SHUAA CAPITAL PSC

Arabian Pipes (2200.SE)

Equity Research

General Update

February 16th, 2009

Current Price	SAR 40.10	**Country**	Saudi Arabia
Fair Value	SAR 49.91	**Sector**	Industrial/Pipes
Recommendation	BUY	**Exchange**	Tadawul

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- We revise our estimates for Arabian Pipes based on changes in assumptions about average utilization rates and average selling prices. Additionally, we exclude the 240,000 tons additional capacity (coming from Riyadh Plant) from our forecast horizon as we believe there is no solid visibility on demand. Some of APC's clients might revise their CAPEX programs given the current economic condition and prevailing oil price outlook. However, the management has indicated that given the right market conditions, this capacity is expected come on board by 2014.

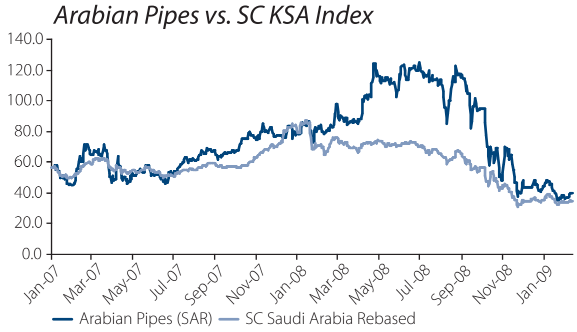
- In FY 08, APC recorded total revenue of SAR 816.8mn, inline with our FY 08 estimate of SAR 808.8mn. Throughout our five-year forecast horizon (2009-2013), we expect Arabian Pipes top-line figure to increase by a CAGR of 17%, underpinned by new capacities of 300,000 tons and 80,000 tons which are expected to come on board in early 2009 and 2011, respectively. APC recorded a net profit of SAR 117.2mn as opposed to our estimate of SAR 153.2mn. We attribute this shortfall to: 1) lower than expected margins, 2) unexpected higher SG&A, and 3) the recorded provision expense of SAR 13.4mn. Throughout our forecast horizon, we expect a bottom-line CAGR of 18%.

- We downgrade our target price for APC to SAR 49.9 per share from our previous target price of SAR 155.0. The primary reasons behind this move include - revised perpetual growth rate , higher discount rate, adjustment warranted in steel pipes' average selling price post recent fall in coil prices, and revised utilization rates and capacity kick-off. We maintain our BUY recommendation on the stock as the current stock price still offers 24.5% upside potential. However, we highlight the risk to shareholders from the dilution effect of the likely capital increase planned by the company.

Year	Net Profit SAR('000)	BV SAR('000)	EPS SAR	BVPS SAR	ROAE %	P/E X	P/BV X
Dec-10	170,545	857,383	5.41	27.22	19.9%	7.4	1.5
Dec-09	37,467	738,001	1.19	23.43	5.1%	33.7	1.7
Dec-08	117,261	711,775	3.72	22.60	16.5%	10.8	1.8
Dec-07	125,580	641,764	3.99	20.37	19.6%	10.1	2.0

Current Stock Price (SAR)	40.10
52-week range (SAR)	34.90-124.75
Number of Shares (000')	31,500.00
Free Float (%)	0.00
Market cap (SAR' 000)	1,263,150
Market cap (USD' 000)	341,040
PE 2009e (x)	33. 7
PB 2008e (x)	1.7
Div. Yld 2007 (%)	3.7%

Arabian Pipes vs. SC KSA Index



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Investment thesis

Net profits decline on booked provisions

APC released its net profit for 2008 of SAR 117.2mn, illustrating a decline of 6.6% over 2007 results. These results came short of our full year estimate of SAR 153.2mn due to the following: 1) lower than expected margins, 2) higher SG&A, and 3) the recorded provision expense of SAR 13.4mn. The recorded provisions reflect APC's exposure to commercial customers to whom it supplies second grade product/ scrap. Acknowledging the volatility of current economic conditions and its likely impact on this customer segment, the company has opted to record a provision for the revenue accounted for by commercial customers. In 2007, second grade product/scrap represented c. 2.5% of the overall revenues. It is important to note that commercial customer segment excludes oil companies whose specific requirement is for APC's first grade product and is met on a contract basis.

Total revenue in line with estimates

In FY 08, APC recorded total revenue of SAR 816.8mn, inline with our estimate of SAR 808.8mn. We estimate that Arabian Pipes secured an average sale volume of c. 147,000 tons of steel pipes with an estimated average selling price of USD 1,400 per ton as the company does not disclose this breakdown.

Capacity to reach 540,000 tpa by 2011

Throughout our five-year forecast horizon, Arabian Pipes is expected to raise its steel pipes capacity to 540,000 tons per annum (tpa) from a current capacity of 160,000 tpa. Specifically, in January 2009, APC is expected to add an additional capacity of 300,000 tpa of Longitudinal Submerged Arc Welding pipes (LSAW) in Jubail, which is expected to be reflected in the 2009 performance. Additionally, in 2011, APC is expected to add 80,000 tons of spiral pipes in Jubail, thus, bringing its overall capacity to 540,000 tpa.

New wider pipes more suited to O&G sector

The new Jubail capacity will produce higher diameter pipes (16-48 inch) as opposed to the current production of pipes with diameter ranging between 6-20 inch. This new capacity, having attained the approval of the American Petroleum Institute (API), will enable APC to cater to more diverse needs. Furthermore, the pipes with wider diameter are in high demand by the oil and exploratory companies as they can transport large quantities of oil and gas and tolerate higher pressures.

We exclude additional capacity for lack of visibility

We have also opted to exclude the 240,000 tons of additional capacity (coming from Riyadh Plant) from our forecast horizon as, we believe, there is no solid visibility on demand. Some of APC's clients might revise their CAPEX programs given the current economic condition and prevailing oil price outlook. However, the management has indicated that this capacity is expected to come on board by 2014 depending upon the right market conditions.

Fair value target of SAR 49.9

Accordingly, we have revised our estimates for Arabian Pipes based on our new estimates of average utilization rates and average selling price. We have also excluded 240,000 tons that are expected to come on board in 2012. We downgrade our fair value target price for APC to SAR 49.9 per share but maintain our BUY recommendation as the new target price still offers an attractive 24.5% upside potential over the current market price.

However, Arabian Pipes is currently studying a likely capital increase to SAR 400mn from SAR 315mn through the issuance of 8.5mn shares at a par value of SAR 10 per share and issuance premium, which has not been determined yet. This capital increase highlights the risk of possible dilution for the existing shareholders.

Valuation changes

DCF lowered on changes in valuation parameters and forecasts of additional capacity and utilization rates

We downgraded our DCF target price for APC by 65.3% to SAR 55.1 per share from our previous DCF target price of SAR 158.9. The change in our long-term fair value is a consequence of the following:

I. Increasing the discount rate to 9.4% from 8.6%, mainly on a higher risk free rate.
II. Reducing perpetual growth rate to 2.5% from previous assumption of 4.0% in the wake of recent slowdown in the global economy.
The change in our valuation parameters has pummelled our DCF target price by c. 39%
III. Based on our discussion with the management, we revised our average utilization rate, kick-off of the new capacity, expected capital expenditures, in addition to lowering our average selling price across our forecast horizon. The new forecast has hit our DCF target price by an additional c. 26%.

Risks to our valuation

Aramco's CAPEX, crucial for sustainable growth

Spending on pipes linked to CAPEX of oil companies

Saudi Aramco is one of the major clients for Arabian Pipes with an announced capital expenditure of USD c. 90bn over the coming five years. Going by industry sources which state that steel pipes spending represents around 3.0%-3.5% of oil exploratory companies' announced CAPEX, we believe that any slowdown/delay in Aramco's CAPEX is expected to soften demand for Arabian Pipes' products.

A further drop in the oil prices from the current level

Government commitment to keep spending high

According to SHUAA Capital estimates, the breakeven oil price for KSA is around USD 47 per barrel to maintain a balanced budget, given the actual announced government expenditure. A further drop in the average oil prices from current levels is expected to create a negative sentiment for the oil industry and related companies, which might lead to a delay or even cancellation of some of the planned expenditure. Additionally, the planned pipeline network in the Middle East is expected to extend by 37,374 KM during the coming five years. Any delay in creating this additional pipeline network will also have a direct negative impact on steel pipe demand and, hence, on APC.

Delay in the kick off of new capacity, and lower than expected utilization rates

Arabian Pipes is expected to add 300,000 tons and 80,000 tons to its production capacity in 2009 and 2011, respectively, taking its overall capacity to 540,000 tpa from a current capacity of 160,000 tpa. A lower than expected utilization rate and a delay in the kick-off of the new capacity would also negatively impact our financial forecasts.

Potential upside

Any rise in oil prices from current levels to be a catalyst

Any appreciation in the average oil price is expected to create a positive sentiment for APC's stock performance. Considering the current levels of oil prices we consider this as a major potential catalyst for the stock. Any sustained increase in oil prices would increase the viability and the visibility of capital expenditure on oil and gas in the region, and specifically in Saudi, as well as boosting expenditure on general infrastructure projects. This would result in 1) higher utilization rates on the current and planned capacity for APC, and 2) additional planning and increase in capacity.

Industry Update

Aramco's capital expenditure program to create new demand

Saudi Aramco, is one of the major clients of Arabian Pipes with an announced capital expenditure of USD c. 90bn over the coming five years. Pegging steel pipes' spending at around 3.0%-3.5% of oil exploratory companies' announced CAPEX, based on information provided by industry sources, we estimate Armaco's demand for steel pipes at approximately 540,000 tpa, assuming an average steel pipe price of USD 1,000 per ton.

APC leveraging location with long term contracts

Steel pipes are used in transporting oil and natural gas from production centres to end users, making their demand directly related to capital expenditures of major oil exploratory companies. In this context, APC has the advantage of being located in the hub of the oil exploration activities in the Middle East, i.e. Saudi Arabia. By securing a long term supply contract with Saudi Aramco, the largest oil exploratory company in the world, extending until 2011, Arabian Pipes has assured stability of demand.

Minimum likelihood of Aramco aggressively cutting expected CAPEX

The pertinent question in present economic climate is whether Aramco will reduce its expected capital expenditures. While current oil prices and the associated cuts in oil production by Saudi (in-line with OPEC's decision) might question the feasibility of this expenditure program, the Saudi government maintained its desire to increase its oil production capacity to sustain long term economic growth. We continue to believe that the Saudi government tends to have long term view and that the short term depressed oil prices would not affect the kingdom plans to increase production, especially that the government has accumulated considerable surpluses that would allow it to navigate through a period of low oil prices.

New pipeline network in the ME to further increase demand

In addition to Armaco's CAPEX that is expected to reinforce steel pipes demand, demand push will also come from the planned pipeline network expansion in the Middle East. Pipeline projects in the pre-construction phase in the Middle East are expected to reach 37,374 KM during the coming five years mainly from the oil and gas sector. The table below shows the future pipeline projects.

Future Pipeline Projects

Region	Number of Projects	Length KM	Contribution by region %
North America	165	64,361	22%
Latin America	50	34,446	12%
Europe	84	40,714	14%
Africa	35	13,920	5%
Middle East	83	37,374	13%
Asia	116	86,964	30%
Australia	35	11,819	4%
Total	568	289,598	100%

Source: Steel Tube Manufacturers Worldwide guide; SIMDEX (As of January 2009)

According to industry sources, one KM of pipeline requires around 84 tons of steel, assuming an average pipe diameter (6-20 inch). Taking both the demand drivers into account, we estimate the expected pipe demand in the Middle East during the coming five year to be around the 0.6mn tpa.

Pricing Mechanism

Pricing linked to HRC

The pricing of steel pipes is a function of the price of Hot Rolled Coil (HRC), which is, in turn, highly correlated with oil prices. HRC, representing around 60% of the steel pipes' cash cost, is considered the other main input cost for steel pipes.

Cost plus premium approach minimises risk

APC's strategy of producing pipes only against firm orders and that of pricing its products by adding a premium of around 30% over its calculated cost per ton, implies that it is able to pass all cost increases to its end customers, and be totally hedged against any drop in the average coil prices. Raw materials are purchased only after an order is booked, allowing APC to remove any inventory risk whether on finished or unfinished products.

The fact that pipes' orders are made per KM while the production and pricing decisions are made per tonnage offers APC new flexibility to manage its utilization rates. For instance, the larger diameter pipes of the Jubail new capacity (300,000 tpa) will require less orders to operate at full capacity as opposed to Riyadh plant which produces pipes of smaller diameters.

The following table shows our expected average selling price for Arabian Pipes.

Estimated Average Selling Price for APC

Prices in USD	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Coil Price /Ton	500	525	551	579
Steel pipe/ton	1,083	1,138	1,194	1,254
Steel pipe/ton (old forecast)	1,590	1,549	1,528	1,508
Change %	-32%	-27%	-22%	-17%

Source: Steel Business Briefing and SHUAA Capital

Financial Analysis and Forecast

Capacity

LSAW and spiral pipes to boost capacity

Arabian Pipes' total production capacity of 160,000 tpa of steel pipes is expected to reach 540,000 tpa in 2011, underpinned by the new production capacity from Jubail Plant (300,000 tons of Longitudinal Submerged Arc Welded pipes (LSAW) and 80,000 tons of spiral pipes). According to Arabian Pipes FY 08 financial statements, the LSAW pipes capacity is expected to come on board in January 2009, and the spiral pipes is expected to kick-off in early 2011.

New wider pipes to widen customer base

The new Jubail capacity will produce larger diameter pipes (16-48 inch) as opposed to the current production with diameters ranging between 6-20 inch. This new capacity, having attained the approval of the American Petroleum Institute (API), will enable APC to cater to more diverse needs. Furthermore, the pipes with wider diameter are in high demand by the oil and exploratory companies as they can transport large quantities of oil and gas and tolerate higher pressures.

Spirals open new segments

On the other hand, the new spiral pipes, expected to come on board early 2011, will be directed towards water and sewage industry offering APC an exposure into a new market segment.

Arabian Pipes Designed Capacity

Designed Capacity Tons per annum	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate
High Frequency Welded Steel Pipes (HFW) - Riyadh	160,000	160,000	160,000	160,000
Longitudinal Submerged Arc Welded Pipes (LSAW) -Jubail		300,000	300,000	300,000
Spiral Pipes- Jubail				80,000
Total	160,000	460,000	460,000	540,000

Source: Arabian Pipes

Production and Utilization rate

Utilization rates revised down

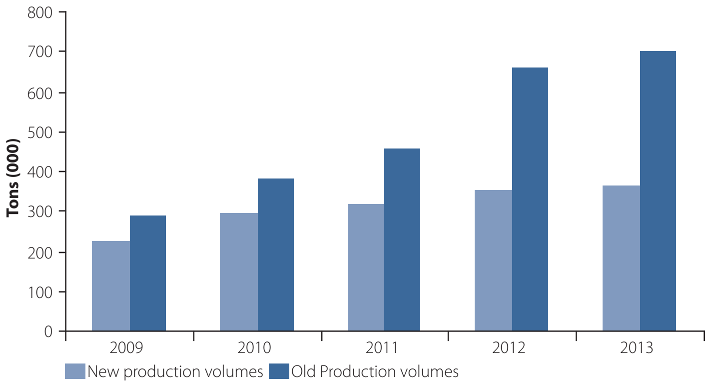
Throughout our forecast period, we anticipate Arabian Pipes' production volume to increase from approximately 147,200 tpa in 2008 to 356,000 tpa in 2012. We have made downward adjustments to our average utilization rate for the new capacities in the first year of operation to 30% vs. previous rate of 60%. The table below show APC's actual and estimated production volume.

Arabian Pipes Production Volumes

Production Volume Tons per annum	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
High Frequency Welded Steel Pipes (HFW)	147,200	144,000	144,000	144,000	144,000
HFW utilization rate	92%	90%	90%	90%	90%
Longitudinal Submerged Arc Welded Pipes (LSAW)		82,500	150,000	150,000	180,000
LSAW utilization rate		30%	50%	50%	60%
Spiral Pipes				24,000	32,000
Spiral Pipes Utilization rate				30%	40%
Total	147,200	226, 500	294,000	318,000	356,000

Source: Arabian Pipes and SHUAA Capital

Changes in Production Forecast



Source: SHUAA Capital

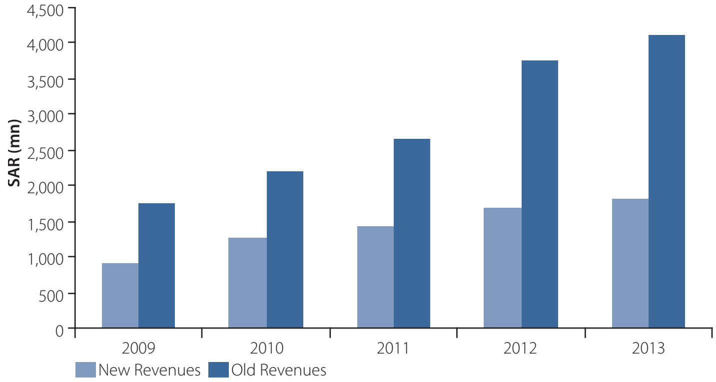
Revenues

In FY 08, APC recorded total revenue of SAR 816.8mn, inline with our FY 08 estimate of SAR 808.8mn. We estimate that Arabian Pipes secured an average sale volume of c. 147,200 tons of steel pipes with an estimated average selling price of USD 1,400 per ton.

Estimated revenue CAGR at 17%

The revised average selling prices and average utilization rates, have together led to a drop in our estimated revenue CAGR to 17% from 42% over our forecast horizon period. The chart below shows the changes in our revenue outlook.

Changes in Revenues Forecast



Source: SHUAA Capital

Pre-opening expenses and high depreciation to hit 2009 performance

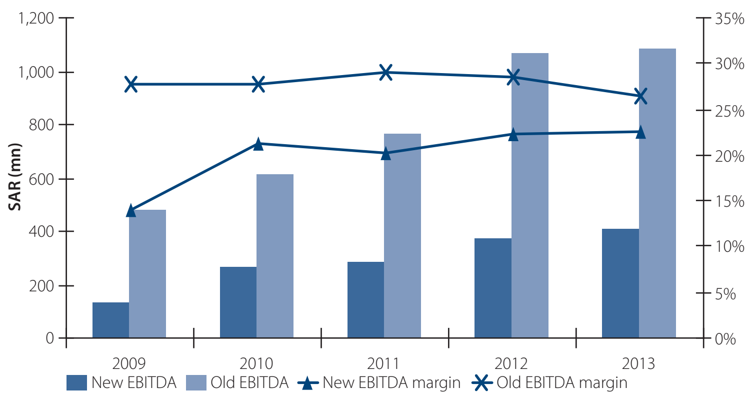
According to the management, there will be a SAR 50mn expected to hit 2009 bottom-line reflecting pre-opening expenses for the new plant in Jubail Industrial City. Additionally, we expect a higher depreciation expense of SAR 63.1mn from SAR 11. 4mn in 2008 on the back of adding the new Jubail plant to the gross fixed assets, which amounts to SAR 539mn.

Profitability and Margins

EBITDA margin falls with rising SG&A

During the FY 08, Arabian Pipes recorded operating profit (EBITDA) of SAR 166.4mn, yielding an EBITDA margin of c. 20.4 % vs. an EBITDA margin of c. 24.7% in 2007. The drop in the EBITDA margin took place due to the doubling of the SG&A expenses from SAR 36.2mn to SAR 72.7mn. Selling, general and administration expenses represented c. 9% of revenues in 2008, up from an average of c. 6% during the period 2005-2007. We believe that the company will keep an eye on its SG&A expenses and will look at reducing them back to historical average percentage of revenues. The chart below shows our expected outlook on the Arabian Pipes' margins and profitability.

Changes in Margins and Profitability



Source: SHUAA Capital

Net Profits

Drop in bottomline over last two quarters reflects…

During the FY 08, Arabian Pipes recorded net profit figure of SAR 117.2mn, down 6.6% YoY, and 23.5% short of our full year estimate of SAR 153.2mn. On a quarterly basis, Arabian Pipes' net profit dropped 64.1% to SAR 9.8mn in Q4 08, from SAR 27.3mn in Q3 08. More importantly, Arabian Pipes has witnessed a drop in its bottom-line figure for the last two quarters. The deviation from our full year estimate and the two consecutive quarters drop are mainly due to the following:

Q3 08 logistics problem in Jeddah port

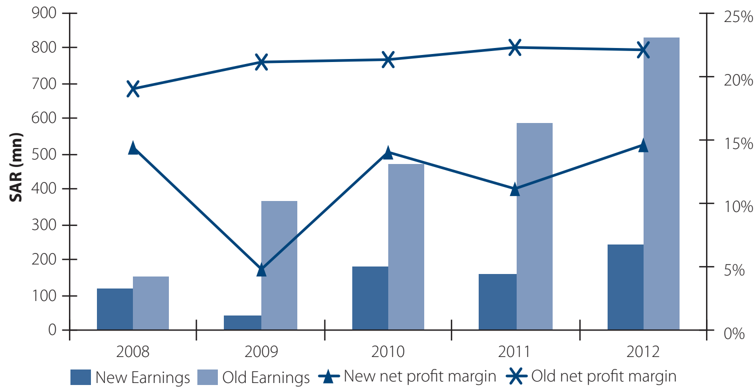
1. A logistic problem in Jeddah Port, which took place in Q3 08, where congestion of vessels negatively impacted Arabian Pipes' export activities. According to Jeddah Chamber of Commerce and Industries, problem in Jeddah Port was addressed by the end of September 2008 and the port management has taken all necessary actions to avoid repeat of such problems. The impact was a 35.2% drop in Q3 08 net profit to SAR 27.3mn from SAR 42.1mn in Q2 08.

Higher provision expenses

2. In Q4 08, the company booked a provision expense of SAR 13.4mn, in addition to an increase in its financing cost. The recorded provisions reflect APC's exposure to commercial customers to whom it supplies second grade product/ scrap. Acknowledging the volatility of current economic conditions and its likely impact on this customer segment, the company has opted to record a provision for the revenue accounted for by commercial customers. In 2007, second grade product/scrap represented c. 2.5% of the overall revenues.

We expect Arabian Pipes' net profit CAGR to reach 18% by the end of our projection period (2013).

Changes in Net profit



Capital Expenditures

Lower CAPEX to boost free cash flow

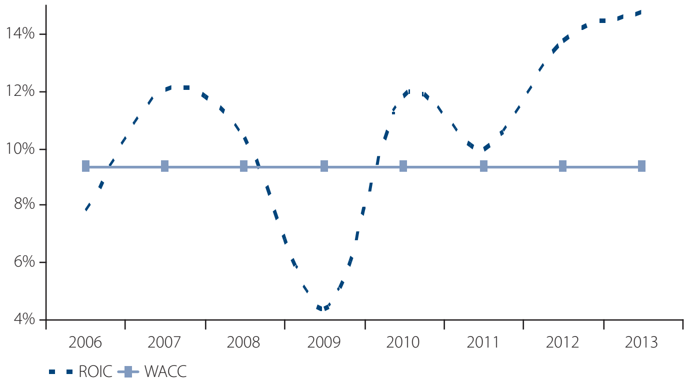
We revised our CAPEX figure downward over our forecast horizon following exclusion of the 240,000 tons of expected capacity at the Riyadh plant. The management has indicated that this capacity is expected to be reflected in Arabian Pipes' performance by 2014 depending upon the right market conditions. However, we opted to be more conservative by not including this capacity in our model as we believe that there is no solid visibility on demand. Based on our revised assumptions, the expected CAPEX figure for Arabian Pipes throughout our forecast period is SAR 490mn as opposed to our previous CAPEX of SAR 1.5bn. The revised CAPEX figure will positively impact Arabian Pipes Free Cash Flow.

ROIC

ROIC to reach 14.8%

During the period 2004-2008, Arabian Pipes increased its ROIC from c. 8.7% in 2004 to c. 10.6% in 2008 on the back of increase in its operating profit and efficient utilization of invested capital. Following the full utilization of Arabian Pipes' new capacities, we expect the ROIC to increase to an average of c. 14.8%, underpinned by the added capacity, lower CAPEX, and better working capital management. The chart below shows our outlook on Arabian Pipes' ROIC throughout the coming period.

Return on Invested Capital vs. WACC



Source: SHUAA Capital

Dilution and Capital increase

Dilutive issuance of 8.5mn shares

Arabian Pipes is currently studying a likely capital increase to SAR 400mn from SAR 315mn through the issuance of 8.5mn shares at a par value of SAR 10 per share and issuance premium, which has not been determined yet. This capital increase highlights the risk of possible dilution for the existing shareholders and we will follow on this issue once we have more details regarding the premium and the timing.

Dividends

Cash dividend of SAR 1.5 in 2008

During 2007, Arabian Pipes distributed SAR 1.5 per share, illustrating a payout ratio of 38%. The company's announced dividend policy dictates distributing a minimum of 15% of its paid in capital. Accordingly, we estimate for 2008 a cash dividend of SAR 1.5 per share.

Valuation

We downgrade our target price for Arabian Pipes to SAR 49.9 per share from our previous target price of SAR 155.0 per share. Our fair value target price is based on two valuation models, Discounted Cash Flow (DCF) and Price to Earnings Relative valuation model, where we assign 70% weight to our DCF and 30% to our relative valuation model.

Discounted Cash Flow Model

Our Discounted cash flow model has yielded a target price of SAR 55.1 per share vs. our previous target price of SAR 158.9 per share. Changes in our DCF target price took place due to the following:

I. A revised perpetual growth rate to 2.5% from our previous rate of 4.0%, reflecting the recent slowdown in the global economy.
II. Increasing our risk free rate to 6.0%, up from 4.5%, thus, increasing our discount factor to 9.4% from our previous discount rate of 8.6%.
III. Revised utilization rates and selling prices.

Sensitivity Analysis to our Fair Value

		Perpetual Growth					
		1.5%	**2.0%**	**2.5%**	**3.0%**	**3.5%**	**4.0%**
WACC	**7.9%**	58.3	63.2	69.1	76.3	85.0	96.0
	8.4%	52.6	56.8	61.6	67.4	74.4	82.9
	8.9%	47.7	51.2	55.3	60.1	65.7	72.5
	9.39%	43.47	46.5	49.9	53.9	58.5	64.1
	9.9%	39.7	42.3	45.3	48.6	52.5	57.1
	10.4%	36.4	38.7	41.2	44.1	47.4	51.2
	10.9%	33.5	35.5	37.7	40.1	42.9	46.2
	11.4%	30.9	32.6	34.5	36.7	39.1	41.8

Source: SHUAA Capital

Relative Valuation Model

Our second valuation model is a relative valuation based on a price to earnings valuation multiples, which has yielded a target price of SAR 37.7. The drop in our relative valuation method took place due to a significant drop in the global peers average PE multiple to 7.0x from 12.4x since we initiated coverage on APC in May 2008.

Although we maintained our standard valuation approach of assigning 70% to the DCF valuation and 30% to the Relative Valuation Method, we highlight that the Peer Analysis fall short in recognising the comparative geographical advantage of APC. APC is located in the hub of the oil exploration activities in the Middle East, i.e. Saudi Arabia. By maintaining this strategic relationship and a long term supply contract with Saudi Aramco, the largest oil exploratory company in the world, we believe that APC should trade at a premium to its global peers, a factor we ignored in our valuation and act as an upward risk to our fare value target.

Peer Analysis based on 2010 estimates

Multiple comparables	Country	PE X
Khartsizky Trubny	Ukraine	6.5
Corinth Pipeworks	Greece	5.5
Tenaris SA	Luxemburg	8. 3
Tubacex SA	Spain	4.7
Vallourec SA	France	5.9
Northwest Pipe Company	USA	NA
Valmont Industries	USA	10.5
Average		7.0
***Arabian Pipes**	KSA	7.4

Source: SHUAA Capital and Reuters
**Excluding the pre-opening expense*

We opted to use FY 10 normalized earnings due to the following:

- The booking of SAR 50mn as an expected preopening expense in 2009, which imposes downward pressure on 2009 estimates.
- New additional capacity is expected to be fully reflected on 2010 figures given the expected increase in the average utilization rate from the kick-ff year.

Financials

Income statement (SAR '000)

Year to December	2007 Actual	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Revenues	639,776	816,836	920,156	1,254,094	1,424,292	1,674,215
Cost of goods sold	445,359	577,699	644,109	877,866	997,005	1,171,951
Gross profit	194,417	239,137	276,047	376,228	427,288	502,265
Gross profit margin	30.4%	29.3%	30.0%	30.0%	30.0%	30.0%
SG&A	36,196	72,749	96,341	110,256	124,920	128,668
Pre-opening expenses	-	-	50,000	-	15,000	-
EBITDA	**158,221**	**166,388**	**129,706**	**265,972**	**287,367**	**373,596**
EBITDA Margin	24.7%	20.4%	14.1%	21.2%	20.2%	22.3%
Depreciation	11,588	11,373	63,132	65,242	96,636	98,747
EBIT	**146,633**	**155,015**	**66,575**	**200,730**	**190,731**	**274,850**
Interest expense	34,087	24,364	40,536	39,902	52,320	49,091
Investment income	2,197	2,856	3,141	3,455	3,801	4,181
Dividends Income	6,750	8,041	9,248	10,635	12,230	14,064
Other non-operating income	7,066	-	-	-	-	-
EBT	**128,559**	**141,548**	**38,428**	**174,918**	**154,442**	**244,004**
Taxes	3,013	4,706	961	4,373	3,861	6,100
Effective tax rate	2.3%	3.3%	2.5%	2.5%	2.5%	2.5%
EAT	125,546	136,842	37,467	170,545	150,581	237,904
Extraordinary items	34	(19,582)	-	-	-	-
Net Income	**125,580**	**117,261**	**37,467**	**170,545**	**150,581**	**237,904**

Balance sheet (SAR '000)

Year to December	2007 Actual	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Cash	-	18,879	9,202	12,541	14,243	16,742
Excess Cash	17,101	-	49,456	6,277	12,247	4,061
Accounts receivable	146,003	94,062	176,468	223,332	234,130	275,213
Inventory	646,291	791,680	559,504	762,556	866,045	1,018,012
Other current assets	6,003	10,281	10,281	10,281	10,281	10,281
Due from sister companies	4,730	3,448	3,448	3,448	3,448	3,448
Current Assets	820,127	918,350	808,359	1,018,434	1,140,394	1,327,757
Gross fixed assets	205,185	212,079	776,133	1,163,705	1,189,705	1,215,705
Accumulated depreciation	144,382	160,100	223,231	288,473	385,110	483,856
Net fixed assets	60,803	51,979	552,902	875,232	804,595	731,849
Projects under implementation	470,043	539,626	172,572	-	-	-
Long-term investments	123,314	124,615	124,615	124,615	124,615	124,615
Total assets	**1,474,286**	**1,634,571**	**1,658,448**	**2,018,281**	**2,069,605**	**2,184,221**
Due to banks	593,208	753,298	753,298	753,298	753,298	753,298
CPLTD	26,022	35,822	58,623	58,709	58,709	58,709
Accounts payable	30,131	10,757	17,647	24,051	27,315	32,108
Other current liabilities	49,155	23,909	23,909	23,909	23,909	23,909
Current Liabilities	698,516	823,786	853,477	859,966	863,230	868,023
Long term debt	129,508	93,686	59,609	290,900	232,191	173,482
Other long-term liabilities	4,498	5,325	7,361	10,033	11,394	13,394
Total liabilities	**832,522**	**922,797**	**920,447**	**1,160,899**	**1,106,816**	**1,054,899**
Paid in Capital	315,000	315,000	315,000	315,000	315,000	315,000
Legal and Statutory reserves	33,073	44,799	48,545	65,600	80,658	92,553
General reserves	98,942	134,120	145,360	196,523	241,697	313,069
Retained earnings	194,750	217,856	229,096	280,260	325,434	408,700
Total Equity	**641,764**	**711,775**	**738,001**	**857,383**	**962,789**	**1,129,322**
Total Liabilities & Equity	**1,474,286**	**1,634,571**	**1,658,448**	**2,018,282**	**2,069,605**	**2,184,222**

Operating invested capital (SAR '000)	2007 Actual	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Operating working capital	762,163	893,864	727,527	974,377	1,087,103	1,277,859
Net fixed assets	60,803	51,979	552,902	875,232	804,595	731,849
Projects under implementation	470,043	539,626	172,572	-	-	-
Operating invested capital	1,293,008	1,485,470	1,453,001	1,849,609	1,891,699	2,009,708
ROIC%	12.0	10.7	7.1	11.3	10.0	13.1

Free Cash flow (SAR '000)	2007 Actual	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
NOPLAT (not adjusted)	143,197	146,739	64,910	195,712	185,963	267,978
Add: Depreciation	11,588	11,373	63,132	65,242	96,636	98,747
Change in working capital	(192,416)	(112,823)	156,660	(243,511)	(111,024)	(188,257)
Capital expenditures	(75,065)	(76,478)	(197,000)	(215,000)	(26,000)	(26,000)
Free Cash flow	(112,696)	(31,182)	87,702	(197,557)	145,575	152,469

Financial ratios

Year to December	2007 Actual	2008 Actual	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Growth ratio						
Revenues	8%	28%	13%	36%	14%	18%
COGS	-5%	30%	11%	36%	14%	18%
SG&A	9%	101%	32%	14%	13%	3%
EBITDA	76%	5%	-22%	105%	8%	30%
Net profit	67%	-7%	-68%	355%	-12%	58%
Profitability ratio						
Gross profit margin	30.4%	29.3%	30.0%	30.0%	30.0%	30.0%
EBITDA margin	24.7%	20.4%	14.1%	21.2%	20.2%	22.3%
Return on equity	19.6%	16.5%	5.1%	19.9%	15.6%	21.1%
Return assets	8.5%	7.2%	2.3%	8.5%	7.3%	10.9%
Debt ratio						
Net debt to Equity	1.17	1.21	1.17	1.27	1.07	0.86
Net debt to market cap	0.59	0.68	0.68	0.86	0.81	0.76
EBITDA/Net debt	0.21	0.19	0.15	0.24	0.28	0.39
Interest coverage ratio	4.30	6.36	1.64	5.03	3.65	5.60
Per share ratio						
Outstanding shares	31,500	31,500	31,500	31,500	31,500	31,500
Earnings per share *	3.99	3.72	1.19	5.41	4.78	7.55
Earnings per share **	3.99	3.72	2.74	5.41	5.24	7.55
Book value per share	20.37	22.60	23.43	27.22	30.56	35.85
EBITDA per share	5.02	5.28	4.12	8.44	9.12	11.86
Dividends per share	1.50	1.50	0.36	1.62	1.43	2.27
FCF per share	-3.58	-0.99	2.78	-6.27	4.62	4.84
Yields and Multiple						
FCF yield	-9%	-2%	7%	-16%	11%	12%
Dividends yield	3.7%	3.7%	0.9%	4.0%	3.5%	5.6%
Price to earnings multiple *	10.1	10.8	33.7	7.4	8.4	5.3
Price to earnings multiple **	10.1	10.8	14.7	7.4	7.6	5.3
Price to book value multiple	2.0	1.8	1.7	1.5	1.3	1.1
EV/EBITDA *	12.6	12.8	16.0	8.8	7.9	6.0
EV/IC	1.5	1.4	1.4	1.3	1.2	1.1
Price to FCF	-11.2	-40.5	14.4	-6.4	8.7	8.3

** Based on total net income*
*** Based on net income excl. pre-opening expenses*

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