



US\$0.673bn Market cap
56% Free float
US\$6.86mn Avg. daily volume

Target price 34.4 0.8% over current
Consensus price 45.3 32.8% over current
Current price 34.1 as at 21/1/2015

Research Department
ARC Research Team

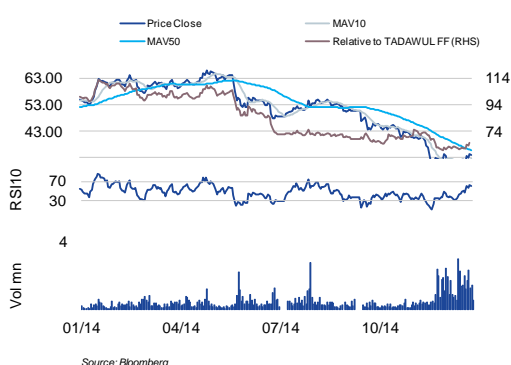
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Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Earnings

Period End (SAR)	12/13A	12/14E	12/15E	12/16E
Revenue (mn)	1,772	1,907	1,988	2,197
Revenue Growth	18.4%	7.7%	4.3%	10.5%
EBITDA (mn)	223	155	231	299
EBITDA Growth	-2.7%	-30.5%	49.1%	29.5%
EPS	3.41	1.54	1.90	3.16
EPS Growth	4.3%	-54.9%	23.2%	66.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

ASTRA Group

Q4 profit slumps as expected

Astra's Q4 2014 results were largely in-line with our estimates as revenues slipped 3.5% y-o-y and net profit plunged by 64.4%. With continued political instability in Iraq and the recent slump in global commodity prices, we expect Astra's bottom-line to remain under pressure. In addition, the operational issues at its subsidiary, International Building Systems is further aggravating the situation. Nevertheless, the company's sequential performance has been improving over the last couple of quarters. For now, we reiterate our Neutral rating on the company with a target of SAR34.4.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues:** Astra's Q4 2014 revenues slipped 3.5% y-o-y to SAR491.8mn, coming in line with our SAR487mn estimate. For the full year, revenues were up 8% y-o-y to SAR1,913mn.
- Gross and operating profits:** Gross profit fell 22.3% y-o-y to SAR135.8mn, below our SAR144.5mn estimate, while operating profit stood at SAR20.6mn (-38.2% y-o-y) as compared to our SAR19.8mn forecast. The company attributed its dismal operating profits to lower margins in the structural steel business due to lower sales, additional provisions and an increase in project costs. In addition, the steel factory in Iraq continued to be plagued by low production and sales volumes due to the ongoing political instability in the country.
- Net profit:** Astra's net profit plunged 64.4% y-o-y to SAR25.7mn, as compared to our SAR21.3mn estimate. The company blamed the lower other income from its Pharma sector for the fall in other income. However, we believe other income was still higher than our forecast. For the entire 2014, net profit fell 56.6% y-o-y to SAR109.8mn.

Figure 1 Astra Industrial: Summary of Q4 2014 results

(SAR mn)	Q4 2013	Q3 2014	Q4 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	509.7	468.6	491.8	-3.5%	4.9%	487.0
Gross profit	174.7	136.0	135.8	-22.3%	-0.1%	144.5
Gross profit margin (%)	34.3%	29.0%	27.6%			29.7%
Operating profit	33.3	5.4	20.6	-38.2%	281.6%	19.8
Net profit	72.3	17.9	25.7	-64.4%	43.7%	21.3

Source: Company data, Al Rajhi Capital



Conclusion: Astra continues to be bogged down by political instability in Iraq, which is impacting sales at its Iraq steel plant. The slowing global growth and the recent slump in global commodity prices would further negatively impact the company's chemical and steel business units. In addition, the company's structural steel business, the International Building Systems Factory, is witnessing operational issues. The stock has corrected sharply from a high of SAR65.75 in May 2014 to SAR34.1 currently. For now, we reiterate our Neutral rating on the company with a target price of SAR34.4.



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. 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 6-9 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 6-9 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 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair 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.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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.

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