



**US\$21.33bn** Market cap  
**16.4%** Free float  
**US\$5.77mn** Avg. daily volume

Target price **44.10** 10.25% over current  
Consensus price **47.40** 18.5% over current  
Current price **40.00** as at 1/11/2010

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Underweight **Neutral** Overweight

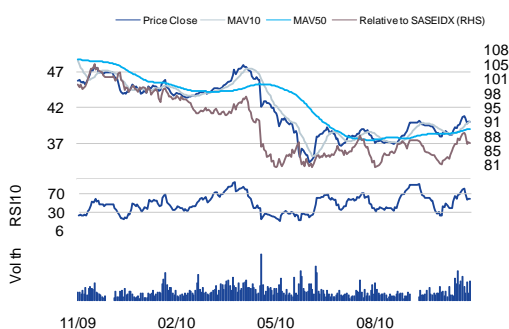
#### Key themes

We expect mobile to outperform fixed-line telecoms in Saudi Arabia over the next few years. Growth in 3.5G mobile broadband threatens the DSL market dominated by STC. We regard STC's overseas expansion as confused and think that Mobily in particular has taken advantage of STC's distraction to strengthen its position in the domestic market.

#### Implications

With questions about its strategy and dull near-term earnings prospects, STC lacks catalysts for share price performance. However, STC is the least expensive of the three Saudi telecoms operators and its 7.5% yield offers support. We rate STC Neutral.

#### Performance

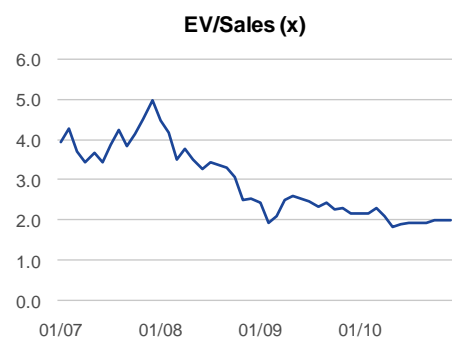


#### Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	50,780	51,788	53,693	56,782
Revenue Growth	7.0%	2.0%	3.7%	5.8%
EBITDA (mn)	20,612	19,826	20,996	22,713
EBITDA Growth	-5.2%	-3.8%	5.9%	8.2%
EPS	5.09	4.70	4.80	5.31
EPS Growth	-7.8%	-7.6%	2.1%	10.6%

Source: Company data, Al Rajhi Capital

#### Valuation



Source: Company data, Al Rajhi Capital

## STC Prospects still mixed

*This report follows our Flash View of 20th October. STC's Q3 results support our view that earnings bottomed in H1 2010. While the operating performance was encouraging, we are slightly concerned by a doubling of financial costs and high capex in the period. Near-term prospects remain dull and we do not expect a material acceleration in growth till 2012. While STC's 7.5% yield is attractive, our target price implies only 10% upside and so we remain Neutral.*

**Sales growth encouraging:** STC reported year-on-year sales growth of 2.3% for Q3; compared to Q2 growth was 5.1%. The growth was above our estimate and is a sign that STC's results bottomed in H1 2010, as we argued in our recent report *Saudi Telecoms Sector: Mobily still our favourite*. However, STC has given few precise indications of what factors lay behind the stronger growth.

**EBITDA and operating profit recover:** EBITDA in Q3 rose by 6% year-on-year and was 8% above our estimate. Employee costs in particular were lower than we had expected. Depreciation and amortisation charges were about 5% above our estimate, reflecting the impact of further expansion overseas. However, the rise in EBITDA was enough to outweigh the high depreciation. Operating profit consequently grew by 5% year-on-year and was 10% above our estimate. Operating profit was 38-39% higher than the very depressed levels of Q1 and Q2.

**Net profit affected by capital gains and adoption of IAS 39:** Historically STC's net profit has been affected by large exceptional items, so operating profit is a better guide to underlying trends. As reported, net profit rose by 38% year-on-year and by 61% quarter-on-quarter. However, net profit was again affected by special factors. These included a capital gain of SAR728mn on the sale of mobile towers in India, excluding which growth would have been 8% year-on-year and 26% quarter-on-quarter. Of greater note was the doubling of financial costs to SAR731m that arose from STC's adoption of IAS 39. Looking ahead, we assume financial costs fall back from this level, although this cannot be assured.

**Capex surprisingly high:** Combined expenditure on tangible and intangible fixed assets was SAR6.10bn in Q3, or 46% of sales. Investment in 3G mobile licences in India was one of the factors behind this high spending, but certainly not the only one. Since high investment was partly offset by high proceeds from asset disposals, STC ended Q3 with net debt little changed at SAR24.3bn. STC remains very strong financially with a net debt/EBITDA ratio of 1.1x. However, Mobily is arguably stronger still with a net debt/EBITDA ratio of 1.0x.

**We have modestly revised our forecasts:** While we think H1 was the trough for STC's results, the near-term outlook for sales and profits growth is still dull. We have therefore only modestly raised our forecasts for 2010 and 2011. We expect faster growth between 2012 and 2014, followed by a gradual slowdown.

**Valuation and conclusion:** We have raised our estimate of long-run fair value per share for STC by 5% to SAR44.4. Our estimate of fair value based on peer comparisons remains SAR43.8. Our new target price of SAR44.1 is an average of the two methods and is only 2% above our previous target. While STC's strong balanced sheet and dividend yield of 7.5% remain attractive, on this basis STC's share price only offers around 10% appreciation potential. We remain Neutral.



### Corporate summary

STC is the largest telecoms operator in the GCC region, with a market value of US\$21bn. STC completely dominates the Saudi fixed-line telecoms market and retains the highest share of the mobile market by revenues. STC is committed to expansion by investment abroad and acquisition, and has made major investments in Turkey, Malaysia, South Africa and elsewhere. These investments account for around one-quarter of its value.

### Share information

Market cap (SAR/US\$)	80.00bn / 21.33bn		
52-week range	34.30 - 48.00		
Daily avg volume (US\$)	5.77mn		
Shares outstanding	2,000mn		
Free float (est)	16.4%		

Performance:	1M	3M	12M
Absolute	3.4%	5%	-12.7%
Relative to index	3.9%	4.3%	-13.5%

Major Shareholder:			
Public Investment Fund	70%		
Gen. Organisation for Social Insc.	7%		

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	50,780	51,788	53,693	56,782
EBITDA (SARmn)	20,612	19,826	20,996	22,713
Net Profit (SARmn)	10,467	10,001	10,157	11,357
EPS (SAR)	5.09	4.70	4.80	5.31
DPS (SAR)	3.00	3.00	3.09	3.24
EPS Growth	-7.8%	-7.6%	2.1%	10.6%
EV/EBITDA (x)	4.9	5.2	4.9	4.4
P/E (x)	7.9	8.5	8.3	7.5
P/B (x)	1.9	1.8	1.6	1.5
Dividend Yield	7.5%	7.5%	7.7%	8.1%

Source: Company data, Al Rajhi Capital

## Q3 2010 results improving, but we still have concerns

### Revenue growth encouraging

STC reported year-on-year revenue growth of 2.3% for Q3 2010; compared to Q2 growth was 5.1%. The year-on-year figure comfortably exceeded our estimate of growth of 0.7% and is a promising sign that STC's results reached their trough in H1 2010, as we suggested in our recent report *Saudi Telecoms Sector: Mobily still our favourite* (13th October, 2010). We suspect that this recovery in growth principally reflects continuing expansion in foreign markets and the recent weakness of the US dollar, to which the Saudi riyal is pegged; dollar weakness should push up revenues generated overseas. However, STC has provided few precise indications of which factors lay behind the improved sales performance.

Year-on-year sales growth in Q3 was 2.3%, after a decline of 0.7% in Q2

Figure 1. STC: year-on-year growth rates over past six quarters

	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Simple average
Sales	5.4%	-4.5%	5.7%	3.1%	-0.7%	2.3%	1.9%
EBITDA	-11.3%	-21.4%	4.5%	-20.5%	-12.3%	6.4%	-9.1%
Operating profit	-25.7%	-32.4%	-6.4%	-38.7%	-27.4%	4.6%	-21.0%

Note. STC's last major investment abroad was in Oger Telecom with positions in Turkey and South Africa in Q2 2008. Results for the last six quarters contain no inorganic boost from overseas acquisitions.

Source: Company data, Al Rajhi Capital

### EBITDA and operating profit recover

EBITDA in Q3 reached SAR5,417mn, up by 6.3% year-on-year and 8% above our estimate of SAR5,009mn. Aggregate employee costs in particular were lower than we had expected, although this improvement was balanced by higher aggregate "other" costs than we had forecast (rental expenses for equipment, property and vehicles, utility expenses, consultancy fees, etc.). Combined depreciation and amortisation charges of SAR2,162mn were about 5% above our estimate; upward pressure on depreciation charges mainly reflects the impact of further expansion overseas. However, the improvement in EBITDA was sufficient to outweigh the higher depreciation charges. Consequently, operating profit rose by 4.6% year-on-year to SAR3,255mn, or 10% above our estimate of SAR2,952mn. Operating profit was 38-39% higher than the very depressed levels of Q1 and Q2.

Employee costs in particular were below our forecast, while depreciation and amortisation charges were higher

Figure 2. STC: operating performance in Q3 2010

(SAR mn)	Q3 2009	Q2 2010	Q3 2010	% chg.	ARC Q3 est.
Revenues	12,934	12,591	13,232	2.3%	13,010
Cost of services and SG&A costs	-7,842	-8,087	-7,815	-0.3%	-8,001
EBITDA	5,092	4,504	5,417	6.4%	5,009
EBITDA margin (%)	39.4%	35.8%	40.9%	+1.5pp	38.5%
Depreciation and amortisation charges	-1,980	-2,159	-2,160	9.1%	-2,057
Operating profit	3,112	2,345	3,257	4.6%	2,952

Source: Company data, Al Rajhi Capital



We regard operating profit as a better guide to the underlying trend of profitability for STC than volatile net profit

Excluding the gain on mobile tower sales, net profit would have risen by 8% year-on-year

We do not yet know for certain whether financial costs will fall from the very high level of Q3

Aggregate capital investment was 46% of sales in Q3

## Net profit affected by exceptional factors

As reported, net profit of SAR3,317mn rose by 38% year-on-year and by 61% quarter-on-quarter. However, historically STC's net profit has been heavily affected by items that are arguably exceptional, notably large foreign exchange gains and losses. We therefore regard operating profit as a better guide to the underlying trend of profitability within STC than net profit. Q3 2010 was no exception to the rule, as net profit was affected by two major special positive items and one major special negative item.

### Special items affecting net profit

#### Large capital gain on tower sales

On the positive side, the first unusual factor boosting net profit was a large capital gain of SAR728mn resulting from the sales of mobile communications towers by STC's affiliate Aircel in India. Excluding this factor alone, we calculate that net profit would have been SAR2,589mn in Q3, representing a less spectacular increase of 8% year-on-year and of 26% quarter-on-quarter. This underlying figure for net profit is again about 10% above our estimated net profit for the quarter of SAR2,355mn.

#### Foreign exchange gain

The second unusual factor was a foreign exchange gain of SAR254mn. Coincidentally, this figure was not far above the foreign exchange gain of SAR216mn reported in Q3 2009, so it did not greatly boost the year-on-year growth rate in net profit. However, this factor certainly helped boost net profit compared to Q2, for which STC reported a foreign exchange loss of SAR10mn.

#### Doubling of financial costs due to adoption of IAS 39

On the negative side, in an important and potentially worrying development, financial costs more than doubled both year-on-year and quarter-on-quarter to SAR731mn. This figure may be compared with the range over the preceding six quarters of SAR327-427mn. The reason for the increase was STC's adoption of International Accounting Standard (IAS) 39. This standard regulates accounting for financial instruments such as derivatives and hedging contracts, which as a large international company we believe STC uses quite regularly. From contact with STC we understand that the strong increase in financial costs in Q3 reflected cumulative application of the impact of IAS39 for the first nine months of the year. In other words, adoption of this standard appears to have produced a one-time boost to costs. On this basis, it is reasonable to expect financial expenses to fall back from next quarter rather than maintain the high level of Q3.

In our earnings model for STC, we have assumed that financial costs do indeed fall back towards around SAR350mn in Q4 2010, and that financial costs gradually decline thereafter as the company pays down debt. However, we cannot be certain that our assumption is correct until STC releases its full-year results early in 2011.

## Capital expenditure surprisingly high

When discussing capital expenditure by telecoms operators, we usually combine capital expenditure on equipment and other tangible fixed assets with investment in intangible assets such as telecoms operating licences, since without these intangible assets telecoms operators cannot carry on business. In Q3, STC invested SAR4.90bn in tangible fixed assets and SAR1.20bn in intangible assets. Combined capital expenditure of SAR6.10bn represented a surprisingly high 46% of revenues for Q3, compared to 15% and 26% in Q1 and Q2 respectively. The purchase of third-generation mobile operating licences in India by STC's affiliate Aircel appears to have been the key reason for the investment on intangible assets. However, beyond continuing enhancement of network infrastructure in various overseas operations, we do not have a clear idea why investment in tangible assets was so high.

Figure 3. STC: capital investment so far in 2010

(SAR mn)	Q1 2010	Q2 2010	Q3 2010
Tangible fixed assets	1,557	1,281	4,898
Intangible fixed assets	359	1,950	1,201
<b>Total capital investment</b>	<b>1,916</b>	<b>3,231</b>	<b>6,099</b>
Total capital investment as % of sales	15.3%	25.7%	46.1%

Source: Company data, Al Rajhi Capital



Measured by net debt/EBITDA, Mobily is now financially even stronger than STC

The high level of capital expenditure in Q3 was partly offset by proceeds from asset disposals of SAR1.57bn. Consequently, STC ended Q3 with net debt little changed from the level of the previous quarter at SAR24.29bn. STC remains very strong financially: we calculate the net debt/annualised EBITDA ratio for Q3 at 1.1x. However, it is worth noting that we calculate the same ratio for Mobily at 1.0x for Q3. Accordingly, it is arguable that Mobily has overtaken STC to become financially the safest of the Saudi telecoms operators.

### We have revised our forecasts modestly

In our recent report *Saudi Telecoms Sector: Mobily still our favourite*, we outlined our views regarding the likely development of STC's revenues and earnings over the next few years. We argued that STC's investment in next-generation network (NGN) systems should yield new growth opportunities and cost savings in the domestic market, but these would probably take some years to materialise. Similarly, we argued that the contribution to sales from foreign units was rising, that but increasing depreciation was likely to weigh on profits for a few years yet. In summary, we considered that STC's results had reached a bottom in H1 2010 but did not expect growth to pick up rapidly.

We not expect a material acceleration in STC's growth rates until the period 2012-2014

The Q3 results released since the publication of our sector report very much support our stance on STC. While the results exceeded our forecasts by about 10%, in our opinion they only really look strong in comparison to the very weak Q1 and Q2 figures – STC's poorest quarterly results since at least the start of 2007. We have therefore only modestly raised our forecasts for 2010 and 2011. We do not expect a material acceleration in STC's results until 2012, for which we now predict revenue growth of 6% and EBITDA growth of 6%. We assume that the domestic initiatives and further expansion overseas should permit a period of reasonably robust growth between 2012 and 2014, followed by a gradual slowdown as the overseas operations start to mature.

We have raised our target price by 2% to SAR44.1

### Valuation and conclusion

We have reflected our new forecasts and updated WACC assumptions in our long-run discounted economic profit (DEP) model. In consequence, we have raised our estimate of long-run fair value per share for STC by 5%, from SAR42.3 to SAR44.4. Our estimate of fair value per share on the basis of comparisons with peer companies remains SAR43.8. Our target price for STC remains a simple average of our estimates of fair value under the two methods, i.e. SAR44.1; this is only 2% above our last published target price of SAR43.1. While STC's strong balanced sheet and dividend yield of 7.5% remain attractive, on this basis we believe that STC's share price only offers around 10% appreciation potential. We retain our Neutral investment rating.



We expect only modest sales growth in 2010 and 2011, but a pick-up to growth of 6% in 2012

We expect the dividend to be maintained at SAR3.0 in 2010

We expect operating profit to fall for the second year running in 2010, but to grow by 10% in 2011

We expect the EBITDA margin to drop by 2.3 percentage points in 2010, but to expand in 2011

ROIC remains well above cost of capital; STC is generating economic profits

Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
<b>Revenue</b>	<b>47,469</b>	<b>50,780</b>	<b>51,788</b>	<b>53,693</b>	<b>56,782</b>
Access Charges	(6,131)	(7,494)	(8,442)	(8,396)	(8,517)
Employee Costs	(6,164)	(6,772)	(6,505)	(6,443)	(6,814)
Government Charges	(5,542)	(5,664)	(5,736)	(5,906)	(6,246)
S.G. & A. Costs	(5,762)	(7,614)	(7,006)	(7,657)	(8,233)
Repairs & Maintenance Costs	(2,128)	(2,623)	(4,272)	(4,295)	(4,259)
<b>Operating EBIT</b>	<b>15,335</b>	<b>12,814</b>	<b>11,165</b>	<b>12,266</b>	<b>13,453</b>
Cash Operating Costs	(25,727)	(30,168)	(31,962)	(32,697)	(34,069)
<b>EBITDA</b>	<b>21,743</b>	<b>20,612</b>	<b>19,826</b>	<b>20,996</b>	<b>22,713</b>
Depreciation and Amortisation	(6,408)	(7,799)	(8,661)	(8,729)	(9,260)
<b>Operating Profit</b>	<b>15,335</b>	<b>12,814</b>	<b>11,165</b>	<b>12,266</b>	<b>13,453</b>
Net financing income/(costs)	(809)	(1,023)	(1,456)	(1,014)	(1,006)
Forex and Related Gains	(1,415)	642	353	-	-
Provisions	(675)	(811)	(314)	-	-
Other Income	(394)	(178)	1,280	-	-
Other Expenses					
<b>Net Profit Before Taxes</b>	<b>12,042</b>	<b>11,443</b>	<b>11,028</b>	<b>11,253</b>	<b>12,447</b>
Taxes	(832)	(977)	(1,027)	(1,095)	(1,090)
Minority Interests	(172)	(290)	(600)	(563)	(747)
<b>Net profit available to shareholders</b>	<b>11,038</b>	<b>10,176</b>	<b>9,401</b>	<b>9,595</b>	<b>10,611</b>
Dividends	-	(6,000)	(6,000)	(6,180)	(6,489)
Transfer to Capital Reserve	-	-	-	-	-
	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Adjusted Shares Out (mn)	2,000	2,000	2,000	2,000	2,000
CFPS (SAR)	8.81	9.13	9.33	9.44	10.31
EPS (SAR)	5.52	5.09	4.70	4.80	5.31
DPS (SAR)	0.000	3.000	3.000	3.090	3.245
<b>Growth</b>	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
Revenue Growth	37.8%	7.0%	2.0%	3.7%	5.8%
EBITDA Growth	30.1%	-5.2%	-3.8%	5.9%	8.2%
Operating Profit Growth	21.5%	-16.4%	-12.9%	9.9%	9.7%
Net Profit Growth	-8.2%	-7.8%	-7.6%	2.1%	10.6%
EPS Growth	-8.2%	-7.8%	-7.6%	2.1%	10.6%
<b>Margins</b>	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
EBITDA margin	45.8%	40.6%	38.3%	39.1%	40.0%
Operating Margin	32.3%	25.2%	21.6%	22.8%	23.7%
Pretax profit margin	25.4%	22.5%	21.3%	21.0%	21.9%
Net profit margin	23.3%	20.0%	18.2%	17.9%	18.7%
<b>Other Ratios</b>	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
ROCE	20.7%	16.6%	13.7%	14.4%	14.9%
ROIC	28.9%	15.7%	12.3%	13.0%	13.8%
ROE	30.0%	25.5%	21.4%	20.2%	20.7%
Effective Tax Rate	6.9%	8.5%	9.3%	9.7%	8.8%
Capex/Sales	34.3%	30.8%	29.3%	25.1%	24.3%
Dividend Payout Ratio	0.0%	59.0%	63.8%	64.4%	61.2%
<b>Valuation Measures</b>	<b>12/08A</b>	<b>12/09A</b>	<b>12/10E</b>	<b>12/11E</b>	<b>12/12E</b>
P/E (x)	7.2	7.9	8.5	8.3	7.5
P/CF (x)	4.5	4.4	4.3	4.2	3.9
P/B (x)	2.1	1.9	1.8	1.6	1.5
EV/Sales (x)	2.1	2.0	2.0	1.9	1.8
EV/EBITDA (x)	4.7	4.9	5.2	4.9	4.4
EV/EBIT (x)	6.6	7.9	9.2	8.5	7.5
EV/IC (x)	1.4	1.2	1.2	1.2	1.1
Dividend Yield	0.0%	7.5%	7.5%	7.7%	8.1%

Source: Company data, Al Rajhi Capital



STC's balance sheet is expanding as a result of investment overseas

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	8,061	7,710	5,405	4,378	7,732
Current Receivables	8,120	11,461	11,831	12,287	12,492
Inventories	778	710	807	838	852
Other current assets	1,987	2,782	3,131	3,131	3,131
<b>Total Current Assets</b>	<b>18,946</b>	<b>22,663</b>	<b>21,174</b>	<b>20,633</b>	<b>24,206</b>
Fixed Assets	44,382	52,737	56,096	61,932	67,552
Investments	2,452	2,533	2,482	2,482	2,482
Goodwill	-	-	-	-	-
Other Intangible Assets	31,695	29,222	31,811	30,720	29,628
<b>Total Other Assets</b>	<b>2,287</b>	<b>2,433</b>	<b>2,372</b>	<b>2,372</b>	<b>2,372</b>
<b>Total Non-current Assets</b>	<b>80,816</b>	<b>86,924</b>	<b>92,761</b>	<b>97,506</b>	<b>102,035</b>
<b>Total Assets</b>	<b>99,762</b>	<b>109,587</b>	<b>113,935</b>	<b>118,139</b>	<b>126,241</b>
Short Term Debt	3,905	8,579	8,664	8,664	8,664
Trade Payables	18,994	20,762	20,904	21,070	24,227
Dividends Payable	-	-	-	-	-
Other Current Liabilities	-	(0)	(0)	0	0
<b>Total Current Liabilities</b>	<b>22,899</b>	<b>29,341</b>	<b>29,568</b>	<b>29,734</b>	<b>32,891</b>
Long-Term Debt	28,081	22,711	21,960	21,960	21,960
Other LT Payables	3,482	3,859	4,778	4,778	4,778
Provisions	2,738	2,844	3,109	3,109	3,109
<b>Total Non-current Liabilities</b>	<b>34,301</b>	<b>29,414</b>	<b>29,847</b>	<b>29,847</b>	<b>29,847</b>
Minority interests	4,924	8,798	8,823	9,386	10,133
Paid-up share capital	20,000	20,000	20,000	20,000	20,000
Total Reserves	17,638	22,035	25,697	29,172	33,370
<b>Total Shareholders' Equity</b>	<b>37,638</b>	<b>42,035</b>	<b>45,697</b>	<b>49,172</b>	<b>53,370</b>
<b>Total Equity</b>	<b>42,562</b>	<b>50,833</b>	<b>54,520</b>	<b>58,557</b>	<b>63,503</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>99,762</b>	<b>109,587</b>	<b>113,935</b>	<b>118,139</b>	<b>126,241</b>

STC's financial ratios are mostly very healthy

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	23,925	23,580	25,219	26,246	22,892
Net Debt/EBITDA (x)	1.10	1.14	1.27	1.25	1.01
Net Debt to Equity	56.2%	46.4%	46.3%	44.8%	36.0%
EBITDA Interest Cover (x)	26.9	20.1	13.6	20.7	22.6
BVPS (SAR)	18.82	21.02	22.85	24.59	26.69

Capex exceeded 30% of sales in 2008 and 2009, although we expect investment spending to moderate from now on

Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	12,042	11,443	11,028	11,253	12,447
Depreciation & Amortisation	6,408	7,799	8,661	8,729	9,260
Decrease in Working Capital	1,610	(3,671)	(1,206)	(320)	2,937
Other Operating Cashflow	1,089	385	(336)	(1,095)	(1,090)
<b>Cashflow from Operations</b>	<b>21,149</b>	<b>15,956</b>	<b>18,146</b>	<b>18,566</b>	<b>23,554</b>
Capital Expenditure	(16,278)	(15,637)	(15,158)	(13,474)	(13,789)
New Investments	-	-	(108)	-	-
Others	(19,190)	2,094	1,664	-	-
<b>Cashflow from investing activities</b>	<b>(35,468)</b>	<b>(13,542)</b>	<b>(13,602)</b>	<b>(13,474)</b>	<b>(13,789)</b>
<b>Net Operating Cashflow</b>	<b>(14,319)</b>	<b>2,413</b>	<b>4,544</b>	<b>5,093</b>	<b>9,766</b>
Dividends paid to ordinary shareholders	(8,552)	(5,943)	(6,091)	(6,120)	(6,412)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	4,908	3,874	(93)	-	-
<b>Cashflow from financing activities</b>	<b>14,763</b>	<b>(2,764)</b>	<b>(6,849)</b>	<b>(6,120)</b>	<b>(6,412)</b>
Total cash generated	443	(351)	(2,305)	(1,027)	3,354
Cash at beginning of period	7,618	8,061	7,710	5,405	4,378
<b>Implied cash at end of year</b>	<b>8,061</b>	<b>7,710</b>	<b>5,405</b>	<b>4,378</b>	<b>7,732</b>

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	34.3%	30.8%	29.3%	25.1%	24.3%

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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