



US\$3.866bn	60.1%	US\$4.926mn
Market cap	Free float	Avg. daily volume

Target price	33.70	16.29% over current
Consensus price	37.00	27.6% over current
Current price	29.00	as at 8/2/2011

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Underweight	Neutral	Overweight
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Savola Group

Bad news reflected in the price

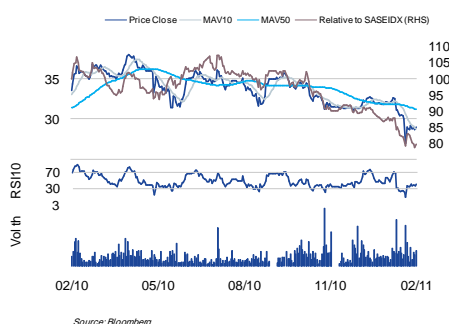
Key themes

Driven by rising population and improving education, we expect the food sector in Saudi Arabia to continue growing. Rising shopping in supermarkets and hypermarkets should support food sales and benefit Savola with its presence in retailing as well as food.

Implications

Savola is one of our top picks in the food sector. It has attractive financial ratios that reflect its improvement. It is performing well operationally and offers growth in the near term at a reasonable valuation.

Performance

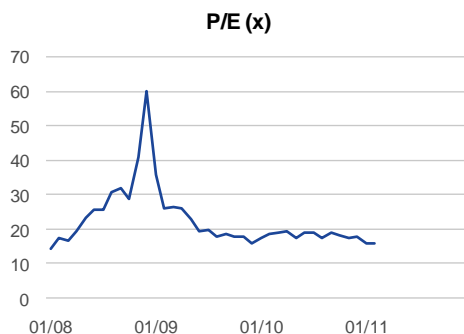


Earnings

Period End (SAR)	12/10A	12/11E	12/12E	12/13E
Revenue (mn)	21,056	23,194	25,398	27,557
Revenue Growth	17.5%	10.2%	9.5%	8.5%
EBITDA (mn)	1,345	1,458	1,625	1,764
EBITDA Growth	3.0%	8.4%	11.5%	8.5%
EPS	1.77	2.04	2.28	2.44
EPS Growth	-6.8%	14.8%	12.2%	6.9%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Savola released 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. The unexpected write-offs cancelled out the good operating performance. The turmoil in Egypt that followed the results has deepened concern about the company. However, we think the damage to Savola's share price has already been done. We have lowered our target price to SAR33.4, but this still implies 16% upside from the current share price of SAR29.0. We remain Overweight.

Write-offs overshadow Q4 results: Driven by the retail and food segments, Savola's sales grew in Q4 by 21% year-on-year. The company was able to maintain a respectable gross margin of 16.6% which helped drive strong operating profit growth of 53%. However, write-offs have eaten away all the good results. Savola reported that it had reviewed and revised its food division strategies and had to write off accumulated losses of SAR115mn as a result of shutting down unprofitable businesses. It also had to allocate SAR66mn in provisions to meet the drop in market value of its investment in EMAAR. Moreover, the company reported a loss of SAR50mn as a result of revaluing intangible assets, plus SAR52mn of deferred costs associated with investments that have been abandoned.

Egypt turmoil sparks negative news: Savola's revenues from Egypt comprise around 11% of total turnover. Moreover, Savola owns sugar and edible oil plants in Egypt which contribute around 18% of the company's total food production by our estimate. Hence, if production is stopped in these plants due to the current circumstances, the proportion of Savola's revenues which may be affected may exceed 11%. Unless the unrest continues in Egypt for long time, we do not envisage a great impact on the company's revenues.

Encouraging investments and dividends: The good news for Savola in 2010 was the impressive results of Almarai and Herfy, which helped drive strong share price performance by those companies. Savola owns 29.9% and 49.0% of Almarai and Herfy respectively, and the increase in the market value of its stakes is positive for Savola's fair value. We have adjusted our valuation of Savola accordingly. Furthermore, Savola continues to distribute quarterly dividends of SAR0.25 per share, implying a dividend yield of nearly 3.4%.

Conclusion: Savola is a well-respected group with strong positions in the retail and food markets. Savola's share price has fallen by more than 10% since the start of 2011 as a result of unexciting Q4 2010 results and the political turmoil in Egypt. While the Q4 results were weak, the full-year results were acceptable considering the market environment of rising prices for commodity foodstuffs. We believe that the damage to Savola's share price (which now stands at SAR29) has already been done, considering that the company currently trades on a 2011 PE ratio of 14.2x and an EV/EBITDA multiple of 6.8x; the EV/EBITDA multiple is well below the corresponding levels for peer companies such as Almarai and Alothaim. We have cut our earnings forecasts for Savola and lowered our target price from SAR39.5 to SAR33.4 as a result. However, our new target price still implies 16% upside from the current share price. We remain Overweight.



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\$) 14.50bn / 3.866bn
52-week range 27.00 - 38.00
Daily avg volume (US\$) 4.926mn
Shares outstanding 500.0mn
Free float (est) 60.1%

Performance: 1M 3M 12M
Absolute -9.9% -8.5% -11.9%
Relative to index -8% -11.2% -18%

Major Shareholder:
Mohammed Ibramim Alisa 11.9%
General Oraganistion for Social Insurance 10.9%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/10A	12/11E	12/12E	12/13E
Revenue (SARmn)	21,056	23,194	25,398	27,557
EBITDA (SARmn)	1,345	1,458	1,625	1,764
Net Profit (SARmn)	887	1,018	1,142	1,221
EPS (SAR)	1.77	2.04	2.28	2.44
DPS (SAR)	1.25	1.00	1.05	1.10
EPS Growth	-6.8%	14.8%	12.2%	6.9%
EV/EBITDA (x)	7.0	6.8	6.2	5.8
P/E (x)	16.4	14.2	12.7	11.9
P/B (x)	2.1	1.9	1.8	1.6
Dividend Yield	4.3%	3.4%	3.6%	3.8%

Source: Company data, Al Rajhi Capital

Looking forward: decent sales growth, better profits

Below we summarise our forecasts for Savola's Q1 2011 and 2011 full year.

Figure 1. Savola: 2010Q1A vs. 2011Q1E & FY2010A vs. FY2011E

(SAR) mn	2010Q1A	2011Q1E	YOY % chg.	FY2010A	FY2011E	YOY % chg.
Revenues	4,764.4	5,289.5	11.0%	21,055.6	23,194.5	10.2%
Gross Profit	790.2	835.7	5.8%	3,332.1	3,679.0	10.4%
Gross margin	16.6%	15.8%		15.8%	15.9%	
EBITDA	261.3	280.1	7.2%	1,345.0	1,457.9	8.4%
EBITDA margin	5.5%	5.3%		6.4%	6.3%	
Net Income	394.0	196.0	-50.3%	886.7	1,017.6	14.8%

Source: Company data, Al Rajhi Capital



We expect revenues to reach SAR23bn this year

Income Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue	17,917	21,056	23,194	25,398	27,557
Cost of Goods Sold	(14,810)	(17,723)	(19,515)	(21,334)	(23,148)
Gross Profit	3,107	3,332	3,679	4,064	4,409
Government Charges					
S.G. & A. Costs	(2,162)	(2,494)	(2,793)	(3,048)	(3,307)
Operating EBIT	945	838	886	1,016	1,102
Cash Operating Costs	(16,611)	(19,711)	(21,737)	(23,772)	(25,793)
EBITDA	1,306	1,345	1,458	1,625	1,764
Depreciation and Amortisation	(361)	(507)	(572)	(610)	(661)
Operating Profit	945	838	886	1,016	1,102
Net financing income/(costs)	444	393	320	337	344
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	80	139	-	-	-
Other Expenses	(222)	(217)	-	-	-
Net Profit Before Taxes	1,247	1,152	1,206	1,353	1,446
Taxes	(63)	(128)	(26)	(29)	(31)
Minority Interests	(232)	(137)	(162)	(182)	(194)
Net profit available to shareholders	952	887	1,018	1,142	1,221
Dividends	(500)	(625)	(500)	(525)	(551)
Transfer to Capital Reserve	-	-	-	-	-

	12/09A	12/10A	12/11E	12/12E	12/13E
Adjusted Shares Out (mn)	500.0	500.0	500.0	500.0	500.0
CFPS (SAR)	3.089	3.063	3.503	3.866	4.153
EPS (SAR)	1.903	1.773	2.035	2.283	2.441
DPS (SAR)	1.000	1.250	1.000	1.050	1.103

Revenue growth set to remain above 8% over the next three years

Growth	12/09A	12/10A	12/11E	12/12E	12/13E
Revenue Growth	29.9%	17.5%	10.2%	9.5%	8.5%
Gross Profit Growth	73.7%	7.2%	10.4%	10.5%	8.5%
EBITDA Growth	61.5%	3.0%	8.4%	11.5%	8.5%
Operating Profit Growth	369.4%	-11.4%	5.8%	14.6%	8.5%
Net Profit Growth	370.2%	-6.8%	14.8%	12.2%	6.9%
EPS Growth	370.2%	-6.8%	14.8%	12.2%	6.9%

We expect the gross margin to improve slightly from last year's level

Margins	12/09A	12/10A	12/11E	12/12E	12/13E
Gross profit margin	17.3%	15.8%	15.9%	16.0%	16.0%
EBITDA margin	7.3%	6.4%	6.3%	6.4%	6.4%
Operating Margin	5.3%	4.0%	3.8%	4.0%	4.0%
Pretax profit margin	7.0%	5.5%	5.2%	5.3%	5.2%
Net profit margin	5.3%	4.2%	4.4%	4.5%	4.4%

EV/EBITDA of 6.8x is attractive

Other Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
ROCE	8.9%	7.8%	7.6%	8.2%	8.3%
ROIC	7.7%	5.5%	6.5%	7.0%	7.2%
ROE	14.3%	12.7%	14.0%	14.5%	14.3%
Effective Tax Rate	5.1%	11.1%	2.2%	2.2%	2.2%
Capex/Sales	5.3%	3.0%	5.5%	5.0%	5.1%
Dividend Payout Ratio	52.5%	70.5%	49.1%	46.0%	45.2%

Valuation Measures	12/09A	12/10A	12/11E	12/12E	12/13E
P/E (x)	15.2	16.4	14.2	12.7	11.9
P/CF (x)	9.4	9.5	8.3	7.5	7.0
P/B (x)	2.1	2.1	1.9	1.8	1.6
EV/Sales (x)	0.7	0.4	0.4	0.4	0.4
EV/EBITDA (x)	9.9	7.0	6.8	6.2	5.8
EV/EBIT (x)	13.7	11.2	11.2	9.9	9.3
EV/IC (x)	1.0	0.7	0.7	0.7	0.6
Dividend Yield	3.4%	4.3%	3.4%	3.6%	3.8%

Source: Company data, Al Rajhi Capital



Balance sheet is expanding due to the company's international expansion

Balance Sheet (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Cash and Cash Equivalents	1,091	660	556	702	796
Current Receivables	1,417	1,518	2,292	2,286	2,480
Inventories	2,297	2,513	2,547	2,540	2,756
Other current assets	746	1,166	1,166	1,166	1,166
Total Current Assets	5,634	5,858	6,562	6,693	7,198
Fixed Assets	5,537	4,719	5,413	6,074	6,818
Investments	5,056	6,123	6,123	6,123	6,123
Goodwill	918	1,020	1,020	1,020	1,020
Other Intangible Assets	112	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	11,623	11,862	12,557	13,217	13,961
Total Assets	17,257	17,720	19,118	19,910	21,158
Short Term Debt	3,022	2,783	2,783	2,783	2,783
Accounts Payable	1,830	2,003	2,674	2,667	2,893
Accrued Expenses	503	1,689	1,783	1,778	1,929
Dividends Payable	-	-	-	-	-
Other Current Liabilities	564	186	-	-	-
Total Current Liabilities	6,313	6,662	7,240	7,227	7,605
Long-Term Debt	1,996	2,393	2,533	2,533	2,533
Other LT Payables	61	171	171	171	171
Provisions	358	276	276	276	276
Total Non-current Liabilities	2,415	2,840	2,980	2,980	2,980
Minority interests	1,567	1,188	1,350	1,532	1,726
Paid-up share capital	5,000	5,000	5,000	5,000	5,000
Total Reserves	1,961	2,031	2,548	3,171	3,847
Total Shareholders' Equity	6,961	7,031	7,548	8,171	8,847
Total Equity	8,528	8,218	8,898	9,703	10,573
Total Liabilities & Shareholders' Equity	17,257	17,720	19,118	19,910	21,158

Net debt/EBITDA of 3.3x is slightly high

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Net Debt (SARmn)	3,927	4,516	4,760	4,614	4,520
Net Debt/EBITDA (x)	3.01	3.36	3.26	2.84	2.56
Net Debt to Equity	46.1%	54.9%	53.5%	47.6%	42.8%
EBITDA Interest Cover (x)	(2.9)	(3.4)	(4.6)	(4.8)	(5.1)
BVPS (SAR)	13.92	14.06	15.10	16.34	17.69

Cashflow Statement (SARmn)	12/09A	12/10A	12/11E	12/12E	12/13E
Net Income before Tax & Minority Interest	1,247	1,152	1,206	1,353	1,446
Depreciation & Amortisation	361	507	572	610	661
Decrease in Working Capital	534	(86)	(229)	1	(32)
Other Operating Cashflow	381	150	(26)	(29)	(31)
Cashflow from Operations	2,523	1,723	1,522	1,934	2,044
Capital Expenditure	(945)	(634)	(1,266)	(1,270)	(1,405)
New Investments	(129)	(601)	-	-	-
Others	(427)	(20)	-	-	-
Cashflow from investing activities	(1,500)	(1,255)	(1,266)	(1,270)	(1,405)
Net Operating Cashflow	1,023	467	256	664	639
Dividends paid to ordinary shareholders	(513)	(627)	(500)	(519)	(545)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	(316)	(576)	-	-	-
Cashflow from financing activities	(444)	(886)	(360)	(519)	(545)
Total cash generated	579	(419)	(104)	146	94
Cash at beginning of period	605	1,091	660	556	702
Implied cash at end of year	1,184	672	556	702	796

We expect capex to increase due to expansion in the retail segment

Ratios	12/09A	12/10A	12/11E	12/12E	12/13E
Capex/Sales	5.3%	3.0%	5.5%	5.0%	5.1%

Source: Company data, Al Rajhi Capital

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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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