Equity Strategy Research
Saudi Arabia Market
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الراجحي المالية
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Key themes

Appraoching end of Q3, this report presents our estimates in terms of both top and bottom lines. It incorporates all the sectors and companies under coverage including petrochemical, telecom, food, retail, and other covered companies such as Ma'aden and Saudi Ceramics.

Implications

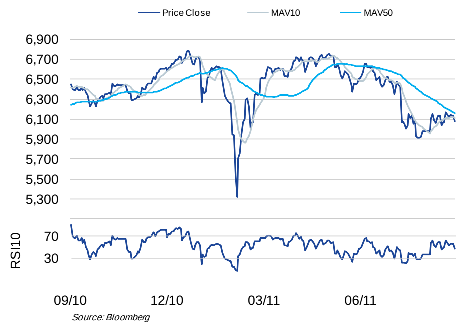
We expect Saudi companies to report decent results this quarter driven by good crude prices and increasing spending by the government. Petrochemical and retail sectors are likely to achieve stronger results than other sectors. The recent oil price downturn should impact petrochemical sector to an extent but support food companies (packaging costs)

What do we think?

Sector	Rating	Price Target
SABIC	Overweight	SAR131.2
Yansab	No rating	
Saudi Kayan	Underweight	SAR15.7
Sipchem	Overweight	SAR24.5
Petro Rabigh	No rating	
STC	Overweight	SAR43.6
Mobily	Overweight	SAR72.9
Zain	Neutral	SAR7.3
Almarai	Overweight	SAR110.7
Savola	Overweight	SAR32.8
Herfy	Neutral	* SAR82.53
Jarir	Neutral	SAR190.6
Alhokair	Neutral	SAR50.4
Alothaim	Overweight	SAR106.2
Ma'aden	Overweight	SAR31.0
Ceramics	Overweight	SAR161.6

*The target price of Herfy has been adjusted by stock dividend

Saudi Arabia market index



Saudi companies results preview

we expect respectable Q3 results

Approaching end of Q3, we anticipate overall respectable results by the Saudi companies in the third quarter driven by the kingdom's strong economic outlook. We expect petrochemical companies to have a strong year on year growth in top and bottom line supported by overall strong crude prices, though lower than previous quarters. Food companies are likely to have slightly weaker results due to high foodstuff inflation while we believe that retailers will continue delivering outstanding results supported by favourable demographics and consumer spending. In telecom sector, we expect Mobily to continue its momentum whilst STC to report decent results. Zain, on the other hand, will continue its strong operating results; however, high debt will weigh on its bottom line. Furthermore, we expect a strong net profit growth for Ma'aden driven by higher gold prices and the launch of its phosphate business segment. As for Saudi Ceramics, we believe the company will continue its decent year on year growth, though Q3 is not the best season for the company.

Below we summarise our 2011 Q3 revenues and net profit forecasts for the companies we cover.

Figure 1. Saudi market: our estimates of the companies under coverage

(SAR mn)	Revenues			Net profit		
Sector/ Company	2010Q3A	2011Q3E	YOY% chg.	2010Q3A	2011Q3E	YOY% chg.
Petrochemical						
Sabic	37,877	46,992	24.1%	5,326	7,431	39.5%
Yansab	1,603	2,390	49.1%	356	819	129.9%
Saudi Kayan	0	0	n/a	-5	-11	110.0%
Sipchem	509	815	60.3%	84	152	81.2%
Petro Rabigh	11,275	14,194	25.9%	-237	647	n/m
Telecom						
STC	13,232	14,492	9.5%	* 3316.8	2,841	-14.4%
Mobily	3,989	5,007	25.5%	1,138	1,370	20.4%
Zain	1,662	2,038	22.6%	-544	-420	-22.8%
Food & agriculture						
Almarai	1,839	2,089	13.6%	425	434	2.2%
Savola	5,613	6,519	16.1%	283	306	8.1%
Herfy	146	167	14.7%	30	34	12.5%
Retail						
Jarir	735	939	27.8%	103	120	16.6%
Alhokair	867	971	12.0%	174	116	-33.6%
Alothaim	967	1,153	19.3%	46	50	9.8%
Other						
Ma'aden	159	291	82.6%	-0.2	72	n/m
Saudi Ceramics	255	286	12.3%	46	53	15.2%

Source: Company data, Al Rajhi Capital

* Net profit in Q3 2010 includes a one time cash flow of SAR728mn earned on account of sale of mobile tower to Benariang

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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 15% 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 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% 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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