



Bound for a Re-Rating

- Almarai will in our view continue to benefit from GCC structural demand growth, some market share gains, and a sustainable cost advantage
- We believe the stock is bound to re-rate to reflect its superior growth and profitability profile with margins more than double those of peers
- Initiate on Almarai with an Overweight and a TP of SAR264/share

Almarai is in our view a key beneficiary of GCC structural demand growth given its market leadership (30% market share in GCC dairy; over 50% in Saudi Arabia alone). We see sustainable growth of at least 10% in dairy, cheese, and butter. We forecast higher growth in other segments, namely (1) juice (16%) as Almarai gains more market share in a fragmented market, (2) bakery (19%) as it reaps benefits of a new bakery facility that will allow it to expand into other GCC countries, and (3) poultry (46%) as it restructures HADCO and invests cSAR2bn to boost processing capacity nearly five-fold.

Superior margins are sustainable in our view given vertical integration with raw milk requirements for all products (ex cheese and butter) fully supplied through its seven dairy farms and a portion of animal feed sourced from HADCO (c60% of alfalfa and c30% of corn needs). We believe government subsidies on imported animal feed will continue and should increase as prices go up. Almarai also benefits from subsidized flour prices in Saudi Arabia (c50% below market prices) and the importation of raw cheese and butter from countries with export rebates. We see some cost headwinds in 2011e mainly on higher material costs, but these could be offset by higher product prices, favorable EUR and corn hedging, and continued OPEX control.

We believe Almarai should trade at a premium to peers and is thus bound to re-rate. The stock trades at a c12% discount to international dairy peers on a P/E basis relative to growth. The market is not assigning a premium to Almarai's superior profitability profile with margins nearly double those of its peers. EV/EBITDA is misleading for Almarai as it disregards its low tax rate and strong return profile. Almarai stands out as the most attractive stock among peers on ROIC versus EBIT margin.

We initiate coverage on Almarai with an Overweight and a TP of SAR264/share, which offers a 23% potential return. International expansions (through 48%-owned IDJ valued at cost) are key medium-term value drivers as Almarai works to replicate its business model (including dairy farming) in Egypt and Jordan (Levant hub). Infant formula JV (also valued at cost) will grant Almarai exposure to a high-growth market in a region that favors local brands.

Key Indicators (SAR)

	2009	2010e	2011e	2012e
EPS (Clean)	10.19	11.10	12.37	14.52
DPS	3.95	4.41	4.91	5.73

Source: Company data, AlembicHC

Overweight

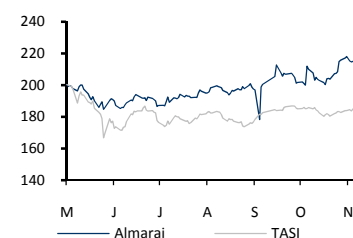
Target Price (SAR)	264
Current Price (SAR)	215
Potential Return	23%

Bloomberg	ALMARAI AB
Reuters	2280.SE

MCap (SARm)	24,725
MCap (USDm)	6,593
Free Float	27%
Daily Volume (USDm)	4.7
Foreign Own. Limit	N/A
Foreign Ownership	N/A

Note: All prices as of 23 November 2010

Price Performance



25 November 2010

Hatem Alaa, CFA

Senior Analyst

+202 3535 7354

hatem.alaa@hc-si.com

Menna El Hefnawy

Analyst

+202 3535 7360

menna.elhefnawy@hc-si.com

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Almarai's Financial Statements and Ratios

SARm	2009a	2010e	2011e	2012e	2013e	2014e
Income Statement						
Fresh Dairy	2,818	3,174	3,537	3,944	4,398	4,898
Long Life Dairy	563	650	750	848	959	1,083
Fruit Juice	620	742	869	1,011	1,166	1,343
Cheese and Butter	1,143	1,282	1,433	1,596	1,775	1,971
Bakery	618	819	1,005	1,209	1,432	1,670
Poultry	44	180	267	547	841	1,149
Others	63	58	60	61	63	65
Revenue	5,869	6,905	7,921	9,216	10,632	12,178
<i>Growth</i>	<i>16.7%</i>	<i>17.7%</i>	<i>14.7%</i>	<i>16.3%</i>	<i>15.4%</i>	<i>14.5%</i>
Direct Material Costs	(2,580)	(3,069)	(3,565)	(4,170)	(4,838)	(5,559)
Employee Costs	(884)	(1,063)	(1,184)	(1,361)	(1,563)	(1,771)
Marketing Expenses	(297)	(359)	(411)	(477)	(550)	(628)
Other Expenses	(558)	(626)	(712)	(811)	(915)	(1,025)
Government Grants	94	92	107	125	145	167
EBITDA	1,642	1,880	2,157	2,522	2,912	3,361
<i>Growth</i>	<i>23.4%</i>	<i>14.5%</i>	<i>14.7%</i>	<i>16.9%</i>	<i>15.5%</i>	<i>15.4%</i>
<i>EBITDA Margin</i>	<i>28.0%</i>	<i>27.2%</i>	<i>27.2%</i>	<i>27.4%</i>	<i>27.4%</i>	<i>27.6%</i>
Depreciation: PP&E	(505)	(634)	(750)	(855)	(958)	(1,030)
Net Appreciation: Bio. Assets	217	208	228	243	256	267
Other Non-cash Items	(75)	(68)	(79)	(101)	(117)	(134)
Share of Results of Associates	(2)	(7)	(5)	2	18	44
EBIT	1,277	1,379	1,551	1,811	2,111	2,507
Net Interest Expense	(148)	(125)	(152)	(177)	(195)	(202)
EBT	1,129	1,254	1,399	1,634	1,917	2,306
Zakat	(29)	(27)	(35)	(41)	(48)	(58)
Pre-minority Net Income	1,100	1,227	1,364	1,593	1,869	2,248
Minority Interest	(3)	(19)	(20)	(24)	(28)	(34)
Net Income	1,097	1,209	1,343	1,569	1,841	2,214
<i>Growth¹</i>	<i>21.3%</i>	<i>9.0%</i>	<i>11.4%</i>	<i>17.4%</i>	<i>17.2%</i>	<i>19.9%</i>
<i>Net Margin¹</i>	<i>20.0%</i>	<i>18.5%</i>	<i>18.0%</i>	<i>18.1%</i>	<i>18.4%</i>	<i>19.3%</i>
Balance Sheet						
Cash and Equivalents	508	294	283	315	345	704
Receivables and Prepayments	455	572	725	904	1,110	1,347
Inventories	1,219	1,320	1,438	1,575	1,733	1,914
Other Current Assets	-	37	37	37	37	37
Total Current Assets	2,182	2,223	2,483	2,831	3,225	4,002
Net Fixed Assets	6,282	7,729	8,835	9,824	10,674	10,922
Biological Assets	735	804	863	917	965	1,005
Investments	963	939	934	936	954	998
Intangible Assets	793	793	793	793	793	793
Other Non-current Assets	32	26	26	26	26	26
Total Non-current Assets	8,805	10,291	11,451	12,496	13,412	13,743
Total Assets	10,987	12,515	13,935	15,327	16,637	17,745
Short-Term Loans	396	347	363	356	333	293
Payables and Accruals	963	1,073	1,197	1,342	1,508	1,699
Dividends Payable	460	508	564	659	957	1,151
Other Current Liabilities	82	88	88	88	88	88
Total Current Liabilities	1,900	2,016	2,212	2,444	2,887	3,231
Long-Term Loans	3,981	4,680	5,104	5,330	5,287	4,953
Other Non-current Liabilities	166	194	194	194	194	194
Total Non-current Liabilities	4,147	4,874	5,298	5,524	5,481	5,147
Total Shareholders' Equity	4,940	5,625	6,425	7,359	8,270	9,367

Source: Almarai, AlembicHC

Note: (1) Ex non-recurring items



SARm	2009a	2010e	2011e	2012e	2013e	2014e
Cash Flow Statement						
OCF Before WC Investments	1,639	1,882	2,122	2,481	2,864	3,303
Change in WC	163	(113)	(147)	(171)	(198)	(226)
Operating Cash Flows	1,802	1,769	1,974	2,310	2,666	3,077
CAPEX	(1,335)	(2,088)	(1,856)	(1,843)	(1,808)	(1,279)
Other	(376)	17	91	87	91	93
Investing Cash Flows	(1,711)	(2,072)	(1,765)	(1,756)	(1,716)	(1,185)
Change in Debt	690	650	440	219	(66)	(374)
Dividends Paid	(382)	(455)	(508)	(564)	(659)	(957)
Other	(138)	(106)	(152)	(177)	(195)	(202)
Financing Cash Flows	170	90	(220)	(522)	(920)	(1,533)
Change in Cash	261	(213)	(11)	32	30	359
Key Financial Ratios						
Net Debt/Equity	0.93x	0.98x	0.92x	0.82x	0.71x	0.53x
Net Debt/EBITDA	2.36x	2.52x	2.40x	2.13x	1.81x	1.35x
ROAE (Adjusted) ¹	28%	26%	25%	27%	28%	27%
ROAA (Adjusted) ¹	11%	11%	11%	12%	13%	14%
ROIC (Adjusted) ¹	14%	13%	13%	14%	15%	17%
Key Price Ratios						
EV/EBITDA	16.8x	15.2x	13.5x	11.6x	10.0x	8.5x
P/Sales	4.2x	3.6x	3.1x	2.7x	2.3x	2.0x
P/E	22.5x	20.5x	18.4x	15.8x	13.4x	11.2x
P/E (Clean)	21.1x	19.4x	17.4x	14.8x	12.6x	10.5x
P/BV	5.0x	4.4x	3.8x	3.4x	3.0x	2.6x
Dividend Yield	1.8%	2.1%	2.3%	2.7%	3.9%	4.7%
Free Cash Flow Yield	1.8%	-1.4%	0.5%	1.9%	3.5%	7.3%

Source: Almarai, AlembicHC

Note: (1) Ex non-recurring items and intangibles



Investment Case

- Almarai's strong growth and margin advantage are likely to sustain given its vertical integration, leading market position and limited market share erosion risk, and diversification into higher growth segments; expansions outside GCC and into infant formula (both valued at cost) are key medium-term value drivers in our opinion
- Stock is bound to re-rate as it unjustifiably trades at a discount to international dairy peers on a P/E basis; a premium is warranted given continued double-digit earnings growth (16% CAGR) and margins more than double those of peers
- We initiate coverage on Almarai with an Overweight rating and a TP of SAR264/share (23% potential return)

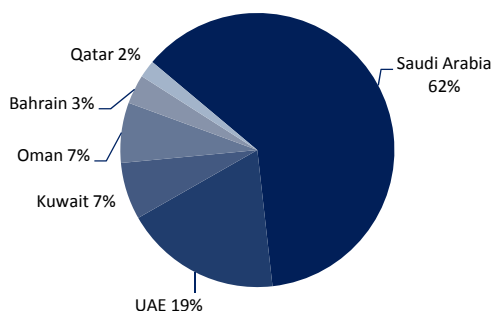
We initiate coverage on Almarai with an Overweight and a TP of SAR264/share, which offers a 23% potential return to the current market price. Although share price performance has been strong y-t-d (up 30%, outperforming TASI by 28%), we believe the stock will continue to deliver decent returns as the company's sustainable growth and margin advantage continue.

Why We Like Almarai

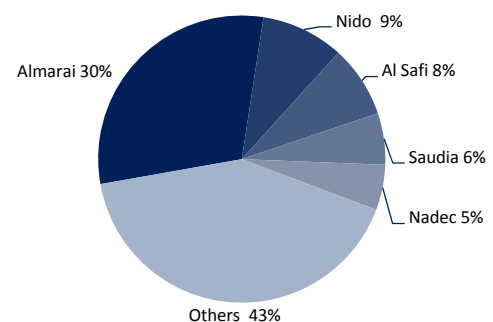
Limited Dairy Market Share Erosion Risk Given Unparalleled Leadership

There is limited market share erosion risk to Almarai's dairy segment (fresh milk, long-life milk [UHT], laban [liquid yogurt], and zabadi [natural set yogurt]) given the company's undeniable market leadership, strong brand equity, and vertical integration driven cost advantage over peers. Almarai is the unparalleled leader in the GCC dairy market with a 30% market share. Nido, Nestlé's leading global powdered milk brand, is a distant second with a 9% market share. In Saudi Arabia, which represents over 60% of the GCC dairy market, Almarai has a market share of over 50%. Saudi Arabia has very supportive demographics given the strong population growth (2%–3% per annum) and low milk consumption/capita.

Saudi Arabia Makes Up 62% of GCC Dairy Market¹



GCC Dairy Producer Market Shares¹



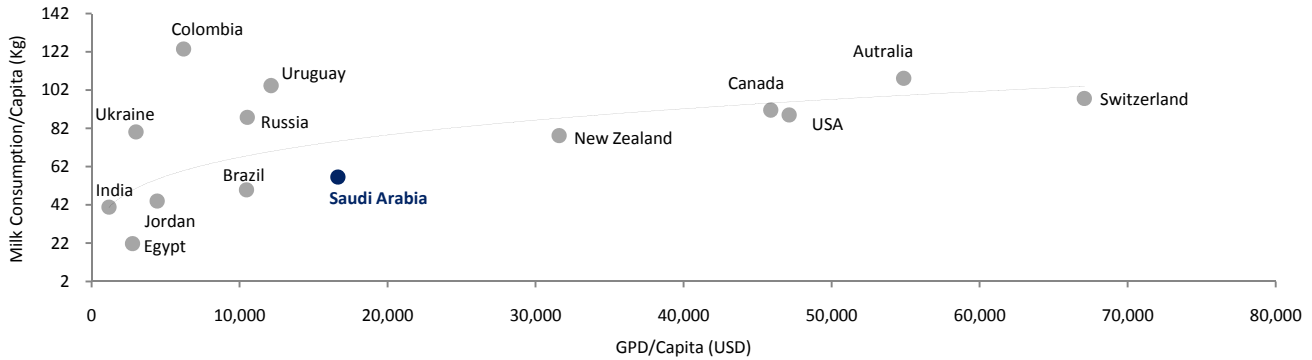
Source: Almarai, AlembicHC

Note: (1) Dairy includes fresh milk, long-life milk, powdered milk, laban, and zabadi

Source: Almarai, AlembicHC

Note: (1) Dairy includes fresh milk, long-life milk, powdered milk, laban, and zabadi

Saudi Arabia's Milk Consumption/Capita Is Low Relative to its GDP



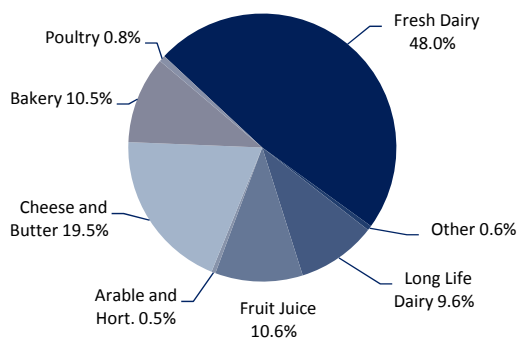
Source: FAPRI, IMF, AlembicHC

Sustainable Growth Supported by Structural Growth and Category Diversification

We expect Almarai to continue to post solid growth with a CAGR (2010e–2015e) of 14% for revenue and 16% for net income. Growth in Almarai's dairy, cheese, and butter segments (77% of 2009 revenue) will mirror the sector's structural growth in the GCC, which is capped at c10% in our view (2%–3% population growth + 3% per-capita consumption growth + 4%–5% inflationary growth). Potential market share gains in these segments (with the exception of UHT) are small in our view, but we believe market share erosion is improbable given a very strong leadership position.

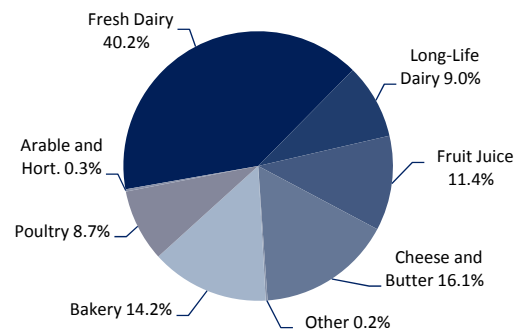
Almarai has been rapidly venturing into non-dairy segments with higher growth prospects through (1) expanding juice processing capacities to gain market share in a fragmented market (Almarai is the number three player in the GCC with a market share of 11% with top player Rani capturing 12%), (2) venturing and expanding into the bakery business with the acquisition of Western Bakeries (WB) in 2007 and delivering strong growth of c29% since then, and (3) entering the poultry segment with the acquisition of Hail Agricultural Development Company (HADCO) in 4Q09. We expect the non-dairy businesses' (juice, bakery, and poultry) contribution to top line to reach 34% by 2015e from 22% in 2009.

Revenue Breakdown by Product Line (2009a)



Source: Almarai, AlembicHC

Revenue Breakdown by Product Line (2015e)



Source: AlembicHC



Historical and Forecasted Revenue Growth and Future Drivers by Segment

Segment	Market Share	2005–2009 Revenue CAGR	2010e–2015e Revenue CAGR	Future Growth Drivers
Fresh Dairy	c51% in GCC fresh milk, c54% in fresh laban, and c40% in zabadi	20%	11%	GCC structural demand growth (2%–3% population growth + 3% per-capita consumption growth + 4%–5% inflationary growth)
Long-Life Dairy	c23% in GCC UHT plain and flavored milk	28%	13%	GCC structural demand growth Potential market share gains – Almarai is the number two player
Cheese and Butter	31% in GCC Cheese	30%	11%	GCC structural demand growth Market share gains in some cheese categories where Almarai is not the leader
Juice	11% in GCC	44%	16%	Market share gains and consolidation in a very fragmented market Recent juice processing capacity expansion
Bakery	26% in KSA	33% ¹	19%	Expanding into other GCC markets as Almarai's bakery products are currently only sold in Saudi Arabia Recently commissioned new capacity (nearly double existing ones) Launch of new bakery products
Poultry (HADCO) ²	2% in KSA	13%	46%	Five-fold capacity expansion and restructuring at an investment cost of SAR2bn Potential market share gains in a market dominated by imported frozen chicken Benefits of integration with Almarai's existing distribution network

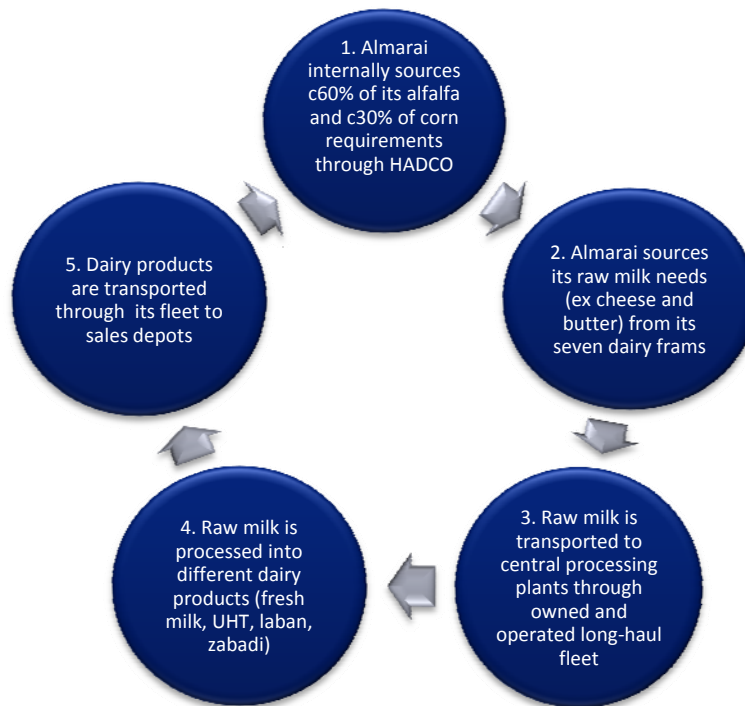
Source: Almarai, AlembicHC

Note: (1) 29% CAGR since the acquisition of Western Bakeries in 2007 (2) HADCO was acquired in 4Q09

Superior Margins Given Sustainable Cost Advantage

Almarai's margins are substantially superior to international dairy peers given its vertically-integrated business model (see chart on the next page) and Saudi government subsidies on imported animal feed and flour. The company imports raw cheese and butter from the US and Europe, benefitting from dairy export rebates. In addition, Almarai internally sources c60% of its alfalfa and c30% of corn requirements through HADCO (c4% of 9M10 CoGS). We forecast a sustainable EBITDA margin of 27.8%, which is slightly lower than the historical peak of 28% in 2009. We expect the sales-mix effect on margins to be relatively muted as higher contribution from the lower-margin juice and poultry segments (40%–45% margin on a direct material cost basis) will be offset by higher contribution from the bakery segment whose margins resemble those of fresh dairy (c60% margin).

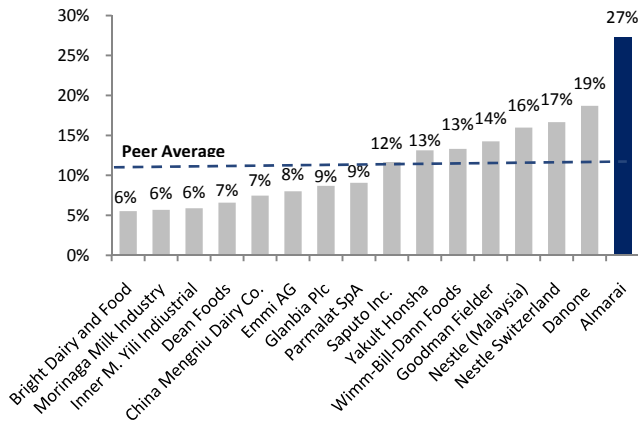
Almarai's Vertical Integration Is Key to Its Impressive Margins



Source: Almarai, AlembicHC

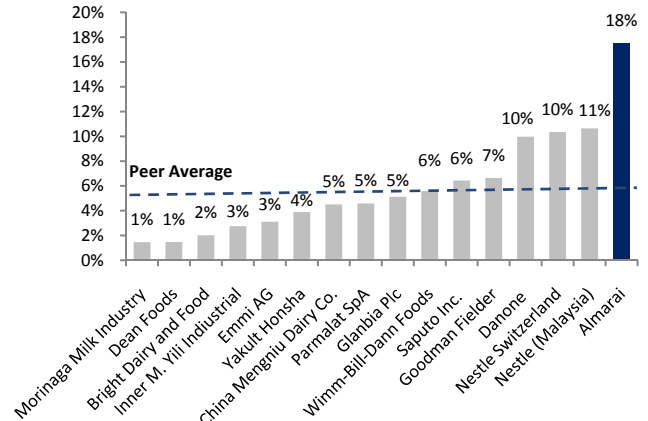


Almarai's EBITDA Margin vs Peers (2010e)



Source: Bloomberg, AlembicHC

Almarai's Net Margin vs Peers (2010e)



Source: Bloomberg, AlembicHC

First Producer of Infant Formula in the Region

Almarai is currently constructing the region's first infant formula plant at an investment cost of SAR750m through International Pediatric Nutrition Company (IPNC), a 50:50 JV with Mead Johnson. Almarai is targeting a 20%–25% market share of the cUSD500m GCC infant formula market. IPNC is expected to start commercial production in 2H11e and we believe it will begin generating profit by 2013e. Almarai is fully financing and singlehandedly constructing the plant and will lease it to IPNC. We value the investment at cost (SAR6.5/share) at this stage.

International Expansions: A Hidden Gem?

Almarai began to expand outside the GCC in 2009 through its 48%-owned JV with Pepsi called International Dairy and Juice (IDJ). IDJ currently owns 75% of Jordan's Teeba and 100% of Egypt's Beyti. IDJ is still loss-making until restructuring efforts are complete. It aims to replicate a business model reminiscent of Almarai's (including farming) at the new companies. We value IDJ at cost of SAR487m (SAR4.2/share) given very limited information and its current loss-making status. We believe there is significant value potential to be unlocked as Almarai replicates its business model and quality standards at the two new operations, especially in Egypt where milk consumption/capita is among the lowest globally in a market dominated by loose milk. Further geographic expansions through IDJ are likely but not in the near-term.

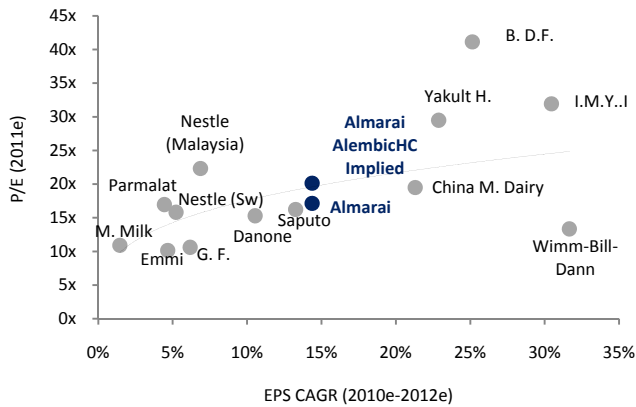
Stock Is Trading at an Unwarranted Discount to Peers on a P/E Basis

Almarai is trading at a 2011e P/E of 17.4x, which implies an unjustified c12% discount to peers when comparing P/E versus EPS growth profile. We believe Almarai should trade at least in line with peers given its strong growth, market leadership, high ROE (28% versus peer average of 22%), and most importantly superior margins driven by Almarai's sustainable cost advantage. Comparing Almarai's net margin relative to its P/E multiple versus peers, it appears that the market is not pricing in a premium to reflect that Almarai's margins are more than double those of international dairy peers.



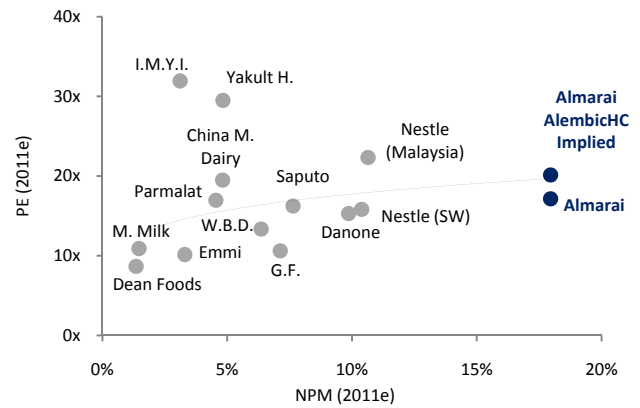
Current P/E multiples are close to Almarai's historical multiples (c17x), but we believe the market has been consistently mispricing Almarai at an average c19% discount to emerging-market dairy peers. We believe the discount will converge over time as the stock re-rates.

EPS CAGR (2010e–2012e) vs P/E (2011e) Across Peers



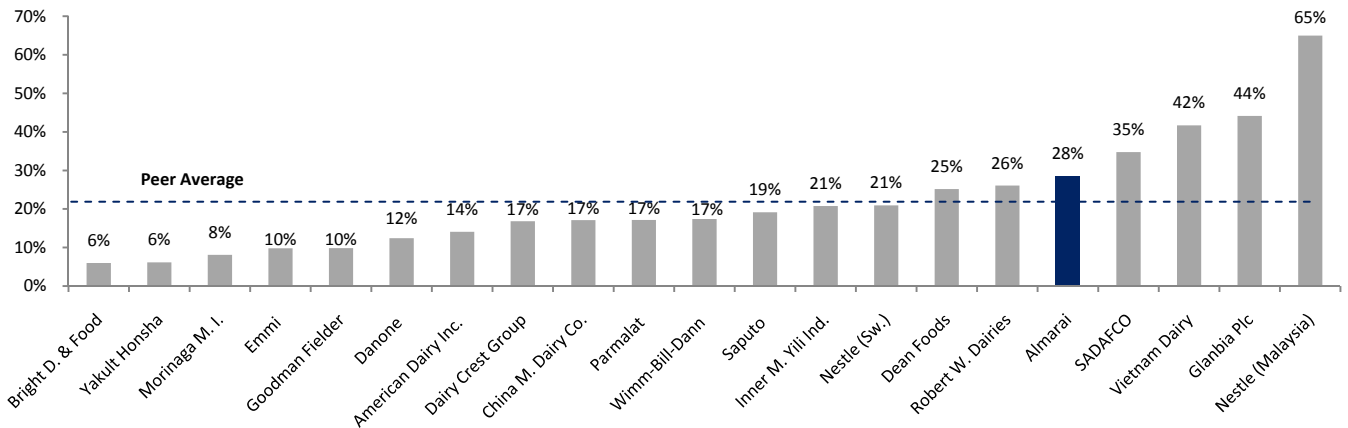
Source: Bloomberg, AlembicHC

Net Margin vs P/E (2011e) Across Peers



Source: Bloomberg, AlembicHC

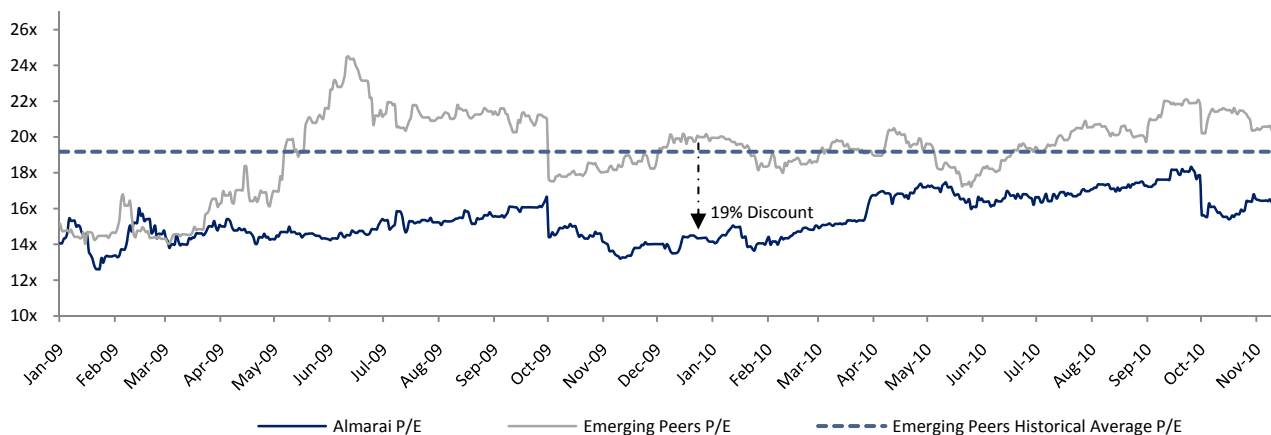
Almarai's ROE vs Peers (2010e)



Source: Bloomberg, AlembicHC



Almarai's Historical P/E vs Emerging Market Peers



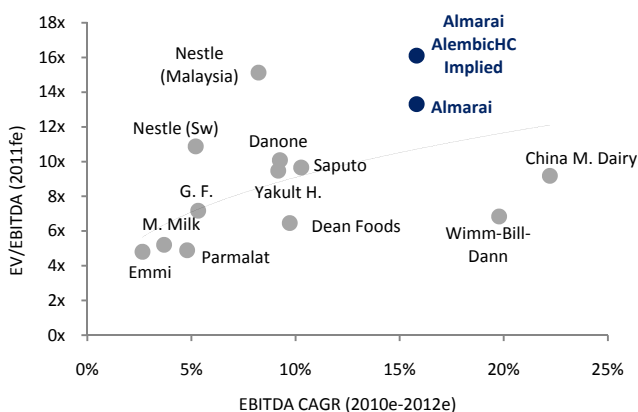
Source: Bloomberg, AlembicHC

Some Overstated Concerns?

EV/EBITDA Analysis Is Misleading in Almarai's Case

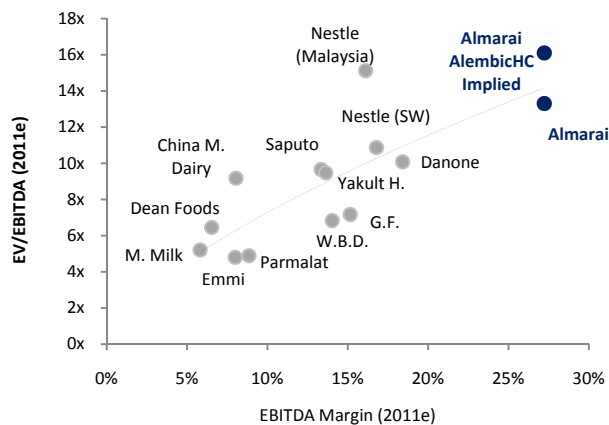
EV/EBITDA is misleading in Almarai's case as it disregards the company's low tax rate (zakat rate of 2.5%) and makes the stock look expensive given Almarai's relatively high expansion-driven leverage (2010e net debt/EBITDA of 2.5x versus peer average of 1.6x). However, a profitability profile comparison versus peers on an EBITDA margin basis puts Almarai at an unjustified discount to peers. To address possible concerns regarding Almarai's seemingly high leverage that deems it expensive on EV/EBITDA, we compare Almarai with its peers on ROIC and EBIT margin. As illustrated in the chart below, Almarai stands out as the most attractive stock among peers on our matrix.

EBITDA CAGR vs EV/EBITDA Across Peers



Source: Bloomberg, AlembicHC

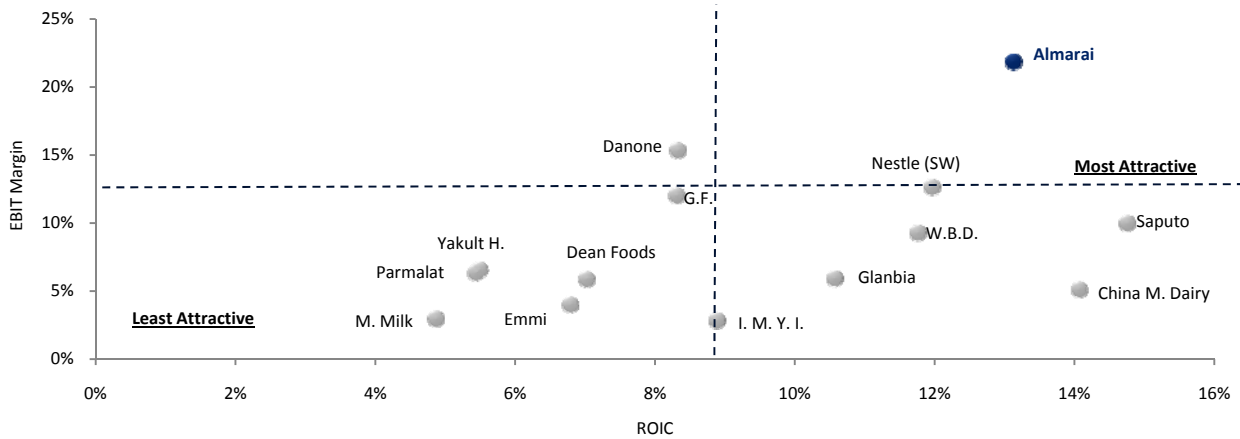
EBITDA Margin vs EV/EBITDA Across Peers



Source: Bloomberg, AlembicHC



2009 EBIT Margin vs ROIC Across Peers



Source: Bloomberg, AlembicHC

Subsidy Elimination: Not Likely Any Time Soon

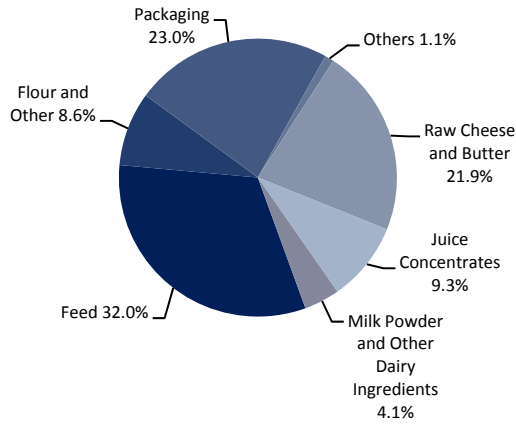
Concerns that the subsidies Almarai is benefiting from in Saudi Arabia will eventually be eradicated are unfounded in our view as the government has made no indication of this. Additionally, the government collects customs (cSAR89m in 2009) from Almarai almost equal to the direct animal feed subsidies (cSAR94m in 2009) it provides to the company.

Almarai is benefiting from subsidies on imported animal feed (c32% of 2009 direct material costs) offered by the Saudi government to all local importers. This amounted to SAR94m for Almarai (4% of direct material costs and 2% of sales) in 2009. Animal feed subsidies are variable and increase as feed prices rise. Elimination of animal feed subsidies would lower our valuation by c9%.

Saudi Arabia is also subsidizing wheat/flour, which is the primary feedstock for the bakery segment and represents c9%–10% of direct material costs on our estimates. Subsidized flour prices are c50% below market prices. Additionally, Almarai imports cheese and butter from the US and Europe, thus benefitting from substantial dairy export rebates.



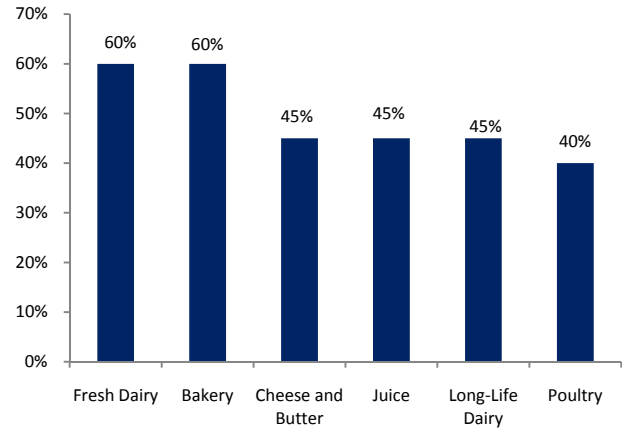
Almarai's Direct Material Cost Breakdown (2009)¹



Source: Almarai, AlembicHC

Note: (1) Estimates based on company guidance and in-house assumptions

Estimated Gross Margin by Segment¹



Source: Almarai, AlembicHC

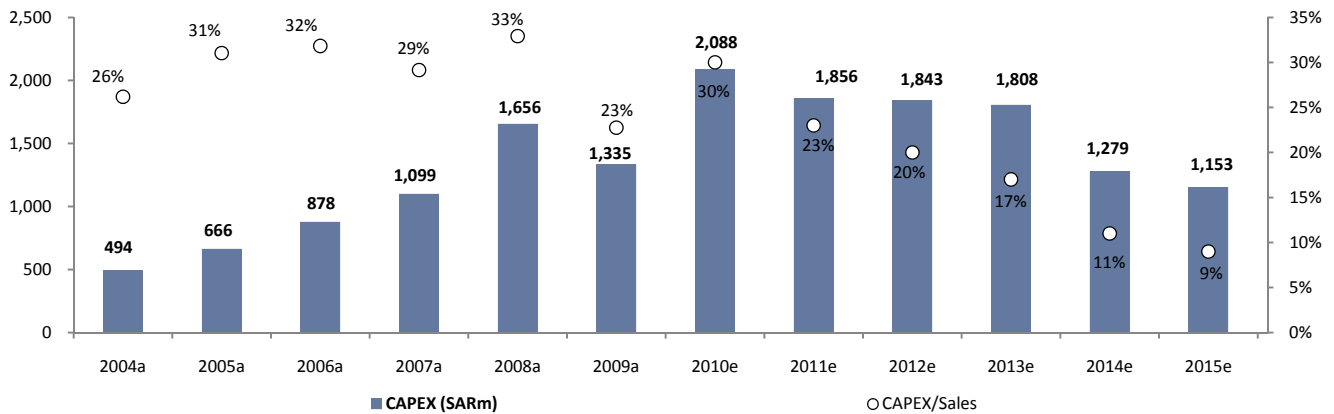
Note: (1) Margins are on a direct material cost basis only

High CAPEX: Should Slow Down as Sales Growth Eases

Almarai is spending cSAR7bn (2011e–2014e) to maintain and enhance existing facilities and farms as well as establish a third central processing plant in Saudi Arabia, complete the construction of the new bakery facility on the outskirts of Riyadh, and restructure its poultry business. CAPEX remains relatively high at over 20% of sales in the next two years, but is lower than the historical run rate of c30%. Investment spending has and will continue to help the company deliver strong sales growth. Should sales growth ease to single digits, the company can easily lower its expenditure. We estimate that excluding any capacity expansions/enhancements the company needs to spend cSAR700m–SAR800m per annum at current prices (12%–14% of 2009 sales).

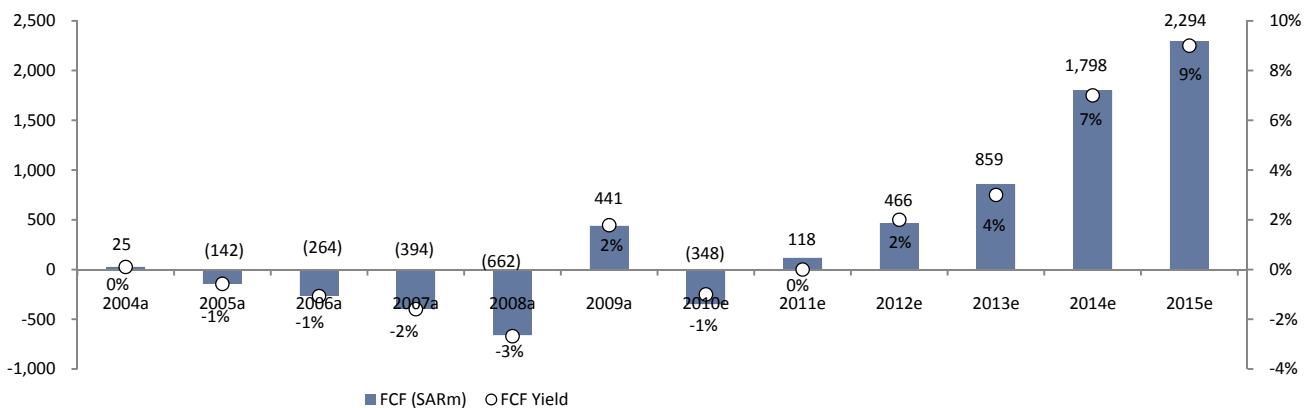
We expect the company to turn slightly free cash flow positive next year given a lower CAPEX bill. The company has a historical dividend payout ratio of c40%, which we believe will be maintained as long as high investment spending continues. We estimate a DPS of SAR4.4/share based on 2010e earnings, which implies a dividend yield of 2% at current prices.

Almarai's CAPEX and CAPEX/Sales



Source: Almarai, AlembicHC

Almarai's Free Cash Flows and FCF Yield



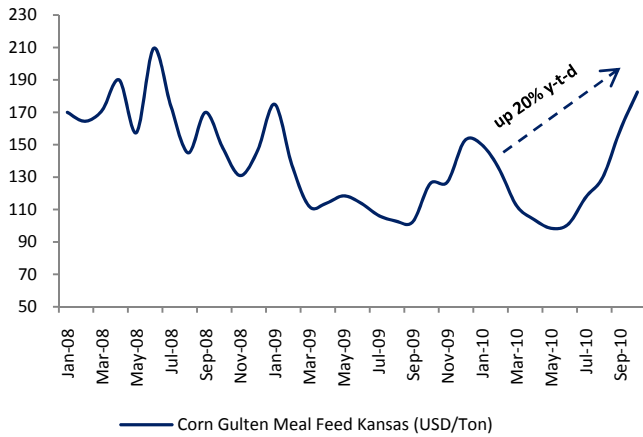
Source: Almarai, AlembicHC

Cost Headwinds Heading Into 2011e Are Manageable

We expect some raw material cost headwinds in 2011e (forecasting a 66 bps drop in headline gross margin) but that is likely to be somewhat offset by (1) stronger high-margin bakery contribution to revenue, (2) continued operating cost control (SG&A/sales dropped 135 bps in 2009 compared to 2004 levels), (3) raising prices of key products, which is not problematic given Almarai's position as an industry price setter and limited government price regulation, (4) favorable currency hedging heading into 2011e at a USD/EUR exchange rate of c1.26 versus c1.33 currently (imported annual EUR-denominated raw material requirement of cEUR500m), and (5) corn hedging at lower-than-market prices covering requirements until 1H11e. Accordingly, we expect a relatively muted impact on EBITDA margin and forecast relatively flat margins y-o-y.

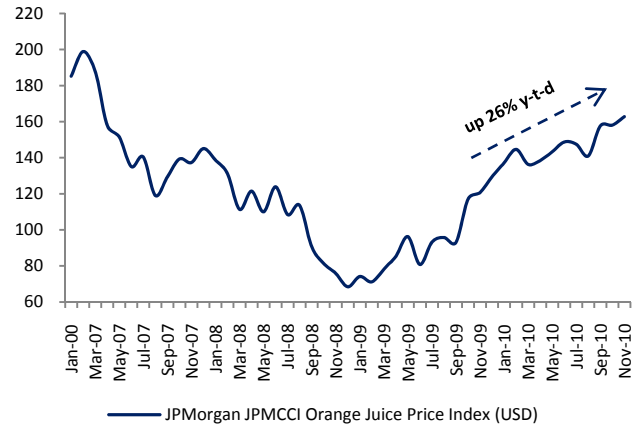


Corn Price



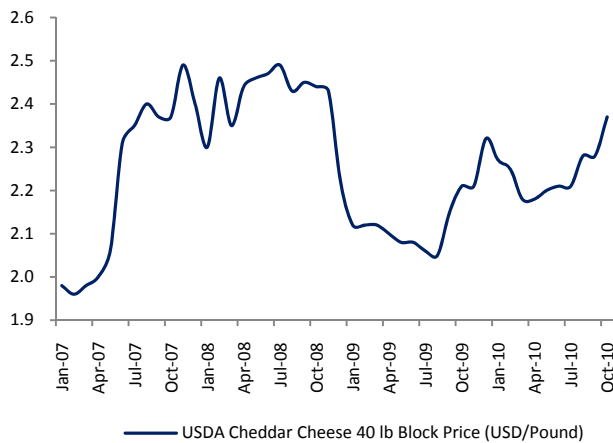
Source: Bloomberg, AlembicHC

Orange Juice Price Index



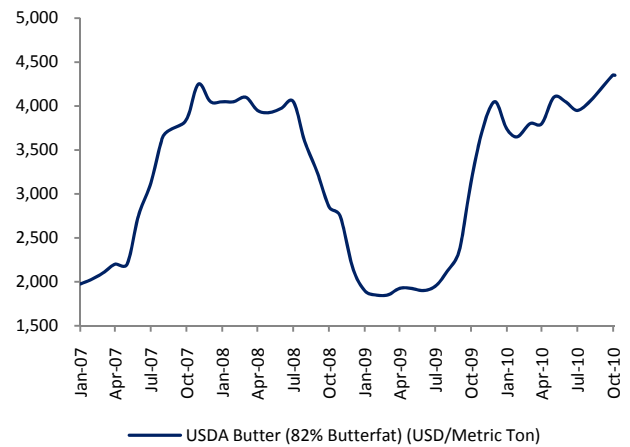
Source: DataStream, AlembicHC

Cheddar Cheese Block Price



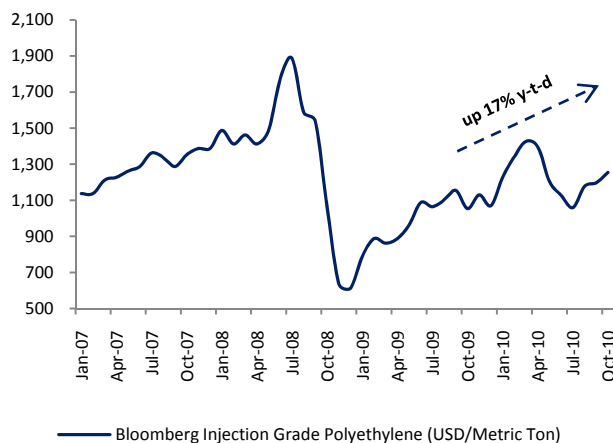
Source: Bloomberg, AlembicHC

Butter Price



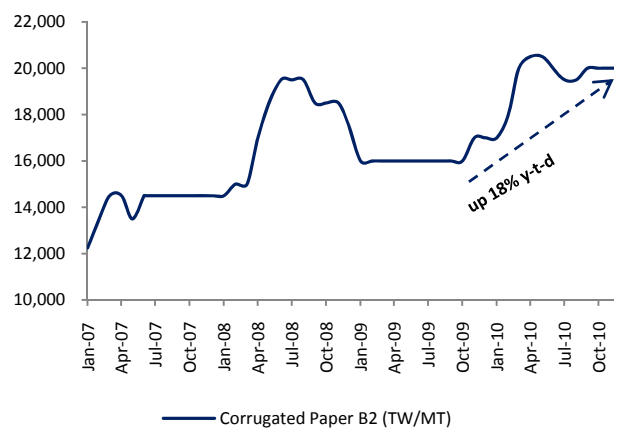
Source: Bloomberg, AlembicHC

Polyethylene Price



Source: Bloomberg, AlembicHC

Corrugated Paper Price



Source: DataStream, AlembicHC



Valuation and Risks

We initiate coverage on Almarai with an **Overweight** rating and **TP of SAR264/share**, which offers a 23% potential return from the current market price. We value investments including IDJ and INP at cost. We applied a WACC of 8.8% (based on a 9.2% cost of equity and a 6.8% after-tax cost of debt), and a perpetual growth rate of 3.5%.

Almarai's Valuation Summary (SARm)

	2011e	2012e	2013e	2013e	2015e
EBITDA	2,157	2,522	2,912	3,361	3,766
Zakat	(35)	(41)	(48)	(58)	(67)
Change in Working Capital	(147)	(171)	(198)	(226)	(252)
CAPEX	(1,856)	(1,843)	(1,808)	(1,279)	(1,153)
Free Cash Flows (FCFs)	118	466	859	1,798	2,294
Risk-Free Rate	4.3%				
Beta	0.75				
Equity Risk Premium	6.5%				
Cost of Equity	9.2%				
Equity Weight	82.9%				
Cost of Debt	7.0%				
Tax Rate	2.5%				
After-Tax Cost of Debt	6.8%				
Debt Weight	17.1%				
WACC	8.8%				
Terminal Growth Rate	3.5%				
PV of FCFs	109	394	667	1,285	1,506
Terminal Value	45,017				
PV of Terminal value	29,564				
Enterprise Value	33,526				
Excess Cash	294				
Debt	5,027				
Net Debt	4,733				
Minority Interest	49				
Equity Value Ex Investments	28,744				
Value/Share Ex Investments (SAR)	250				
Investments	921				
Infant Formula JV	750				
Total Equity Value	30,415				
Total Value/Share (SAR/Share)	264				

Source: AlembicHC

Sensitivity to WACC and Growth (SAR/share)

Perpetual Growth/WACC	6.8%	7.8%	8.8%	9.8%	10.8%
1.5%	286.6	230.6	190.2	159.7	135.9
2.5%	354.7	275.3	221.4	182.5	153.2
3.5%	464.4	340.9	264.5	212.6	175.2
4.5%	670.7	446.6	327.7	254.1	204.2
5.5%	1,200.8	645.3	429.6	315.1	244.3

Source: AlembicHC



Risks and Catalysts

Unsuccessful Rollout of New Ventures

We believe international expansions through IDJ and the new infant formula JV (expected commissioning in mid-2011) are key medium-term value drivers for Almarai. However, they could face difficulties and disappoint especially given that they involve new geographies (IDJ) and new segments (IPNC). Also, the addition of poultry (a new product category) through the HADCO acquisition could be challenging in our opinion.

Raw Material Cost Headwinds

Direct material costs represent c60% of cash costs and over 40% of sales. Rising prices of raw cheese and butter are the key raw-material risk heading into 2011e as they represent over 20% of material costs. Corn and juice concentrates are other sources of cost pressures. The company could offset rising material costs through raising product prices, some favorable currency and corn hedging contracts, and continued operational cost controls.

Elimination of Subsidies

Almarai receives subsidies on imported animal feed, and the elimination of these subsidies could place pressure on margins and lower our valuation by c9%. Also, there is the risk of the Saudi government eliminating wheat/flour subsidies. However, we see the risk of subsidy elimination as minimal in the near term.

Market Share Erosion and/or Failure to Capture More Market Share

Almarai is the market leader in its key categories (fresh milk, laban, zabadi, cheese, and butter) and so could face market share erosion, but we see such risk as limited given the company's unparalleled dominance and strong brand name in these categories. We assume market-share gains in other categories (namely juice, bakery, and poultry) and failure to achieve such gains is a downside risk to our numbers.



Key Catalysts by Segment

Segment	Key Catalysts
Fresh Dairy	<ul style="list-style-type: none"> New product launches (milk powder, recombined laban) Better-than-expected volume impact of launch of third central processing plant Favorable corn (key animal feed) hedging Higher-than-expected subsidies on imported animal feed Raising prices of finished products
Long-Life Dairy	<ul style="list-style-type: none"> Stronger-than-expected market share gains (Almarai is the number two player in UHT) Better-than-expected volume impact of launch of third central processing plant
Cheese and Butter	<ul style="list-style-type: none"> Market share gains in cheese categories where Almarai is not the leader (e.g. cheese triangles) Better-than-expected volume impact of launch of third central processing plant Increased dairy export rebates in the US and Europe Drop in raw cheese and butter prices
Juice	<ul style="list-style-type: none"> Stronger-than-expected market share gains (Almarai is the number three player in GCC juice market) Better-than-expected volume impact of launch of third central processing plant Further capacity expansions New product launches (Almarai is mainly present in the bottled fresh juice category) Drop in juice concentrate prices
Bakery	<ul style="list-style-type: none"> Successful launch of bakery products into other GCC markets Market share gains especially for the newly-launched 7 Days brand Better-than-expected volume impact of launch of new bakery facility near Riyadh New product launches Continued upswing in spot flour prices given government subsidies
Poultry	<ul style="list-style-type: none"> Successful completion of restructuring efforts and five-fold capacity expansion Market share gains in a predominantly import-reliant market New product launches in a market dominated by whole chicken Use of agricultural land to further enhance vertical integration through sourcing feed to dairy farms
International Expansions (IDJ)	<ul style="list-style-type: none"> Successful restructuring and implementation of quality standards at Egypt's Beyti and Jordan's Teeba Market share gains in Egypt and Jordan's dairy and juice markets First-time generation of profit (expected by 2012e) Further value-accretive acquisitions
Infant Formula (IPNC)	<ul style="list-style-type: none"> Successful commissioning of the plant and launch of the product Market share gains across GCC once the product is launched Expansion into other infant nutrition products Strong impact of potential sourcing of Almarai's products through nonconventional channels

Source: Almarai, AlembichC



Almarai on Multiples Versus Dairy Peers

Company	Country	Mkt Cap USDm	P/B		P/E			EV/EBITDA			Net Debt/EBITDA			Dividend Yield	
			2009a	2010e	2009a	2010e	2011e	2009a	2010e	2011e	2009a	2010e	2011e	2009a	2010e
Dairy															
Nestle (Sw)	Switzerland	194,928	4.6x	3.2x	21.7x	17.4x	16.1x	16.9x	11.2x	11.0x	1.0x	0.0x	0.2x	2.9%	3.1%
Danone	France	42,108	2.1x	2.0x	21.9x	17.4x	15.6x	N/A	11.6x	10.3x	2.1x	1.6x	1.3x	2.5%	2.7%
Saputo Inc.	Canada	7,548	3.5x	3.7x	17.3x	20.3x	16.4x	10.4x	11.7x	9.7x	0.6x	0.5x	0.2x	1.5%	1.6%
Yakult Honsha	Japan	5,135	1.9x	2.0x	28.4x	37.5x	29.7x	10.3x	10.5x	9.4x	-0.6x	-1.4x	-1.4x	0.8%	0.8%
Inner Mangolia Yili Ind.	China	5,028	8.4x	8.0x	49.3x	41.6x	32.2x	N/A	N/A	N/A	-0.5x	N/A	N/A	0.0%	0.3%
China Mengniu Dairy	China	4,829	3.5x	3.5x	30.1x	24.2x	19.1x	14.7x	12.0x	9.0x	-2.0x	-1.9x	-2.0x	0.7%	0.7%
Parmalat SpA	Italy	4,728	1.0x	1.1x	7.8x	18.6x	17.6x	N/A	5.4x	5.1x	-3.7x	-3.7x	-3.7x	5.2%	2.8%
Nestle Berhad	Malaysia	3,313	16.9x	16.3x	23.2x	23.4x	22.3x	15.9x	16.1x	15.1x	0.6x	0.4x	0.4x	3.5%	4.1%
Wimm-Bill-Dann Foods	Russia	2,904	4.3x	5.0x	22.8x	19.3x	14.4x	10.4x	9.4x	7.4x	0.7x	0.8x	0.4x	0.0%	3.1%
Goodman Fielder	Australia	1,984	1.2x	1.2x	12.8x	10.8x	10.4x	N/A	7.7x	7.1x	2.4x	2.3x	2.2x	7.3%	7.6%
Bright Dairy and Food	China	1,493	4.4x	4.1x	71.3x	49.5x	39.7x	N/A	N/A	N/A	-1.2x	N/A	N/A	0.0%	1.0%
Dean Foods	USA	1,408	0.9x	0.8x	7.9x	9.6x	8.9x	7.1x	7.2x	6.5x	5.6x	5.0x	4.2x	0.0%	0.0%
Morinaga Milk Industry	Japan	1,026	0.8x	0.8x	13.3x	10.0x	11.0x	5.1x	N/A	5.2x	3.2x	N/A	2.5x	1.8%	1.8%
Emmi AG	Switzerland	933	1.1x	1.0x	11.2x	11.5x	10.8x	5.4x	5.6x	5.1x	0.9x	0.6x	0.2x	1.7%	2.0%
Dairy Crest Group	UK	784	1.7x	1.1x	8.8x	9.0x	8.0x	5.9x	5.9x	5.6x	2.6x	2.5x	2.2x	0.1%	0.1%
Wei Chuan Food	Taiwan	572	3.1x	N/A	25.3x	23.8x	20.7x	26.5x	N/A	N/A	N/A	N/A	N/A	1.8%	N/A
Average			3.7x	3.6x	23.3x	21.5x	18.3x	11.7x	9.5x	8.2x	8.2x	0.8x	0.6x	0.5x	2%
Almarai	KSA	6,593	5.0x	4.4x	21.1x	19.4x	17.4x	16.8x	15.2x	13.5x	2.4x	2.5x	2.4x	2%	2%

Source: Bloomberg, AlembicHC



Almarai on Multiples Versus Peers

Company	Country	Mkt Cap	P/B		P/E			EV/EBITDA			Net Debt/EBITDA			Dividend Yield	
		USDm	2009a	2010e	2009a	2010e	2011e	2009a	2010e	2011e	2009a	2010e	2011e	2009a	2010e
Bakery															
Flour Foods	USA	2,382	3.0x	3.1x	17.6x	16.9x	15.6x	8.6x	8.5x	7.8x	0.8x	0.5x	0.3x	15%	17%
Britannia Industries	India	1,073	17.2x	N/A	47.1x	5.5x	41.2x	25.7x	N/A	N/A	1.5x	N/A	N/A	1%	1%
Ulker Biskuvi Sanayi	Turkey	889	1.0x	1.6x	11.2x	23.9x	15.9x	N/A	18.4x	17.0x	4.2x	6.6x	N/A	83%	91%
Gregg's PLC	UK	732	2.9x	2.6x	12.6x	12.5x	11.5x	5.5x	5.6x	5.1x	-0.4x	-0.2x	-0.2x	1%	1%
Lotus Bakeries	Belgium	430	3.1x	2.6x	12.3x	13.2x	11.8x	7.3x	7.0x	6.5x	0.7x	0.5x	0.3x	1%	1%
Average			5.4x	2.5x	20.2x	14.4x	19.2x	11.8x	9.9x	9.1x	1.4x	1.8x	0.1x	20%	22%
Almarai	KSA	6,593	5.0x	4.4x	21.1x	19.4x	17.4x	16.8x	15.2x	13.5x	2.4x	2.5x	2.4x	2%	2%
Poultry															
Brazil Foods	Brazil	12,599	1.6x	1.6x	56.9x	34.8x	19.2x	16.1x	11.6x	8.9x	2.0x	1.5x	1.1x	16%	18%
Pilgrim's Pride	USA	1,408	1.4x	N/A	3.6x	10.6x	11.6x	4.7x	6.7x	4.7x	-0.5x	2.2x	1.6x	62%	68%
Sanderson Farms	USA	971	1.5x	1.4x	8.8x	7.5x	12.8x	4.3x	3.8x	6.1x	0.4x	-0.3x	0.0x	9%	10%
Rainbow Chicken	Johannesburg	839	1.9x	3.4x	14.1x	13.3x	12.1x	N/A	N/A	5.1x	N/A	N/A	-1.8x	0%	0%
Banvit Bandrima	Turkey	451	3.9x	3.2x	7.7x	8.2x	8.2x	6.2x	5.8x	5.8x	1.6x	1.4x	0.8x	62%	67%
Halim Co.	South Korea	414	2.2x	N/A	6.5x	N/A	N/A	7.6x	N/A	N/A	N/A	N/A	N/A	0%	0%
Cairo Poultry	Egypt	398	2.3x	N/A	11.1x	8.2x	9.8x	5.6x	5.0x	5.0x	0.9x	1.1x	1.0x	26%	28%
Average			2.1x	2.4x	15.5x	13.8x	12.3x	7.4x	6.6x	5.9x	0.9x	1.2x	0.4x	25%	27%
Almarai	KSA	6,593	5.0x	4.4x	21.1x	19.4x	17.4x	16.8x	15.2x	13.5x	2.4x	2.5x	2.4x	2%	2%

Source: Bloomberg, AlembicHC

Favorable Demographics and Consumption Trends Support Growth

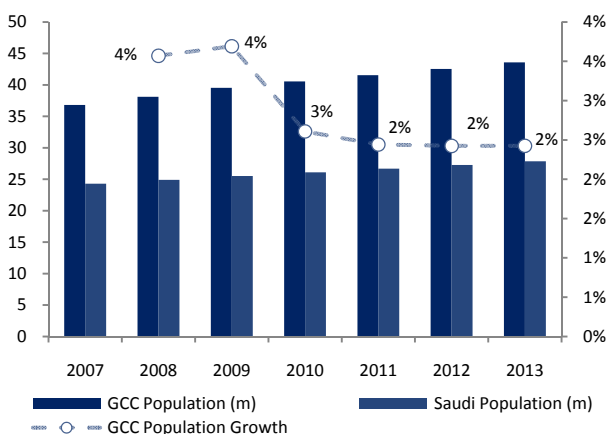
- Almarai is set to benefit from favorable demographics in Saudi Arabia and the GCC (solid population growth and a low average age) that should keep food consumption growing at 4%–5% per annum
- Per-capita consumption in Saudi Arabia, Almarai’s key market (69% of 2009 sales and c65% of GCC population), of cheese, butter, and dairy remains low relative to per capita GDP in a global context
- Rising food inflation provides Almarai with a favorable pricing environment especially given high food spending in Saudi Arabia (over 25% of household spending)

Sustained Population and Food Consumption Growth

Saudi Arabia remains Almarai’s primary market (69% of 2009 sales), which is positive given that it represents c65% of the GCC population. The Saudi population is expected to continue growing at 2%–3% per annum. Additionally, nearly half of the GCC and Saudi Arabian population is below the age of 25.

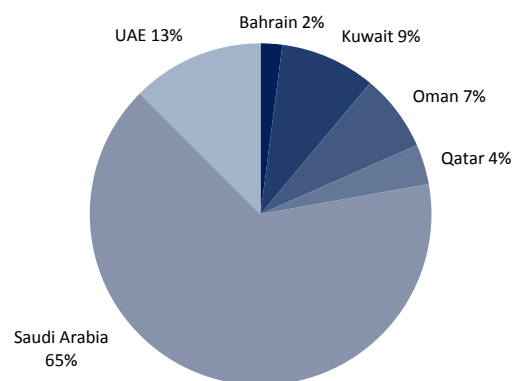
Saudi food consumption per capita is estimated to grow at a CAGR (2009–2014e) of 2%, which means growth of 4%–5% in total consumption after factoring in population growth. Such demographics are supportive of continued growth for any food-staple producer, especially one with a leading position like Almarai.

GCC and Saudi Population to Grow at 2%–3%



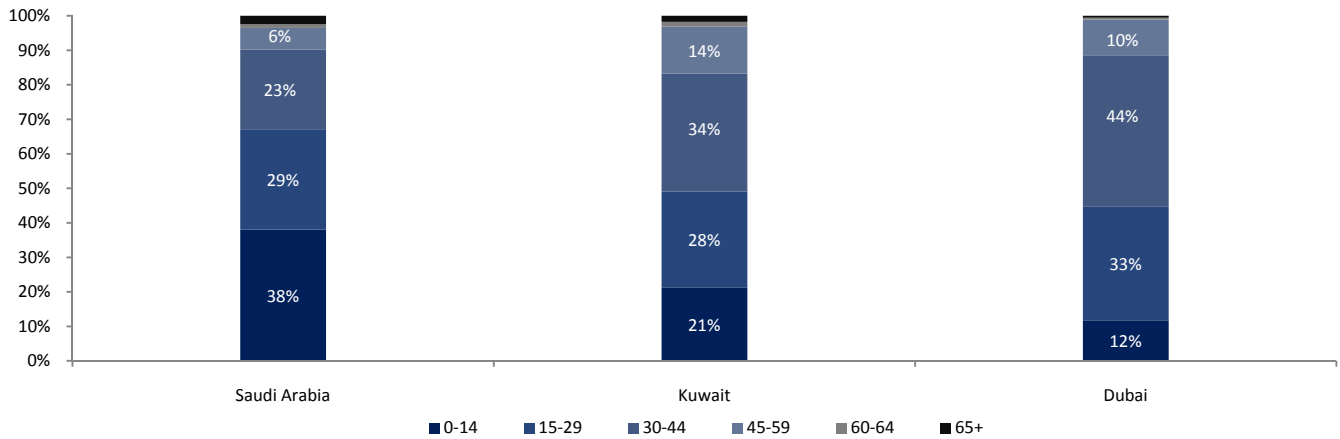
Source: IMF, AlembicHC

Saudi Arabia Represents c65% of the GCC Population



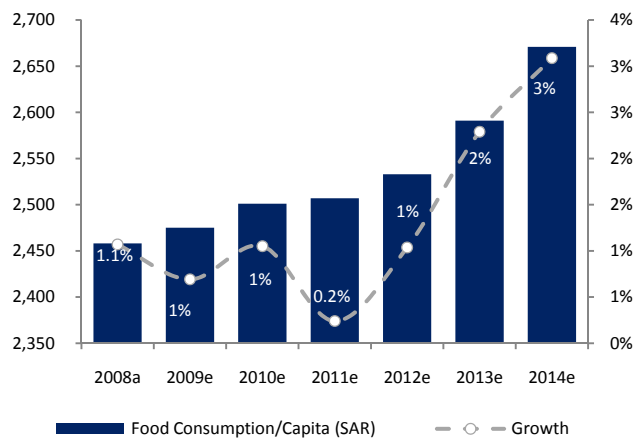
Source: IMF, AlembicHC

Population Breakdown by Age Group for Almarai's Key GCC Markets



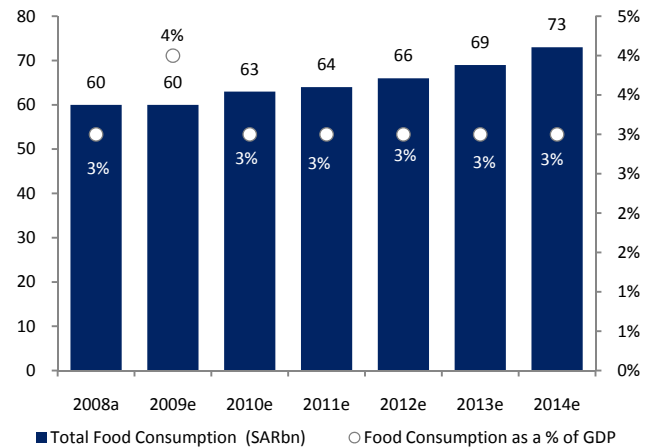
Source: US Census Bureau, Dubai Statistics Center, Public Authority for Civil Information, AlembicHC

Saudi Food Consumption/Capita to Grow at 2%...



Source: BMI, AlembicHC

... Leading to Total Food Consumption Growth of 4%



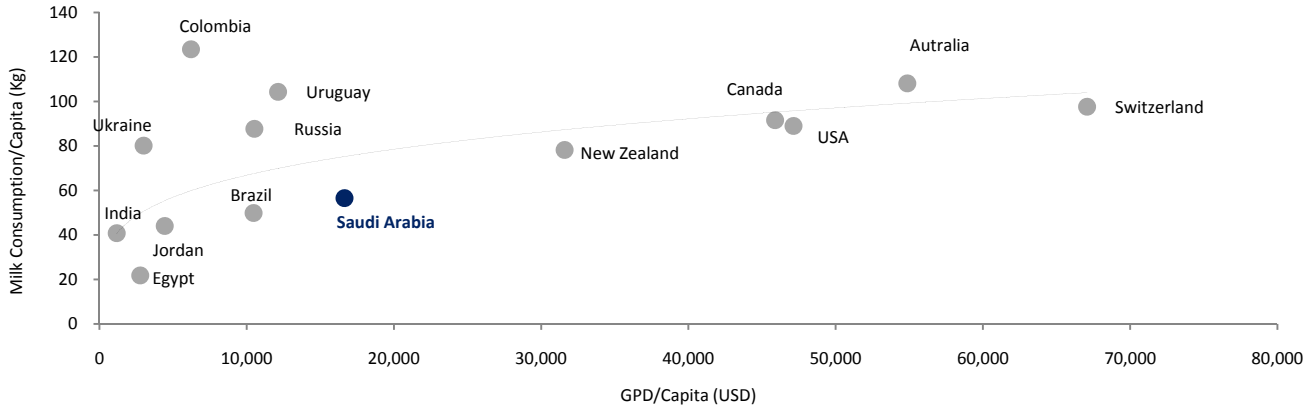
Source: BMI, AlembicHC

Low Dairy Consumption per Capita

Per capita consumption of Almarai's core products in Saudi Arabia remains low in a global context relative to GDP/capita as indicated in charts on the next page. The dairy, cheese, and butter segments make up more than 75% on average of Almarai's total revenue.

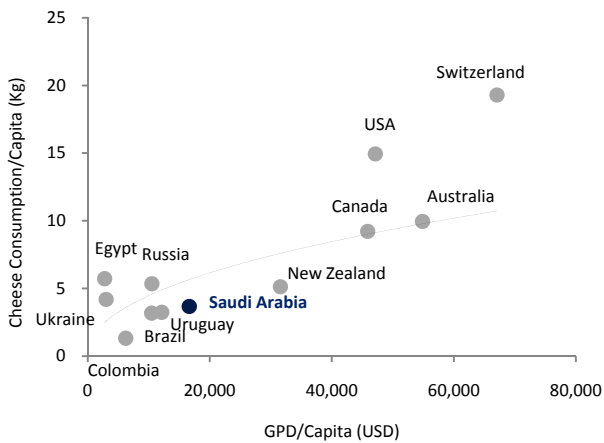


Saudi Milk Consumption/Capita Is Low Relative to its GDP



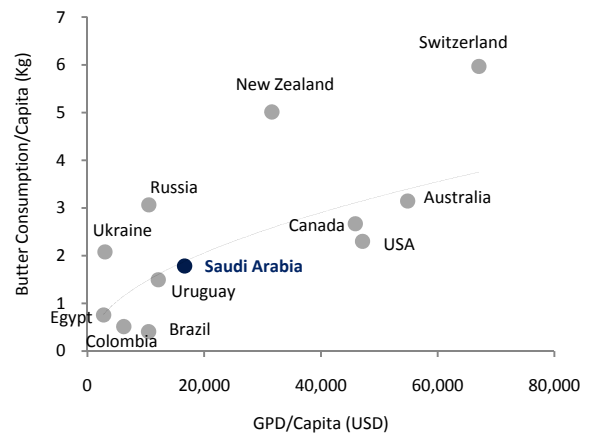
Source: FAPRI, IMF, AlembicHC

Cheese Consumption/Capita Relative to GDP



Source: FAPRI, IMF, AlembicHC

Butter Consumption/Capita Relative to GDP



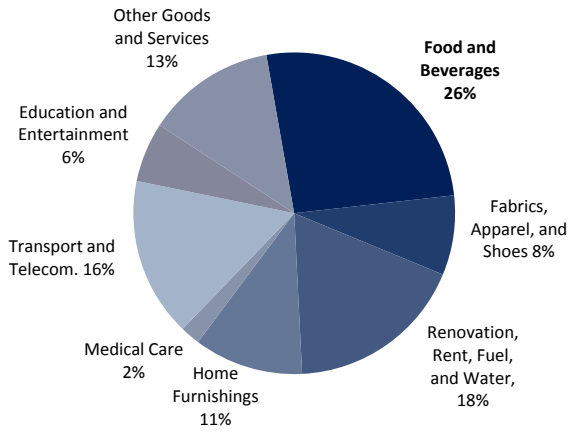
Source: FAPRI, IMF, AlembicHC

An Improving Pricing Environment

Food and beverages make up the lion's share of an average Saudi household's spending, representing over 25% of Saudi's cost-of-living index. Food inflation has been picking up globally and particularly in Saudi Arabia, which presents a more favorable pricing environment for food staple producers such as Almarai.

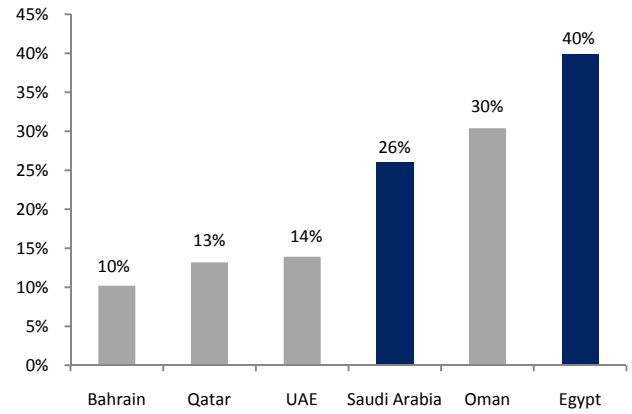


Saudi Arabia's Cost of Living Index (2009)



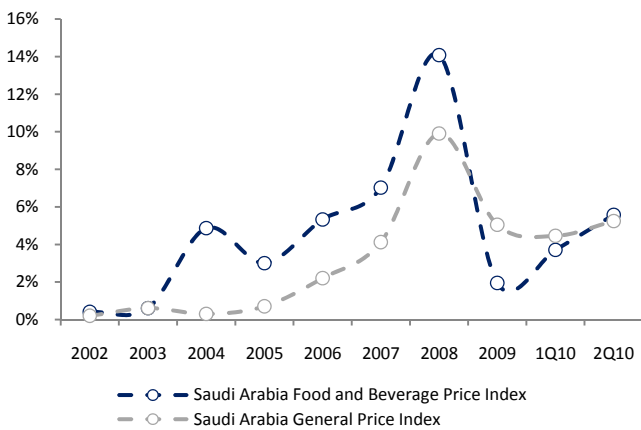
Source: SAMA, AlembicHC

Food and Beverage Weights in CPI



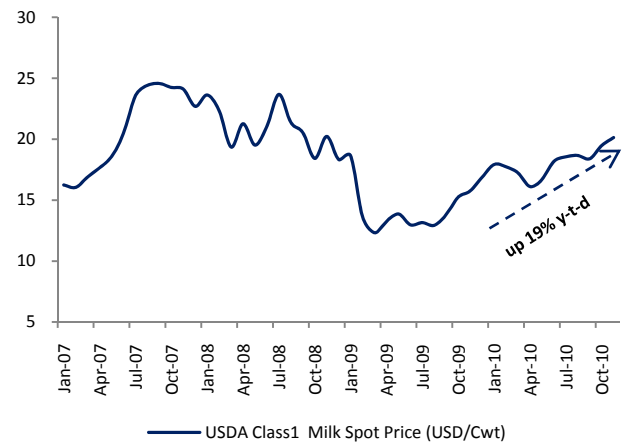
Source: Country Data Sources, AlembicHC

Saudi Food Inflation Is Picking Up



Source: SAMA, AlembicHC

Global Milk Prices Are on the Rise



Source: Bloomberg, AlembicHC



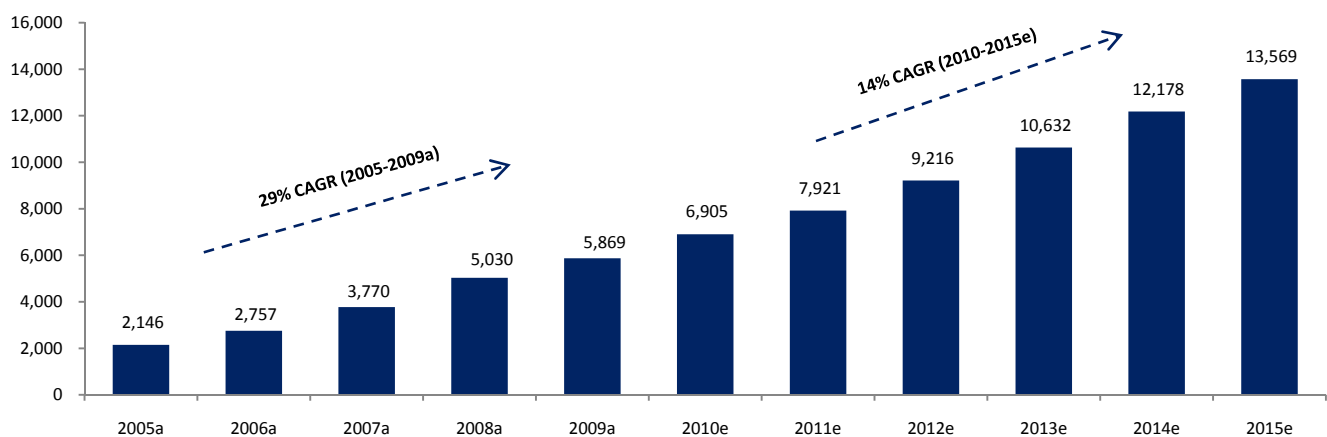
Sustainable Growth and Superior Margins

- We expect Almarai to continue to deliver solid double-digit growth (14% CAGR for revenue and 16% for earnings over 2010e–2015e) as it benefits from structural demand growth in the GCC, gains market share in some categories, and continues to invest in its businesses (cSAR7bn over coming four years)
- Sustainable cost advantage to continue to be driven by vertical integration and some government subsidies
- Leverage to remain relatively high to support growth as investment program continues; expecting cash flows to improve in 2011e as annual CAPEX drops

Expecting Continued Double-Digit Revenue and Earnings Growth

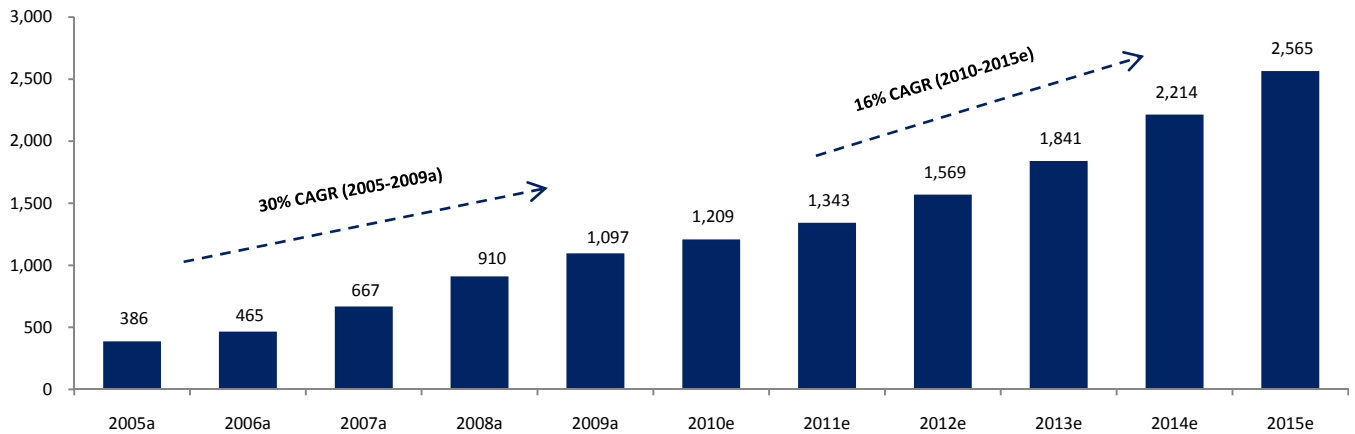
Almarai has a solid growth track record with impressive revenue CAGR (2005a–2009a) of 29% (25% ex acquisitions) and a net income CAGR of 30%. We expect Almarai’s strong growth to sustain (revenue CAGR (2010e–2015e) of 14% and a net income CAGR of 16%) driven by (1) sustainable structural growth in GCC dairy demand that will allow Almarai to reinforce its leading position in key categories, (2) market share gains in a number of categories (UHT milk, juice, and bakery), (3) expansions into new categories acquired to diversify its revenue sources (poultry), and (4) a large investment program. Almarai is also expanding outside the GCC (currently present in Egypt and Jordan) through its 48%-owned IDJ and will be the region’s first infant formula producer through a 50%-JV with Mead Johnson.

Almarai’s Revenue and Revenue Growth (SARm)



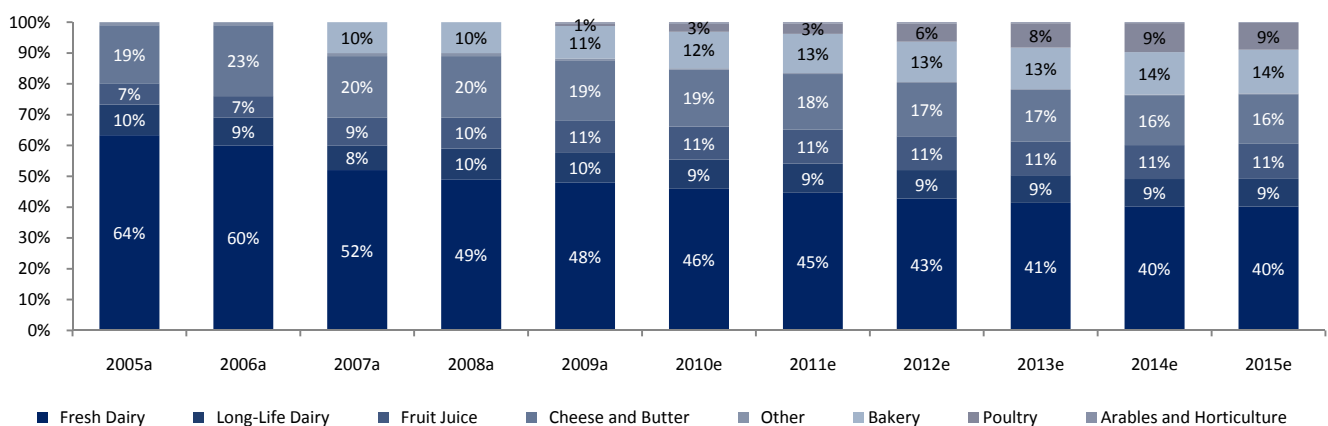
Source: Almarai, AlembicHC

Almarai's Net Income and Net Income Growth (SARm)



Source: Almarai, AlembicHC

Almarai's Revenue Breakdown by Segment



Source: Almarai, AlembicHC

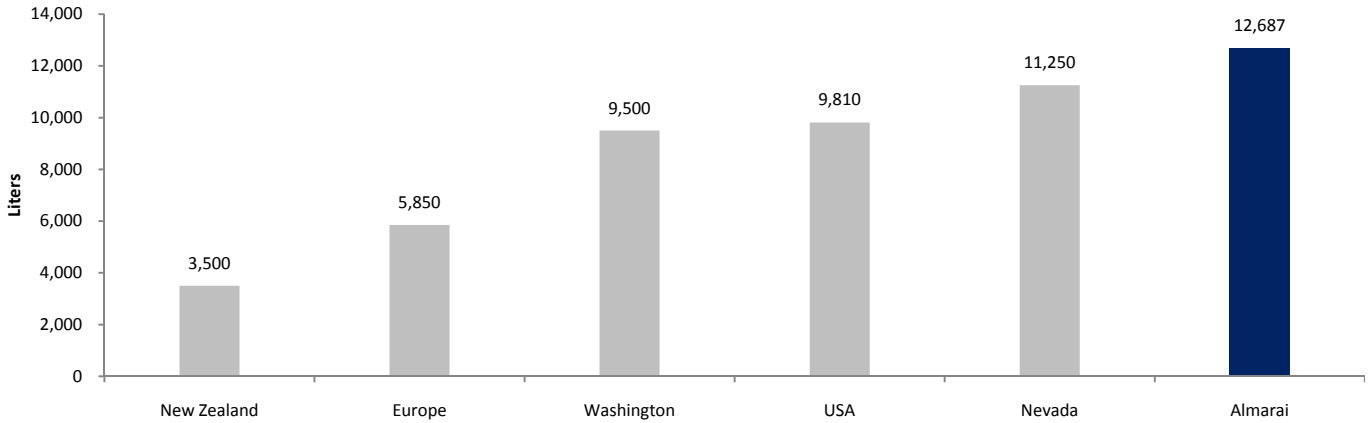
Sustainable Cost Advantage Supports Superior Margins

Almarai's margins are substantially superior to (more than double) international dairy peers given (1) a vertically-integrated dairy business as it operates seven dairy farms with one of the world's highest cow yields that fully meet all raw milk requirements for the dairy products (ex cheese and butter) and sources c60% of alfalfa and c30% of corn requirements from HADCO (SAR130m in 9M10 or c4% of CoGS), (2) Saudi government subsidies on imported animal feed and flour, and (3) ownership and operation of a long-haul fleet (over 500 trailers and 54 tankers) that transports raw milk from dairy farms to central processing plants as well as finished products after production to sales depots.

We forecast a sustainable EBITDA margin of 27.8%, which is slightly lower than the historical peak of 28.0% in 2009. We expect the sales mix effect on margins to be relatively muted as higher contribution from the lower-margin juice and poultry segments (40%–45% on a direct material cost basis) will be offset by higher contribution from the bakery segment whose margins resemble fresh dairy (c60%).

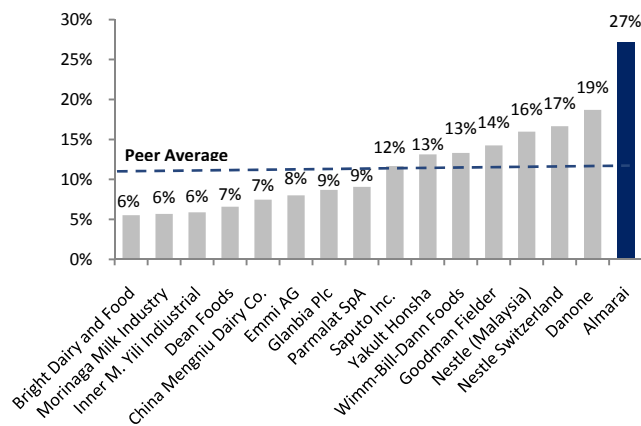


Almarai's Cow Yields Are One of the Highest Globally



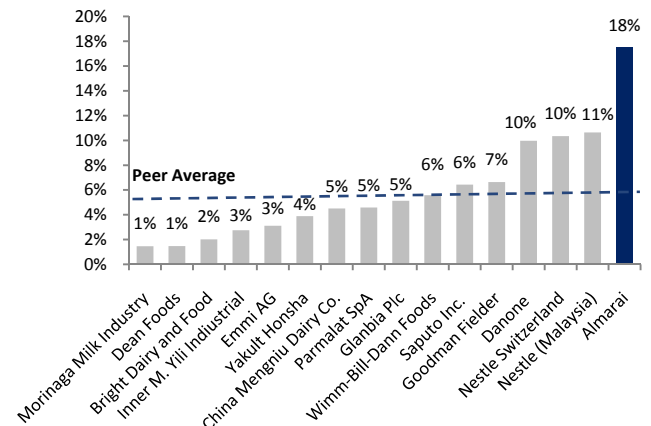
Source: FAPRI, Almarai, AlembicHC

Almarai's EBITDA Margin vs Peers (2010e)



Source: Bloomberg, AlembicHC

Almarai's Net Margin vs Peers (2010e)

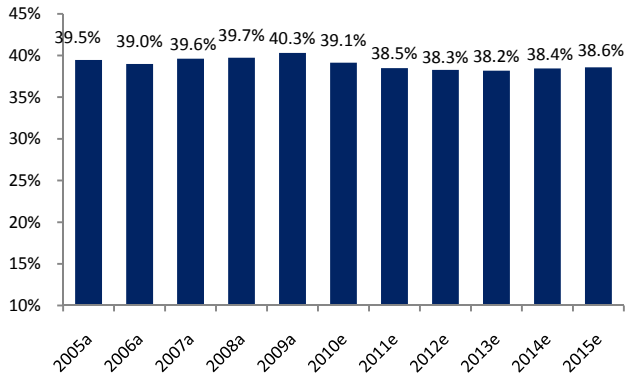


Source: Bloomberg, AlembicHC

We expect some raw material cost headwinds in 2011e (forecasting a 66 bps drop in headline gross margin), but this is likely to be somewhat offset by (1) stronger bakery contribution to revenue, (2) continued operating costs control (SG&A/sales dropped 135 bps in 2009 compared to 2004 levels), (3) raising prices of key products, which is not problematic given Almarai's position as an industry price-setter and limited government price regulation, (4) favorable currency hedging heading into 2011e at a USD/EUR exchange rate of c1.26 versus 1.33 currently (imported annual EUR-denominated raw material requirement of cEUR500m), and (5) some favorable corn hedging contracts that will cover requirements up until the end of 1H11e. Accordingly, we expect a relatively muted impact on the EBITDA margin and forecast relatively flat margins y-o-y.

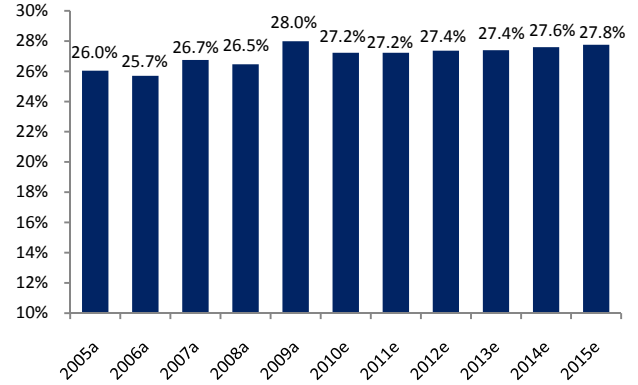


Almarai's Headline Gross Margin



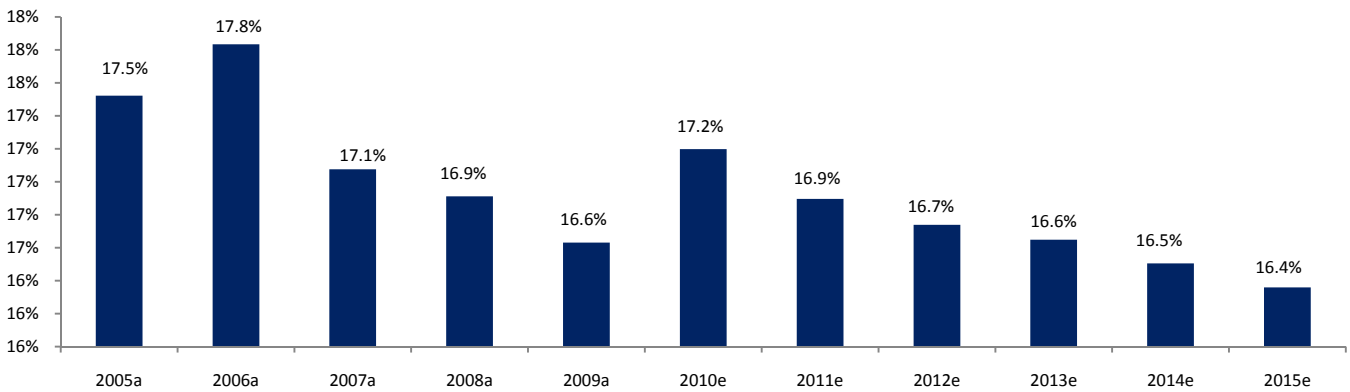
Source: Bloomberg, AlembicHC

Almarai's EBITDA Margin



Source: Bloomberg, AlembicHC

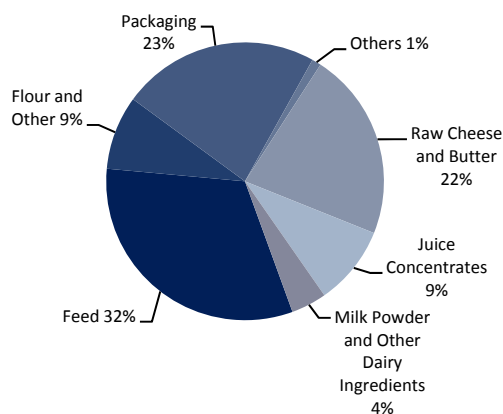
Almarai's SG&A Expenses as a % of Sales¹



Source: Almarai, AlembicHC

Note: (1) Excluding depreciation

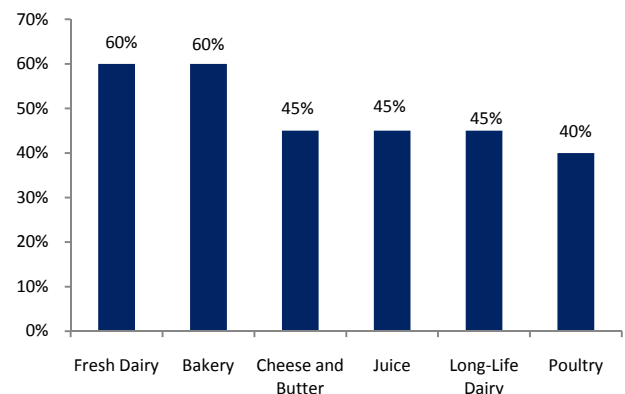
Almarai's Direct Material Cost Breakdown (2009)¹



Source: Almarai, AlembicHC

Note: (1) Estimates based on company guidance and in-house assumptions

Estimated Gross Margin by Segment¹



Source: Almarai, AlembicHC

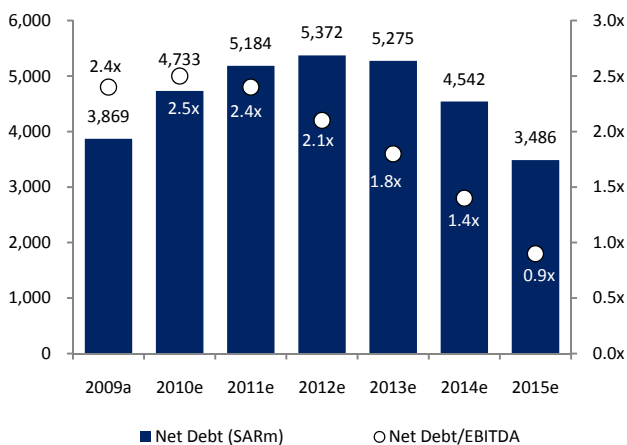
Note: (1) Margins are on a direct material cost basis only

Leverage to Remain High as Large Investment Spending Continues

Almarai appears overleveraged relative to peers with a 2010e net debt/EBITDA of 2.5x versus a peer average of 1.6x, but we believe this is justified given the company's high growth prospects and large investment program (cSAR7bn in the next four years). Almarai's net debt remains below management's comfort zone of 3x EBITDA.

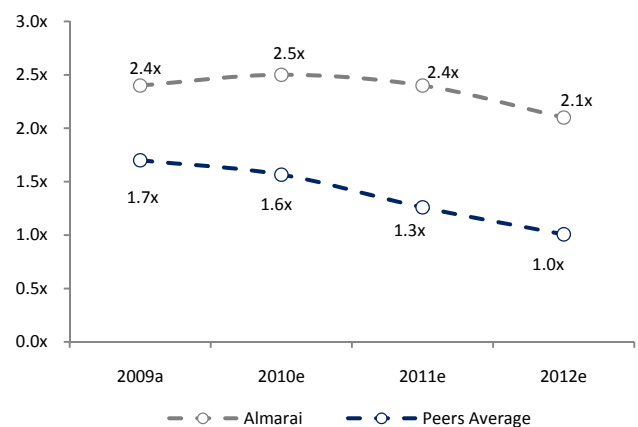
CAPEX remains relatively high at over 20% of sales in the next two years, but is lower than the historical run rate of c30%. Should sales growth ease to single digits, the company can easily lower its expenditure. We estimate the company needs to spend cSAR700m–SAR800m per annum at current prices excluding any capacity expansions/enhancements.

Almarai's Net Debt and Net Debt/EBITDA



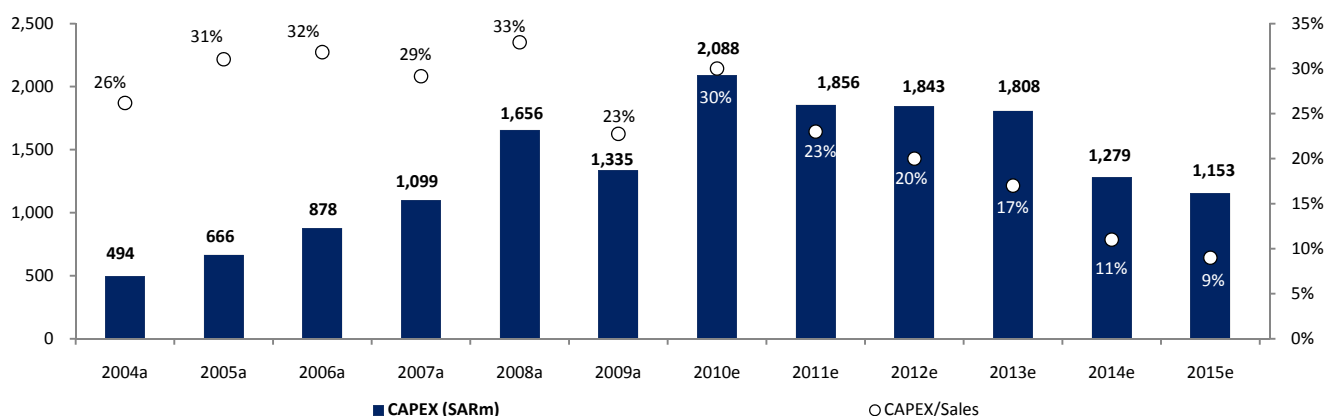
Source: Almarai, AlembicHC

Almarai's Net Debt/EBITDA vs Peers



Source: Almarai, AlembicHC

Almarai's CAPEX and CAPEX/Sales

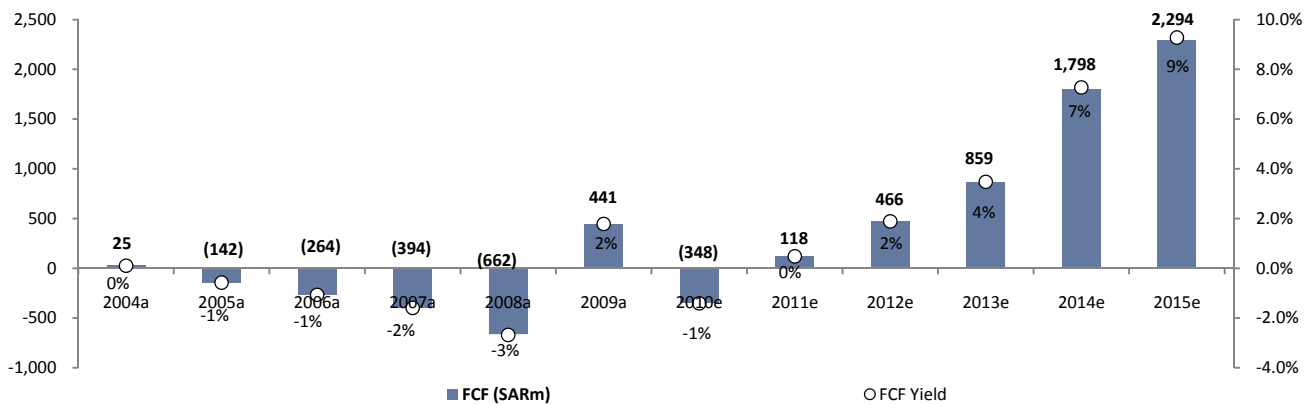


Source: Almarai, AlembicHC

Improving Cash Flow Profile

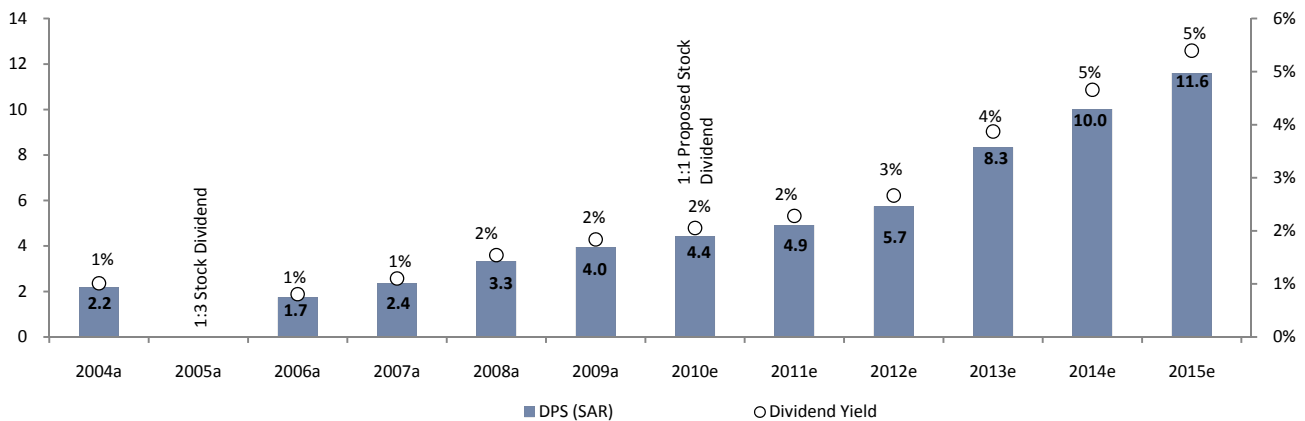
We expect the company to turn slightly free cash flow positive next year given a lower CAPEX bill. The company has a historical dividend payout ratio of c40%, which we believe will be maintained as long as high investment spending continues. We are estimating a DPS of SAR4.4/share based on 2010e earnings, which implies a dividend yield of 2% at current prices.

Almarai's Free Cash Flows and FCF Yield



Source: Almarai, AlembicHC

Almarai's Estimated DPS and Dividend Yield



Source: Almarai, AlembicHC



Dairy Segment

- Dairy will remain Almarai's core segment (58% of 2009 revenue), and we see limited market share erosion risk (market share of 30% in the GCC and over 50% in Saudi Arabia)
- We expect a revenue CAGR of 11% for fresh dairy, in line with structural demand growth in the GCC, and a higher 13% for long-life dairy as Almarai continues to gain market share
- Rising petrochemical and corn prices (up over 80% since July) are cost headwinds heading into 2011e, but are to be partly offset by government feed subsidies, favorable corn hedging, and already superior fresh dairy margins (c60% on a materials cost basis)

Dairy Remains Almarai's Core Business

Dairy (fresh and long-life) remains Almarai's biggest business, contributing 58% to 2009 revenue, but we expect contribution to drop to 49% by 2015e as non-dairy expansions further materialize and the company gains market share in those categories. Raw milk for the dairy category is sourced from Almarai's seven state-of-the-art dairy farms located on the outskirts of Riyadh and processed at the two central processing plants in close proximity to the dairy farms.

The fresh dairy category (48% of 2009 revenue) is made up of short-life products including fresh milk, fresh laban (liquid yogurt), zabadi (natural set yogurt), and dairy desserts. Long-life dairy category (10% of 2009 revenue), which is primarily UHT milk, requires further processing to support a longer shelf life.

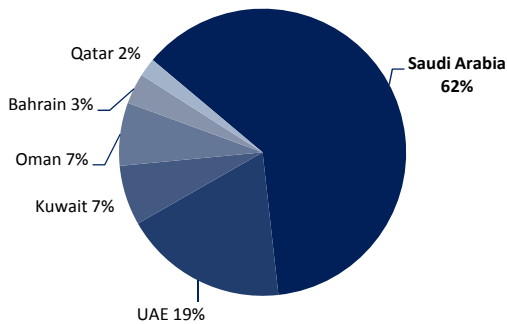
Unparalleled Leadership in GCC Dairy

Almarai is the unparalleled leader in the fresh dairy segment across the GCC with a market share of 30%. Nido, Nestlé's leading global powdered milk brand, is a distant second with a 9% market share. The GCC dairy market is thus somewhat fragmented (ex Almarai), presenting opportunities for further industry consolidation. Almarai is particularly strong in fresh milk and fresh laban (over 50% market share in each), which is a major positive given that they collectively represent over 40% of the total GCC dairy market.

In Saudi Arabia, Almarai's leadership is even greater as it captures over 50% of the kingdom's fresh dairy market with a market share (2009) of 61% in laban, 52% in milk, and 54% in zabadi. Almarai's incredibly strong position in Saudi Arabia is another major positive in light of the fact that Saudi Arabia is the largest market across all dairy categories in the GCC, representing c62% of the total GCC dairy market.

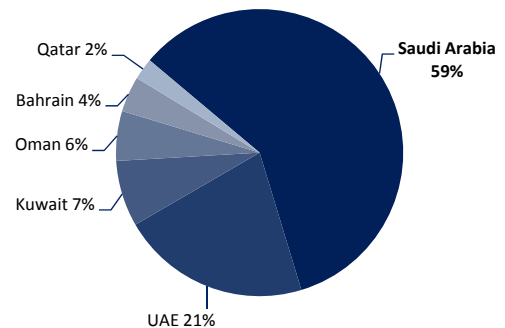
We see limited likelihood to the erosion of Almarai's dairy market share given (1) the sheer size of its market share and a large market share gap in comparison to the second player, (2) Almarai's strong brand name, (3) its large herd of c64,000 milking cows, which represents c53% of Saudi's entire herd (as per FAPRI statistics), (4) its massive distribution capabilities with an owned and operated fleet of over 500 trailers and c54 takers distributing raw milk from dairy farms to the central processing plants and then finished products to sales depots, and (4) strong sales relationships operating from over 97 sales depots in the GCC with c2,000 vans and 32,000 fridges allowing the company to serve over 42,000 GCC shops daily.

Saudi Arabia Is the Largest Dairy Market in the GCC...



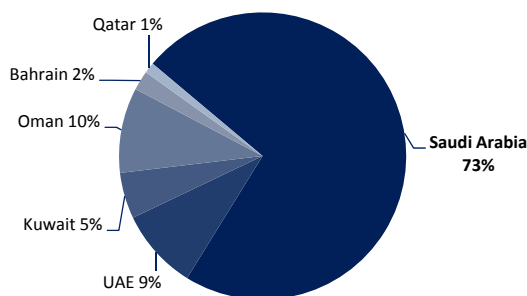
Source: Almarai, AlembicHC

... Capturing c59% of the GCC Milk Market...



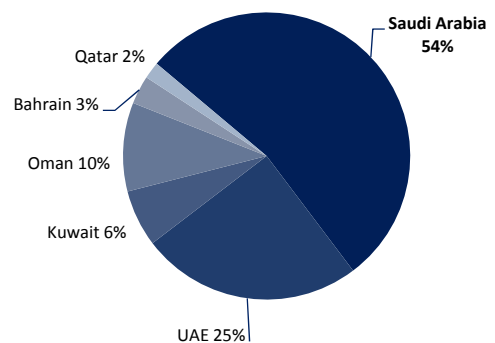
Source: Almarai, AlembicHC

... c73% of the Laban Market...



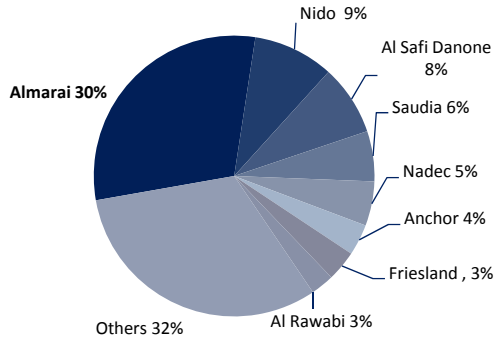
Source: Almarai, AlembicHC

...and c54% of the Zabadi Market



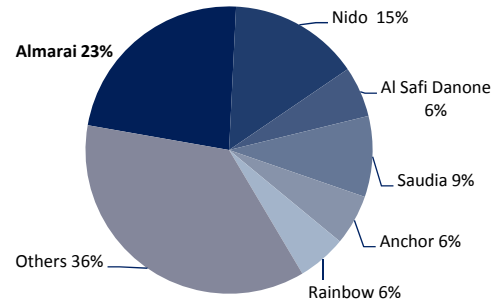
Source: Almarai, AlembicHC

Almarai Is the Leader in the GCC Dairy Market...



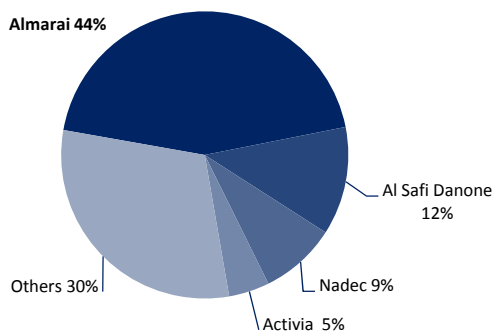
Source: Almarai, AlembicHC

...Capturing c23% of the GCC Milk Market...



Source: Almarai, AlembicHC

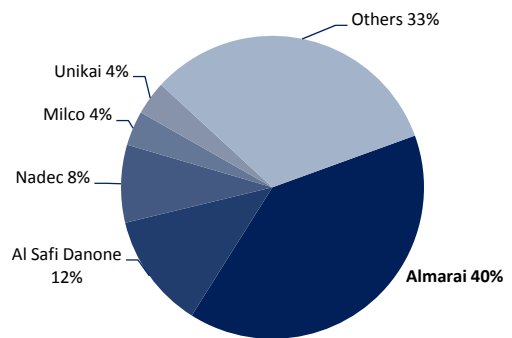
... c44% of the GCC Laban Market¹...



Source: Almarai, AlembicHC

Note: (1) Almarai's market share is 51% in fresh laban. Recombined laban, which isn't offered by Almarai, is popular in Oman (67% of market) and UAE (58%)

...and c40% of the GCC Zabadi Market

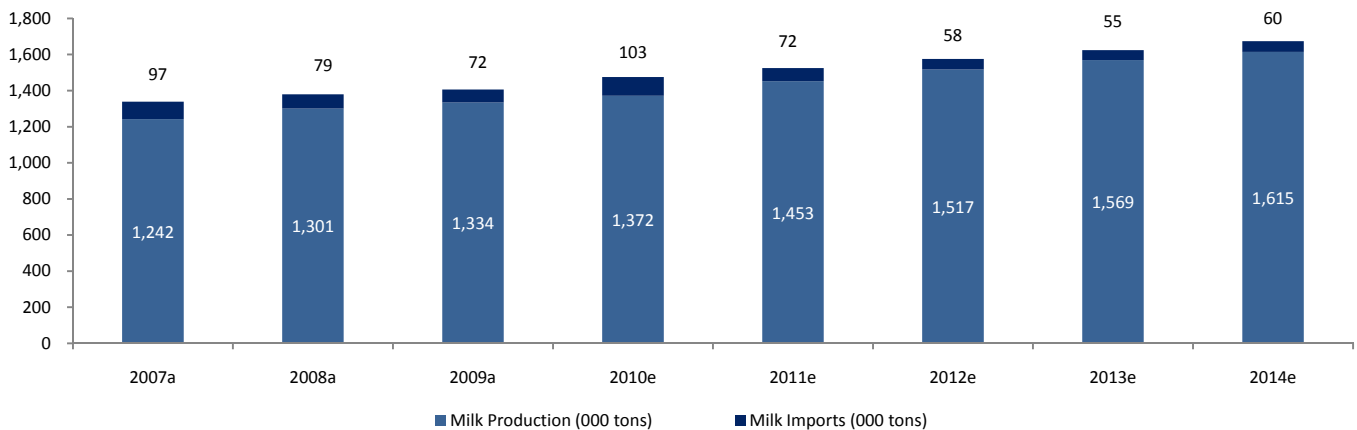


Source: Almarai, AlembicHC

To Continue to Benefit from GCC Structural Growth, Possible Market Share Gains in UHT

We believe Almarai will continue to benefit from structural growth in the GCC, but with limited potential for further market share gains particularly in fresh dairy given its already huge market share. Thus, we believe minimum growth of c10% is sustainable in the medium term (2%–3% population growth, 2% per capita consumption growth, and 4%–5% inflation). The situation is different for long-life dairy where Saudia is the leader (36% market share in plain UHT versus 22% for Almarai) and, accordingly, growth potential in long-life dairy remains higher. Almarai's long-life dairy revenue grew at a five-year CAGR of 26% versus 19% for fresh dairy with the outperformance continuing (long-life grew at 18% y-o-y in 3Q10 versus 11% for fresh dairy). Attempts to gain market share in long-life dairy have been successful, with the launch of new flavored UHT branded with animated character Maher the Adventurer in June 2007, boosting long-life dairy revenue 60% y-o-y in 2008.

Saudi Milk Consumption to Grow at a CAGR of c4%

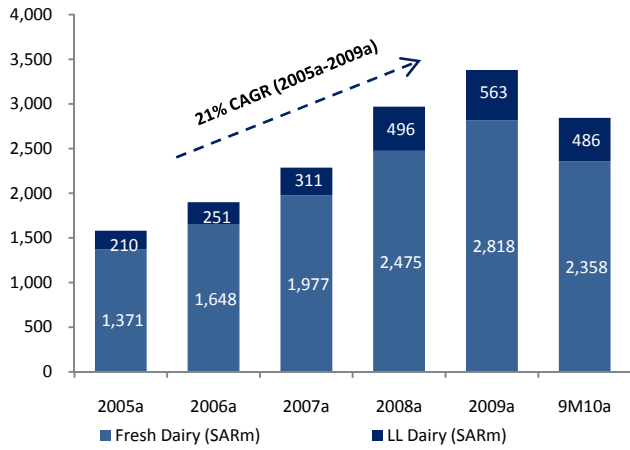


Source: FAPRI, AlembicHC

Almarai's dairy business grew at a CAGR (2005–2009) of 21% (20% for fresh dairy and 28% for long-life dairy) with fresh products contributing 86% to the segment's revenue. We expect the dairy segment to continue to grow at a healthy CAGR (2010e–2015e) of 12%: 11% for fresh dairy and 13% for long-life dairy as the company continues to gain market share.

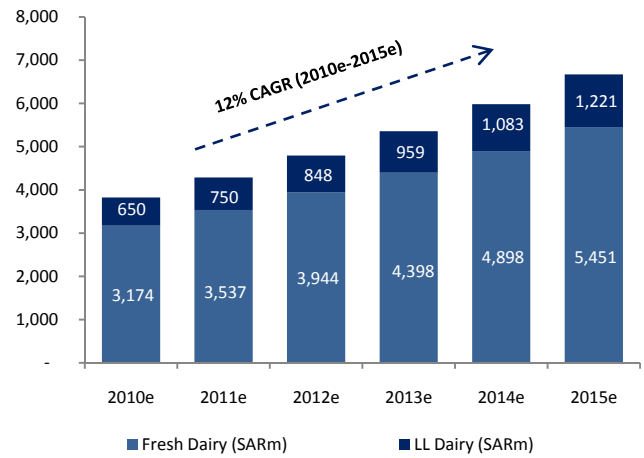
Main upside risks to our revenue numbers are better-than-expected market share gains in UHT, launching new products (such as recombined laban and milk powder) and stronger-than-expected volume impact with the launch of a third central processing plant expected in late 2012e.

Dairy Sales Evolution



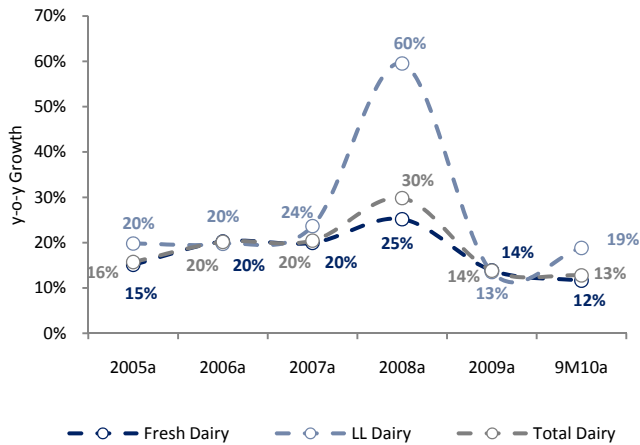
Source: Almarai, AlembicHC

Dairy Sales Forecasts



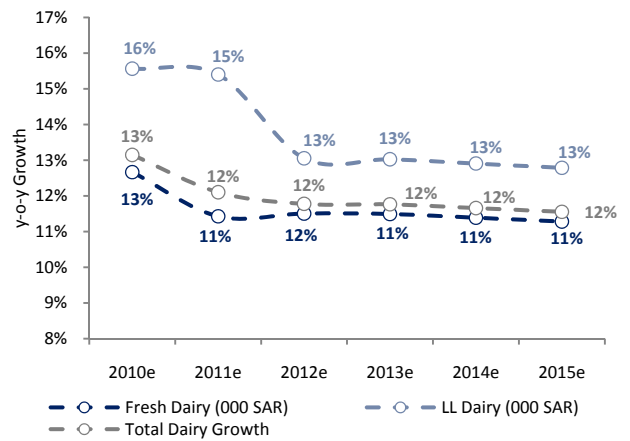
Source: Almarai, AlembicHC

Dairy Has Historically Delivered Double-Digit Growth



Source: Almarai, AlembicHC

Dairy to Grow at a CAGR of 12%



Source: Almarai, AlembicHC



Superior Margins for Fresh Dairy

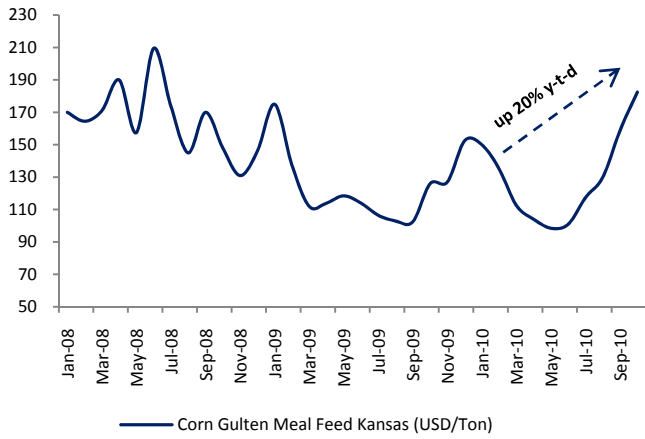
Fresh dairy is Almarai's highest-margin segment given that all raw milk requirements are supplied from its own farms with margins (on a direct-material-costs basis) of c60%. This compares with c45% for long-life dairy due to its higher processing and packaging costs as well as a higher price point for fresh dairy's core product (fresh milk) as it is more in demand in the GCC due to positive perceptions related to it (better quality and healthier). Also, fresh milk is packaged in-house by Almarai.

Rising Corn Prices and Packaging Costs a Threat, but We Are Not Too Concerned

Animal feed (mainly alfalfa, corn, and cotton seed), which represented c32% of total direct material costs in 2009 and over half of the segment's material costs, is the largest single-cost item for the dairy segment. With the acquisition of HADCO, Almarai sources c60% of its alfalfa and c30% of its corn requirements internally (c4% of CoGS in 9M10). The main commodity price risk heading into 2011e is corn, which is up over 80% since July 2010. Dairy packaging (c19% of total direct-material costs on our estimates) is also a threat as oil and gas prices continue to pick up. We are not too concerned, however, due to (1) government import subsidies on imported feed (2% of 2009 sales and 4% of direct material costs) that should go up as commodity prices increase, (2) corn hedging contracts that will suffice until the end of 1H11e at prices lower than market prices, and (3) already exceptional margins, especially for fresh dairy.

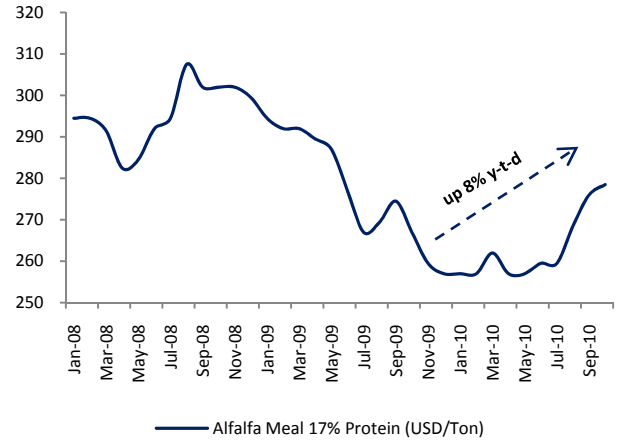


Corn Price



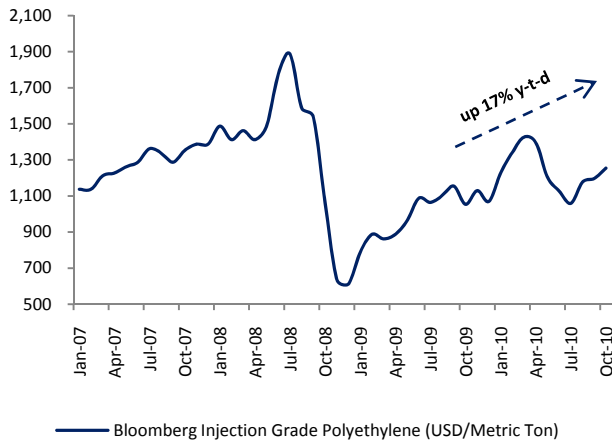
Source: Bloomberg, AlembicHC

Alfalfa Price



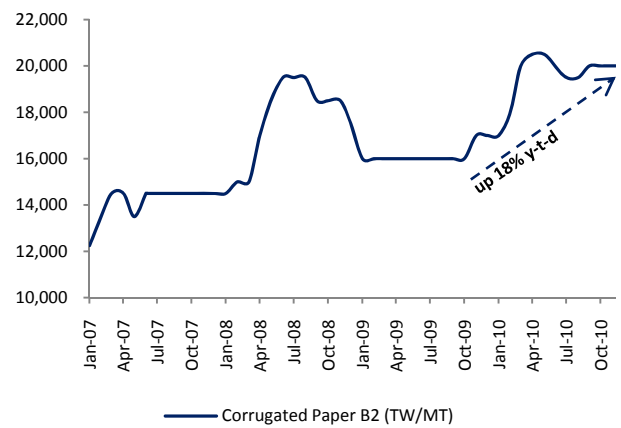
Source: Bloomberg, AlembicHC

Polyethylene Price



Source: Bloomberg, AlembicHC

Corrugated Paper Price



Source: DataStream, AlembicHC

Cheese and Butter Segment

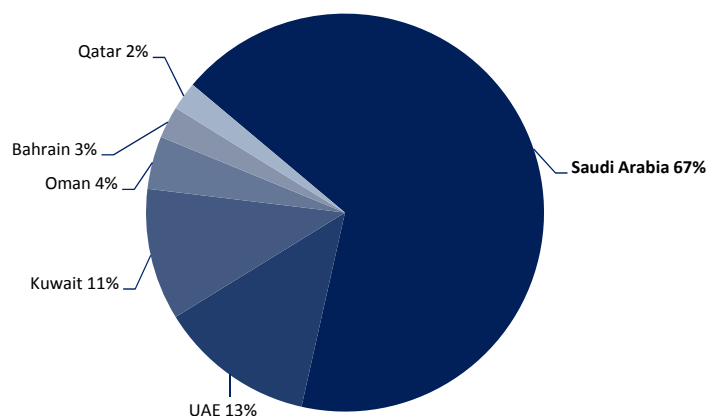
- Almarai is also the market leader in cheese and butter (19% of 2009 revenue) in the GCC with a market share of 30% in cheese (dominance in jarred cheese, with a market share of over 40%)
- We expect a revenue CAGR of 11% for cheese and butter, in line with structural demand growth in the GCC, but growth could be higher if Almarai gains market share in cheese categories where it is not a leader
- Raw cheese and butter are the largest commodity cost items and are a cost concern heading into 2011e, but Almarai imports from countries that offer rebates

Solid Growth in the GCC Cheese and Butter Market...

Saudi Arabia is the largest cheese and butter market in the GCC, capturing 67% of the GCC's processed cheese market with jarred cheese by far the most popular cheese product (c46% of the market). The kingdom imports all its raw cheese consumption with local players (including Almarai) acting as just processors. Saudi Arabia's total cheese consumption is expected to continue to grow at a healthy CAGR of 3% in light of the country's low consumption in a global context relative to GDP per capita (see chart below).

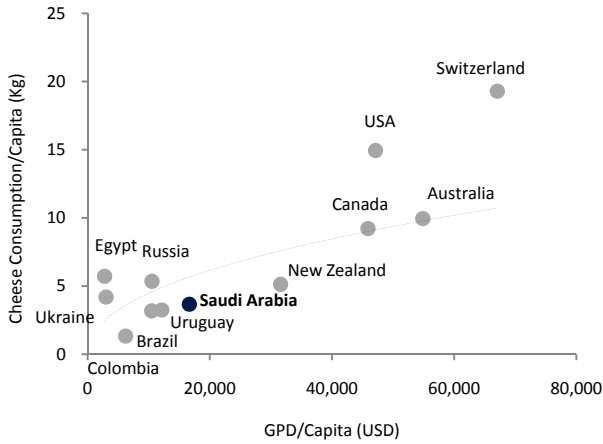
Likewise, Saudi Arabia's butter consumption is low in a global context relative to GDP per capita (see chart below) and is expected to grow at an even healthier CAGR of 4%. Saudi Arabia mostly imports its butter requirements, with imports constituting 88% of the market.

Saudi Arabia Is the GCC's Largest Processed Cheese Market



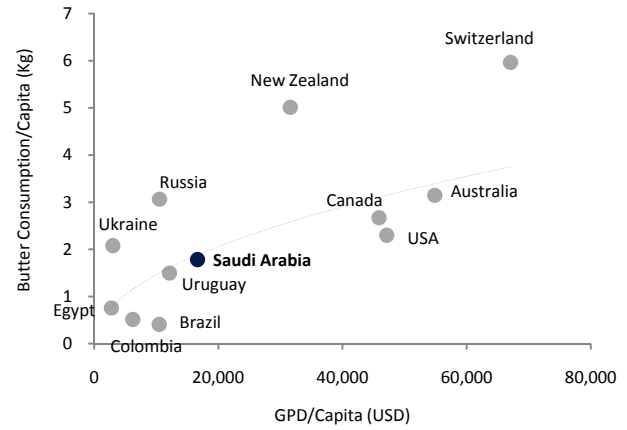
Source: Almarai, AlembicHC

Cheese Consumption/Capita Relative to GDP



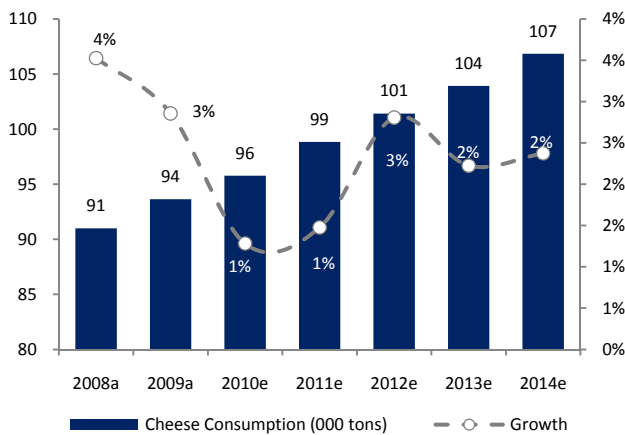
Source: FAPRI, IMF, AlembicHC

Butter Consumption/Capita Relative to GDP



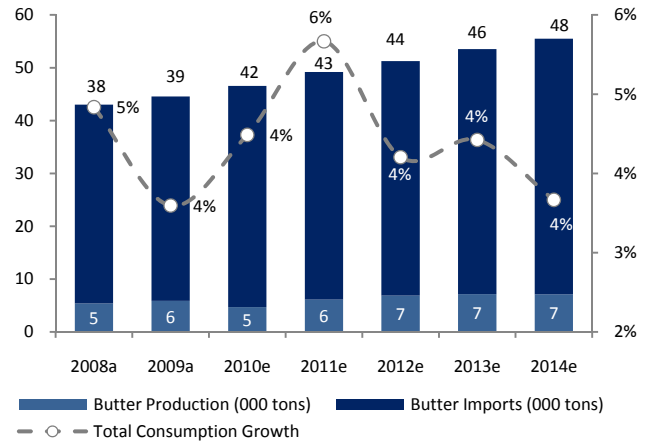
Source: FAPRI, IMF, AlembicHC

Saudi Cheese Consumption to Grow at 3%



Source: FAPRI, AlembicHC

Saudi Butter Consumption to Grow at 4%



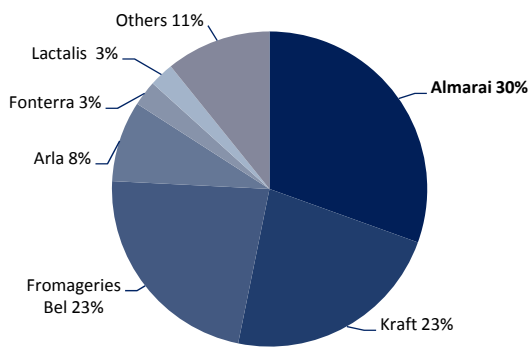
Source: FAPRI, AlembicHC

...From Which Almarai Is Set to Benefit Given Market Leadership

The GCC cheese market is dominated by four players: Almarai (the market leader with a 30% market share), Kraft (second with a 23% market share), Fromageries Bel (also 23%), and Arla (8%). Almarai's leadership is aided by its number one position in the market's most popular category – jarred cheese (46%) – where Almarai has a market share of over 40%. In the second two most popular categories, Almarai is the number two player. In cheese triangles (21% of the market), La Vache Quit Rit leads with a market share of over 30%, but Almarai has been gaining traction with its market share improving to c25% in 2010 from an average of c20% in 2009. In cheese square portions (11% of the market), Kiri is the unparalleled leader with a market share of over 85% with Almarai a very distant second with a market share of c11%. Almarai is also the number two player in tinned cheese (9% of the market) with a c29% market share, but leads in cheese slices (10% of the market) with a 40% market share. Almarai is also the leader in fresh ghista (a type of cream popular in the Arab world) with a c45% market share in the GCC.

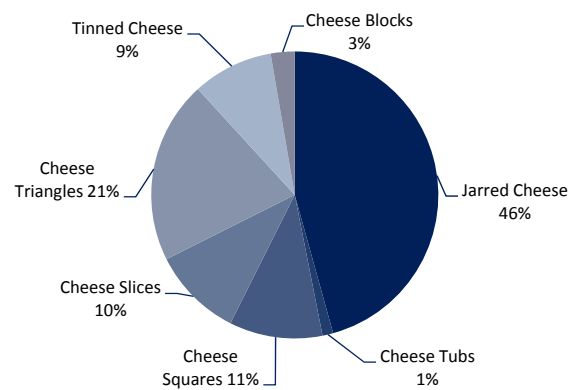
Almarai's cheese and butter segment (19% of 2009 total revenue) has grown at a CAGR (2005–2009) of 30%, but we estimate growth at a CAGR of 11% (2010e–2015e) reflecting structural demand growth in the GCC segment (see section titled 'Dairy Segment'), but growth could beat expectations if Almarai gains further market share especially in cheese categories where it is not the leader. However, we opt to be conservative given that the risk of market share erosion is higher in cheese and butter versus dairy given a smaller market share differential compared to other players.

Almarai Leads the GCC Processed Cheese Market with a 30% Market Share



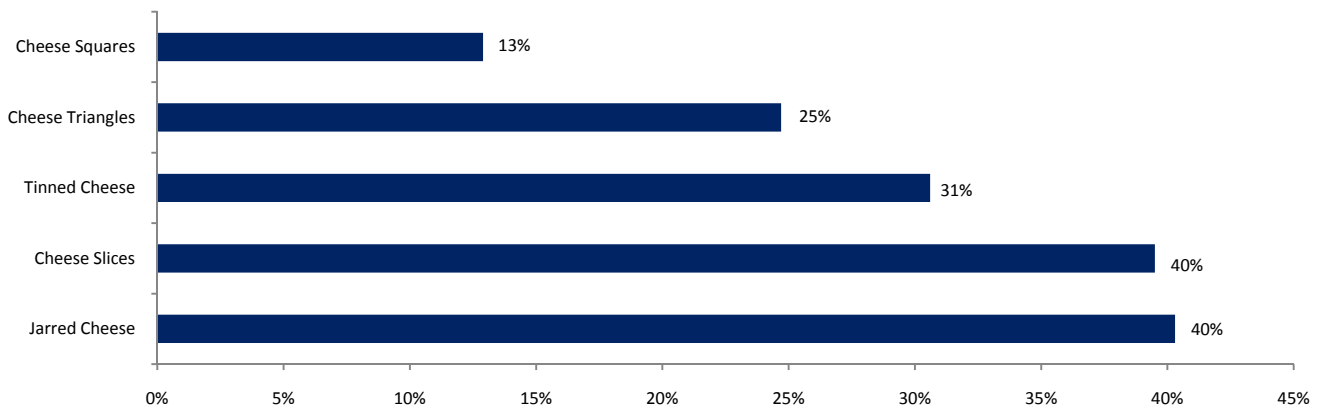
Source: Almarai, AlembicHC

Jarred Cheese Is the Most Popular Cheese Product in the GCC



Source: Almarai, AlembicHC

Almarai's Cheese Market Share in the GCC by Product Type¹

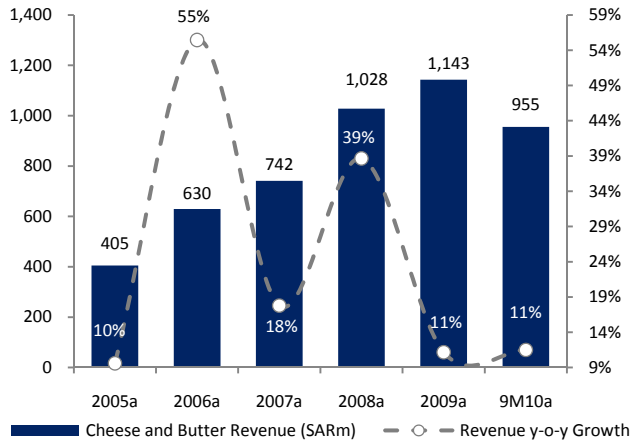


Source: Almarai, AlembicHC

Note: (1) Market shares in June and July 2010

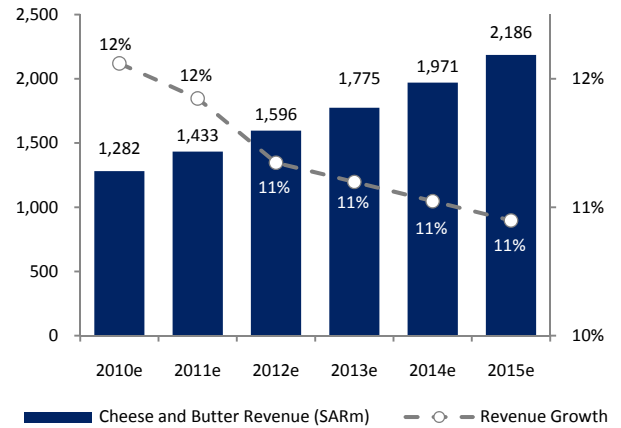


Cheese and Butter Revenue Grew at a CAGR of 30%...



Source: Almarai, AlembicHC

...and Is Expected to Grow at a CAGR of 11%

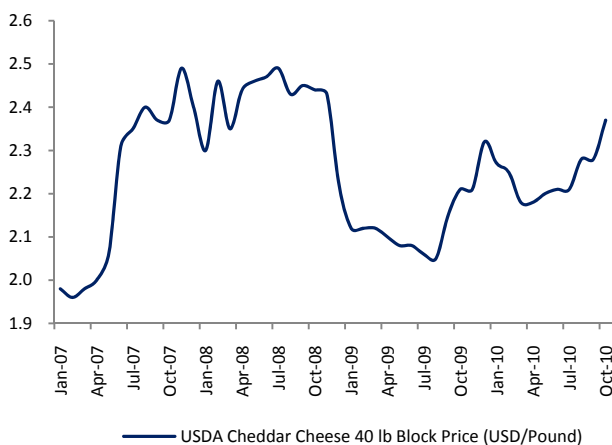


Source: Almarai, AlembicHC

Raw Cheese and Butter Are Almarai's Largest Single-Cost Components

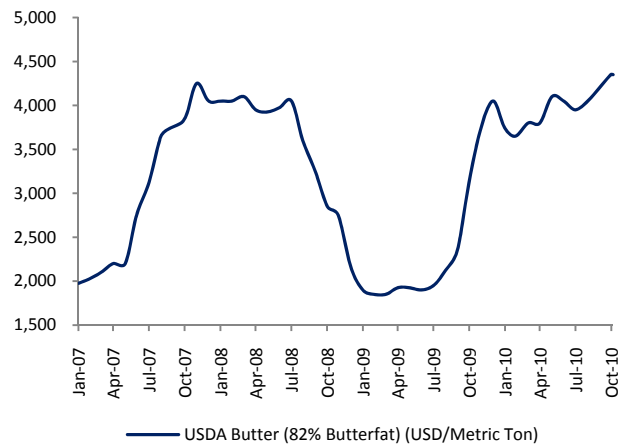
Cheese and butter have a margin of c45% on a direct-material-cost basis. Raw cheese and butter are imported and then processed by Almarai, making cheese and butter the only dairy-related segment where Almarai does not utilize raw milk from its farms. We estimate that raw cheese and butter are Almarai's largest commodity-cost items, standing at over 20% of direct material costs. Accordingly, they are one of Almarai's biggest cost threats heading into 2011e with both raw cheese and butter up over 15% since May 2010. However, Almarai makes sure to import from US and EU locations that offer dairy export rebates.

Cheddar Cheese Block Price



Source: Bloomberg, AlembicHC

Butter Price



Source: Bloomberg, AlembicHC

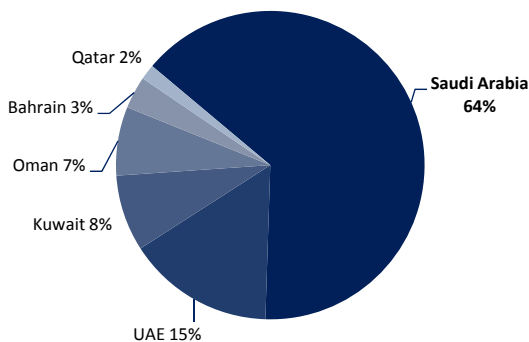
Juice Segment

- Almarai is the number three player in the highly fragmented juice market with a market share of 11% and a small gap from the number one player Rani (12% share)
- We expect a strong revenue CAGR of 16% for the juice segment as Almarai gains market share in a fragmented market and benefits from recent processing capacity expansions
- Juice concentrates, the segment's largest cost item, are a cost challenge for Almarai next year given recent price moves

Almarai Is Third in the Fragmented GCC Juice Market

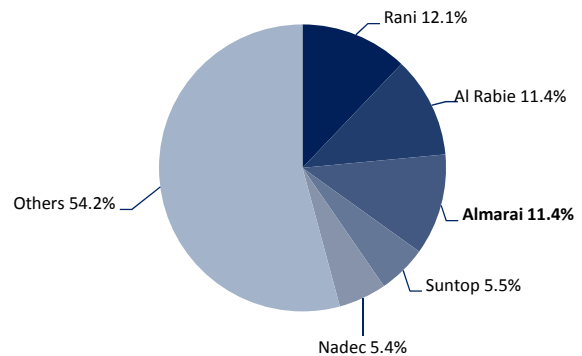
The GCC juice market is highly fragmented with no clear leader unlike dairy, cheese, and butter. Almarai is the third-largest player in the GCC juice market with a market share of 11%. The market share differential is quite small between Almarai and the number one player (Rani – 12% market share) and the company's market share is nearly the same as the number two player (Al Rabie – 11% market share). Juice drinks dominate the GCC juice market, making up c44%. Almarai is present in the bottled fresh juice category (37% of the market) and is the category leader with a market share of over 30%. Saudi Arabia is also the largest market in the GCC for juice (64%).

Saudi Arabia Is the Largest Juice Market in the GCC...



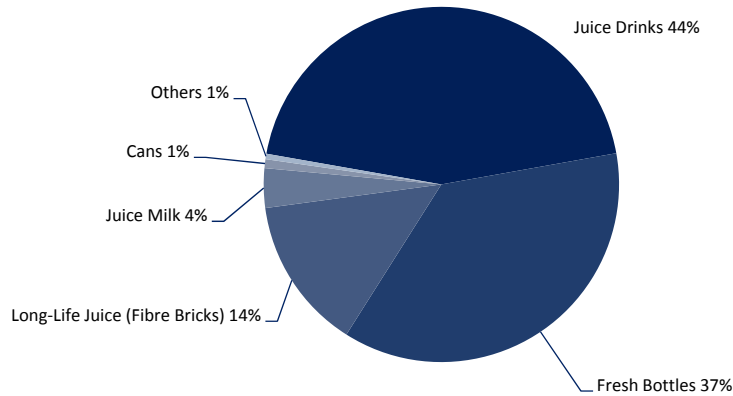
Source: Almarai, AlembicHC

...With Almarai the Number Three Player



Source: Almarai, AlembicHC

GCC Juice Market by Product Type

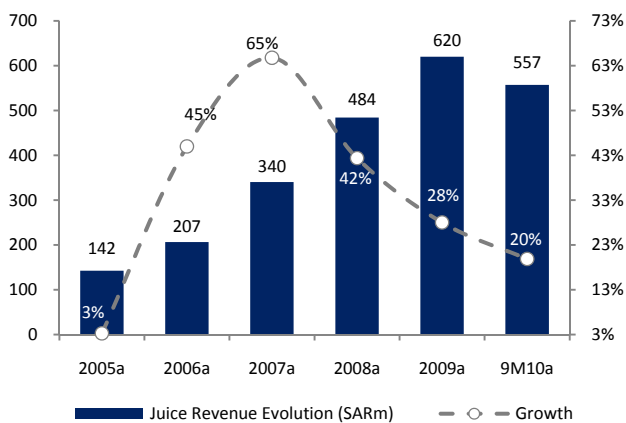


Source: Almarai, AlembicHC

Potential for More Growth

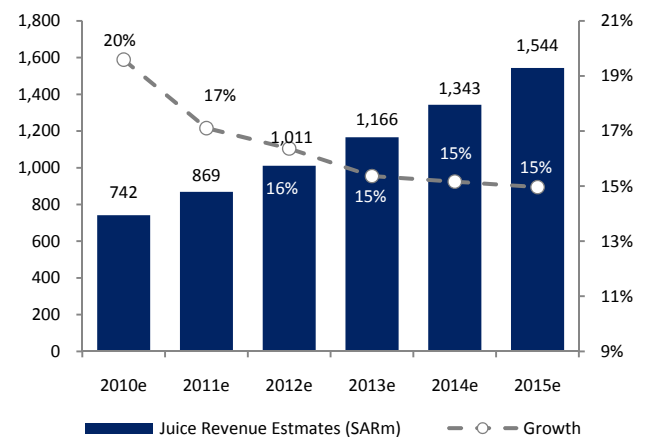
Almarai's juice segment (11% of 2009 revenue) grew at a strong CAGR (2005–2009) of 44% as the company continued to gain market share and enhance its production capacities and capabilities. We forecast a strong CAGR of 16% for Almarai's juice segment given that the market is highly fragmented with consolidations likely and a huge potential for market share gains. The segment's near-term prospects are supported by a recent juice processing capacity expansion that drove 20% y-o-y growth in 9M10 juice revenue.

Juice Revenue Grew at a CAGR of 44%...



Source: Almarai, AlembicHC

...and Is Expected to Grow at a CAGR of 16%



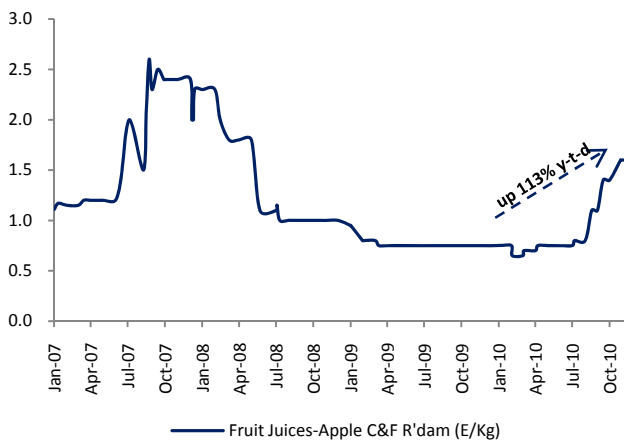
Source: Almarai, AlembicHC



Juice Concentrate Prices Are on the Rise

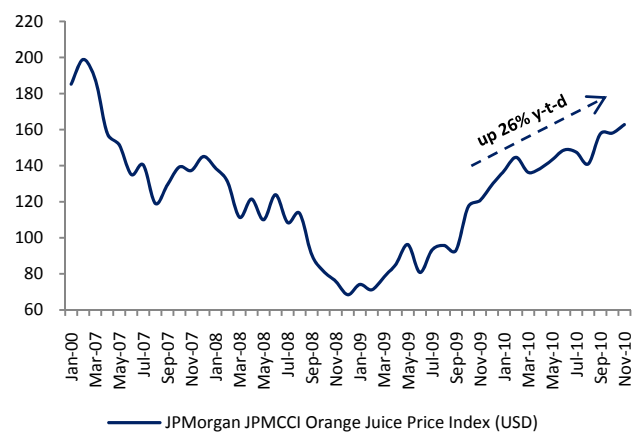
The juice segment's margins are similar to cheese and butter – c45% on a direct-material-cost basis. The main cost component is juice concentrate (c70% of segment's cost and c9% of 2009 total direct material costs), which is imported from several countries that include Brazil, China, and Egypt. The second-largest cost item is packaging. We estimate that 70% of the juice segment material cost is attributed to imported ingredients with the remainder reflecting packaging costs. Juice concentrate prices are a cost challenge for Almarai next year as indicated by charts below

Apple Juice Price



Source: DataStream, AlembicHC

Orange Juice Price Index



Source: DataStream, AlembicHC

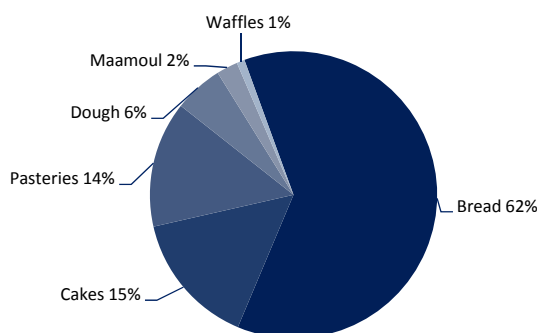
Bakery Segment

- Almarai has managed to grow its relatively new bakery business 29% since the acquisition of Western Bakeries in 2007; L'Usine is the market leader in Saudi Arabia (24% market share) and newly launched 7 Days is gaining traction (c2% market share in a year)
- We expect strong revenue CAGR of 19% for the bakery segment as Almarai benefits from the newly commissioned bakery facility (nearly double existing capacities) that will allow market-share gains, new product launches, and venturing into other GCC markets
- Bakery margins are similar to fresh dairy (c60% on a direct-material-cost basis) as Almarai benefits from government subsidies on wheat/flour

Almarai Leads the Saudi Bakery Market Through Two Brands

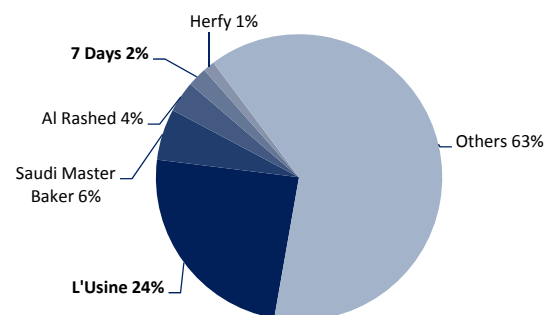
Almarai ventured into the bakery segment with the acquisition of Western Bakeries (WB) in 2007. Under the L'Usine brand, WB produces a range of baked goods including cookies, breads, cakes, and pastries. Almarai introduced in 2009 the 7 Days brand (croissants, Swiss rolls, and layer cakes) through its 60%-owned subsidiary Modern Food Industry (MFI). L'Usine is the leader in the fragmented Saudi bakery market with a 24% market share with Saudi Master Baker a distant second at 6%. L'Usine's position is supported by its dominant position in sandwich breads (breads capture c62% of Saudi's bakery market) with a market share of over 40%. 7 Days has also been a great success capturing a 2% share of the Saudi bakery market in its first year of operation as it took a market share of c40% of the Saudi croissant market.

Saudi Bakery Market by Product Category



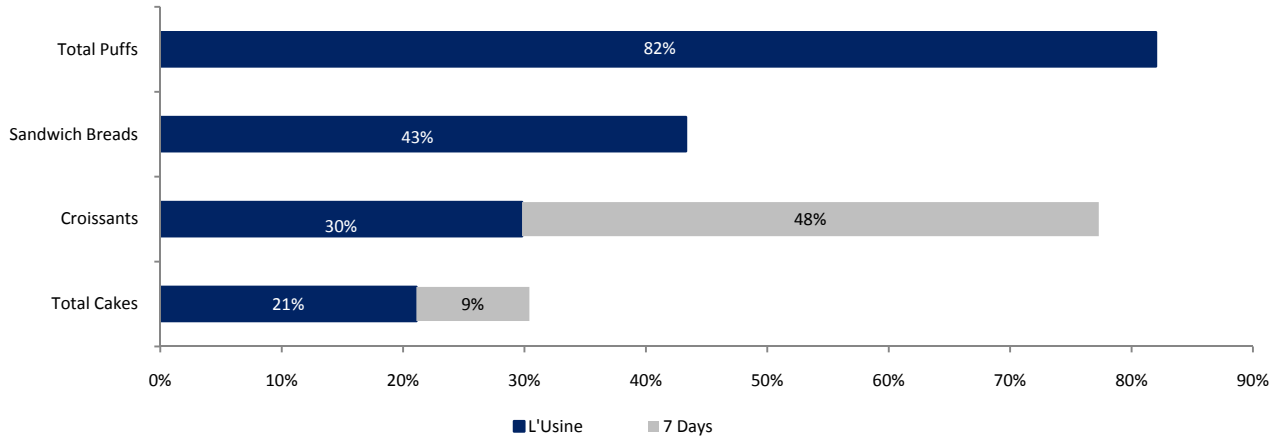
Source: Almarai, AlembicHC

Almarai Leads Through its L'Usine Brand



Source: Almarai, AlembicHC

L'Usine and 7 Days Market Share for Different Bakery Products in Saudi Arabia¹



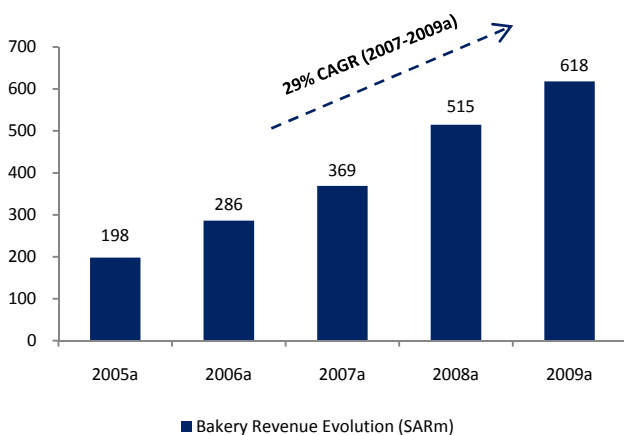
Source: Almarai, AlembicHC

Note: (1) Market shares in June and July 2010

To Grow at a CAGR of 19% on Capacity Increase

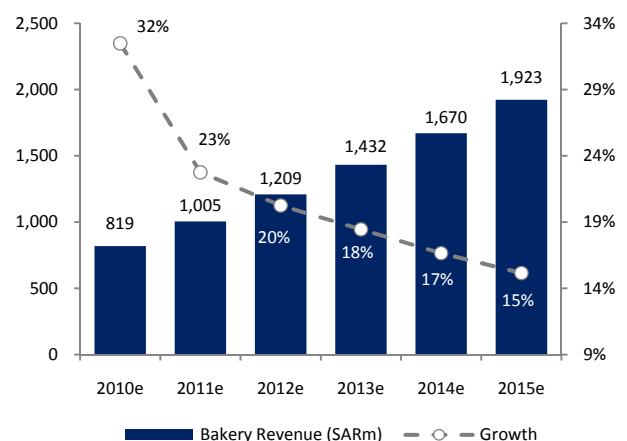
Since acquisition of WB, Almarai managed to significantly grow the bakery business, achieving a revenue CAGR (2007–2009) of 29%. WB has three bakery facilities in Jeddah and MFI also has one in Jeddah. Almarai inaugurated a new facility (investment cost cSAR700m) in Al Kharj near Riyadh that will produce both brands and is expected to nearly double existing capacity. L'Usine's buns/sliced bread line has already started production with the remaining lines (including 7 Days) due to be operational next year. We expect a revenue CAGR (2010e–2015e) of 19% as capacity comes on stream, allowing Almarai to gain further market share, launch new bakery products, and venture into other GCC markets.

Bakery Business Grew 29% Since WB's Acquisition



Source: Almarai, AlembicHC

19% CAGR (2010–2015e) On New Capacities



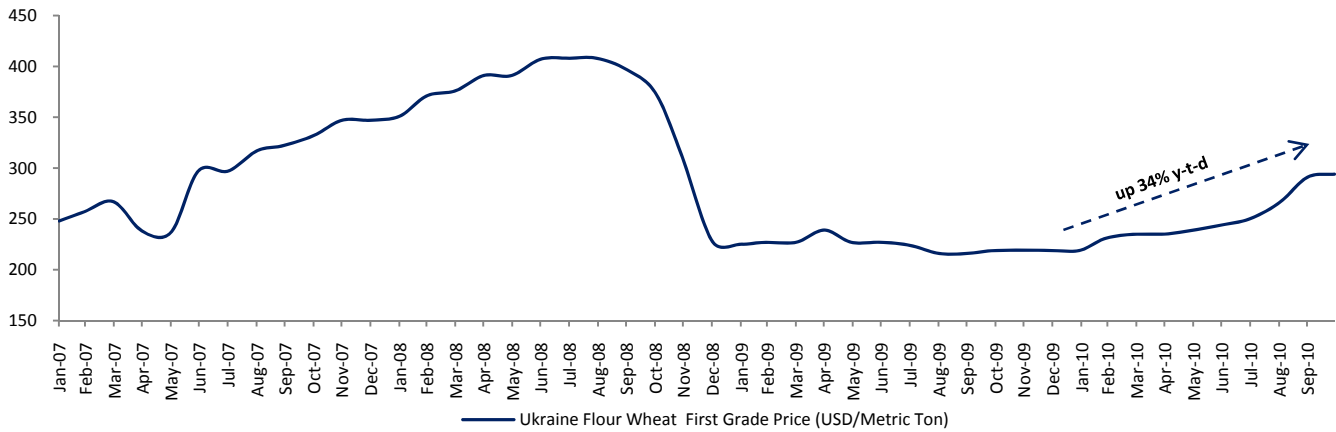
Source: Almarai, AlembicHC



Excellent Margins Driven by Flour Subsidies

The bakery segment has one of the highest margins (reminiscent of dairy) of c60% on a direct-material-cost basis, supported by subsidies on wheat and flour. All Saudi producers benefit from wheat and flour subsidies with flour sold at cSAR0.35/kg–SAR0.50/kg, which is about half current market prices.

Rising Flour Prices Boost Cost Advantage of Saudi Bakeries



Source: Bloomberg, AlembicHC



Poultry Segment

- **HADCO acquisition (completed in 4Q09) allows Almarai to venture into a new product category (poultry) and improves vertical integration with a portion of animal feed now sourced internally**
- **Saudi poultry market is still growing at c5% per annum despite seemingly high consumption per capita in a global context; HADCO is the number five player in a market dominated by frozen imports (c50% market share)**
- **Poultry is set to be Almarai's fastest growing category (45% revenue CAGR) as Almarai invests cSAR2bn to restructure the business and boost capacity five-fold**

The HADCO Acquisition: New Product Category and Vertical Integration

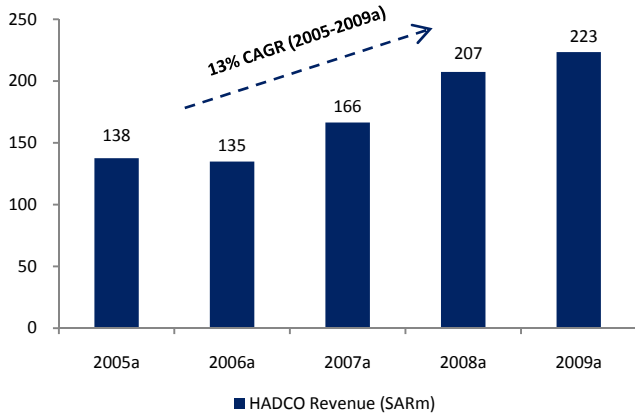
Almarai acquired 100% of publicly listed HADCO in 2009 at a total consideration (including acquisition expenses) of SAR1.08bn (six million new Almarai shares plus SAR15m in cash). HADCO's principal business is poultry (60% of revenue on average) where it produces and distributes whole chickens and chicken portions. HADCO also has an arable and horticulture division that produces a wide range of agricultural products including wheat, yellow corn, alfalfa, dates, grapes, and olives. Almarai consolidated HADCO from acquisition date on 15 October 2009. Had the combination taken place at the start of 2009, HADCO's continuing operations would have contributed SAR223m in revenue (4% of Almarai's 2009 revenue) and SAR19m in net income (2% of Almarai's 2009 net income).

The rationale behind the acquisition was (1) product range diversification with the addition of the poultry business that Almarai will seek to expand into the wider GCC region leveraging its leading market position and strong network, and (2) vertical integration through sourcing a portion of Almarai's dairy farms' animal feed requirements (c60% of alfalfa and c30% of corn requirements) through HADCO utilizing its huge land bank (HADCO has sourced cSAR130m in feed to Almarai in 9M10, which is c4% of CoGS).

HADCO's principal farming consists of 319m sqm of irrigated land located in northern Saudi Arabia in addition to 28m sqm leased in Sagwa, Hail (through a 40-year government agreement), and 29m sqm of owned irrigated land in Al Jouf.

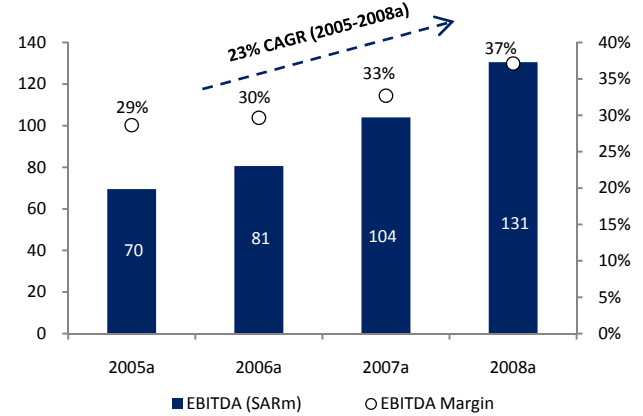


HADCO's Poultry Revenue Evolution



Source: Bloomberg, AlembicHC

HADCO's EBITDA and EBITDA Margin

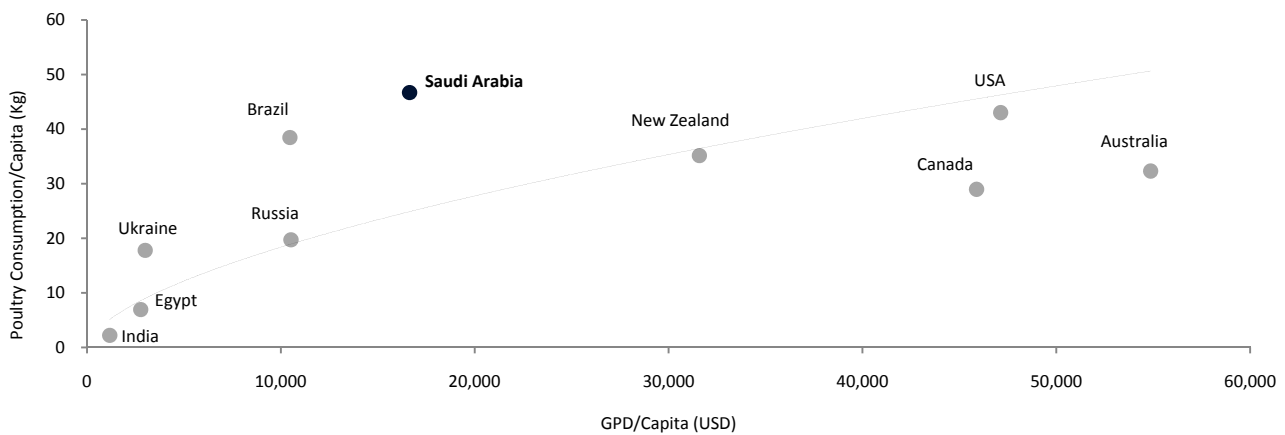


Source: Bloomberg, AlembicHC

HADCO Is Number Five in a Fragmented Market with Substantial Growth Plans

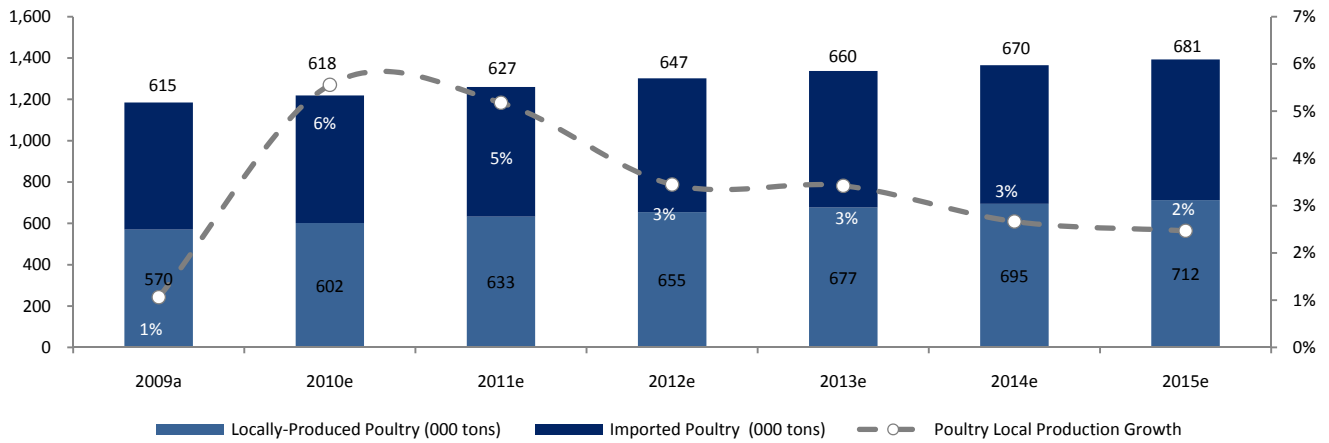
The Saudi poultry market is estimated at SAR12bn (1.2m metric tons of chicken meat), which is close to the size of the market in the UK and Australasia. Consumption per capita is among the highest globally (see chart below) close to the USA as poultry represents around two-thirds of the country's meat protein consumption. Yet, the market is still growing at c5% per annum.

Despite Saudi Arabia's High Poultry Consumption per Capita...



Source: FAPRI, IMF, AlembicHC

...Market Will Continue to Grow at a Healthy CAGR of 3%

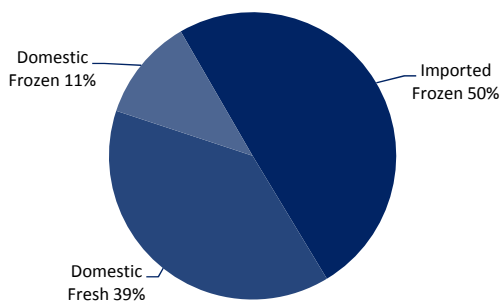


Source: FAPRI, AlembicHC

Nearly half the market is in imported whole chickens (c90% from Brazil). The other half is supplied from local production with nine mostly family-run, industrial companies making up over 65% of local production.

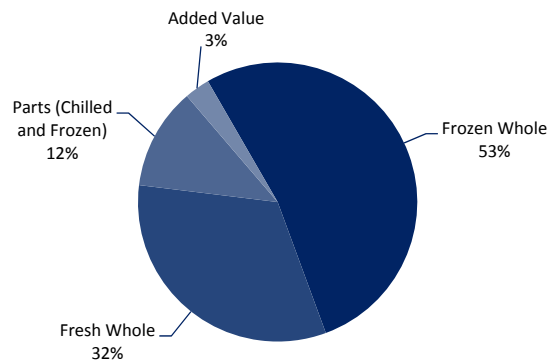
HADCO is the number five player in the Saudi poultry market with a 2% market share. It currently processes c17m birds per annum. Almarai is spending cSAR2bn to expand the poultry business, boosting processing capacity to 100m birds by 2014e.

Imports Are Half the Saudi Poultry Market



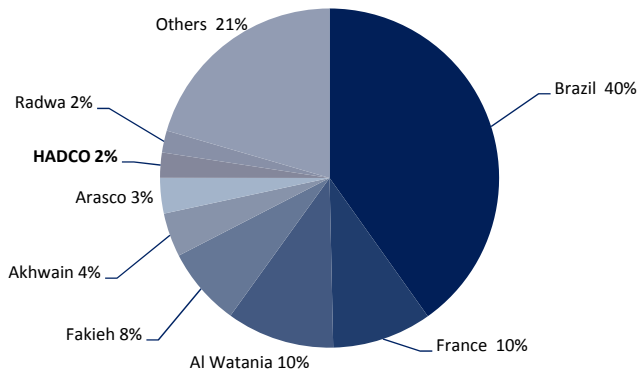
Source: Almarai, AlembicHC

Frozen Whole Chicken Is the Most Popular Product



Source: Almarai, AlembicHC

HADCO Has a 2% Market Share in Saudi Poultry Market

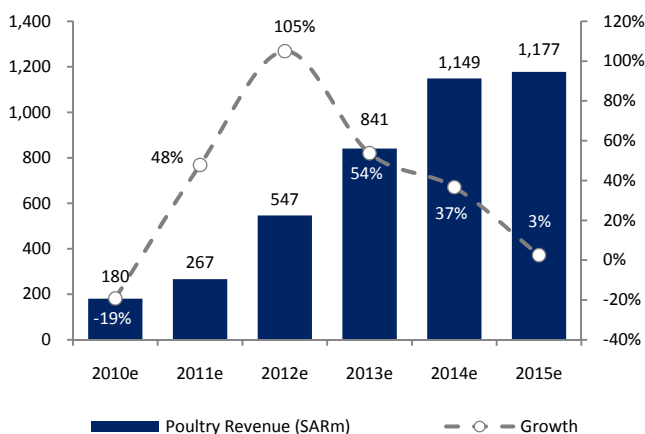


Source: Almarai, AlembicHC

Poultry Set to Be Almarai's Fastest Growing Segment

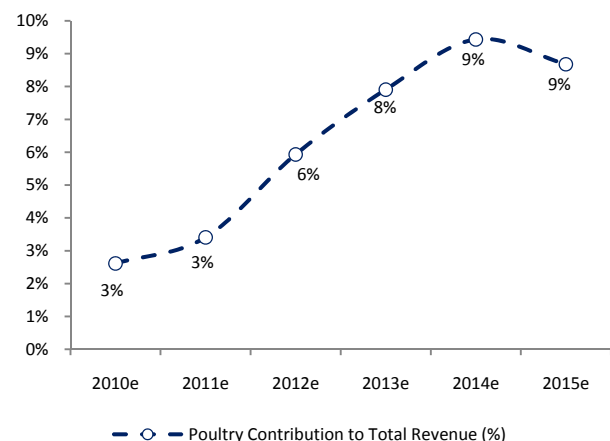
We believe poultry will be Almarai's fastest-growing segment realizing a CAGR (2010e–2015e) of 45% as it benefits from a nearly five-fold capacity expansion and gains market share. We estimate poultry to contribute 9% to consolidated revenue by 2015e from 3% in 2009. HADCO has room to capture market share from imports and other locals, while benefitting from still solid market growth. Market share gains can be achieved through introducing new processed poultry products especially given that whole chicken is 85% of the Saudi poultry market.

Poultry Segment to Grow at 45% CAGR (2010–2015e)



Source: Bloomberg, AlembicHC

Poultry to Contribute 9% to Revenue by 2015e



Source: Bloomberg, AlembicHC



Associate Investments

- **Ex GCC expansions through 48%-owned IDJ (valued at cost) have a lot of potential in the medium to long term as Almarai implements its own production and quality standards in underserved markets, especially Egypt where per capita milk consumption is one of the lowest globally**
- **Infant formula JV (50%-owned) with Mead Johnson (also valued at cost) is very promising as Almarai targets a 20%–25% market share of the USD500m market**
- **Almarai also has a 2.5% stake in Zain KSA (with an unrealized loss of cSAR80m) in addition to a SAR110m subordinated loan to the company**

International Expansions: Hidden Value to Be Realized Over Time

Almarai established in 2009 IDJ (a 48%-owned JV with PepsiCo) to serve as a platform for ex GCC expansions launching dairy products under Almarai's own brand and juice under Pepsi's Tropicana brand. IDJ's two current investments are 75% of Jordan's Teeba Investment for Developed Food Processing (Teeba), which was acquired for SAR370m in 2009, and 100% of Egypt's International Company for Agro Industrial Projects (Beyti), acquired for SAR478m also in 2009. Teeba has a 14% market share in Jordan's packaged dairy market and 1% in packaged juice while Beyti has a 7% market share in Egypt's packaged dairy market and 6% in packaged juice.

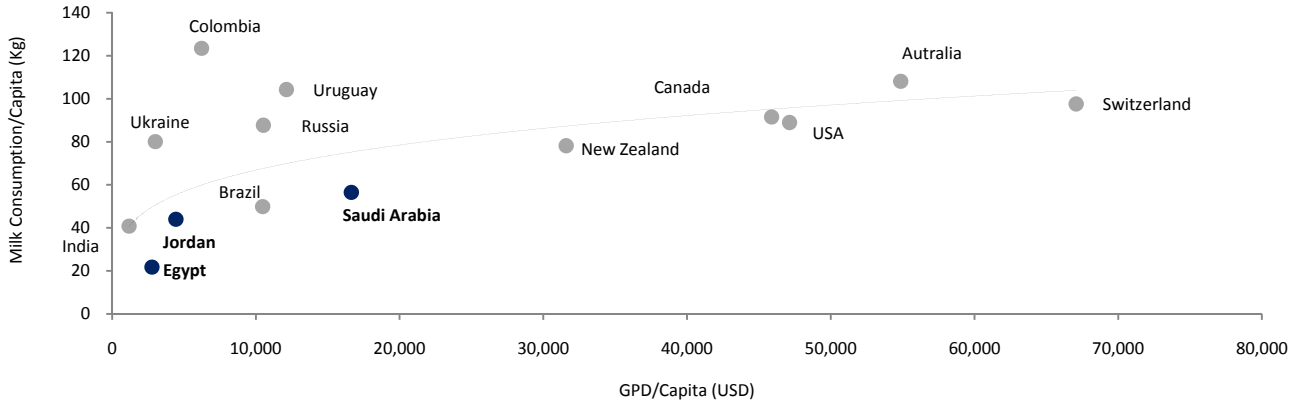
Both Beyti and Teeba are undergoing restructuring. Almarai-branded products (UHT, laban, and zabadi) produced at Beyti's facilities were recently launched in Egypt, but the phase out of Beyti's own products will happen gradually until Almarai's quality and production standards are implemented (establishing dairy farms, etc). IDJ has been loss-making (cumulative losses of SAR9m), and we do not expect a major reversal of fortunes potentially before 2013e.

We value IDJ at cost (SAR487m or SAR4.2/share) given limited information and its current loss-making status, but we believe there is potentially much hidden value to be unlocked from this venture given (1) Almarai's solid track record in the GCC juice and dairy markets, (2) a strong partner (PepsiCo) with knowledge and presence in these markets (through the soft drink segment), and (3) strong market dynamics, particularly in Egypt.

Egypt has a vast population of over 80m – almost double the GCC population. However, milk consumption in the country is one of the lowest globally (see chart below). Despite Egypt's packaged dairy market being mostly focused on UHT, we believe the market preference is fresh dairy as huge volumes are supplied to the market in the form of loose milk, which presents Almarai with a massive opportunity as it gains market share in its specialty area of fresh dairy. The packaged juice market in Egypt is also in a very early stage of development.

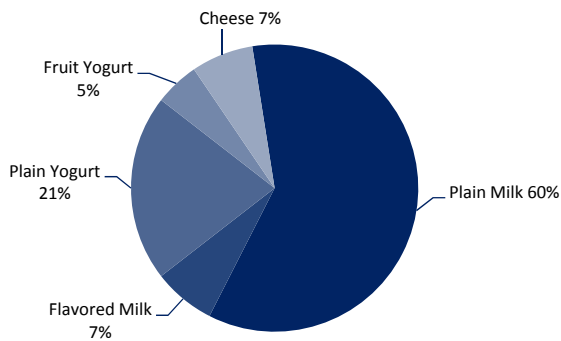
Although Jordan has a much smaller population (c6m) than Egypt and the GCC, Almarai targets to serve the entire Levant region (population of 30m, excluding Palestine) through Teeba. Also, Jordan's per capita dairy consumption is relatively low with the milk market focused on fermented milk (packaged milk is only 18% of the country's packaged dairy market). Jordan's juice market is relatively developed.

Egypt and Jordan Have Milk Consumption/Capita Low Relative to GDP



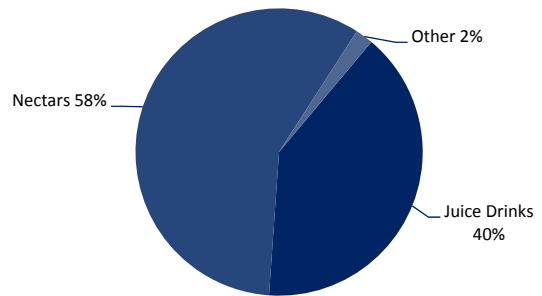
Source: FAPRI, IMF, Almarai, AlembicHC

Egypt's Packaged Dairy Market by Product Type



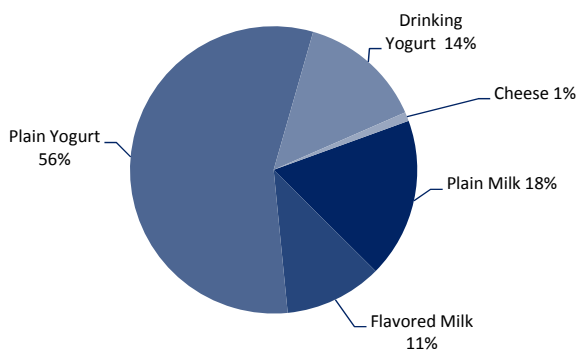
Source: Almarai, AlembicHC

Egypt's Packaged Juice Market by Product Type



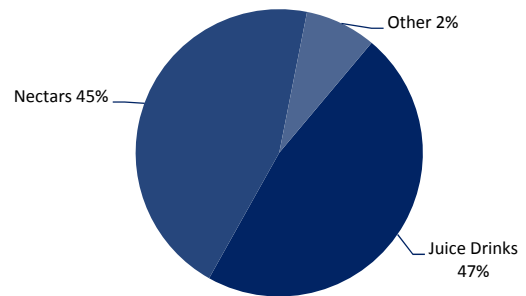
Source: Almarai, AlembicHC

Jordan's Packaged Dairy Market by Product Type



Source: Almarai, AlembicHC

Jordan's Packaged Juice by Product Type



Source: Almarai, AlembicHC

Infant Formula: First Producer in the Region

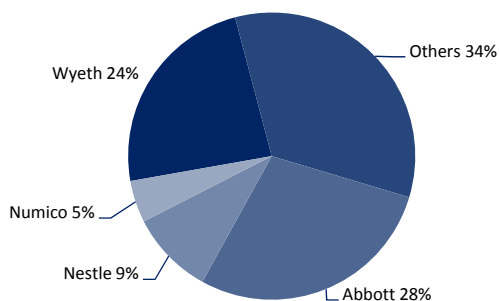
Almarai formed in 2010 a 50% JV with Mead Johnson (global leader in infant formula with its flagship product Enfamil) called International Pediatric Nutrition Company (IPNC) that aims to establish the Middle East's first infant formula plant. The SAR750m plant will be located near Almarai's other facilities at Al-Kharj and is expected to begin operations by mid-2011, and is targeted to serve the GCC and other neighboring MENA markets. Almarai aims to achieve 20%–25% market share in four years of the GCC infant formula market that is estimated at USD500m (cUSD350m in Saudi Arabia).

Infant formula market growth has been outpacing the population due to changes in consumer trends. The entire region's demand is fulfilled via imports with the Saudi infant formula market dominated by four international players: Nestle, Danone (Numico), Wyeth, and Abbott. All of the aforementioned players have a significant position in the category across the GCC.

We value IPNC at investment cost (SAR750m or SAR6.5/share) until it begins operations. IPNC will be equity consolidated, and we do not expect a positive contribution to Almarai's bottom line before 2013e. Almarai is financing and constructing the entire facility on its own and will lease it to IPNC, a suboptimal structure in our view. We have not factored rental income into our numbers.

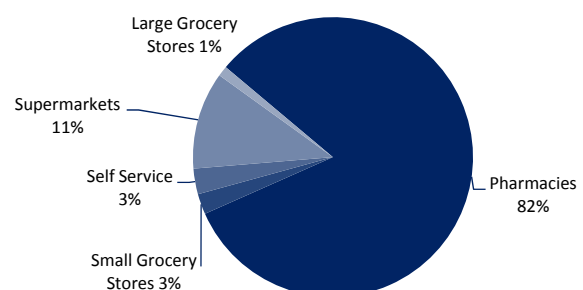
We expect Almarai to successfully venture into this new business line due to (1) its strong brand in a market that, to a large extent, favors local players, (2) a very strong and expert partner, and (3) global shortages in infant formula capacities deeming the region's current high reliance on imports unsustainable. Also, the launch of Almarai's infant formula products will provide further expansion opportunities into other related categories (the entire infant nutrition range) while allowing distribution of Almarai's products through unexploited, nonconventional channels such as hospitals and pharmacies (the latter constitute 82% of infant formula distribution in Saudi Arabia).

Saudi Infant Formula Market Dominated by Imports...



Source: Almarai, AlembicHC

... with 80% of Volumes Sold Through Pharmacies



Source: Almarai, AlembicHC



Other Investments: Zain KSA

Almarai has an equity stake of 2.5% in Zain KSA, in which it subscribed at SAR350m. We account for the equity investment in Zain KSA at cost of SAR277m or SAR2.4 per Almarai share (based on market price on 30 September 2010 of SAR7.9 per Zain share), which implies an unrealized loss of SAR78m (SAR0.7 per Almarai share). Every SAR1/share price increase in Zain KSA would raise our valuation for Almarai by SAR0.3/share. Almarai has also provided a subordinated loan worth SAR110m to Zain KSA.

Almarai's Investments¹

Investments	Total Value	Value/Share (SAR)	Contribution to TP	Valuation Method
IDJ	487	4.2	1.6%	At Cost
Zain KSA: Equity	277	2.4	0.9%	Market
Zain KSA: Subordinated Founders Loan	110	1.0	0.4%	At Cost
Pure Breed (PB) Company	33	0.3	0.1%	At Cost
Other Investments	14	0.1	0.0%	At Cost
Total Investments	921	8.0	3%	

Source: Almarai, AlembicHC

Note: (1) Estimates as of 31 December 2010



Almarai: An Overview

Background

Almarai was established in 1976 by Prince Sultan Bin Mohamed bin Saud Al Kabeer. It developed a number of agricultural projects including developing dairy farms and processing and distributing fresh milk and laban. The company later expanded into the fresh juice and cheese markets. The product range is currently more diversified as it includes bakery, poultry, and agricultural products added through several acquisitions. The company has developed a strong brand name and was ranked number three in Forbes's top 40 Arab Brands' list.

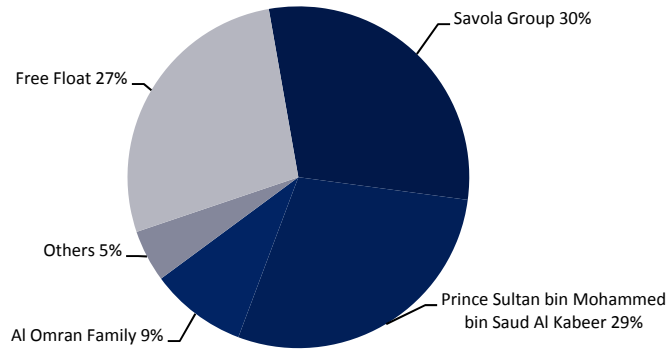
The company operates seven dairy farms with 61,745 cows and 49,070 young stock and produced 763m liters of milk in 2009. It operates two dairy manufacturing facilities (central processing plants) located on one site on the outskirts of Riyadh. Almarai also owns and maintains a distribution fleet that transports raw milk from the dairy farms to the plants and the finished products to sales depots. Almarai's products reach 97 sales depots in the GCC and serve more than 42,000 shops.

Almarai's Timeline of Key Events

Date	Milestone
1976	Almarai was established as a private company that processes and distributes milk and laban
1991	Almarai restructured to become a limited liability company
2005	Almarai acquired Green Farms Company
2005	Almarai acquired Riyadh Dairy Factory
2005	Almarai IPOs and trades on Saudi Tadawul
2006	Almarai acquired Al Safwah Dairy Products
2007	Almarai acquired Western Bakeries
2008	Almarai launched the region's first lactose-free milk
2009	Almarai established a 48:52 JV with PepsiCo to form IDJ
2009	Almarai acquired 75% Teeba in Jordan and 100% of Beyti in Egypt and transferred their ownership to IDJ
2009	Almarai gets exposure to the poultry segment through the acquisition of HADCO
2009	Almarai starts constructing the first infant nutrition plant in the GCC to become operational by mid-2011
2010	Almarai established a 50:50 JV with Mead Johnson for infant nutrition in the GCC

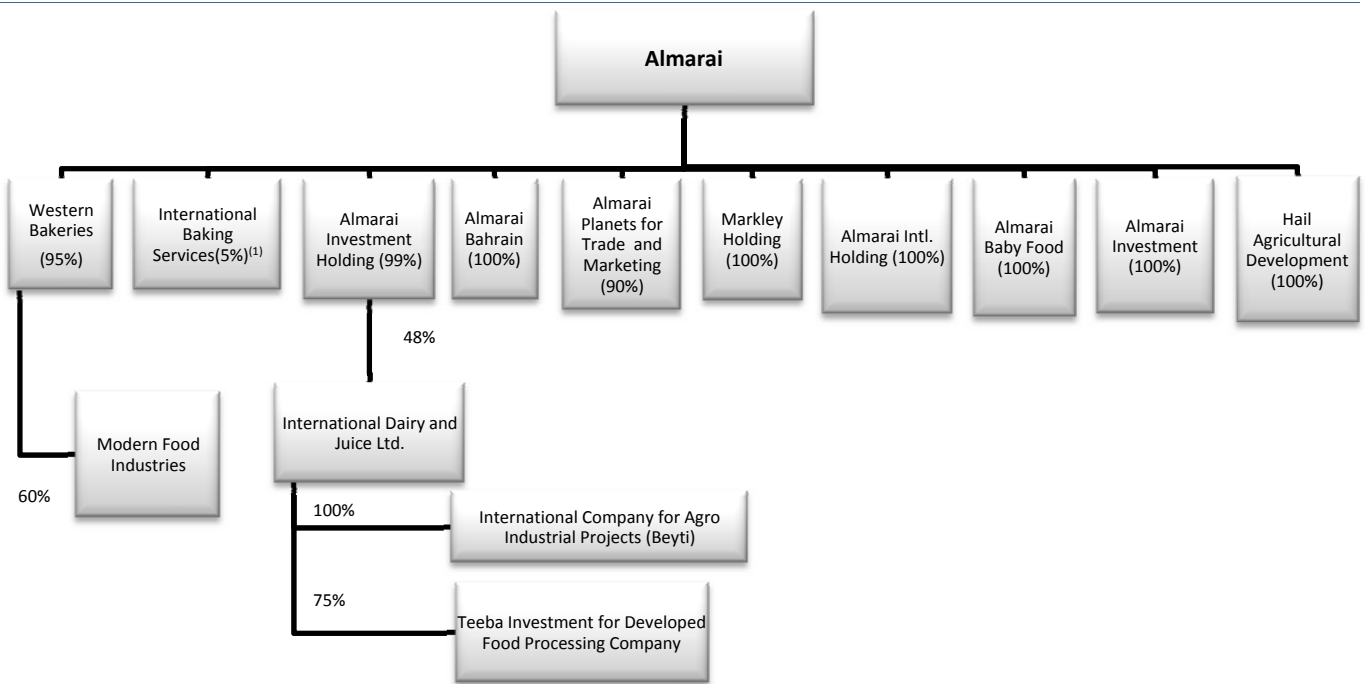
Source: Almarai, AlembicHC

Almarai's Shareholder Structure¹



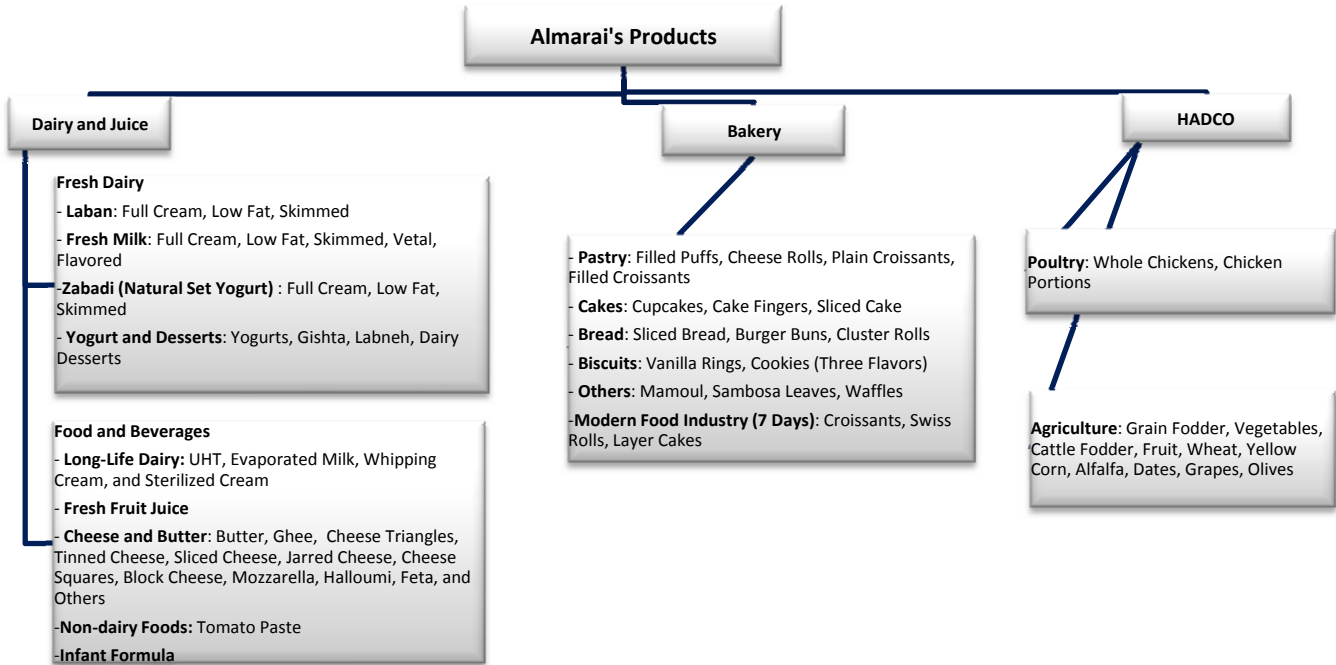
Source: Zawya, AlembicHC
 Note: (1) As of October 2010

Almarai Group's Structure



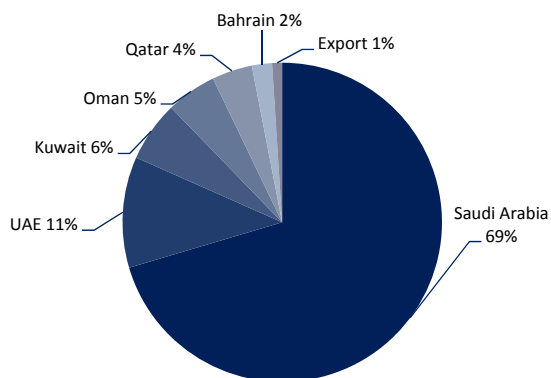
Source: Almarai, AlembicHC
 Note: (1) International Baking Services Company is 95%-owned by WB and owns 5% in WB

Almarai's Product Range



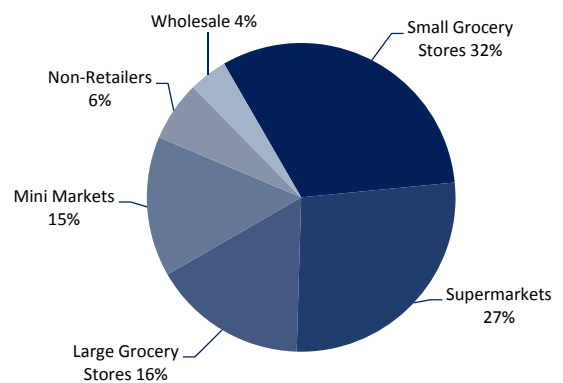
Source: Almarai, AlembicHC

Almarai's Revenue by Geography (2009)



Source: Almarai, AlembicHC

Almarai's Revenue by Sales Channel (2009)



Source: Almarai, AlembicHC



Rating Scale

Recommendation	Potential Return
Overweight	Greater than 20%
Neutral	0% to 20%
Underweight	Less than 0%

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Issuer of report:

HC Brokerage
Building F15-B224, Smart Village
KM28 Cairo-Alexandria Desert Road
6 October 12577, Egypt
Telephone: +202 3535 7666
Fax: +202 3535 7665
Website: www.hc-si.com

Alembic Global Advisors
780 Third Avenue, 8th Floor
New York, NY 10017
Telephone: +1 212 359 8292
Website: www.alembicglobal.com

US distributor of report:

Pulse Trading
2 Liberty Square, 2nd Floor
Boston, MA 02109
Telephone: +1 617 316 5620
Website: www.pulsetrading.com



Research		research@hc-si.com	
Karim Khadr Sarah Shabayek	Head of Research (ME)/Telecoms Telecoms	karim.khadr@hc-si.com sarah.shabayek@hc-si.com	+971 4 293 5381 +20 2 3535 7366
Hassan Ahmed Registered with US-based broker dealer Pulse Trading Inc.	Head of Research (US)/Chemicals	hassan.ahmed@alembicglobal.com	+1 212 359 8291
Lovetesh Singh	Chemicals	lovetesh.singh@hc-si.com	+91 9772 755 777
Jaap Meijer, CFA Janany Vamadeva	Financials Financials	jaap.meijer@hc-si.com janany.vamadeva@hc-si.com	+971 4 293 5383 +971 4 293 5384
Majed Azzam Ankur Khetawat Nermeen Abdel Gawad Sapna Sharma	Real Estate & Construction Real Estate & Construction Real Estate & Construction Real Estate & Construction	majed.azzam@hc-si.com ankur.khetawat@hc-si.com nermeen.abdelgawad@hc-si.com sapna.sharma@hc-si.com	+971 4 293 5385 +971 4 293 5387 +20 2 3535 7362 +971 4 293 5382
Hatem Alaa, CFA Mennatallah El Hefnawy Mai Nehad	Diversified Diversified Diversified	hatem.alaa@hc-si.com menna.elhefnawy@hc-si.com mai.nehad@hc-si.com	+20 2 3535 7354 +20 2 3535 7360 +20 2 3535 7356
Tudor Allin-Khan, CFA Amr Abdel Khalek	Chief Economist Economist	tudor.allin-khan@hc-si.com amr.abdelkhalek@hc-si.com	+971 4 293 5386 +20 2 3535 7368
Rehaam Romero Danielle Bouchard	Editor Editor	rehaam.romero@hc-si.com danielle.bouchard@hc-si.com	+20 2 3535 7364 +20 2 3535 7370
Mohamed El Saiid, MFTA Sameh Khalil, CFTe	Head of TA Research Technical Analyst	melsaiid@hc-si.com skhalil@hc-si.com	+20 2 3535 7390 +20 2 3535 7392

Sales and Trading – Cairo, Egypt

salesandtrading@hc-si.com

Shawkat El-Maraghy Mohamed Helmy Aboubakr Shaaban Hossam Wahid Hassan Kenawi Nihal Hany Ahmed Nabil	Managing Director Sales Sales Sales Trading Sales Trading Sales Trading Sales Trading	selmaraghy@hc-si.com mohamed.helmy@hc-si.com aboubakr.shaaban@hc-si.com hwahid@hc-si.com hkenawi@hc-si.com nhany@hc-si.com anabil@hc-si.com	+20 2 3535 7500 +20 2 3535 7502 +20 2 3535 7518 +20 2 3535 7522 +20 2 3535 7528 +20 2 3535 7532 +20 2 3535 7516
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Sales and Trading – Dubai, UAE

Hassan Aly Choucri Nadia Kabbani Anne Marie Browne Samer Azzam Mohamed Galal Wael Atta	Managing Director/Sales Trading Sales Sales Sales Sales Trading Sales Trading	hassan.choucri@hc-si.com nadia.kabbani@hc-si.com annemarie.browne@hc-si.com samer.azzam@hc-si.com mohammed.galal@af-hc.com wael.atta@hc-si.com	+971 4 293 5305 +971 4 293 5365 +971 4 293 5301 +971 4 293 5302 +971 4 293 5309 +971 4 293 5388
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Sales and Trading – New York, US

Stephen Matthews Registered with US-based broker dealer Pulse Trading Inc.	Sales	stephen.matthews@alembicglobal.com	+1 212 359 8292
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