed

Almarai's board of directors announced it will recommend a doubling of the company's paid-in capital to SAR2,300 million through a 1:1 bonus share issue.

STOCK DATA

Price	**SAR204.25***
Fair Value	**SAR219.0**
Last Div. / Ex Date	SAR4.0 on 12 April 2010
Mkt. Cap / Shares (mn)	SAR23,489 / 115
Av. Mthly Liqdty (mn)	SAR475
52-Week High / Low	SA210.5 / SAR155
Bloomberg / Reuters	ALMARAI:AB / 2280.SE
Est. Free Float	35.8%

SHARE PRICE PERFORMANCE RELATIVE TO TASI REBASED



QUARTERLY EARNINGS

(SAR mn)	2009a	2010a/e
Q1	197	234
Q2	287	343
Q3	363	425
Q4	249	293

KEY FINANCIAL HIGHLIGHTS

December Year End (SAR mn)	2009a	2010e	2011e	2012e
Revenue	5,869	6,912	8,022	9,373
EBITDA	1,642	1,956	2,237	2,576
EBITDA Margin	28.0%	28.3%	27.9%	27.5%
Net Profit	1,097	1,296	1,507	1,735
EPS (SAR)	9.9	11.3	13.1	15.1
DPS (SAR)	4.0	4.7	5.4	6.3
Net Debt (Cash)	3,869	4,857	5,380	5,360
P/E* (Attrib.) (x)	20.5	18.1	15.6	13.5
EV/EBITDA (x)	17.2	14.4	12.6	10.9
P* / Op. Cash Flow (x)	12.5	14.4	11.7	10.4
Div. Yield	2.0%	2.3%	2.7%	3.1%

*Prices as at 11 October 2010
Source: Almarai Company, EFG Hermes estimates

SEASONALITY EFFECTS BOOST FRESH DAIRY SALES & EBITDA MARGIN

Sales and margins were supported by Ramadan's seasonality effect in 3Q2010 as total revenue grew 5% Q-o-Q and fresh dairy sales (including yogurt) grew13% Q-o-Q. On the other hand, long-life dairy fell 5% Q-o-Q and baked goods 7% Q-o-Q. Poultry sales grew Q-o-Q, but the segment continued to report a net loss, while agriculture grew Q-o-Q and reported positive net profit (before minority interest). The EBITDA margin expanded c360 bps over 2Q2010 as a result of increased capacity utilisation during 3Q2010 and, accordingly, net profit soared 24% Q-o-Q.

FIGURE 1: SUMMARY OF QUARTERLY INCOME STATEMENT

In SAR million, unless otherwise stated

	3Q09a	1Q10a	2Q10a	3Q10a	Y-o-Y	Q-o-Q	3Q10e	Diff.	4Q10e	Y-o-Y	Q-o-Q
Revenue	**1,547**	**1,559**	**1,739**	**1,834**	**19%**	**5%**	**1,873**	**-2%**	**1,783**	**15%**	**-3%**
COGS	(761)	(881)	(920)	(912)			(994)		(1,007)		
Gross Profit	**787**	**678**	**819**	**922**	**17%**	**13%**	**878**	**5%**	**775**	**33%**	**-16%**
Gross Profit Margin	*50.8%*	*43.5%*	*47.1%*	*50.3%*			*46.9%*		*43.5%*		
SG&A	(284)	(292)	(313)	(322)			(281)		(312)		
EBITDA	**503**	**386**	**505**	**600**	**19%**	**19%**	**597**	**0%**	**463**	**14%**	**-23%**
EBITDA Margin	*32.5%*	*24.8%*	*29.1%*	*32.7%*			*31.9%*		*26.0%*		
Depreciation	(89)	(108)	(118)	(125)			(110)		(125)		
Net Operating Profit	**414**	**278**	**388**	**474**	**15%**	**22%**	**487**	**-3%**	**338**	**20%**	**-29%**
NOP (EBIT) Margin	*26.7%*	*17.8%*	*22.3%*	*25.9%*			*26.0%*		*19.0%*		
Interest Expenses	(36)	(32)	(31)	(35)			(34)		(32)		
Share of Profit from Associates	-	(1.8)	0.6	(3.0)			0.7		(3.0)		
Net Sundry	(3)			-							
Earnings before Taxes and MI	**375**	**244**	**358**	**437**	**17%**	**22%**	**454**	**-4%**	**303**	**18%**	**-31%**
Income Tax (Zakat)	(10)	(7)	(6)	(7)			(11)		(5)		
Minority Interest	(1)	(3)	(8)	(5)			(6.2)		(5)		
Net Profit	**363**	**234**	**343**	**425**	**17%**	**24%**	**437**	**-3%**	**293**	**18%**	**-31%**

Source: Almarai Company, EFG Hermes estimates

FIGURE 2: SEGMENTAL BREAKDOWN OF QUARTERLY REVENUE

In SAR million, unless otherwise stated

	3Q09a	1Q10a	2Q10a	3Q10a	Y-o-Y	Q-o-Q	3Q10e	Diff.	4Q10e	Y-o-Y	Q-o-Q
Dairy Products	932	848	951	1,044	12%	10%	1,062	-2%	978	14%	-6%
Cheese & Butter	282	331	305	320	14%	5%	315	1%	323	13%	1%
Fruit Juice	176	155	193	209	19%	9%	220	-5%	194	25%	-7%
Other (incl. non-dairy food)	5	8	6	5	-6%	-28%	6	-18%	5	0%	13%
Dairy, Juice & Other	**1,395**	**1,342**	**1,456**	**1,578**	**13%**	**8%**	**1,604**	**-2%**	**1,501**	**15%**	**-5%**
Bakery Products	153	178	217	202	32%	-7%	196	3%	227	33%	12%
Poultry	-	36	42	50		18%	55	-9%	40		-20%
Agriculture	-	3	25	4		-85%	18	-80%	15		
Total	**1,547**	**1,559**	**1,739**	**1,834**	**19%**	**5%**	**1,873**	**-2%**	**1,783**	**15%**	**-3%**

Source: Almarai Company, EFG Hermes estimates

FINANCIAL STATEMENTS

INCOME STATEMENT (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2008a	2009a	2010e	2011e	2012e	2013e	2014e
Revenue	5,030	5,869	6,912	8,022	9,373	10,951	12,642
COGS	(2,848)	(3,251)	(3,719)	(4,365)	(5,157)	(6,067)	(7,052)
Gross Profit	**2,182**	**2,618**	**3,193**	**3,656**	**4,216**	**4,884**	**5,591**
Gross Profit Margin	43.4%	44.6%	46.2%	45.6%	45.0%	44.6%	44.2%
SG&A	(851)	(976)	(1,237)	(1,420)	(1,640)	(1,916)	(2,212)
EBITDA	**1,331**	**1,642**	**1,956**	**2,237**	**2,576**	**2,967**	**3,378**
EBITDA Margin	26.5%	28.0%	28.3%	27.9%	27.5%	27.1%	26.7%
Depreciation and Amortisation	(270)	(363)	(475)	(537)	(616)	(678)	(742)
Net Operating Profit	**1,061**	**1,279**	**1,481**	**1,700**	**1,960**	**2,290**	**2,637**
Net Operating Margin	21.1%	21.8%	21.4%	21.2%	20.9%	20.9%	20.9%
Share of Profit from Associates	-	(2)	(7)	5	11	19	29
Net Interest Income (Expense)	(125)	(148)	(132)	(144)	(163)	(168)	(163)
Earnings before Taxes	**935**	**1,129**	**1,343**	**1,561**	**1,808**	**2,141**	**2,502**
Zakat	(25)	(29)	(26)	(30)	(45)	(53)	(62)
Earnings before Minority Interest	**911**	**1,100**	**1,317**	**1,531**	**1,763**	**2,088**	**2,440**
Minority Interest	(1)	(3)	(21)	(24)	(28)	(33)	(39)
Net Income	**910**	**1,097**	**1,296**	**1,507**	**1,735**	**2,055**	**2,402**

Source: Almarai Company, EFG Hermes estimates

BALANCE SHEET STATEMENT (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2008a	2009a	2010e	2011e	2012e	2013e	2014e
Cash and Time Deposits	253	508	207	241	281	329	379
Accounts Receivables	319	376	492	571	668	780	935
Inventory	1,097	1,219	1,375	1,615	1,907	2,244	2,608
Other Current Assets	91	79	208	242	282	330	381
Total Current Assets	**1,760**	**2,182**	**2,283**	**2,668**	**3,139**	**3,683**	**4,304**
Net Plant & Biological Assets	5,343	7,017	8,542	9,805	10,589	11,361	12,120
Investments	489	963	942	947	959	973	994
Intangibles and Others	589	825	825	825	825	825	825
Total Assets	**8,181**	**10,987**	**12,593**	**14,246**	**15,512**	**16,843**	**18,243**
ST Debt	511	396	415	441	469	548	632
Accounts Payable and Suppliers	647	902	1,009	1,172	1,342	1,529	1,719
Other Current Liabilities	131	143	143	143	143	143	143
Total Current Liabilities	**1,289**	**1,440**	**1,566**	**1,756**	**1,954**	**2,220**	**2,494**
LT Debt	3,133	3,981	4,649	5,179	5,172	5,004	4,687
Other Liabilities	128	166	191	219	252	252	252
Minority Interest	14.4	17.1	47.0	71.4	99.4	132.5	171.1
Net Worth	**3,617**	**5,383**	**6,140**	**7,020**	**8,034**	**9,235**	**10,638**

Source: Almarai Company, EFG Hermes estimates

CASH FLOW STATEMENT (DECEMBER YEAR END)

In SAR million, unless otherwise stated

	2008a	2009a	2010e	2011e	2012e	2013e	2014e
Cash Operating Profit after Tax	**1,334**	**1,651**	**1,955**	**2,236**	**2,564**	**2,914**	**3,316**
Change in Working Capital	(321)	163	(295)	(188)	(260)	(310)	(380)
Cash Flow after Change in WC	**1,013**	**1,814**	**1,660**	**2,047**	**2,304**	**2,605**	**2,936**
Capex and Food-Related Inv.	(1,572)	(1,742)	(2,064)	(1,800)	(1,400)	(1,446)	(1,492)
Free Cash Flow	**(559)**	**72**	**(404)**	**247**	**904**	**1,159**	**1,444**
Non-operating Cash Flow	6	23	78	-	-	-	-
Cash Flow before Financing	**(553)**	**95**	**(326)**	**247**	**904**	**1,159**	**1,444**
Net Financing	668	160	26	(214)	(864)	(1,112)	(1,393)
Change in Cash	**114**	**254**	**(300)**	**33**	**41**	**47**	**51**

Source: Almarai Company, EFG Hermes estimates

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