

# National Agricultural Development Co.

Q2 2017

## Recommendation

Neutral

### Fair Value (SAR)

27.40

Price as of August 1, 2017

28.95

Expected Return

-5.4%

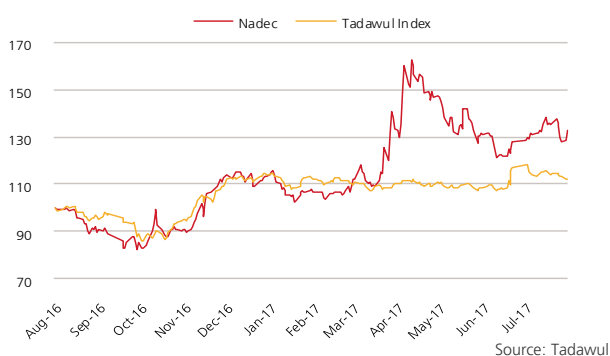
### Company Data

Tadawul Symbol	6010.SE
52 Week High (SAR)	36.20
52 Week Low (SAR)	16.50
YTD Change	20%
3-Month Average Volume (Thousand Shares)	554
Market Cap. (SAR Million)	2,452
Market Cap. (USD Million)	654
Outstanding Shares (Million Shares)	84.70

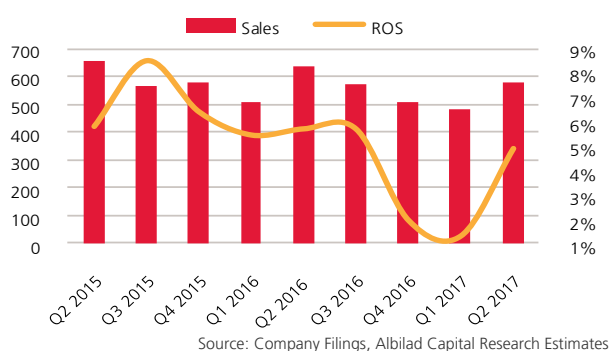
### Major Shareholders (> 5%)

Public Investment Fund	20.0%
Abdullah Ibin Abdulaziz Al Rajhi	8.33%
Suleiman Ibin Abdulaziz Al Rajhi Endowments	5.55%
Abdulaziz Mohammed Abdullah Al Othman	5.29%

### 52-week Stock Price Movement



### Quarterly Sales (SAR mn) and ROS



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The slump in the profits of the National Agricultural Development Company (Nadec) continued during the second quarter of 2017 reporting a net profit of SAR 26 million compared to SAR 35.6 million in Q2 2016, sliding 27%. In contrast, net profit edged up 498% QoQ from SAR 4.3 million in Q1 2017, thus the company's H1 profits slipped 49% to SAR 30 million down from SAR 59 million in H1 2016.

The second-quarter sales fell 9.4% YOY crimped by the slump in overall market sales, with the sales of the dairy and food processing segment sliding 6.4%, while the sales of agricultural segment plummeted by 28.8%. Furthermore, COGS edged down at a slower pace of 4.5%. It is noteworthy that the dip in the company's profits occurred despite the capital gain of SAR 22 million from the sale of the company's stake in Pure Breed Poultry Company.

The sales of the milk producer nudged up 20.7% QoQ due to seasonality in demand and production that is associated with Ramadan, high temperatures and harvest seasons. Dairy and food processing sales leapt 15.1%, coupled with an increase of 92.2% in the sales of the agricultural segment and the above-mentioned capital gain.

Moreover, the results of the first half revealed a general decline in the sales of juice and dairy sector at the level of the entire market, especially companies that do not have a large diversity in the level of products or geographical presence. The company's sales fell 7.6% in H1 2017 as the top line of the dairy and food processing segment shrank 5.62%, and agricultural sales fell by 24.5% dented by the halt of wheat cultivation and lower sales of other crops. The COGS figure was trimmed by 3.75%, thus leading to a slump in operating profit by 13.7%.

Operating profit margin in Q2 2017 shrank to 7.7% compared to 8.1% in Q2 2016 and stretched from 5.1% in Q1 2017. Likewise, the operating margin fell from 8% to 6.5% in H1 2017.

The second-quarter profit beat our estimate of SAR 18 million. We believe that the reinstatement of allowances to state employees reflected positively on the demand for the company's products, especially cheese and juices. However, the new fees on expatriate workers and their dependents as well as the anticipated adjustment of energy prices and increase in raw materials prices will pose key challenges going forward factoring in the intense market competition and adverse economic conditions. Our valuation is maintained at SAR 27.4 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	10.17	8.18	7.64	8.43
EV/Sales	1.84	1.64	1.66	1.87
P/E	21.79	16.50	23.16	38.98
Dividend Yield	1.5%	1.7%	0.0%	0.0%
P/BV	1.84	1.70	1.63	1.56
P/Revenue	1.12	1.00	1.01	1.14
Current Ratio	0.84	0.92	0.75	0.69
Revenue Growth	7.5%	12.4%	-1.4%	-11.1%
EPS	1.26	1.66	1.18	0.70

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Sales	1,928.1	2,072.4	2,328.6	2,296.5	2,041.6
COGS	1,071.1	1,123.8	1,182.8	1,093.4	1,024.3
COGS/Sales	55.6%	54.2%	50.8%	47.6%	50.2%
SG&A	516.4	574.5	714.5	735.1	586.1
SG&A/Sales	26.8%	27.7%	30.7%	32.0%	28.7%
Others (Net)	2.6	(0.8)	29.0	12.5	20.7
<b>EBITDA</b>	<b>343.2</b>	<b>373.2</b>	<b>460.3</b>	<b>480.5</b>	<b>452.0</b>
EBITDA Margin	17.8%	18.0%	19.8%	20.9%	22.1%
Depreciation and amortization	203	228	266	307	318
<b>EBIT</b>	<b>139.8</b>	<b>145.5</b>	<b>194.8</b>	<b>173.4</b>	<b>134.0</b>
EBIT Margin	7.3%	7.0%	8.4%	7.6%	6.6%
Net Interest Income	(35.9)	(37.5)	(45.7)	(67.4)	(70.0)
<b>Pre-Tax Income</b>	<b>104.0</b>	<b>107.9</b>	<b>149.1</b>	<b>106.0</b>	<b>64.0</b>
Tax and Zakat	3.8	0.7	7.7	5.8	4.4
<b>Net Income</b>	<b>100.2</b>	<b>107.2</b>	<b>141.3</b>	<b>100.2</b>	<b>59.6</b>
ROS	5.2%	5.2%	6.1%	4.4%	2.9%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	39.0	76.6	101.2	59.4	52.8
Account Receivables	279.8	295.4	321.2	296.9	256.2
Inventory	447.3	475.2	500.6	578.9	505.4
Others	74.6	82.6	72.6	65.3	58.1
<b>Total ST Assets</b>	<b>840.7</b>	<b>929.8</b>	<b>995.6</b>	<b>1,000.6</b>	<b>872.6</b>
Net Fixed Assets and Livestock	1,850.9	2,044.2	2,420.3	2,522.9	2,491.0
Projects Under Implementation	277.1	427.5	373.7	427.1	376.4
Others	26.9	27.3	36.0	50.7	44.9
<b>Total LT Assets</b>	<b>2,154.8</b>	<b>2,499.0</b>	<b>2,830.1</b>	<b>3,000.8</b>	<b>2,912.3</b>
<b>Total Assets</b>	<b>2,995.5</b>	<b>3,428.8</b>	<b>3,825.7</b>	<b>4,001.4</b>	<b>3,784.9</b>
Short Term Debt and CPLTD	662.5	706.7	570.0	688.4	663.2
Accounts Payable	212.1	268.4	340.4	476.7	445.0
Others	132.8	128.0	173.5	163.6	153.1
<b>Total ST Liabilities</b>	<b>1,007.4</b>	<b>1,103.1</b>	<b>1,083.9</b>	<b>1,328.7</b>	<b>1,261.3</b>
Total Long Term Debt	740.3	952.6	1,242.5	1,102.5	883.3
Other Non-Current Liabilities	95.44	114.17	134.77	144.94	155.58
<b>Equity</b>	<b>1,152.4</b>	<b>1,258.9</b>	<b>1,364.5</b>	<b>1,425.2</b>	<b>1,484.7</b>
<b>Total Liabilities and Equity</b>	<b>2,995.5</b>	<b>3,428.8</b>	<b>3,825.7</b>	<b>4,001.4</b>	<b>3,784.9</b>

Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash flow from Operations	127.3	353.0	503.2	524.5	467.5
Cash flow from Financing	305.7	255.6	121.9	(67.5)	(244.6)
Cash flow from Investing	(434.4)	(570.9)	(600.6)	(498.8)	(229.5)
Change in Cash	(1.3)	37.6	24.6	(41.7)	(6.6)
Ending Cash	39.0	76.6	101.2	59.4	52.8

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

\* Historical financial statements were prepared in accordance with Saudi reporting standards. Some items in 2017 are reclassified according to IFRS.

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

<b>Overweight:</b>	The Target share price exceeds the current share price by $\geq 10\%$ .
<b>Neutral:</b>	The Target share price is either more or less than the current share price by $< 10\%$ .
<b>Underweight:</b>	The Target share price is less than the current share price by $\geq 10\%$ .
<b>To be Revised:</b>	No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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