

# Saudi Dairy & Foodstuff Co

Food-Diversified – Industrial

SADAFCO AB: Saudi Arabia

28 November 2019

الراجحي المالية  
Al Rajhi Capital



US\$3.913bn

Market cap

46%

Free float

US\$1.291mn

Avg. daily volume

Target price

156.0

30% from current

Current price

120.4

as at 27/11/2019

Research Department

Pratik Khandelwal

Tel +966 11 828 4642, pratikK@alrajhi-capital.com

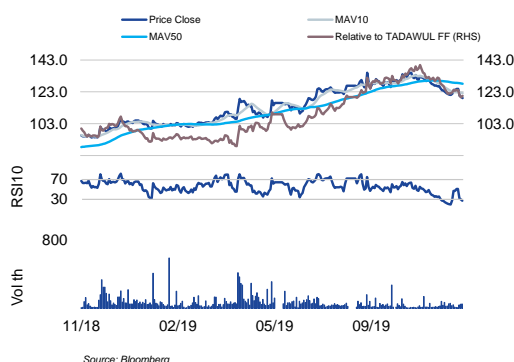
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	FY18	FY19	FY20E	FY21E
Revenue (mn)	1,693	1,813	1,932	2,063
Revenue growth	-5.3%	7.1%	6.6%	6.8%
Gross profit	634	580	630	684
Gross margin	37%	32%	33%	33%
EBITDA (mn)	339	292	341	388
EBITDA margin	20%	16%	18%	19%
Net profit	260	216	254	293
Net margin	15%	12%	13%	14%
EPS	8.01	6.66	7.93	9.17
EPS growth	-15%	-17%	19%	16%
Return on Equity (ROE)	20%	16%	16%	16%

Source: Company data, Al Rajhi Capital (company follows Mar-April FY)

Valuation

Period End (SAR)	FY18	FY19	FY20E	FY21E
EV/Sales	1.9x	1.8x	1.7x	1.6x
EV/EBITDA	9.5x	11.1x	9.5x	8.3x
P/E	15.0x	18.0x	15.1x	13.1x
P/BV	2.9x	2.9x	2.4x	2.1x

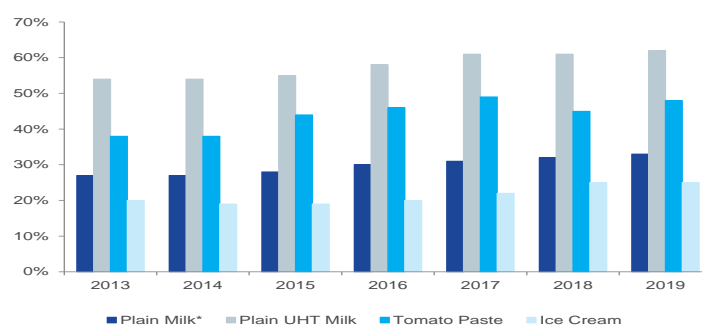
Source: Company data, Al Rajhi Capital

## Saudi Dairy & Foodstuff Co Initiating coverage with a TP of SAR156/sh

We initiate coverage on SADAFCO with a target price of SAR156/sh based on equal weights given to DCF valuation (SAR157) and P/E based relative valuation (SAR 154/sh based on 20x FY20e earnings which is much lower than Almarai even after having higher ROE and growth potential). SADAFCO is the market leader in plain UHT milk segment with a market share of 62.3%, tomato paste with a market share of 55% and ice cream with a market share of 24.8%. Its business moat is its strong supply and distribution channel, better penetration to traditional retailers and new product launches in line with the changing consumer preferences. The company is debt free and has rich cash balance which enables it to expand further without the need for borrowing. Recently company increased its sales point of ice cream by distributing several thousands of freezers across GCC regions which enabled it to deliver a double digit growth (13% y-o-y in Q2 2020) in ice-cream segment and increase its market share. Latest development at central warehouse in Jeddah and increase in delivery feet size should help the company in decreasing its reliance on third parties for logistics and in turn should improve the margins going forward.

**Leadership position in UHT (ultra-heat treatment) Milk:** SADAFCO is the market leader in UHT milk segment with a market share of 62.3% (as on Q2 2020) and 33% market share in RTD milk (it includes fresh milk and UHT plain milk). Its milk has consistent demand in the market and is well trusted among the people since years. The company derives ~66% of its total revenues from RTD milk segment. The company has recently strengthened its supply chain management by revamping its warehouses, delivery vehicles and logistics. This has improved its supply to traditional grocery stores and we believe that the improved supply chain will help the company in penetrating further into local shops which will enhance its market share. Another advantage of long life milk is that it doesn't require refrigerators for storage and this provides an advantage to the company as it will not be impacted much in case of hike in electricity prices compared to fresh milk producers. The acceptance of UHT milk is increasing due to its longer shelf life as well ease of storage compared to fresh milk. Therefore we believe the demand for company's UHT milk will be higher in future.

Figure 1: SADAFCO market share as on Q2 2020

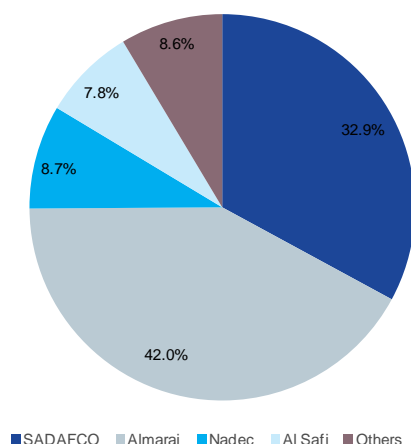


Source: Company data, Al Rajhi Capital

Please see penultimate page for additional important disclosures. Al Rajhi Capital (Al Rajhi) is a foreign broker-dealer unregistered in the USA. Al Rajhi research is prepared by research analysts who are not registered in the USA. Al Rajhi research is distributed in the USA pursuant to Rule 15a-6 of the Securities Exchange Act of 1934 solely by Rosenblatt Securities, an SEC registered and FINRA-member broker-dealer.



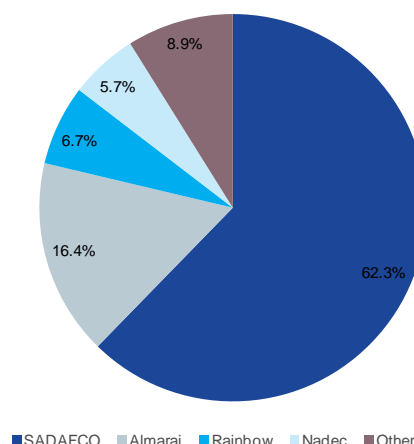
**Figure 2 Market Share - Plain Milk^**



■ SADAFCO ■ Almarai ■ Nadec ■ Al Safi ■ Others

Source: Corporate presentation, company data, Al Rajhi Capital

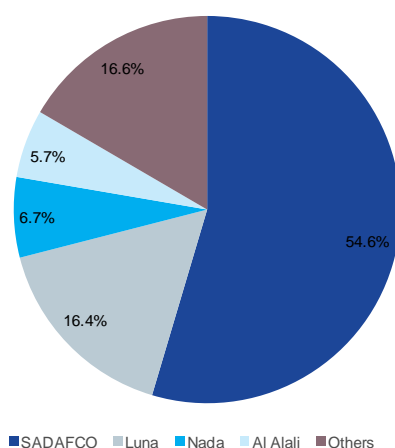
**Figure 3 Market Share - Plain UHT Milk**



■ SADAFCO ■ Almarai ■ Rainbow ■ Nadec ■ Others

Source: Corporate presentation, company data, Al Rajhi Capital

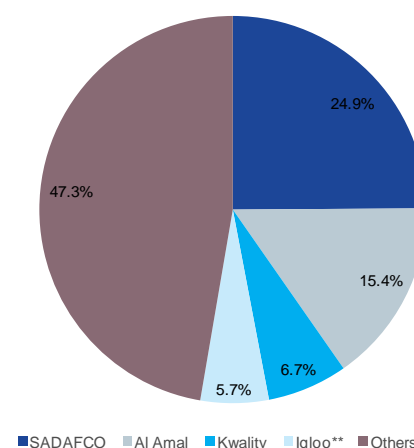
**Figure 4 Market Share - Tomato Paste**



■ SADAFCO ■ Luna ■ Nada ■ Al Alali ■ Others

Source: Corporate presentation, company data, Al Rajhi Capital

**Figure 5 Market Share - Ice Cream**



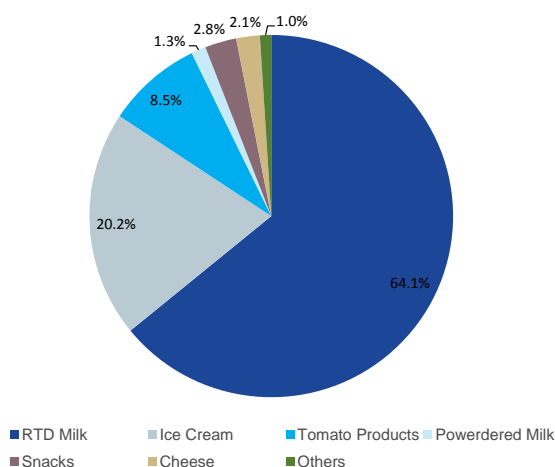
■ SADAFCO ■ Al Amal ■ Kwaliti ■ Igloo\*\* ■ Others

Source: Corporate presentation, company data, Al Rajhi Capital



**Increasing penetration in ice-cream segment:** SADAFCO's revenue contribution from ice cream segment has recently increased from 17% in Q1 2019 to 20.2% in Q2 2020. The main reason for the increase in ice cream sales was due to addition of several thousand new freezers across GCC nations last summer which helped the company in creating new point of sales for ice cream and helped the company in gaining the market share; it currently holds a market share of 24.8%. Saudia's ice cream is considered a value product in the market which aligns with the current down trading behaviour exhibited by Saudi nationals towards purchase of non-discretionary items such as groceries and dairies. The revenue from ice cream is expected to grow in coming years and we expect the total contribution of ice-cream to reach 16% by 2024e from 14% currently.

**Figure 6 :Product type revenue for Q2 2019**



Source: Company data, Al Rajhi Capital

**Dominance in tomato paste and sauces:** SADAFCO is the market leader with a 55% market share in tomato paste and its share has increased by 10% from 45% in Q1 2019 to 55% in Q2 2020. The growth of the tomato paste market is directly correlated to the population as well as tourist growth, with the new tourist visa launches the number of leisure tourist are expected to increase which in turn should increase the footfall in restaurants. Tomato paste being one of the key cooking ingredients in households as well restaurants is expected to have a good overall market in coming future. Though the contribution of tomato paste is ~11% to the total revenue (FY 2019), it has better margins compared to dairy products. Therefore we feel that this is another core segment which will provide sustainability in revenue as well as support margins going forward.

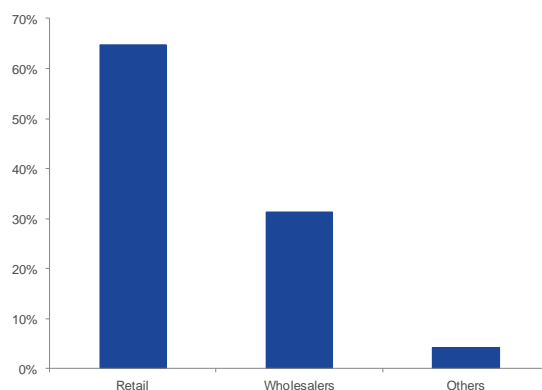
**Consistent product launches to enhance the margins:** Company is very pro-active in launching new products as per the changing consumer preferences. We have observed that in 2018 when vat (value added tax) was levied, there was an overall slowdown in the consumption. To support sales during that period, company introduced smaller size packets of its products in line with the changing consumer pattern where people were consuming lower value products. The company has a diversified product portfolio ranging from dairy products, tomato paste, Laban based fruit drink, frozen fries and snacks. Apart from dairy, which is ~65% of the total business, rest is a higher margin business. For UHT milk company charges a premium pricing compared to other players due to its superior quality. Recently the promotional discounts were reduced in the first half of FY 2020 and we feel that the dairy market will remain stable in near future.



### Robust supply chain and distribution networks will help in market penetration:

SADAFCO has three mega warehouses, two in Jeddah and one in Riyadh with 20 other distribution facilities across Saudi Arabia, Gulf and Jordan. The company has recently announced that its central warehouse in Jeddah is fully operational and the need for third party warehouse is reduced which will lead to cost savings in future and enhance the margins. It recently added 62 sales trucks taking the total number to 803 trucks which will lead to faster and timely distribution of the product. The company has a regional retail network of 32,088 outlets across Arabian Peninsula out of which 65% is to retailers and 31% is to wholesalers. Its reach to traditional retailers is better compared to other long life dairy manufacturers in Saudi Arabia.

**Figure 7: Distribution Format**



Source: Company data, Al Rajhi Capital

### Zero leverage and cash rich model supports future expansion and dividend payment:

The ROE for SADAFCO was 16.2% as on 2019 which was higher than its peers Almarai and Nadec. Company recently purchased a milk powder manufacturer named Mlekoma in Poland. This acquisition has helped the company in setting its footprints in Poland, it also reduces the raw material prices for its final products mainly ice-cream which should reduce the COGS and increase gross margins going forward. In future company can resort to geographical expansion or further capacity addition without any debt requirements which will enhance the returns for the shareholders. The company had a pay-out ratio of almost 60% for FY 2019 which implies a dividend yield of 3.3%, we believe that company can maintain this level of pay-out ratio or further increase it as we expect the working capital requirements to go down and cash & cash equivalents to increase due to less dependency on third party warehouses.



## Key Financials:

Figure 8: Summary of DCF valuation

	FY20E	FY21E	FY22E	FY23E	FY24E
Post-tax operating profit (NOPAT)	205,264	242,798	282,476	331,716	381,120
Add: Depreciation & amortization	70,390	79,489	83,615	88,061	92,829
Less: Change in working capital	136,868	(89,190)	(9,788)	(13,327)	(10,720)
Less: Capex	(218,507)	(96,615)	(103,164)	(111,146)	(119,199)
Free Cash Flow	<b>194,015</b>	<b>136,482</b>	<b>253,139</b>	<b>295,304</b>	<b>344,030</b>
FCF growth		-29.7%	85.5%	16.7%	16.5%
Discount factor	0.97	0.90	0.83	0.77	0.71
PV of Free Cash Flows	188,837	122,805	210,566	227,085	244,570
Sum of present values of FCFs	<b>993,863</b>				
Perpetual Growth Rate (g)	2.00%				
Free cash flow (t+1)	350,910				
WACC	8.17%				
Terminal value	5,686,476				
Present value of terminal value	<b>4,042,511</b>				
Enterprise Value (EV)	5,036,374				
Less:					
Net debt	-				
Minorities	(19,414)				
Equity value	<b>5,016,960</b>				
Outstanding Shares (SAR '000)	32000.0				
Target Price / Fair value per share (SAR)	<b>156.8</b>				

Source: Company data, Al Rajhi Capital

Figure 9: DCF based target sensitivity to assumptions

		Terminal Growth Rate (%)					
		0.0%	1.0%	2.0%	3.0%	4.0%	5.0%
WACC	6.2%	160.8	174.6	195.0	228.3	292.2	465.3
	7.2%	148.5	158.2	171.5	191.3	223.5	285.5
	8.2%	139.2	146.2	155.6	168.5	187.7	219.0
	9.2%	131.8	137.2	144.0	153.1	165.7	184.3
	10.2%	125.9	130.1	135.3	141.9	150.7	162.9

Source: Company data, Al Rajhi Capital



**Figure 10: Income Statement**

	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
<b>Revenue - net</b>	<b>1,693</b>	<b>1,813</b>	<b>1,932</b>	<b>2,063</b>	<b>2,223</b>
Revenue growth	-5.3%	7.1%	6.6%	6.8%	7.7%
Cost of Revenue	(1,059)	(1,233)	(1,302)	(1,379)	(1,473)
<b>Gross Profit</b>	<b>634</b>	<b>580</b>	<b>630</b>	<b>684</b>	<b>750</b>
Gross profit growth	-8.2%	-8.4%	8.6%	8.6%	9.7%
Gross margin (%)	37.4%	32.0%	32.6%	33.2%	33.8%
SGA	(358)	(358)	(368)	(379)	(392)
Other operating (expense) / income	1	1	1	1	1
<b>EBITDA</b>	<b>339</b>	<b>292</b>	<b>341</b>	<b>388</b>	<b>446</b>
EBITDA growth	-11.0%	-14.0%	16.8%	13.7%	14.8%
EBITDA margin (%)	20.1%	16.1%	17.7%	18.8%	20.0%
<b>EBIT</b>	<b>274</b>	<b>222</b>	<b>262</b>	<b>304</b>	<b>357</b>
EBIT growth	-13.8%	-19.1%	18.0%	16.3%	17.4%
EBIT margin	16.2%	12.2%	13.5%	14.8%	16.1%
Other income / expenses	7	12	12	12	12
<b>Net income before zakat</b>	<b>281</b>	<b>233</b>	<b>273</b>	<b>316</b>	<b>369</b>
Zakat	(21)	(17)	(20)	(23)	(27)
<b>Net income after zakat</b>	<b>260</b>	<b>216</b>	<b>254</b>	<b>293</b>	<b>343</b>
Net income growth	-14.5%	-17.0%	17.4%	15.6%	16.8%
Net Margin	15.4%	11.9%	13.1%	14.2%	15.4%
<b>EPS (SAR)</b>	<b>8.01</b>	<b>6.66</b>	<b>7.93</b>	<b>9.17</b>	<b>10.71</b>

Source: Company data, Al Rajhi Capital



Figure 11: Balance Sheet

	FY18	FY19	FY20E	FY21E	FY22E
<b>Current Assets</b>					
Cash and cash equivalents	559	582	692	916	1,173
Account receivables	157	193	196	209	225
Inventories	348	277	321	340	363
Prepaid expenses and other current assets	36	43	43	43	43
<b>Total Current Assets</b>	<b>1,100</b>	<b>1,095</b>	<b>1,252</b>	<b>1,508</b>	<b>1,804</b>
<b>Non-Current Assets</b>					
Fixed assets	663	787	804	824	847
Investments	0	5	5	5	5
Other non-current assets	-	29	29	29	29
<b>Total Non-Current Assets</b>	<b>663</b>	<b>821</b>	<b>838</b>	<b>857</b>	<b>880</b>
<b>Total Assets</b>	<b>1,763</b>	<b>1,916</b>	<b>2,089</b>	<b>2,366</b>	<b>2,685</b>
<b>Current Liabilities</b>					
Accounts payable	145	198	178	189	202
Accrued expenses	164	204	181	193	206
Zakat payable	21	16	16	16	16
Other current liabilities	0	2	2	2	2
<b>Total Current Liabilities</b>	<b>329</b>	<b>420</b>	<b>378</b>	<b>400</b>	<b>426</b>
<b>Non-Current Liabilities</b>					
Employees' end of service benefits	113	110	110	110	110
Other non-current liabilities	-	28	28	28	28
<b>Total Non-Current Liabilities</b>	<b>113</b>	<b>138</b>	<b>138</b>	<b>138</b>	<b>138</b>
<b>Shareholders' Equity</b>					
Share capital	325	325	325	325	325
Statutory Reserve	163	163	163	163	163
Voluntary reserve/ other reserves	208	230	230	230	230
Foreign currency translation adjustments	(1)	(1)	(1)	(1)	(1)
Treasury shares	-	(52)	(52)	(52)	(52)
Retained earnings	627	673	889	1,143	1,436
Non-controlling interest	0	19	19	19	19
<b>Total Shareholders' Equity</b>	<b>1,321</b>	<b>1,358</b>	<b>1,574</b>	<b>1,828</b>	<b>2,121</b>
<b>Total Liabilities &amp; Shareholder Equity</b>	<b>1,763</b>	<b>1,916</b>	<b>2,089</b>	<b>2,366</b>	<b>2,685</b>

Source: Company data, Al Rajhi Capital

Figure 12 : Cash Flow Statement

	FY18	FY19	FY20E	FY21E	FY22E
Cash flow from operations	341	422	206	327	368
CAPEX	(130)	(219)	(97)	(103)	(111)
Free cash flow	211	204	110	224	257
Cash flow from financing activities	(196)	(182)	-	-	-
Change in cash	16	22	110	224	257

Source: Company data, Al Rajhi Capital



**Sustained demand for dairy products in KSA:** As per IMF report, Saudi Arabia's population is expected to grow at a CAGR of 2% going forward which should lead to increase demand for fresh milk and other dairy products. Apart from population growth Saudi Arabia receives millions of religious tourist every year and with new visa rules the number of tourist will increase this should further support the dairy and related products in future. Therefore we believe there will not be any tailwinds from the demand side for the company in near future and SADAFCO's top-line can grow at 6-7% in between 2020e-2024e.

**Figure 13: Estimated Milk Consumption in KSA**

	2018	2019	2020	2021	2022	2023	2024
Saudi Arabia Population (in millions)	33.203	33.867	34.545	35.236	35.940	36.659	37.392
Per capita Milk consumption (ltrs.) (Annually)*	24.6	24.6	24.6	24.6	24.6	24.6	24.6
Total Milk consumption (million ltrs.) (Annually)	816.79	833.13	849.81	866.81	884.12	901.81	919.84

Source: \*Arab News, Al Rajhi Capital

**Higher return metrics compared to peers:** SADAFCO has better return metrics compared to other dairy players in the market; its ROE of 17%, ROA of 12% and ROIC of 15% are highest among all the three listed dairy players in Saudi Arabia. Therefore in long run SADAFCO is a wealth creator for shareholders.

**Figure 14 :ROA Peer Companies**

	2015	2016	2017	2018	TTM
SADAFCO*	20.0%	20.0%	15.3%	11.9%	11.7%
Almarai	7.5%	7.6%	7.1%	6.3%	5.7%
Nadec	3.9%	2.4%	1.0%	0.0%	0.1%

Source: Bloomberg, Al Rajhi Capital; \*Year end next year March 31

**Figure 15 :ROE Peer Companies**

	2015	2016	2017	2018	TTM
SADAFCO*	25.5%	25.8%	20.2%	16.4%	16.7%
Almarai	16.7%	16.6%	15.3%	13.8%	13.4%
Nadec	10.8%	6.8%	2.8%	0.1%	0.3%

Source: Bloomberg, Al Rajhi Capital; \*Year end next year March 31

**Figure 16 :ROIC Peer Companies**

	2015	2016	2017	2018	TTM
SADAFCO*	26.3%	24.0%	18.5%	14.2%	15.1%
Almarai	9.7%	9.5%	9.1%	8.1%	7.8%
Nadec	5.4%	6.0%	2.2%	1.0%	2.4%

Source: Bloomberg, Al Rajhi Capital; \*Year end next year March 31

**Valuation:** We value SADAFCO using equal weight of DCF and PE based relative valuation. Our DCF based target price based on 2% terminal growth and 8.17% WACC comes to SAR157 and P/E based relative valuation based on 20x FY20e EPS gives us a target price of SAR154 thus equal weighted target price stands at SAR156 which implies an upside of 30% from current market price of SAR120.40 which implies "overweight rating".

**Key Risks:** Key downside risk to our valuation includes 1) any slowdown in consumer spending due to any regulatory issues might impact the revenue growth of the company and ultimately our target price, 2) company's major revenue is exposed to UHT dairy, if there is any further price led competition in the market then margins will come under pressure and will have downside risk to our target price, 3) slowdown in population growth will have a negative impact on dairy demand which in turn will impact the top-line, and 4) any changes in expat levy will increase SG&A and will reduce the operating margins going forward.





## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

### Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



## Disclaimer and additional disclosures for Equity Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

### Contact us

**Mazen AlSudairi**  
Head of Research  
Tel : +966 1 211 9449  
Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

**Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.**