

## Agriculture & Food Industries Outlook 2015:

The outlook for the kingdom's food sector is expected to remain 'positive'. The diversification and product innovation will continue to nurture the growth in food sector, which was mainly associated with the expansions and favorable economic and demographic conditions. Food and agriculture is one of the most focused sectors in the kingdom; where, the government vision is to secure the supply along with managing several challenges. It is worthy to notice that the dynamics (except some generic factors i.e. population growth and so on) of subsectors are very different from each other. Like, the growth drivers of Almarai are totally different than the growth drivers of Aljouf Agriculture and Halwani brothers. Consequently, in this report, we identify the challenges and opportunities in the following manners; considering macro factors (company strengths and weaknesses will be discussed in their respective segment).

Key growth drivers	Description	Key implications	Key beneficial
Population growth (Generic factor) <b>Opportunity</b>	CDSI* indicated the kingdom population witnessed an increase of 2.55% in 2014.	<ul style="list-style-type: none"> <li>Increase number of infants.</li> </ul>	<ul style="list-style-type: none"> <li><b>Almarai</b>; selling infant formula. Although there are several challenges but we assume the company has a capability to increase its market share.</li> </ul>
Consumption pattern <b>Opportunity</b>	Strong food consumption pattern makes the kingdom among the most attractive market.	<ul style="list-style-type: none"> <li>Strong demand</li> </ul>	<ul style="list-style-type: none"> <li><b>Almarai's</b> existing product offering covers dairy, bakery and poultry products. Hence, we believe the company; considering its position in the local market, is in better shape to capitalize the opportunity.</li> </ul>
Preferences & taste <b>Opportunity</b>	Majority of the kingdom's population is still deeply associated with traditional taste and preference. However, changes in preference and taste have been observed in upcoming generation.	<ul style="list-style-type: none"> <li>Traditional preference persists.</li> <li>Young generation opening avenues for new products</li> </ul>	<ul style="list-style-type: none"> <li>The dairy products of <b>Almarai</b> have developed the taste of local people.</li> <li>New packing of products with variety of taste is attracting young generation. <b>Almarai</b> is ahead of competition.</li> <li>In sweets usually local people prefer Tahina; and, hence, <b>Halwani Bros.</b> is more beneficial.</li> <li>Olive oil is much famous among the local; and, <b>Aljouf</b> has now entered in this market. However, competition is very strong; and, the quality will play a crucial role.</li> </ul>
Tourism <b>Opportunity</b>	This is an untapped area in the kingdom with huge potential	<ul style="list-style-type: none"> <li>Increase the demand of more portable and nutritious food items.</li> </ul>	<ul style="list-style-type: none"> <li>The offering with variety of packing could give Almarai a competitive edge over the competition.</li> </ul>
Water shortage <b>Challenge</b>	The kingdom is facing serious shortage of water.	<ul style="list-style-type: none"> <li>This led the government to take general steps and discourage heavy water consumption food processing and crops.</li> </ul>	<ul style="list-style-type: none"> <li><b>Almarai</b> with its diversified product offering reduce the impact on 'water regulation' on profitability.</li> <li><b>Aljouf Agriculture</b> forced to stop the cultivation of wheat (a high water consuming crop). However, its diversion towards olive oil gave some relief.</li> </ul>

CDSI: Central Department of Statistics & Information in Saudi Arabia

### Updated key financials & investment recommendations

Company	12-month TP (SAR)	Investment recommendation	Profitability (SAR in mn)		EPS (SAR mn)		PE (x)*		PBV (x)*		Dividend yield*	
			2014	2015E	2014	2015E	2014	2015E	2014	2015E	2014	2015E
<b>Halwani Bros</b>	84.60	<b>Neutral</b>	90.81	117.97	3.18	4.13	25.04	19.50	3.72	3.44	2.5%	2.5%
<b>Al-Jouf Agri</b>	50.60	<b>Overweight</b>	107.01	112.66	3.57	3.76	11.44	11.42	1.57	1.50	2.4%	2.6%
<b>Al Marai</b>	81.70	<b>Neutral</b>	1674.3	1779.3	2.79	2.97	27.49	29.84	5.01	5.20	1.3%	1.3%

Source: AlJazira Capital\* we have taken respective December closing prices for 2014, while for years 2015 & onwards we used closing price of 29th Mar. 2015.

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## Halwani Bros: Capacity Expansions at core business to drive growth at CAGR of 6.25% in the next 4 years.

### 2014 financial results - review:

The company's revenue in 2014 was recorded at SAR1,065mn indicating YoY growth of 11.2% from SAR958mn recorded in 2013. The growth was mainly driven from the meat and Halawa/Tahina segments; that registered growth of 12.2%, 18% respectively. Both segments represent 79.3% of the business and the contribution in overall sales is expected to increase; once, new capacity expansions in Saudi Arabia and Egypt will come on line.

On the other hand, the company's cost of sales indicated YoY increase of 1%, primarily due to a gradual increase in the prices of raw materials and the packaging cost in Egypt (2.7% devaluation in Egyptian Pound). Resultantly, net margins was recorded at 8.5% in 2014 as compared to from 9.7% in 2013; where, we cannot ignore the impact of increase in operating expenses along with the increase in corporate income taxes in Egypt from 25% to 30%.

### Key developments and implications:

- **Strong presence in Egypt:** Halwani is a market share leader in meat products in Egypt. In order to cater high increase in demand, the company completed its first 50% capacity expansion at its meat in 2012, while the remaining 50% expansion is assumed to be completed at the end of 2016. In addition, we believe high demand in Egyptian market will lead the company to run its post expansion meat facilities on higher capacity utilization rate. Consequently, we believe revenues from meat segment will increase at 2014-18CAGR of 10.7%.
- **Expansion in local market:** Halwani Bros had already completed the phase two of relocating its factories in the Industrial city in Jeddah, where the company will be able to expand its capacity of the main products (Halawa, Tahina, meat and dairy). Hence, we believe this will lead the revenues from local operation to increase at 2014-18CAGR of 8.6%. According to the company, the end of H1-2015 is the expected time to run all the production lines.
- **Focusing on strategic locations:** An industrial land in King Abdullah Economic City worth SAR44.7mn is owned by the company for its long term investment which goes beyond the scope of 5 years; where the location advantages being close to the King Abdullah seaport along with the potential future expansions.

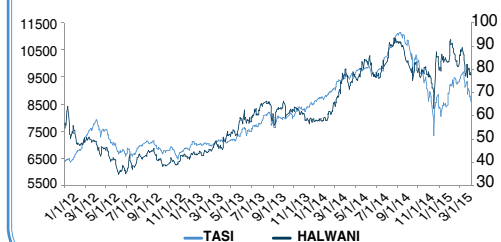
**Key concerns:** the absence of currency hedges could result adversely to impact the company's sales revenue, where almost 47.7% of the total revenue comes from Egypt.

**Financial growth** - Based on our expectations, the company's revenue will increase at a CAGR of 6.25%, during 2014-18; where the growth in revenues is mainly based on increase in sales due to robust demand in the local market and improved capacity utilization in meat operations (as discussed earlier). Moreover, Halwani Bros shows lower than usual net margin of 8.5% during 2014 (an average of 9.8%

11-2013) due to high operating expenses and we expect the company to post on average net margins of 11% over the period of our forecast due to lower operating expenses and lower cost of sales. We expect that the improvement in sales and operating profit margin will lead the company's net profitability to increase by CAGR of 16.1% at 2014-18

New Recommendation	"Neutral"
Old recommendation	'Neutral'
New 12-month price target;	SAR 84.6
Old 12-month price target	SAR 79.7
Current Price:	SAR 80.16
Upside / (downside):	5.5%

### Price Chart



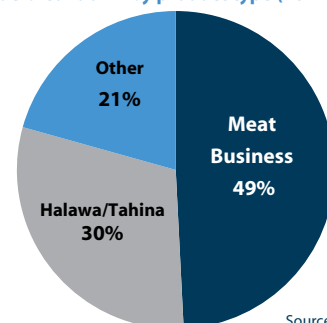
### Key information

Reuters code:	6001.SE
Bloomberg code:	HB:AB
Country:	Saudi Arabia
Sector:	Agriculture & Food
Primary Listing:	Tadawul
M-Cap:	SAR 2,302 mn
52 Weeks H/L (SAR):	95.75 / 58.75

### Shareholders Pattern

Asser Company	55.50%
Muhammad AbdulHameed Halwani	6.99%
Halwani International Company	3.50%
Fawaz Mohammad Halwani	1.75%
Mohammad Fawaz Halwani	0.49%
Public	31.77%

### Revenue breakdown by product type (2014)



Source: Company Data

## Key financial updates

SARmn (unless specified)	2012	2013	2014	E2015	E2016	E2017	E2018
Revenues	892	958	1,065	1,170	1,284	1,333	1,357
Growth	9.65%	7.39%	11.15%	9.87%	9.74%	3.84%	1.77%
Net Income	87	93	91	118	141	151	152
Growth	8.05%	6.34%	-1.84%	29.91%	19.83%	6.75%	0.75%
EPS (SAR)	3.05	3.24	3.18	4.13	4.95	5.25	5.25
EV/EBITDA (x)	7.80	10.40	14.88	11.82	10.04	9.19	8.72
Net profit margin	9.8%	9.7%	8.5%	10.1%	11.0%	11.3%	11.2%
ROE	15.8%	16.2%	15.2%	18.5%	20.0%	18.9%	17.0%
ROA	12.1%	11.7%	10.0%	11.5%	12.7%	12.4%	11.5%
P/E (x)	13.6	17.8	25.0	19.5	16.3	15.3	15.5
P/BV (x)	2.1	2.8	3.7	3.4	3.1	2.7	2.5
EV/EBITDA (x)	7.8	10.4	14.9	11.8	10.0	9.2	8.7
Dividend yield	4.8%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Source: AlJazira Capital\* we have taken representative December closing prices for 2014, while for years 2015 & onwards we used closing price of 29<sup>th</sup> Mar. 2015

**Investment consideration** – We adjust our estimations and valuation in accordance with 2014 financial results and arrived at an updated 12-month price target of **SAR84.6/share**. This indicates the stock, at a current market price of **SAR 80.16/share** (as of 07<sup>th</sup> April 2015), is offering a potential upside of 5.5%; and, trading at prospective 2015 PE and PBV of 19.5x and 3.4x respectively. We, therefore, update our recommendation to 'Neutral' for the stock.

## Al-Jouf Agriculture: Olive segment is expected to contribute to the sales revenue in 2015 by 22.5% from 18.4% in 2014

### 2014 financial results - review:

The company recorded full year revenues of SAR350.3mn for 2014; indicating YoY growth of 2.7% as compared to SAR240.9mn in 2013. Revenues from olive oil and potatoes indicated YoY increase of 55% and 59%, respectively, to SAR 131.3mn; indicating contribution of 37.5% of total revenues. The growth, particularly in olive oil segment, was mainly attributed with the successful completion of ongoing expansions.

Forage crops and wheat, on the other hand, sales dropped 5.5%, 13.5% respectively, which we believe was primarily associated with pressure from government to reduce the cultivation of high water consuming crops.

The company's net margin was recorded at 30.5% as compared to 29.9% in 2013; where, the slight improvement was mainly associated with YoY 15.8% decline in operating expenses due to selling large quantities of production on the land (pre-harvest stage).

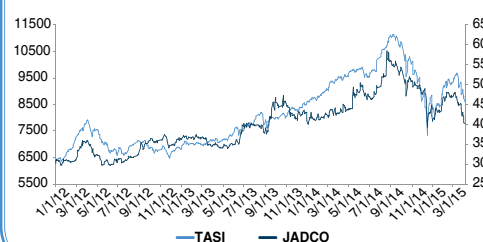
**Olive oil - a crucial project;** the company is striving hard to increase its exposure in olive business; which include the cultivation of olive and processing it to produce olive oil. According to the given information, the number of olive trees was recorded at 3.0mn in 2014 as compared to 0.5mn trees recorded in 2008 and expected to reach 5mn in 2016. On the other hand, the capacity to produce olive oil reached 360 tons/day of olive in 2014; where, the capacity is expected to reach 400 tons/day of olive in the coming years.

**Key concerns:** Agriculture crops are very sensitive to climatic factors; especially rain fall and water supply. Hence, any unprecedented event in these factors would reflect accordingly on the cultivation and yield of a particular crop and lead us to make subsequent adjustments in our estimations and valuations.

**Financial growth** - We expect the successful expansions in olive cultivation will help the company to overcome the decline in wheat cultivation and lead overall sales revenue to increase at a CAGR of 2.7%, during 2014-18. However, the company's net profitability is expected to increase at a CAGR of 3.4%, during 2014-18. Operating costs are usually increasing at a faster step than the increase in revenues in the agriculture companies, reducing benefits in the bottom lines. While the growth in the company's sales is set to continue in the coming years, we expect that the company's tendency to sell a large part of the crops before harvest could decrease the future input cost (-15.8%YoY in 2014).

New Recommendation	<b>"Overweight"</b>
Old recommendation	<b>"Overweight"</b>
New 12-month price target;	<b>SAR 50.60</b>
Old 12-month price target	<b>SAR 54.2</b>
Current Price:	<b>SAR 40.86</b>
Upside / (downside):	<b>23.8%</b>

### Price Chart



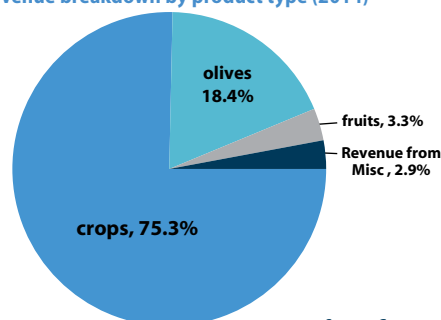
### Key information

Reuters code:	6070.SE
Bloomberg code:	JADCO:AB
Country:	Saudi Arabia
Sector:	Agriculture & Food
Primary Listing:	Tadawul
M-Cap:	SAR 1,265.4 mn
52 Weeks H/L (SAR):	59.00 / 39.10

### Shareholders Pattern

Fitaihi Holding Group	8%
Public	92%

### Revenue breakdown by product type (2014)



Source: Company Data

## Key financial updates

SARmn (unless specified)	2012	2013	2014	E2015	E2016	E2017	E2018
Sales revenue	344.5	341.0	350.3	364.4	372.3	380.2	388.7
Growth	17.4%	-1.0%	2.7%	4.0%	2.2%	2.1%	2.3%
Net income	101.7	102.1	107.0	112.7	116.0	119.2	121.0
Growth	20.2%	0.4%	4.8%	5.3%	2.9%	2.8%	1.6%
EPS (SAR)	3.4	3.4	3.6	3.8	3.9	4.0	4.0
EV/EBITDA (x)	8.5	8.0	7.2	7.0	6.4	5.9	5.4
Net profit margin	29.5%	29.9%	30.5%	30.9%	31.1%	31.3%	31.1%
ROE	16.3%	15.1%	14.5%	13.7%	12.9%	12.1%	11.4%
ROA	13.9%	12.9%	12.4%	12.0%	11.4%	10.9%	10.2%
P/E ratio (x)	12.8	12.2	11.4	11.4	11.1	10.8	10.6
P/BV ratio (x)	1.7	1.5	1.6	1.5	1.4	1.3	1.2
Dividend Yield	4.6%	2.0%	2.4%	2.6%	2.7%	2.8%	2.8%

Source: AlJazira Capital\* we have taken representative December closing prices for 2014, while for years 2015 & onwards we used closing price of 29<sup>th</sup> Mar. 2015

**Investment consideration** – Al-Jouf Agriculture is currently trading at PE of 11.44X and a forward PE at 11.42X (as compared to current PE of 24.1X of the sector); the company represents an attractive stock price due to stability in fundamental side and a low risk profile. Therefore, we maintain our **“Overweight”** recommendation for Al-Jouf Agriculture with an updated price target of SAR 50.60.

## Almarai Company: Poultry and bakery segments to drive strong sales growth and cash flow breakeven in 2015E.

### 2014 financial results - review:

Almarai reported full year revenues of SAR12.6bn for 2014; indicating a growth of 12.4% as compared to SAR11.22bn in 2013. Dairy & Juice contributed the most and registered YoY growth of 11.9%. The company's Dairy and Juice segment is expected to witness single digit growth in the coming years due to the (i) strong local presence and (ii) increased in its stake in IDJ (international Dairy & Juice) that contribute to the total sales of almost 8%.

Revenues from poultry segment grew by 29.1% to contribute SAR 1.02bn to the topline, as the factory capacity increased in 2014 to reach 200mn birds per year. However, limited improvement in bird mortality and higher cost led to record net losses of SAR397.3mn. As for bakery, sales rose to SAR1.53bn indicating YoY growth of 6.1%; despite sales decline in Q4-2014 on the back of fire related damage to the plant.

### Key developments and implications:

- Almarai has expanded capacity at its poultry segment to 200mn birds by adding the 3rd production line in 2014 on the back of large CAPEX (SAR4.3bn); rising its market share of fresh chicken in Saudi Arabia to about 43%. In Q4-2014, The Company managed to reduce the operating losses at the poultry segments by 46% to SAR72mn, down from a Q1-2014 loss of SAR133mn; indicating higher operating efficiency and a sign of recovery in the near future. Furthermore, the poultry division is expected to gradually improve in 2015 to reach breakeven and turning profitable in 2016 to increase the company's exposure in non-dairy products.
- IDJ (international Dairy & Juice) that mainly operates in Egypt and Jordan (a 52.0% owned subsidiary) stated an ambitious plan of SAR1.3bn (SAR0.5bn already incurred in 2014) in order to promote and raise their competitiveness in the regional market. The current expansion has already reflected positively since Q3-2014 results and will continue to rise gradually until the full expansion completed by 2019.
- Bakery business sales growth witnessed a slight growth of 6.1% in 2014, as compared to the average growth of 21% between 2011-13. The decline in sales revenues from bakery segment was mainly associated with lower sales in Jeddah plants due to the fire accident. The company has accelerated plans to shift Jeddah bakery facilities to Rabigh city (King Abdullah Economic City), which we believe it would contribute to raise the designed capacity of the bakery segments and donate to a higher growth rates.

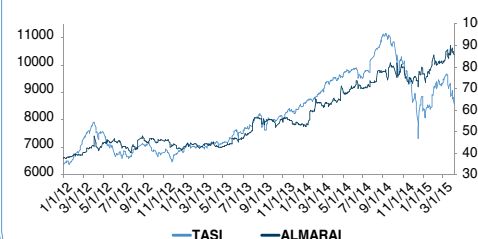
**Higher improvement in operational cash flow to deleverage the balance sheet:** Almarai launched its SAR15.7bn CAPEX program for the years 2012-2017, which ends with negative FCF in 2013 and higher debt/EBITDA (5.6X). However; improved operational cash

flows at SAR3.2bn in 2014 was efficient to cover the annual capital expenditures (SAR 2.7bn) and to partially reduce the leverage by 4.1%.

Going forward, we expect the company to sustain its growth drive to generate higher operational FCF that covers the CAPEX expenses and lower the short/long-term loans.

New Recommendation	<b>"Neutral"</b>
Old recommendation	<b>'Neutral'</b>
New 12-month price target;	<b>SAR82.4</b>
Old 12-month price target	<b>SAR76.2</b>
Current Price:	<b>SAR85.27</b>
Upside / (downside):	<b>-3.3%</b>

### Price Chart



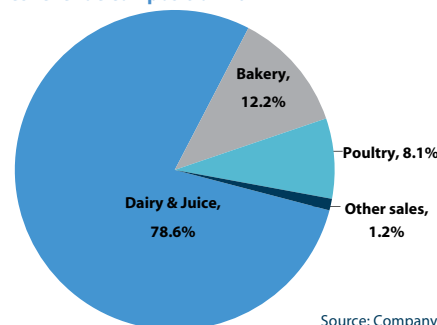
### Key information

Reuters code:	2280.SE
Bloomberg code:	ALMARAI:AB
Country:	Saudi Arabia
Sector:	Agriculture & Food
Primary Listing:	Tadawul
M-Cap:	SAR 52,740 mn
52 Weeks H/L (SAR):	91.75 / 63.0

### Shareholders Pattern

savola group company	36.5%
Prince sultan Mohammad saud al-kabeer al-saud	28.7%
Omaran Mohammad al-Imran & Partners Ltd	5.7%
General Public	29.1%

### Sales revenue composition 2014



Source: Company Data



## Key financial data

SAR mn; unless specified	2012	2013	2014	E2015	E2016	E2017	E2018
Sales revenue	9,883	11,219	12,606	13,634	14,048	14,486	14,886
YoY sales revenue growth	24.3%	13.5%	12.4%	8.2%	3.0%	3.1%	2.8%
Net income	1,441	1,502	1,653	1,779	1,912	1,980	2,056
YoY net income growth	26.4%	4.3%	10.1%	7.6%	7.5%	3.6%	3.8%
EPS (SAR)	2.40	2.50	2.79	2.97	3.19	3.30	3.43
EV/EBITDA (x)	12.94	12.68	16.10	16.83	16.22	15.49	14.87
Net Profit margin	14.6%	13.4%	13.1%	13.1%	13.6%	13.7%	13.8%
ROAA	8.2%	7.0%	7.1%	7.2%	7.3%	7.0%	6.9%
ROAE	19.3%	15.9%	15.0%	14.6%	14.3%	13.5%	12.8%
P/E ratio (x)	17.62	20.97	27.49	29.90	27.82	26.86	25.87
P/BV ratio (x)	3.36	3.73	5.01	5.21	4.67	4.21	3.82
Dividend yield	3.0%	1.6%	1.3%	1.3%	1.3%	1.3%	1.4%

Source: AlJazira Capital\* we have taken representative December closing prices for 2014, while for years 2015 & onwards we used closing price of 29<sup>th</sup> Mar. 2015

**Investment consideration** – We adjust our estimations and valuation in accordance with 2014 financial results and arrived at an updated 12-month price target of **SAR82.4/share**. This indicates the stock, at a current market price of **SAR85.27/share** (as of 07<sup>th</sup> April 2015), is offering a potential downside of 3.3%; and, trading at prospective 2015 PE and PBV of 19.5x and 3.4x respectively. We, therefore, update our recommendation to 'Neutral' for the stock.

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RATING TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

## Disclaimer

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