

Savola Group Company

Food Sector

SAVOLA AB: Saudi Arabia

18 January 2011

الراجحي المالية
Al Rajhi Capital



US\$4.346bn Market cap
60.1% Free float
US\$4.868mn Avg. daily volume

Target price **39.50** 20.7% over current
Consensus price **40.00** 22.7% over current
Current price **32.60** as at 17/1/2011

Existing rating

Underweight

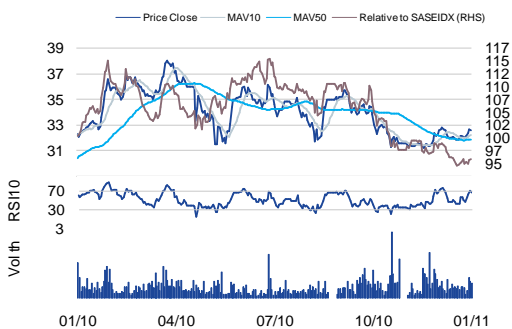
Neutral

Overweight

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

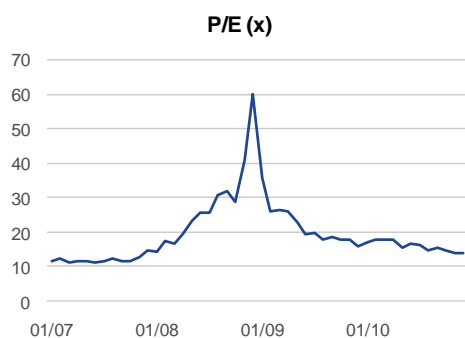


Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	17,917	20,761	23,797	26,890
Revenue Growth	29.9%	15.9%	14.6%	13.0%
EBITDA (mn)	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 Group

Q4 results: disappointing

Savola posted preliminary Q4 results with strong year-on-year sales growth of 21% and operating profit growth of 53%, but a huge fall in net profit of 99%. Sales growth was well above our forecast of 14%, but net profit of SAR2mn was far below our forecast of SAR314mn. Savola reported that it had reviewed and revised its food division strategies and had to write off accumulated losses of SAR115mn. It also had to allocate SAR168mn in provisions to meet the drop in market value of its investment in EMAAR. While the results are less bad than they appear at first sight, we still expect to lower our target price and to downgrade our Overweight rating.

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:** Year-on-year growth of 21% in Q4 was well above our estimate of 14%. Full year top line growth of 18% was strong and exceeded our forecast of 16%. We do not know for certain which segment in particular drove sales growth but we suspect that the food division achieved the highest growth. That said, we are concerned that this growth came mainly from price increases rather than higher volumes. We will have to wait for the full results and consult further with the company before confirming our opinion. In general, Q4 sales growth of 21% is a robust outcome, and our chief concern is weak net profits.
- Gross & net profit:** Despite rising commodity food prices, which Savola had indicated earlier in the year would impact its results, Savola was able to maintain a respectable gross margin of 16.7% in Q4. This was above the level of previous quarters and of Q4 2009. Operating profit in Q4 actually grew by 53% year-on-year, compared to our estimate of 18%. The main reason for the 99% year-on-year decrease in net profit was Savola's write-off of accumulated losses in the food division of SAR115mn and the decline in the market value of its investment in EMAAR of SAR168mn. For the full year, operating profit grew by 5.1% but net profit declined by 6.8%. In view of the solid Q4 operating performance and the fact that the Q4 losses were predominantly exceptional, it is fair to say that Savola's results are not as bad as they appear at first sight.
- Valuation:** Savola is a well-respected group with strong positions in the retail and food markets. While Q4 results were disappointing, the full-year results were weak but acceptable considering the market environment of rising commodity prices. Nevertheless, we expect to cut our earnings forecasts and hence our target price. This may lead us to downgrade our Overweight rating, although we cannot be sure about the scale of the reduction in our target price until we have seen the company's full results.

Disclosures Please refer to the important disclosures at the back of this report.

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Research Department
Khalid Alruwaigh, Investment Analyst
Tel 966 1 211 9310, alruwaighka@alrajhi-capital.com



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\$) 16.30bn / 4.346bn
 52-week range 31.20 - 38.00
 Daily avg volume (US\$) 4.868mn
 Shares outstanding 500.0mn
 Free float (est) 60.1%

Performance:	1M	3M	12M
Absolute	1.2%	-5.2%	-3.3%
Relative to index	-2.9%	-13.3%	-9.2%

Major Shareholder:
 Mohammed Ibramim 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)	952	1,148	1,293	1,425
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)	11.7	10.5	8.7	7.9
P/E (x)	17.1	14.2	13.2	12.5
P/B (x)	2.3	2.2	2.1	1.9
Dividend Yield	3.1%	3.8%	3.2%	3.7%

Source: Company data, Al Rajhi Capital

1. Savola: 2009Q4A vs. 2010Q4A & FY2009A vs. FY2010A

(SAR) mn	2009Q4A	2010Q4A	YOY % chg.	2010Q4			YOY % chg.
				ARC est	FY2009A	FY2010A	
Total Revenues	4,800	5,800	13.0%	5,425	17,900	21,100	17.9%
Gross Profit	767	971	16.7%	895	3,100	3,330	7.4%
	16.0%	16.7%		16.5%	17.3%	15.8%	
Operating Profit	276	422	18.0%	325	1,380	1,450	5.1%
Net Income	269	2	16.9%	314	952	887	-6.8%

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.

Contact us

Dr. Saleh Alsuhaibani
Head of Research
Tel : +966 1 2119434
alsuhaibanis@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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