

National Agricultural Development Co.

Q3 2016

Recommendation

Overweight

Fair Value (SAR) 22.50

Price as of October 13, 2016 19.64
Expected Return 14.6%

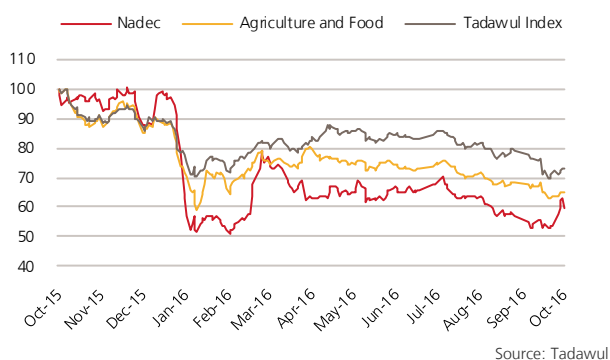
Company Data

Tadawul Symbol 6010.SE
52 Week High (SAR) 31.60
52 Week Low (SAR) 15.15
YTD Change -33%
3-Month Average Volume (Thousand Shares) 351
Market Cap. (SAR Million) 1,664
Market Cap. (USD Million) 444
Outstanding Shares (Million Shares) 84.7

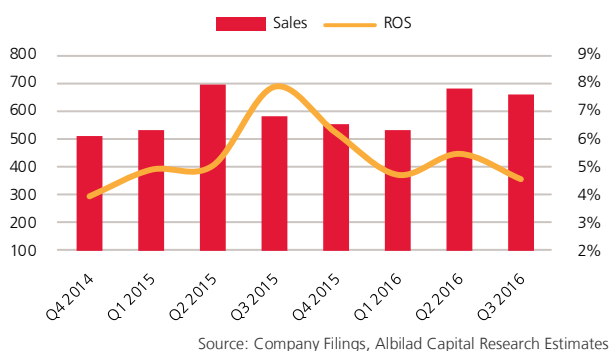
Major Shareholders (> 5%)

Public Investment Fund 20.0%
Abdullah Ibin Abdulaziz Al Rajhi 8.33%
Suleiman Ibin Abdulaziz Al Rajhi Endowments 6.55%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



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National Agricultural Development Co. (NADEC) disclosed its key performance indicators for the third quarter of 2016, posting a consolidated net profit of SAR 30.1 million, sliding 34% down from SAR 45.7 million in Q3 2015 and also down 19% QoQ. Accordingly, the nine-month profits slipped by 13.6% to SAR 92.4 million, compared with SAR 107 million in 9M 2015.

Nadec attributed the decrease in bottom line in 9M 2016 to the impacts of higher energy prices, and mounting SG&A expenses and increasing interest burden. The previous factors were partially offset by the lower cost of some production inputs.

Operating profit hit SAR 144 million in 9M 2016 up 12.3% from SAR 128 million the comparable period last year, revealing an operating margin of 6.4% versus 7.4% in 9M 2015. The growth in operating profit was buffeted by the increase in financing charges.

On the other hand, the company's net sales grew by about 1% in 9M 2016 underpinned by a 5.1% increase in dairy and food processing sector sales in spite of a severe drop of 27.2% in agricultural sales due to the cessation of wheat cultivation and sales.

Compared with the previous quarter, the company's sales fell by 15% as the dairy and food manufacturing sales shrank by 11.4% as the second quarter coincided with heavy sales in Ramadan. Agricultural sector sales fell by 33.6% influenced by changing seasons, planting and harvesting.

The company's third-quarter profit missed our estimate of SAR 45 million. The KPIs reflected the significant influence from mounting fuel and energy which hit SAR 49 million in 9M 2016 (SAR 24 million for Q3 2016), as well as the impacts of wheat cultivation cessation, despite a decline in prices of some production inputs. Factoring in the results of the third quarter, we downgrade our valuation for the share from SAR 24.9 to SAR 22.5 per share.

FY - Ending December	2014A	2015A	2016E	2017F
EV/EBITDA	8.62	7.31	6.57	6.40
EV/Sales	1.56	1.43	1.39	1.36
P/E	15.62	11.83	13.77	14.64
Dividend Yield	2.1%	2.3%	2.5%	2.5%
P/BV	1.32	1.22	1.15	1.10
P/Revenue	0.80	0.71	0.70	0.67
Current Ratio	0.84	0.92	0.83	0.84
Revenue Growth	7.5%	13.6%	1.1%	3.9%

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016E	2017F
Sales	1928.1	2072.4	2354.1	2380.5	2472.5
COGS	1071.1	1123.8	1214.2	1164.3	1209.3
SG&A	525.4	569.2	668.2	696.7	724.4
Provisions, net	(2.0)	3.8	11.1	15.1	15.2
EBITDA	333.6	375.5	460.6	504.4	523.7
EBITDA Margin	17.3%	18.1%	19.6%	21.2%	21.2%
Depreciation and amortization	203.4	227.8	265.5	307.2	331.0
EBIT	130.2	147.8	195.1	197.3	192.7
Net interest income	(35.9)	(37.5)	(45.7)	(65.9)	(72.2)
Investment Income	2.9	0.7	0.3	0.2	0.2
Others	6.8	(3.0)	(0.6)	(5.0)	(0.6)
Pre-Tax and Zakat Income	104.0	107.9	149.1	126.7	120.1
Tax and Zakat	3.8	0.7	7.7	5.0	5.5
Net Income	100.2	107.2	141.3	121.6	114.5
ROS	5.2%	5.2%	6.0%	5.1%	4.6%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016E	2017F
Cash and Marketable securities	39.0	76.6	101.2	102.3	106.2
Account Receivables	279.8	295.4	321.2	318.0	324.8
Inventory	447.3	475.2	500.6	494.5	516.1
Others	74.6	82.6	72.6	73.4	76.3
Total ST Assets	840.7	929.8	995.6	988.2	1,023.5
Net Fixed Assets and Livestock	1,850.9	2,044.2	2,420.3	2,556.7	2,660.3
Projects Under Implementation	277.1	427.5	373.7	319.2	349.4
Others	26.9	27.3	36.0	37.8	40.5
Total LT Assets	2,154.8	2,499.0	2,830.1	2,913.7	3,050.2
Total Assets	2,995.5	3,428.8	3,825.7	3,901.9	4,073.7
Short Term Debt and CPLTD	662.5	706.7	570.0	660.4	648.0
Accounts Payable	212.1	268.4	340.4	361.5	394.2
Others	132.8	128.0	173.5	174.7	179.1
Total ST Liabilities	1,007.4	1,103.1	1,083.9	1,196.6	1,221.3
Total Long Term Debt	740.3	952.6	1,242.5	1,101.4	1,153.1
Other Non-Current Liabilities	95.44	114.17	134.77	157.06	181.16
Equity	1,152.4	1,258.9	1,364.5	1,446.9	1,518.1
Total Liabilities and Equity	2,995.5	3,428.8	3,825.7	3,901.9	4,073.7

Cash Flow (SAR mn)	2013A	2014A	2015A	2016E	2017F
Cash flow from Operations	127.3	353.0	504.6	481.6	475.3
Cash flow from Financing	305.7	255.6	119.1	(90.0)	(3.9)
Cash flow from Investing	(434.4)	(570.9)	(599.2)	(390.5)	(467.4)
Change in Cash	(1.3)	37.6	24.6	1.1	4.0
Ending Cash	39.0	76.6	101.2	102.3	106.2

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.

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.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by $< 10\%$.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: 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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