

# National Agricultural Development Co.

Q3 2017

## Recommendation Underweight

**Fair Value (SAR)** 27.40

Price as of November 22, 2017 33.10  
Expected Return -17.2%

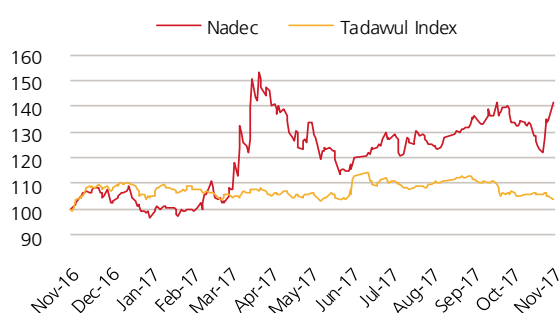
### Company Data

Tadawul Symbol 6010.SE  
52 Week High (SAR) 36.20  
52 Week Low (SAR) 21.45  
YTD Change 37.06%  
3-Month Average Volume (Thousand Shares) 350  
Market Cap. (SAR Million) 2,804  
Market Cap. (USD Million) 748  
Outstanding Shares (Million Shares) 84.70

### Major Shareholders (> 5%)

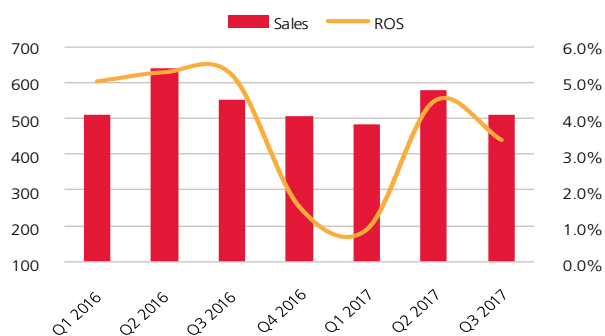
Public Investment Fund 20.0%  
Abdullah Ibin Abdulaziz Al Rajhi 8.33%  
Abdulaziz Mohammed Abdullah Al Othman 5.29%

52-week Stock Price Movement



Source: Tadawul

Quarterly Sales (SAR mn) and ROS



Source: Company Filings, Albilad Capital Research Estimates

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The National Agricultural Development Company (Nadec) reported net earnings of SAR 17 million in Q3 2017 compared to SAR 29 million in Q3 2016 and SAR 26 million in Q2 2017, therefore the net earnings slid 40% YoY and 33% QoQ. Likewise, the nine-month net profit edged down 46% from SAR 88 million to SAR 47.5 million.

The company's third-quarter sales slid 7% YoY as sales of dairy and food processing shrank 7.6%, while agricultural sales plummeted 3.40%. In contrast, the cost of production edged down only 4.30% on lower sales volume and changing sales mix. Sales and marketing expenses surged 5.49%, while general and administrative expenses shifted down 21%.

Compared with Q2 2017, the top line was dented by seasonality in consumption patterns as the previous quarter coincided with the peak of demand for food products in the holy month of Ramadan. Accordingly, the net sales retreated 11.7% QoQ, as sales of dairy and food processing dropped by 12%, while agricultural sales dwindled by 9.86%. It is noteworthy that the second quarter coincided with the capital gain of SAR 22 million from the sale of the company's stake in Pure Breed Poultry Company.

Operating profit margin in Q3 2017 shrank to 4.8% compared to 8.9% in Q3 2016 and 7.7% in Q2 2017. Likewise, the operating margin fell from 8.3% to 5.9% in 9M 2017.

On the other hand, Nadec inked a non-binding memorandum of understanding with Safi Danone Limited on October 7, 2017 to study the possibility of merging the two companies in exchange for new shares in Nadec for shareholders of Safi Danone. Upon the completion of the transaction, the shareholders of Safi Danone will possess 38.75% of the paid-in capital of Nadec after the increase. We believe that the completion of the merger will create added value to the new entity by trimming the structure of cost and operating expenses, and boosts economies of scale factoring in the similarity of the main activity of the two companies. Furthermore, the merger supports the market competitiveness and financial position of the unified entity.

The results revealed a decline in juice and dairy sales across-the-board in the market, especially companies that do not have a large diversity in the level of products or geographical presence, amid intense market competition and adverse economic conditions. The third-quarter profit missed our estimate of SAR 19 million, however we maintain our valuation for the share at SAR 27.4 per share as our future outlook for Nadec remained intact.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	12.01	9.66	9.03	10.12
EV/Sales	2.17	1.93	1.96	2.19
P/E	25.67	19.44	27.29	46.05
Dividend Yield	1.3%	1.4%	0.0%	0.0%
P/BV	2.17	2.00	1.92	1.84
P/Revenue	1.32	1.17	1.19	1.33
Current Ratio	0.84	0.92	0.75	0.81
Revenue Growth	7.5%	12.4%	-1.4%	-10.4%
EPS	1.26	1.66	1.18	0.70

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E*
Sales	1,928	2,072	2,329	2,296	2,057
COGS	1,071	1,124	1,183	1,093	1,067
COGS/Sales	55.6%	54.2%	50.8%	47.6%	51.9%
SG&A	516	575	714	735	560
SG&A/Sales	26.8%	27.7%	30.7%	32.0%	27.2%
Others (Net)	3	-1	29	12	15
<b>EBITDA</b>	<b>343</b>	<b>373</b>	<b>460</b>	<b>480</b>	<b>445</b>
EBITDA Margin	17.8%	18.0%	19.8%	20.9%	21.6%
Depreciation and amortization	203	228	266	307	330
<b>EBIT</b>	<b>140</b>	<b>145</b>	<b>195</b>	<b>173</b>	<b>114</b>
EBIT Margin	7.3%	7.0%	8.4%	7.6%	5.5%
Net Interest Income	-36	-38	-46	-67	-63
<b>Pre-Tax Income</b>	<b>104</b>	<b>108</b>	<b>149</b>	<b>106</b>	<b>51</b>
Tax and Zakat	4	1	8	6	-8
<b>Net Income</b>	<b>100</b>	<b>107</b>	<b>141</b>	<b>100</b>	<b>59</b>
ROS	5.2%	5.2%	6.1%	4.4%	2.9%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	39	77	101	59	53
Account Receivables	280	295	321	297	314
Inventory	447	475	501	579	639
Others	75	83	73	65	103
<b>Total ST Assets</b>	<b>841</b>	<b>930</b>	<b>996</b>	<b>1,001</b>	<b>1,109</b>
Net Fixed Assets and Livestock	1,851	2,044	2,420	2,523	2,545
Projects Under Implementation	277	428	374	427	376
Others	27	27	36	51	18
<b>Total LT Assets</b>	<b>2,155</b>	<b>2,499</b>	<b>2,830</b>	<b>3,001</b>	<b>2,939</b>
<b>Total Assets</b>	<b>2,996</b>	<b>3,429</b>	<b>3,826</b>	<b>4,001</b>	<b>4,048</b>
Short Term Debt and CPLTD	663	707	570	688	827
Accounts Payable	212	268	340	477	448
Others	133	128	173	164	95
<b>Total ST Liabilities</b>	<b>1,007</b>	<b>1,103</b>	<b>1,084</b>	<b>1,329</b>	<b>1,370</b>
Total Long Term Debt	740	953	1,243	1,103	1,003
Other Non-Current Liabilities	95	114	135	145	190
<b>Equity</b>	<b>1,152</b>	<b>1,259</b>	<b>1,365</b>	<b>1,425</b>	<b>1,485</b>
<b>Total Liabilities and Equity</b>	<b>2,996</b>	<b>3,429</b>	<b>3,826</b>	<b>4,001</b>	<b>4,048</b>

Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash flow from Operations	127.3	353.0	503.2	524.5	240.1
Cash flow from Financing	305.7	255.6	121.9	(67.5)	21.9
Cash flow from Investing	(434.4)	(570.9)	(600.6)	(498.8)	(268.2)
Change in Cash	(1.3)	37.6	24.6	(41.7)	(6.2)
Ending Cash	39.0	76.6	101.2	59.4	53.2

Source: Company Filings, Albilad Capital Research Estimates

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

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

## Albilad Capital Rating Methodology

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

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

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

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

**To be Revised:** No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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