



## Remarkable Cost Control

Decline in revenues suggests deep consumer caution as lower spend on food items during Ramadan has not occurred in recent memory. In our view, SADAFCO is not alone in this situation but better positioned to address the challenges thanks to remarkable cost control and favorable commodity prices. EPS of SAR 2.65 (+47% Y/Y) topped our forecast SAR 1.84 resulting from significantly stronger than expected gross margins. We reiterate our Buy rating and SAR 160 target price.

### Revenues decline -6% Y/Y

Revenue drop by -6% Y/Y to SAR 491 mln is surprising especially since Ramadan coincided with the quarter. Management commentary identified several factors for weaker topline including: reduced consumer spending, promotional pricing and lower regional export sales. Although we had expected some cautionary spending but the decline in sales suggests heightened consumer pullback. In our view customers rationalized basket size instead of hoarding which was the case in previous Ramadans. Further, price competition is confirmed by other food producers and retailers.

### Gross margins counter topline weakness

We are positively surprised by strong gross margins at 42% versus our estimate 34% as lower raw material costs accelerated tailwinds. Gross profit at SAR 207 mln (+15% Y/Y) countered topline weakness and beat our estimate by 10%. SADAFCO has largely shrugged off impact of higher energy costs and should continue to benefit from strong margins so long as commodity costs remain subdued.

### Another strong earnings beat

Second consecutive strong beat on earnings as SADAFCO rides the commodity wave. Net income of SAR 86 mln (+47% Y/Y) comfortably topped our SAR 60 mln forecast. Costs remained under control highlighting a steady business.

### Solid defensive name

We continue to like SADAFCO's defensive business in a volatile market hampered by consumer confidence. Low leverage and no major capex commitments have allowed the Company to build cash position to SAR 240 mln. Potentially some cash could be returned to shareholders via dividend hike, though we would prefer to see reinvestment to boost revenues. We believe shares are attractively priced and offer buffer against downside risk.

SADAFCO (SAR mln)	1Q16	1Q16E	1Q15	Y/Y Chg	4Q15	Q/Q Chg	Variance
Revenues	491	552	521	-6%	484	1%	-11%
Gross profit	207	189	180	15%	191	9%	10%
Gross margin	42.2%	34.2%	34.5%		39.4%		
Operating profit	90	64	62	45%	83	9%	41%
Operating margin	18.4%	11.6%	11.9%		17.2%		
Net income	86	60	59	47%	80	8%	44%
Net margin	17.6%	10.8%	11.2%		16.5%		
EPS	2.65	1.84	1.80		2.46		

\*\*Note: SADAFCO yearend is March 31<sup>st</sup>

## SAR 160

12-Month Target price

## Buy

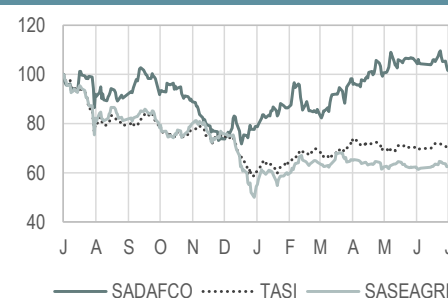
Recommendation

Stock Details		
Last Close Price	SAR	145.50
Upside to target	%	9.9
Market Capitalization	SAR mln	4,728
Shares Outstanding	mln	32.5
52-Week High	SAR	161.75
52-Week Low	SAR	99.50
Price Change (YTD)	%	23.3
12-Mth ADTV	thd	39
EPS 2016E	SAR	7.85
Reuters / Bloomberg	2270.SE	SADAFCO AB

SFC Estimates	2016E	2017E
Revenues (mln)	2,070	2,154
Gross Margin	35.0%	34.6%
EBIT (mln)	274	273
Net Income (mln)	256	254

Price Multiples			
	2015	2016E	2017E
P / E	18.2x	18.5x	18.6x
EV / EBITDA	12.5x	12.6x	12.7x
P / S	2.4x	2.3x	2.2x
P / B	4.3x	3.9x	3.6x

### 1-Year Share Performance



Source: Bloomberg, Tadawul, SFC

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## Research and Advisory Department

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### Rating Framework

#### **BUY**

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

#### **HOLD**

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

#### **SELL**

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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