

Savola

CP: SAR 39.90

FV: SAR 41.64

Rating: Hold

NI of SAR 413 million below consensus by 18%, due to lower than expected realized capital gain.

Savola's net income before extraordinary items increased 20% on a yearly basis reaching SAR 413 million in Q4 12, 4% higher than our expectations. However, the company did not report any capital gain in Q4 12, despite that it previously announced that capital gain of SAR 231 million is expected to be recorded in 2012. The company just recorded 47 million in the first 9 months. As a result, net income of SAR 413 million was reported in Q4 12, 17% and 19% lower than Q4 11 and our expectations, respectively.

Revenues of the company increased by 9% on a yearly basis reaching SAR 7 billion, 4% above our expectations. Two factors contributed to this increase: the increase in the sales revenues in the food sector in foreign markets as well as the rise in the retail revenues inside the Kingdom due to higher market share.

Gross profit higher by 21% on a yearly basis to SAR 1,161 million, reflecting a gross margin of 20.1%, higher than the 18.1% reported in Q4 11.

Operating income increased by 69% in Q4 12, reaching SAR 792 million. This figure includes the contribution of Almarai, especially that Savola raised its stake from 29.95% to 36.52%, by concluding a private deal, on 16 October 2012.

On the other hand, the company announced that net income before capital gain of SAR 1.5 billion in 2013, out of them SAR 260 million are expected to be generated in Q1 13.

We view positively the increase in revenues and the improvement in operations, mainly in the retail sector in KSA. However, the deterioration of the Egyptian pound could affect the company's performance in the coming quarters, especially that Egypt accounts for about 12% of revenues. In addition, the rising input cost is expected to adversely impact the profitability margins. We retain our fair value of SAR 41.64, but we lower our recommendation from Accumulate to Hold, due to the 15% rally in the stock price.

	Q4 11	Q4 12	ASIB	Consensus	YoY	Vs ASIB	Vs Consensus
Sales	6,425	7,000	6,727	7,717	9%	4%	-9%
NI before Extraordinary Items	346	413	397	NA	20%	4%	NA
NI	499	413	511	502	-17%	-19%	-18%

Alaa Ghanem, CFA, CVA
Alaa.Ghanem@asib.com

DISCLAIMER

"All rights reserved. This research document (the "Document") is prepared by Audi Saradar Investment Bank SAL ("ASIB"), being an entity of Audi Saradar Group, for the use of the clients of ASIB and/or the clients of any entity within the Audi Saradar Group.

This Document is disclosed to you on a confidential basis. Receipt and/or review of this Document constitute your agreement not to copy, modify, redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this Document prior to public disclosure of the same by ASIB or the Audi Saradar Group or without the express prior written consent of ASIB.

This Document is not intended for dissemination, distribution to, or use by, any person or entity in any country or jurisdiction which would subject ASIB or any entity within the Audi Saradar Group, to any registration or licensing requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this Document is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching any applicable legal or regulatory requirements. In any case, this Document shall not be distributed in the Republic of Egypt.

Your attention is drawn to the fact that you should not access this Document if the regulations of your country of citizenship and/or residency or any applicable regulations prohibit it. In any case, persons who are subject to any restrictions in any country, such as US persons are not permitted to access information contained herein.

Neither the information, nor any opinion expressed herein constitutes an offer or an invitation or a recommendation to make an offer, to buy or sell any security or other investment product related to such security or investment. This Document provides general information only, is not intended to provide personal investment advice or recommendation and does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive it. You should seek financial, legal or tax advice regarding the appropriateness and suitability in investing in any security, other investment or investment strategy discussed or forecasted in this Document.

You should carefully read the definitions of the Rating Guide provided in this Document. In addition you should read this Document in its entirety and not conclude its contents from the ratings solely.

The information herein was obtained from various public sources believed in good faith to be reliable. Neither ASIB nor any entity within the Audi Saradar Group represents that the information contained in this Document is complete, accurate or free from any error and makes no representations or warranties whatsoever as to the data, information and opinions provided herein.

This Document and any information, opinion and prospect contained herein reflect a judgment at its original date of publication by ASIB and are subject to change without notice. ASIB and/or any entity within the Audi Saradar Group may have issued, and may in the future issue, other research documents that are inconsistent with, and reach different conclusions from, the information, opinions and prospects presented in this Document.

This Document reflects the different assumptions, views and analytical methods of the analysts who prepared them; ASIB, and the Audi Saradar Group are under no obligation to ensure that such other research documents are brought to the attention of any recipient of this Document.

ASIB, any entity within the Audi Saradar Group, one or more of their affiliates and/or their officers (including but not limited to their strategists, analysts and sales staff) may have a financial interest in securities of the issuer(s) or related investments, may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this Document and may take a view that is inconsistent with that taken herein.

The price, value of and income from any of the securities or financial instruments mentioned in this Document can fall as well as rise. The value of securities and financial instruments is subject to market conditions, volatility, exchange rate fluctuation and credit quality of any issuer that may have a positive or adverse effect on the price or income of such securities or financial instruments. Any forecasts on the economy, stock market, bond market or the economic trends of the markets are not necessarily a guide to future returns. You should understand that statements regarding future prospects may not be realized. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future returns. As a result of the preceding, you may lose, as the case may be, the amount originally invested.

None of ASIB, any entity within the Audi Saradar Group, any of their affiliates and/or their officers (including but not limited to their strategists, analysts and sales staff) shall be held liable for any loss or damage that may arise, directly or indirectly, from any use of the information contained in this Document nor for any decision or investment made on the basis of information contained herein."