



US\$6.00bn Market cap	44.7% Free float	US\$4.800mn Avg. daily volume
Target price	229.0	17.9% over current
Consensus price	202.0	4.0% over current
Current price	194.3	as at 14/7/2010

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

Underweight **Neutral** **Overweight**

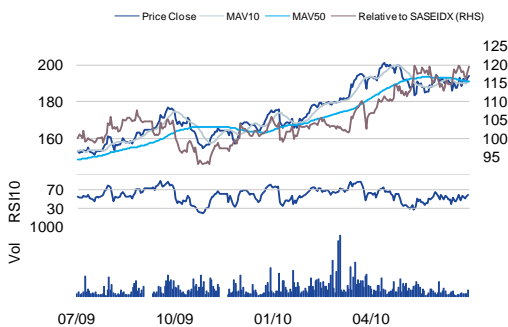
Key themes

We believe that the food industry will continue to grow strongly. Almarai has a very strong position in the GCC dairy market. We believe that Almarai will continue to enter new segments through start-ups or acquisitions to maintain its outstanding growth.

Implications

Almarai is our preferred stock in the agriculture & food sector. Almarai is performing well operationally and offers growth in the near term at a reasonable valuation. We expect high transparency to continue to support Almarai's share price, and think it will find favour with international investors if the Saudi stock market is fully opened up.

Performance

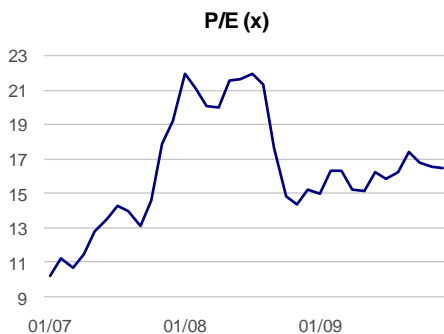


Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	5,869	6,906	7,941	8,974
Revenue Growth	16.7%	17.7%	15.0%	13.0%
EBITDA (SARmn)	1,732	2,071	2,243	2,534
EBITDA Growth	19.5%	19.5%	8.3%	13.0%
EPS	9.78	11.29	13.19	15.07
EPS Growth	9.0%	15.5%	16.8%	14.2%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Almarai

Consistently above expectations

Almarai remains our favourite in the Saudi food producers sector. The 2010 Q2 results were promising and both sales and profits slightly exceeded our forecasts. As we expected, juice and bakery were the biggest winners in terms of growth, but sales in other areas grew strongly as well. The poultry segment is still under development; we expect it to see better results late 2010 or early 2011. As we expected, Almarai was able to improve its margins and even exceeded our estimates. On a year-on-year basis we expect the remaining quarters to be strong as well. We therefore remain Overweight with an unchanged target price of SAR229, implying 18% appreciation potential.

Strong top line supports our stance: Almarai reported year-on-year sales growth of 20% from SAR1.45bn in Q2 2009 to SAR1.74bn in Q2 2010, exceeding our forecast of 17% sales growth and supporting our positive stance on the company. All segments grew impressively; as we had expected, bakery and juice showed the highest sales growth of 35% and 18% respectively. This growth came mainly from higher volumes rather than from higher prices. We believe that the growth can be attributed to population growth, market share expansion, and consumers' conversion to healthy products.

Margins are improving: Although the gross margin dropped slightly from 40.9% in Q2 2009 to 40.3% in Q2 2010, it has considerably improved from 36.6% in Q1 2010. We believe that Almarai's gross margin is still affected by pre-investment costs in preparing for capacity increases in the bakery segment and other costs related to improving quality in the poultry segment. Nevertheless, Almarai achieved better net profit of SAR343mn than our estimate of SAR313mn. The positive surprise compared to our forecasts may be explained by lower general & administrative costs, lower interest rates, and lower tax and zakatcharges. Looking forward, although we think it will be hard for Almarai to match its 2009 gross margin of 40.3%, we think the company can boost its gross margin over the next two quarters and so achieve at least 40% in 2010.

New laban (Vetal) may be struggling: Almarai launched a new laban drink, "Vetal", during 2010 Q2. The product is positioned as a new laban that helps the digestive system to compete with Alsafi-Danone's laban product, "Activia". Considering that Almarai's fresh dairy business achieved 13% sales growth in Q2 2010 from Q22009, we estimate that this recently launched product has not contributed much to this unit's sales. This supports our view that Almarai is not so strong in product development; as we noted in our major sector report of April 2010, M&A rather than innovation is the chief mode of growth for Almarai. That said, we should allow more time to judge the success of this product.

Stock rating and conclusion: Almarai reported impressive sales and profit growth for Q2 2010, and we think it will maintain this growth over the remaining months. Margins have improved during this quarter, but we expect them to improve further. We have therefore raised our sales forecast for 2010 by about 2%, and our net profit estimate by about 4%. However, these near-term upgrades have little impact on our long-run valuation of the company, and so we have left our target price unchanged at SAR229. We retain our Overweight rating since this target implies 18% appreciation potential.



Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue	5,030	5,869	6,906	7,941	8,974
Cost of Goods Sold	-2,963	-3,503	-4,136	-4,765	-5,384
Gross Profit	2,067	2,366	2,769	3,177	3,590
Government Charges					
S.G. & A. Costs	-938	-1,087	-1,273	-1,429	-1,615
Operating EBIT	1,129	1,279	1,497	1,747	1,974
Cash Operating Costs	-3,580	-4,136	-4,835	-5,699	-6,440
EBITDA	1,450	1,732	2,071	2,243	2,534
Depreciation and Amortisation	-321	-454	-574	-496	-560
Operating Profit	1,129	1,279	1,497	1,747	1,974
Net financing income/(costs)	-125	-151	-135	-155	-156
Forex and Related Gains	0	0	0	0	0
Provisions	0	0	0	0	0
Other Income	0	0	0	0	0
Other Expenses	0	0	-2	-2	-2
Net Profit Before Taxes	1,003	1,128	1,360	1,590	1,816
Taxes	-25	-29	-32	-39	-44
Minority Interests	-1	-3	-29	-34	-39
Net profit available to shareholders	978	1,095	1,299	1,517	1,733
Dividends	-380	-460	-460	-575	-719
Transfer to Capital Reserve	0	0	0	0	0
	12/08A	12/09A	12/10E	12/11E	12/12E
Adjusted Shares Out (mn)	109.0	115.0	115.0	115.0	115.0
CFPS (SAR)	11.93	13.86	16.54	17.80	20.28
EPS (SAR)	8.97	9.78	11.29	13.19	15.07
DPS (SAR)	3.49	4.00	4.00	5.00	6.25
Growth	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue Growth	33.4%	16.7%	17.7%	15.0%	13.0%
Gross Profit Growth	38.4%	14.5%	17.1%	14.7%	13.0%
EBITDA Growth	42.2%	19.5%	19.5%	8.3%	13.0%
Operating Profit Growth	44.6%	13.3%	17.0%	16.7%	13.0%
Net Profit Growth	46.5%	12.0%	18.6%	16.8%	14.2%
EPS Growth	46.5%	9.0%	15.5%	16.8%	14.2%
Margins	12/08A	12/09A	12/10E	12/11E	12/12E
Gross profit margin	41.1%	40.3%	40.1%	40.0%	40.0%
EBITDA margin	28.8%	29.5%	30.0%	28.2%	28.2%
Operating Margin	22.4%	21.8%	21.7%	22.0%	22.0%
Pretax profit margin	19.9%	19.2%	19.7%	20.0%	20.2%
Net profit margin	19.4%	18.7%	18.8%	19.1%	19.3%
Other Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
ROCE	16.7%	13.6%	13.5%	14.1%	14.7%
ROIC	19.5%	17.1%	15.0%	14.8%	15.0%
ROE	29.3%	24.3%	22.4%	22.8%	22.7%
Effective Tax Rate	2.5%	2.6%	2.3%	2.4%	2.4%
Capex/Sales	31.3%	20.9%	27.2%	20.0%	15.0%
Dividend Payout Ratio	38.9%	42.0%	35.4%	37.9%	41.5%
Valuation Measures	12/08A	12/09A	12/10E	12/11E	12/12E
P/E (x)	21.7	19.9	17.2	14.7	12.9
P/CF (x)	16.3	14.0	11.7	10.9	9.6
P/B (x)	5.9	4.2	3.6	3.1	2.7
EV/Sales (x)	4.9	4.4	3.9	3.4	3.0
EV/EBITDA (x)	17.0	14.8	13.1	12.2	10.7
EV/EBIT (x)	21.8	20.0	18.2	15.7	13.8
EV/IC (x)	3.4	2.7	2.4	2.1	2.0
Dividend Yield	1.8%	2.1%	2.1%	2.6%	3.2%

Source: Company data, Al Rajhi Capital



Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	247	508	580	800	1,056
Current Receivables	294	455	707	794	897
Inventories	1,097	1,219	1,273	1,429	1,615
Other current assets	107	-	-	-	-
Total Current Assets	1,760	2,182	2,560	3,024	3,568
Fixed Assets	5,343	7,049	8,381	9,474	10,260
Investments	489	963	947	947	947
Goodwill	549	793	793	793	793
Other Intangible Assets	40	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	6,422	8,805	10,122	11,215	12,001
Total Assets	8,181	10,987	12,682	14,238	15,569
Short Term Debt	511	396	410	410	410
Trade Payables	-	-	-	-	-
Dividends Payable	-	-	-	115	259
Other Current Liabilities	-	-	-	-	-
Total Current Liabilities	1,266	1,440	1,430	1,658	1,936
Long-Term Debt	3,133	3,981	4,846	5,197	5,197
Other LT Payables	-	-	-	-	-
Provisions	151	166	172	172	172
Total Non-current Liabilities	3,284	4,147	5,018	5,370	5,370
Minority interests	14	17	46	80	119
Paid-up share capital	1,090	1,150	1,150	1,150	1,150
Total Reserves	2,527	4,233	5,039	5,981	6,995
Total Shareholders' Equity	3,617	5,383	6,189	7,131	8,145
Total Equity	3,631	5,400	6,235	7,211	8,264
Total Liabilities & Shareholders' Equity	8,181	10,987	12,682	14,238	15,569
Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	3,391	3,869	4,675	4,807	4,551
Net Debt/EBITDA (x)	2.34	2.23	2.26	2.14	1.80
Net Debt to Equity	93.4%	71.7%	75.0%	66.7%	55.1%
EBITDA Interest Cover (x)	11.6	11.5	15.3	14.5	16.2
BVPS (SAR)	33.18	46.81	53.82	62.01	70.83
Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	-	-	-	-	-
Depreciation & Amortisation	321	454	574	496	560
Decrease in Working Capital	(296)	163	(349)	(130)	(155)
Other Operating Cashflow	1,026	1,165	1,347	1,551	1,772
Cashflow from Operations	1,051	1,782	1,572	1,917	2,177
Capital Expenditure	(1,572)	(1,227)	(1,881)	(1,588)	(1,346)
New Investments	-	(484)	-	-	-
Others	-	-	-	-	-
Cashflow from investing activities	(1,572)	(1,711)	(1,881)	(1,588)	(1,346)
Net Operating Cashflow	(521)	71	(309)	328	831
Dividends paid to ordinary shareholders	(271)	(381)	(460)	(460)	(575)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	8	9	(31)	-	-
Cashflow from financing activities	665	170	388	(108)	(575)
Total cash generated	144	241	79	220	256
Cash at beginning of period	138	247	508	580	800
Implied cash at end of year	282	487	586	800	1,056
Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	31.3%	20.9%	27.2%	20.0%	15.0%

Source: Company data, Al Rajhi Capital



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

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

Al Rajhi Capital, a subsidiary of Al Rajhi Bank, is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.