



<b>US\$bn</b>	<b>60.1%</b>	<b>US\$3.300mn</b>
Market cap	Free float	Avg. daily volume

Target price	<b>39.50</b>	15.0% over current
Consensus price	<b>40.00</b>	16.3% over current
Current price	<b>34.40</b>	as at 17/10/2010

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Existing rating

**Underweight**   **Neutral**   **Overweight**

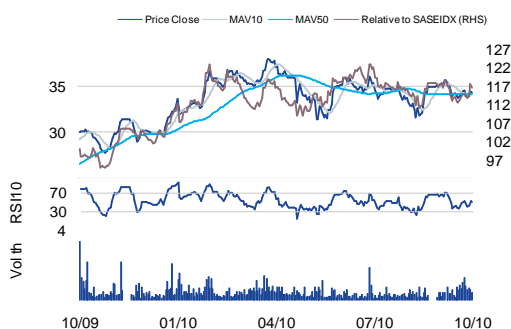
## Savola Group

### Q3: below expectations

#### 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

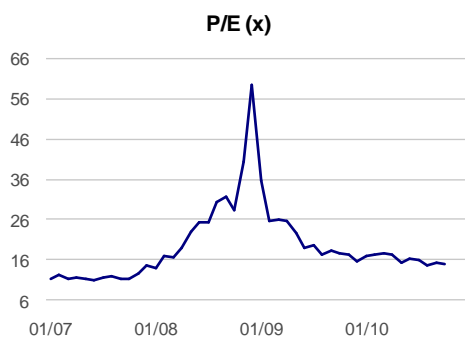


#### Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	17,917	20,761	23,797	26,890
Revenue Growth	29.9%	15.9%	14.6%	13.0%
EBITDA (SARmn)	1,306	1,275	1,481	1,708
EBITDA Growth	61.5%	-2.3%	16.1%	15.3%
EPS	1.90	2.30	2.47	2.60
EPS Growth	370.2%	20.6%	7.5%	5.5%

Source: Company data, Al Rajhi Capital

#### Valuation



Source: Company data, Al Rajhi Capital

Savola released Q3 results with modest year-on-year growth in revenues and net income of 10% and 1.8% respectively. These figures are below our forecasts in terms of both revenues and net income. We think that the company is struggling in managing its costs and maintaining strong sales growth. This resulted in a disappointing results in three consecutive quarters. Therefore, we expect to lower our target price and downgrade our rating.

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

- Revenues:** Year-on-year growth of 10% in Q3 was below our estimate of 15%. Lower commodity food prices seem to have had an impact on the company food division sales. We assume that retail division sales showed modest but not strong growth despite the recent acquisition of new stores. This suggests that Savola is struggling either in managing newly acquired stores or in improving same store sales. Nevertheless, sales growth of 10% is a solid outcome, and our main concern is declining profit margins.
- Net profit:** Net profit grew by just 1.8% year-on-year in Q3. Weak profits growth has been a continuous concern since the first quarter of 2010. We question the company's ability to manage its costs. As in the previous three quarters, the gross margin declined, in this case from from 17.9% in Q3 2009 to 15.4% in Q3 2010. Since Savola hedges against commodities prices and it can pass most of price increases to consumers, we find it difficult to explain the sharp decline in the gross margin in 2010.
- Investments and dividends are encouraging:** The good news for Savola so far in 2010 has been the impressive results of Almarai and Herfy, which have contributed to strong share price performance by those companies. Savola owns 29.9% and 49.0% in Almarai and Herfy respectively, and the increase in the market value of its stakes is positive for Savola's fair value. Furthermore, Savola continues to distribute quarterly dividends of SAR0.25 per share, implying a dividend yield of nearly 3%. We think that this dividend is sustainable and can support the share price.
- Conclusion:** Savola is a respected group with strong positions in the food and retail sectors. It also owns invaluable stakes in strong companies such as Almarai and Herfy. However, while Savola showed strong sales growth in Q1, it failed to achieve similar growth in Q2 and Q3. More importantly, it has struggled to maintain last year's margins over three quarters, and hence has reported rather weak net profits. We expect any boost to fair value from Almarai and Herfy to be more than offset by downgrades to our operating forecasts. Thus, we expect to cut our target price and investment rating.



### Corporate summary

Savola, one of the leading companies in food and retail industries, is a group that holds several companies that operate in different industries. According to Savola's website, the Group operates its businesses through four Core Sectors, these are "Savola Foods Sector", including Edible Oils, Foods, and Sugar, "Savola Retail Sector", including Retail (Panda - and Hyper Panda), Real Estate Sector (Kinan International) and Savola Plastics Sector. Furthermore, Savola has a major investment in the leading dairy company in the GCC (Almarai) and in Herfy Foods Company with stakes of 29.9% and 49% respectively.

### Share information

Market cap (SAR/US\$) bn / bn  
 52-week range 27.80 - 38.00  
 Daily avg volume (US\$) 3.300mn  
 Shares outstanding 500.0mn  
 Free float (est) 60.1%

Performance:	1M	3M	12M
Absolute	-1.4%	-2.6%	15.1%
Relative to index	0.1%	-4.7%	17.8%

Major Shareholder:

Mohammed Ibrahim Alisa	11.9%
General Oraganistion for Social Insurance	10.9%

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	17,917	20,761	23,797	26,890
EBITDA (SARmn)	1,306	1,275	1,481	1,708
Net Profit (SARmn)	1,183	1,275	1,346	1,484
EPS (SAR)	1.90	2.30	2.47	2.60
DPS (SAR)	1.00	1.25	1.05	1.21
EPS Growth	370.2%	20.6%	7.5%	5.5%
EV/EBITDA (x)	12.4	11.2	9.4	8.5
P/E (x)	18.1	15.0	13.9	13.2
P/B (x)	2.5	2.3	2.2	2.0
Dividend Yield	2.9%	3.6%	3.1%	3.5%

Source: Company data, Al Rajhi Capital



## 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 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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