

Food Products Company CP: SAR 34.90 FV: SAR 16.78 Rating: Sell

Net income more than doubled but still below expectations.

- **Food Products Company reported sales of SAR 21.4 million in Q1 13, 21% higher than Q1 12 but 3% lower than our expectations, respectively.** Cost of good sold of SAR 12.9 million were reported, 4% higher than the same period last year.
- As such, gross profit increased by 62%, on a yearly basis, reaching SAR 8.5 million. Gross margin improved to 39.7% in Q1 13, the highest since Q1 11.
- **Selling and administrative expenses of SAR 5.4 million were recorded in Q1 13**, in line with our expectations. Moreover, the company reported other losses of SAR 1.1 million and Zakat expenses of SAR 0.7 million.
- **Net income increased 155% on a yearly basis to SAR 1.3 million in Q1 13, 2% lower than our expectations.** Net margin improved to 5.9% Q1 13, from 1.9% in Q1 12.
- A new pasta line is expected to start operations by the end of May 2013. In addition, the company is expanding its potato line. We expect that the impact of these expansions will appear in the second half of the year. However, we believe that this news is reflected in the market price. The stock trades at trailing PE of 106x (compared to historical average of 50x and peers' average of 17x) and PB of 3.27x (compared to historical average of 2.16x and peers' average of 2.3x). **We retain our fair value of SAR 16.78 and our recommendation to sell the stock.**

SAR mn unless otherwise stated	Q1 12	Q4 12	Q1 13	ASIB Est.	YoY	Vs. ASIB
Revenues	17.6	16.5	21.4	22.0	21%	-3%
Gross Profit	5.2	5.3	8.5	8.6	62%	-1%
Gross Margin	29.7%	32.1%	39.7%	39.1%		
Net Profit	0.50	0.22	1.27	1.30	155%	-2%
Net Margin	2.8%	1.4%	5.9%	5.9%		

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