

Saudi Retail Sector

Retail
Saudi Arabia
15 December 2010

الراجحي المالية
Al Rajhi Capital



US\$2.9bn Market cap
62.8% Free float
US\$10.3mn Avg. daily volume

Target mkt cap **SAR13bn** 21.4% over current
Consensus mkt cap. **SAR12bn** 15.9% over current
Current mkt cap. **SAR10bn** as at 15/12/2010

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Underweight **Neutral** **Overweight**

Key themes

Driven by rising population, improving education, and changing lifestyle, we expect the retail sector in Saudi Arabia to continue growing. The largest company by market value, Jarir, has made its name in books and the consumer electronics (laptops) market. Rising shopping in supermarkets and hypermarkets should support Alothaim's sales. Changing clothing style among teenagers is supporting Alhokair. We believe that these factors plus the opening and acquisition of new stores will drive growth in the sector.

Implications

We rate Jarir and Alhokair as Overweight, and Alothaim as Neutral. All three companies have shown strong operating and financial performance. Though not cheap, Jarir is our preferred stock as it still has strong prospects, and as professional and open management should support the stock price. While both Alhokair and Alothaim have performed well already, both groups have ambitious expansions plans and their PE and EV/EBITDA ratios offer better value. Alothaim, however, now offers only 10-11% upside to our target price.

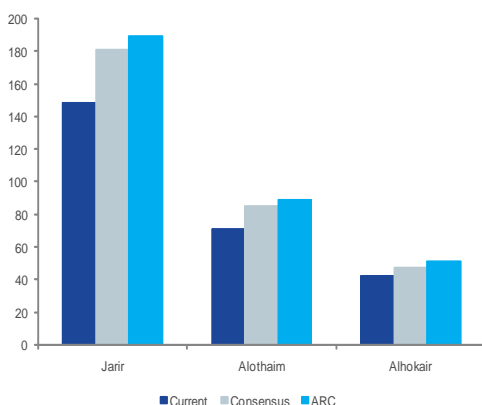
What do we think?

Stock	Rating	Price Target
Jarir	Overweight	SAR189.4
Alhokair	Overweight	SAR49.9
Alothaim	Neutral	SAR86.4

Why do we think it?

Stock	3 year EBITDA CAGR	2011 EV/EBITDA
Jarir	14.5%	11.9x
Alhokair	14.3%	7.1x
Alothaim	18.1%	7.8x

Where are we versus consensus?



Source: Companies data, Al Rajhi Capital



Retail Sector: Hop on the train

Rising population and changing lifestyle are fuelling growth in the Saudi retail sector. Competition is intensifying and suppressing margins, especially in grocery and electronics, but fragmented markets offer major growth potential. New store openings are a key driver of growth, although certain retailers such as Alhokair are also expanding by acquisition. Jarir's high same stores sales growth and high economic profit support our view on the company, while Alhokair's PE and EV/EBITDA ratios are more attractive at the current level. We rate both companies as Overweight. While Alothaim also has attractions, its share price has risen sharply and is now closer to fair value.

Retail is still growing. We expect all categories of the retail sector to continue growing despite challenges. While we expect stronger growth in electronics and apparel which will benefit Jarir and Alhokair, Alothaim can profit from the highly fragmented grocery market. Tougher competition which impacts margins and booming real estate prices are the main challenges confronting retailers.

Same store sales (SSS) growth is healthy. All the three companies enjoy healthy same store sales growth. Jarir has the highest SSS growth of 10% benefiting from booming IT devices, while Alothaim and Alhokair are achieving 5% and 7% respectively. We expect all of them to maintain healthy SSS growth close to the current level. High SSS growth is one of Jarir's strong advantages.

Opening new stores is key. Selling space is a key driver in retail. The three companies have plans to increase their selling space either through opening new stores or acquiring other stores. All the three companies have invested in real estate to overcome the challenge of high property prices. We expect all of them to increase their selling space by more than 50% over the next four years.

Stock conclusions. Jarir is obviously not cheap on an EV/EBITDA multiple of 11.9x; however, we expect that high SSS growth, a unique business model, openness with investors and strong prospects will support its share price. Thus, we rate it Overweight with a target price of SAR189.4, implying 26% upside. Alhokair's multiples are attractive at the current level; hence, we also rate it as Overweight with a target price of SAR49.9, implying 19% upside potential. We rate Alothaim as Neutral with a target price of SAR86.4.

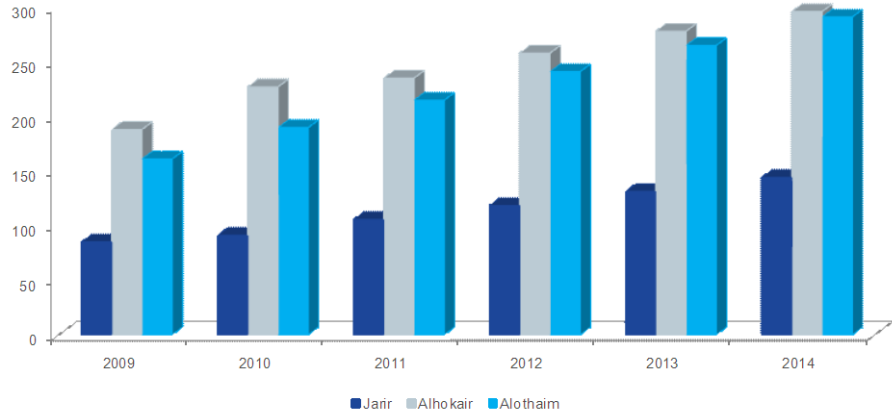
Disclosures Please refer to the important disclosures at the back of this report.

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We expect the three companies to increase their aggregate selling space by more than 50%

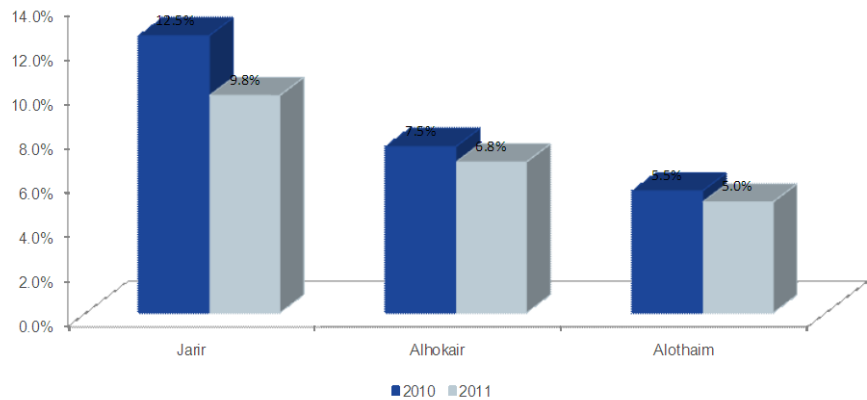
Figure 1. Selling space: Jarir versus Alothaim versus Alhokair (square metres 000s)



Source: Companies data, Al Rajhi Capital

All companies achieve healthy SSS growth; however, Jarir has the highest SSS growth and we expect it to remain strong at above 8%

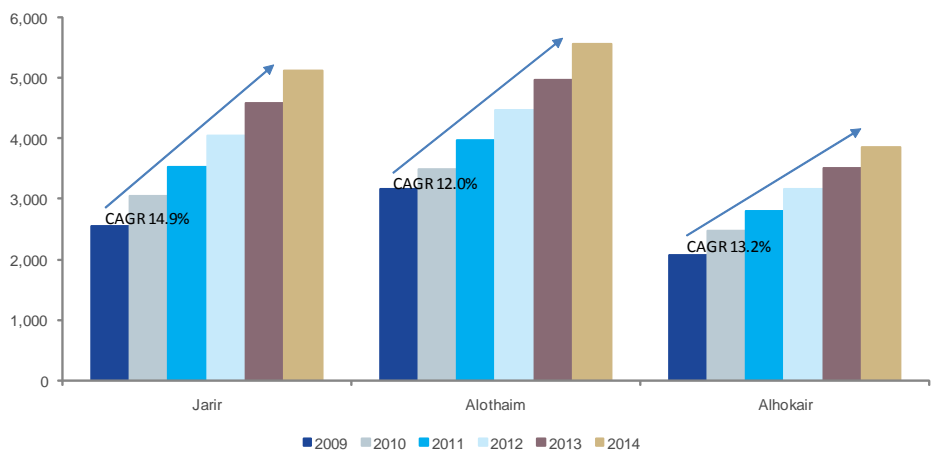
Figure 2. Same-store sales (organic) growth: Alhokair versus Alothaim versus Jarir



Source: Companies data, Al Rajhi Capital

All three companies offer strong potential revenue growth. We expect Jarir to outperform with a CAGR of 14.9% over 2009-2014

Figure 3. Jarir, Alothaim, and Alhokair: revenue growth



Source: Companies data, Al Rajhi Capital



Page

4 **Retail is promising**

5 **Favourable demographics and modern lifestyle fuel growth**

Driven by rising population, improving education, and changing lifestyle, the Saudi retail sector is set to grow at a solid pace. According to Euromonitor, the Saudi retail market was about SAR226bn in 2009, and is expected to reach SAR276bn by 2014 (CAGR 4%).

Opening new stores is the chief mode of growth

Opening new stores is a key growth driver for large retailers. All large retailers, grocery and non-grocery, have rapidly increased their selling space through new stores, and plan to continue to do so

8 **Grocery retail: still fragmented**

9 **Supermarkets and hypermarkets are leading growth**

Local retailers have become more active in expanding their operations through opening new stores and acquiring smaller retailers. As a result, we expect supermarkets and hypermarkets to grow by CAGRs of 4.4% and 7.2% and reach SAR24.2bn and SAR18.7bn respectively by 2014, outperforming small groceries' CAGR of roughly 3.2%.

Competitive landscape suppressing margins

The grocery retail market is getting more competitive in Saudi Arabia as a result of local retailers' expansion and the entrance of international players. Since it is not easy for grocery retailers to differentiate themselves from others, most retailers have resorted to promotions and discounts to attract customers and hence gain market share.

11 **Non-grocery retail: latent growth**

12 **Leisure and personal goods specialists: diverse with decent growth**

Declining by 5% in 2009, the retail sales value of the leisure and personal goods segment is roughly SAR39bn. While certain categories such as books showed growth in 2009, the overall decline in this subsector's sales can be attributed to a drop of about 10% in sales of luxury goods and precious metals (which make up the biggest proportion of this segment).

Electronics and appliances market: smartphones and tablets are leading growth

Electronics and appliances make up 18.5% of the non-grocery retailing industry. This area has grown strongly during the last five years; we expect it to achieve a CAGR of 5.2% over the next five years. The market size is currently SAR27bn; we expect it to reach SAR35bn by 2014, with a selling space of roughly 821,000 square metres.

Clothing and footwear market: changing lifestyle is encouraging

Driven by the entrance of many international brands and large retailers' aggressive expansion, we expect this sector to grow strongly (with a CAGR of 5.3% over the next four years). Also, the Saudi lifestyle is undergoing significant changes, especially among younger generations of both sexes which ought to support this segment's growth.

18 **Business analysis**

Attractions and weak points of the stocks are balanced

Jarir is the most efficient of the three stocks and yields the highest returns, with a remarkable economic profit spread of 39%. However, all three companies are performing well operationally and have healthy financial positions.

22 **Valuation: all companies still offer value**

Alhokair, Althaim, and Jarir Overweight

We value the three stocks using a combination of long-run discounted economic profit and comparative multiples analysis. While Jarir has higher PE and EV/EBITDA ratios, we think it still offers value. Alhokair looks attractive on a relative valuation basis. We rate Jarir and Alhokair as Overweight, but Althaim as Neutral as it is closer to fair value.

26 **Company summaries and financial data**

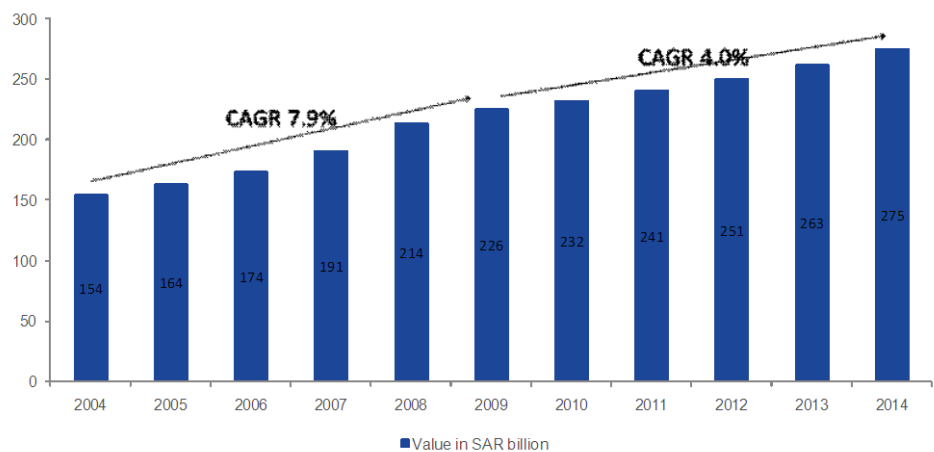


Retail is promising: growing despite challenges

We expect Saudi retail market to reach SAR276bn by 2014

Driven by rising population, improving education and changing lifestyle, in our view the retail sector in Saudi Arabia is set to continue growing at a decent pace. According to Euromonitor, the size of the Saudi retail market was about SAR226bn in 2009, and the market grew by 46.5% from 2004 to 2009, implying a compound annual growth rate (CAGR) of 7.9%. The market will continue growing and reach SAR276bn by 2014, implying a CAGR of 4.0% (Euromonitor), but some categories such as electronics and apparels will outperform this rate. Although this is a weak growth, we expect that large retailers to well outperform this rate. Retail market is still fragmented and dominated by small stores; we expect large retailers to gain more market share by opening new stores at the expense of smaller ones. Moreover, the changing in Saudi lifestyle is favouring large retailers, especially groceries.

Figure 4. Saudi Arabia: Retail market size (SAR bn)



Source: Euromonitor, Al Rajhi Capital

Non-grocery retailing growth outperformed that of grocery

Regarding grocery and non-grocery retailing, the latter category makes up around 65% of the total retailing market. It grew by 47.5% from 2004 to 2009 (implying a CAGR 8.1%), outperforming grocery growth of 44.2% (with a CAGR of 7.6% over the period). We expect non-grocery to grow at a CAGR of 4.1% to reach SAR179bn by 2014. We expect grocery to continue growing at a slightly lower CAGR of 4.0% to reach SAR96bn by 2014.

Small convenience stores are dominating the grocery market with 60%-70% market share

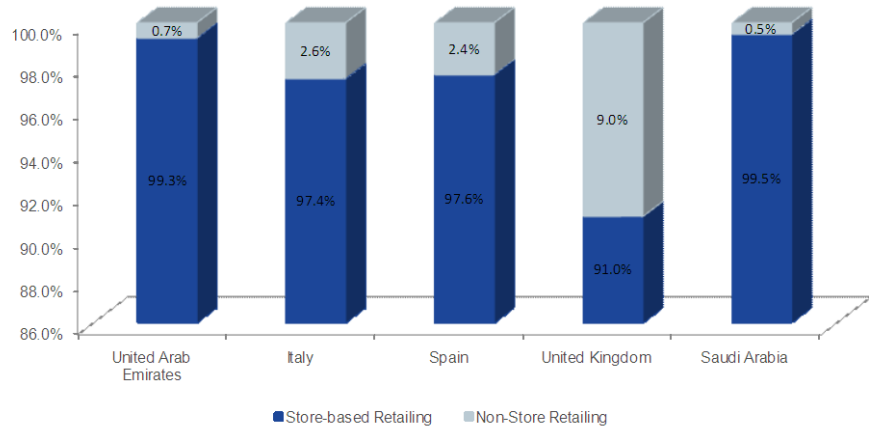
Grocery retailing in Saudi Arabia is still dominated by small convenient stores (called "bakala" in Arabic) as they comprise more than 60% of aggregate grocery sales, according to Euromonitor. We believe that this segment comprises an even higher proportion of the total at about 70%. Hypermarkets and supermarkets make up around 19% and 15% respectively of total grocery retailing. With a market share of about 10%, Al-Azizia Panda (owned by the Savola group) is leading in the grocery retail market. Alothaim comes behind Al-Azizia with a market share of about 4%. Although we believe that small convenience stores will continue to dominate the market, we see potential for hypermarkets and supermarkets to increase their market share as a result of Saudis' changing lifestyle.

Non-store retailing is still very small, but we expect it to grow at a faster pace

Regarding store and non-store retail sales, the non-store category is still very small and comprises less than 1% of total retail sales. With a market size of about SAR1.2bn, non-store retailing includes internet retailing, vending, direct selling, and home shopping. Direct selling makes up more than 60% of non-store retailing sales. Although we think it will take long time for non-store retail to grow and reach a level close to the average in other countries, we think it will outperform store sales growth in the next couple of years driven by internet retailing, which is currently quite small. Though non-store retailing is small in other countries, it's still bigger than Saudi Arabia.



Figure 5. International retail markets: Store vs. Non-store retailing



Source: Eutomonitor, Al Rajhi Capital

Internet sales (e-commerce) offer a new channel for large retailers to grow. Jarir and Alhokair can apply such service considering their merchandize (electronics & apparels). Alothaim, on the other hand, can implement such a service but it would be more difficult. Many grocery retailers in other countries such as UK have successfully implemented online shopping. In general, we think that the addresses problem in the kingdom is the main issue that hinder online shopping. We believe that most retailers will adopt online shopping services as soon this problem is solved.

Demographics and modern lifestyle fuel growth

Young and fast-growing population and high per capita GDP help enlarge the market

In this report, we launch coverage of the three leading Saudi retailers, Alhokair, Alothaim, and Jarir. We believe that the young and expanding population of the GCC region plays a vital role in stimulating the retail market, to the benefit of all three companies even though they operate in different subsectors. Across the GCC, annual population growth is about 2.5%. Saudi Arabia is the largest market in the region with a population of about 27mn and one of the highest growth rates; it is particularly worth stressing that 41% of the Saudi population is below 15 years of age. Although lower than that of most other GCC countries, Saudi GDP/capita of around \$19,000 also supports a positive stance on the retail sector.

Figure 6. GCC demographics

	KSA	UAE	Kuwait	Oman	Bahrain	Qatar	Iraq
Population - Millions	27.0	5.2	3.5	2.5	0.75	1.1	28.5
Population Growth (%)	2.4%	5.0%	3.5%	1.1%	2.0%	10.5%	2.3%
Population below 15 (%)	41.0%	29.0%	24.0%	30.0%	33.0%	29.0%	38.0%
GDP/Capita \$	18,639	52,020	43,917	20,231	26,500	93,000	3,140

Source: IMF - World Economic Outlook, Alrajhi Capital

The demographic profile of the GCC region supports a positive stance on the retail sector

New lifestyle and education underpin retail market

We believe that changing Saudi lifestyle is enlarging the various sub-sectors of the retail market (i.e. electronics, grocery, and apparel). For grocery, people's desire to follow a modern lifestyle is fuelling demand as people buy more because they enjoy the experience of shopping in supermarkets and hypermarkets. This is especially true in Saudi Arabia, where supermarkets and hypermarkets account for only 25-30% of aggregate sales from retail outlets by our estimate. Against this background, we regard the shift to larger retail outlets as an almost inevitable long-term trend. In the same way, new habits of dressing, specifically a shift to western casual clothes, is underpinning the apparel market. Meanwhile, education supports the electronics market as more people use technology.



Inflation may decrease consumers' appetite to buy, especially food products with food inflation about 7.5%

Saudi government requires 30% Saudi workers within a company

Jarir, Alothaim, and Alhokair are increasing selling space through new stores

High living cost allowance likely to continue, inflation may outweigh the benefit

We expect the government's high living cost allowance plan, which was launched three years ago to cope with increasing prices, to continue next year. This should increase consumers' appetite to buy as a result of increasing disposable income. However, this plan coupled with high government spending will inevitably contribute to a high inflation rate similar to that of the last three years. Our estimate for inflation this year is about 5.5%; we expect a lower figure of 4% for next year. Furthermore, the food inflation rate is even higher at around 7.5% in 2010; this factor may curb consumers' purchasing power and hence, hurt food retailers.

Saudisation is imposing pressure

Attempting to decrease the unemployment rate, the Saudi Ministry of Labour and Workers continues to push retailers to increase the proportion of Saudi workers within their workforce. Not only that, but also it has made it more difficult to issue visas for foreigners, especially for companies which have a low number of national employees. According to industry sources, the "Saudisation" policy is currently one of the major challenges to Saudi retailing, since Saudi school leavers and graduates frequently lack both the skills and motivation needed for satisfactory employment in the private sector.

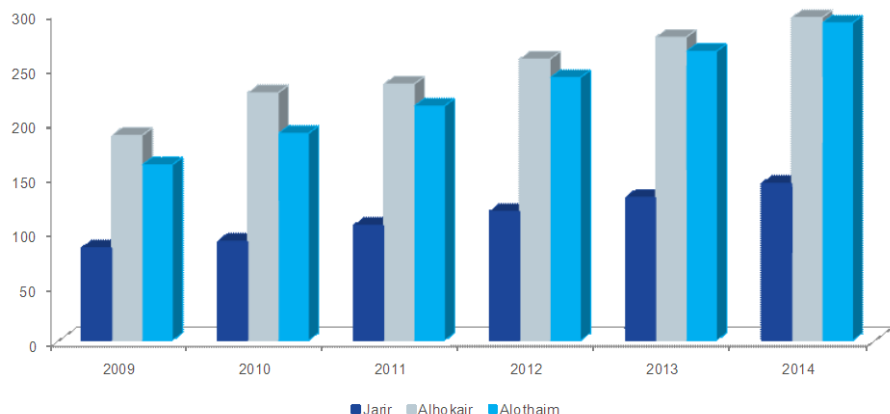
This is imposing financial and operational pressure on the industry. Financially, Saudis are more expensive than many foreigners, Filipinos for example. However, the financial pressure has been relieved by the Human Resource Development Fund. This fund supports the state policy of "Saudisation" by paying 50% of Saudi workers' salaries. Of course the fund imposes tough conditions, but many companies have agreements with the fund that help them to hire more Saudis. Operationally, the problem seems to be more difficult: for example, many of the Saudis who work as cashiers, generally inside retail stores, are teenagers and youths who are often uncommitted to work. Also, their productivity is low compared to that of foreigners. We believe that this issue is somewhat pressuring retailers and impeding their expansion. To solve this problem, many leading retailers, including Savola (Al-Azizia Panda United Inc), Fawaz Alhokair Group, United Electronics and Al Othaim Commercial Group, have developed their own training centres aimed at upgrading the sales skills of new Saudi employees.

Opening new stores is the chief mode of growth

Large retailers are increasing selling space

Opening new stores is a key growth driver for large retailers. All large retailers, grocery and non-grocery, have rapidly increased their selling space through new stores, and plan to continue to do so. Jarir, the giant books and electronics store chain, has a selling space of 85,000 square metres, and we expect this total to reach 140,000 square metres by 2014. Alothaim, the second largest supermarket and hypermarket chain in Saudi Arabia, has a selling space of 170,000 square metres; this will reach 291,000 square metres in 2013, by our estimate. Alhokair, one of the leaders in the apparel market, has a selling area of 188,000 square metres; by our estimate, this will reach 296,000 square metres by 2013.

Figure 7. Selling space: Jarir versus Alothaim versus Alhokair (square metres 000s)



Source: Companies data, Al Rajhi Capital



We expect large retailers to be active in M&A

M&A motion is active too; Alhokair is the most acquisitive

Another method that large retailers have adopted to expand their operations is M&A. We believe that most M&A transactions will be at the expense of small individual retailers. In other words, large retailers will acquire smaller ones; this would normally strengthen their position and weaken other smaller retailers. Savola, for instance, has completed a major retail acquisition by buying the assets of Saudi Geant (eleven stores) in addition to its 80% interest in Giant Stores. Alhokair has acquired Wahba, a mid-market local fashion retailer; it has also announced that it will acquire Retail Group in Egypt and Jordan. We expect Alhokair to be the most acquisitive company among the three we are covering. Alhokair has plans to expand its overseas operations; we expect the company to accomplish this through joint ventures and acquisitions.

Generally, we suppose that M&A will remain important not only due to the scarcity of attractive locations with high population density, but also because it is more economically feasible than investing in undeveloped land at current high prices. Despite the strategic investments of the three companies (Alhokair, Alothaim, and Jarir) in real estate, we believe that at some point they will have to resort to M&A in order to avoid buying or leasing expensive lands and expand their operations.

Large cities are experiencing rapid horizontal extension

Horizontal expansion is enlarging the market

Although retail markets in big cities are well penetrated, the massive horizontal expansion within these cities offers new opportunities for growth. For example, Riyadh is extending so rapidly that small cities that used to be outside Riyadh have started to fall within the Riyadh city boundaries. Moreover, smaller cities, rural areas, and outskirts offer other opportunities for this market to grow. Currently, many of these areas have small local groceries and convenience stores ("bakala"). Generally, we think that there is huge potential for this industry to grow geographically. Moreover, geographic expansion in other GCC markets offers good opportunities for expansion, especially to non-grocery retailers such as Jarir. These markets are competitive as well, but Jarir offers diverse products with competitive prices. The company has successfully opened four stores in GCC.

Large retailers are investing in real estate to overcome the problem of increasing land prices

Booming real estate is a challenge

The retail sector including grocery and non-grocery requires good locations with high population density to do well. Although the standard size differs from one subsector to another and even from one retailer to another, an average land area of 4000 square metres is required (whether for buying or leasing) to open a new store. As a result, it is quite difficult to find available land at reasonable prices considering that real estate markets are booming. In order to open a store, a retailing company can either buy or rent the land. Buying land can be very expensive and so is often not feasible. Renting land is usually much better; however, not many landowners are tempted to enter into long-run rental contracts when they may get much better sale opportunities. Similarly, renting stores within buildings is getting more expensive as a result of increasing demand for space within cities. As mentioned, rural areas where real estate is reasonably afforded offer new opportunities for retailers to expand.

As a result, some retailers have invested in real estate to complement their retailing operations. Although this doesn't solve the fundamental problem of the booming real estate market, it does help them to find lands at reasonable prices. For instance, Savola owns some real estate investments to support its retailing business. Similarly, Alothaim owns a 13% stake in a sister real estate company??? to complement its core business. It also plans to increase its stake to 100% to attain full control which should help the company more in its core business.

Alhokair has ambitious plan to expand its international operations, but we find this risky

International expansion is key but risky

As the Saudi market is expanding and becoming more competitive, some retailers have resorted to other neighbouring markets to expand their operations. Notably, Jarir and Alhokair have clear plans to expand their international operations. While Jarir seems to focus more on adjacent markets within the GCC, Alhokair, in addition to its recent acquisitions in Egypt and Jordan, is more aggressive and is seeking expansion in other countries such as Kazakhstan which we find risky.

Some other retailers, however, appear to concentrate more on the Saudi market. Alothaim, for instance, has no plans to expand internationally and sees greater potential to increase its market share within the Kingdom as the grocery retail market is still fragmented. In general, overseas expansion may be fruitful but it is also risky and may making managing a company more complicated.

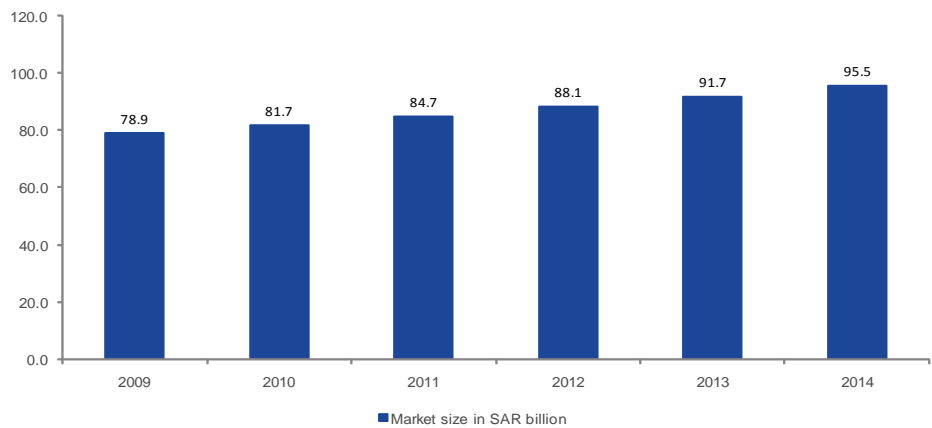


Grocery retailing: still fragmented

We expect the grocery retail market to reach SAR96bn by 2014

Driven mainly by rising population and changing shopping habits, the grocery retailing sector in Saudi Arabia is growing though at a slower pace than that of the last five years. We expect the grocery market to grow at a CAGR of roughly 4% to reach SAR96bn by 2014.

Figure 8. Saudi Arabia: grocery retail market size

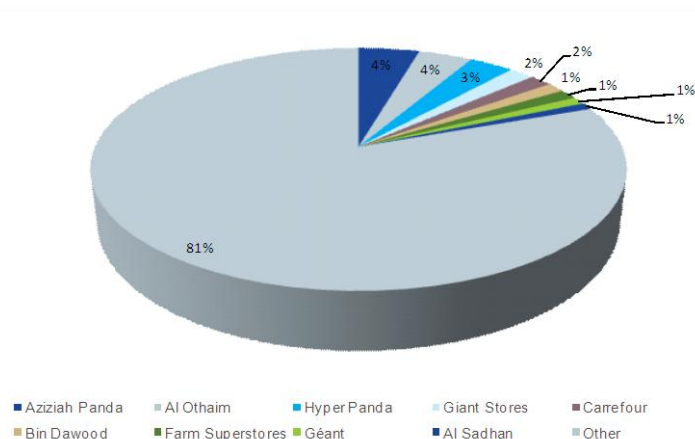


Source: Euromonitor, Al Rajhi Capital

Alothaim is the second player with 4% market share behind Al-Azizia

With a market share of about 10%, Al-Azizia Panda United (owned by Savola) leads the grocery retail market. Alothaim comes behind Al-Azizia with a market share of about 4%. The recent acquisition of Geant and the merger with Giant stores have given Al-Azizia a lead of over 6% over its rival, Alothaim. That said, we have one concern regarding Savola's continuing push into the retail market through acquisitions. Through Panda, Giant and Geant, we estimate that Savola already accounts for 30-35% of large retail outlets in Saudi Arabia. Increasing dominance of the market by Savola could reduce the number of store formats available, and so limit innovation. Over the past couple of years, we believe that the retail market has been stimulated by new entrants such as Carrefour and Geant, even though they have been struggling. We believe that different players are required to help drive growth in the sector overall. Although we believe that small convenience stores will continue to dominate the market, we see potential for hypermarkets and supermarkets to increase market share as a result of Saudis' changing lifestyles.

Figure 9. Grocery: market share



Source: Euromonitor, Al Rajhi Capital



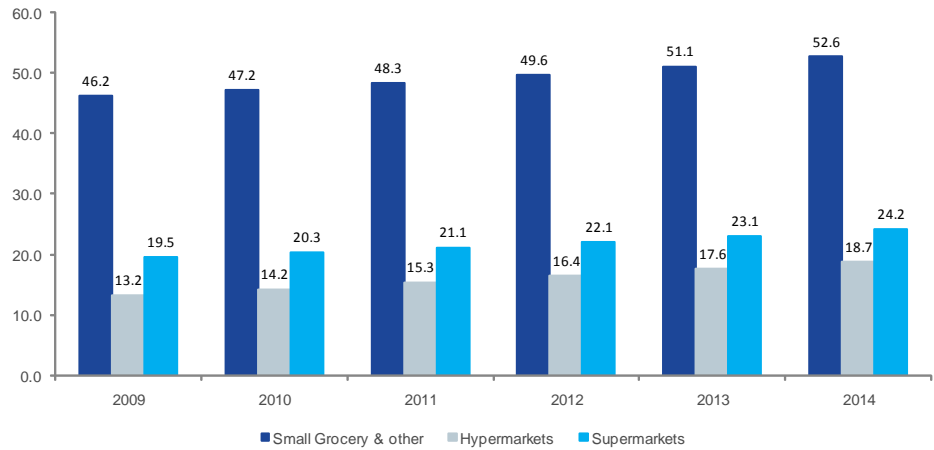
Supermarkets and hypermarkets are leading growth

Large retailers are gaining more market share

The entrance of international retailers such as Geant and Carrefour has spurred local retailers such as Panda and Alothaim. Local retailers have become more active in expanding their operations through opening new stores and acquiring smaller retailers; we expect this trend to continue. As a result, we expect supermarkets and hypermarkets to grow at a CAGR of 4.4% and 7.2% and reach SAR24.2bn and SAR18.7bn respectively by 2014, outperforming small groceries' CAGR of roughly 3.2%.

We expect the growth of supermarkets and hypermarkets to outstrip that of small stores

Figure 10. Grocery: market size estimates by sub-segment



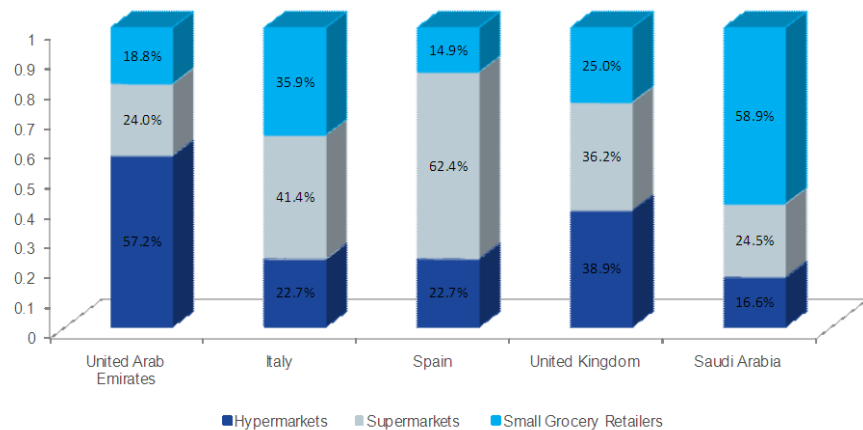
Source: Euromonitor, Al Rajhi Capital

Changing lifestyle is supporting most large retailers

Grocery retailing in Saudi Arabia is still dominated by small convenient stores as they comprise around 60% of grocery sales, according to Euromonitor. We believe that this proportion is actually even higher at about 70%. Hypermarkets and supermarkets make up around 16% and 24% of total grocery retailing. This share is still small when compared to the breakdown of the retail market in other countries.

Small traditional stores are dominating grocery market; super & hyper markets comprise 30 to 40% of market

Figure 11. International Retailing: Hypermarket vs. Supermarket vs. Small grocery retailers



Source: Euromonitor, Al Rajhi Capital

Saudis' changing lifestyle is favouring large retailers

We believe that Saudi shopping habits are changing and moving closer to western patterns. This idea is supported by different facts. Firstly, Saudi Arabia has a young population which is increasingly shopping in supermarkets and hypermarkets rather than traditional ones. Secondly, even older people are changing their shopping habits as a result of the convenience



that supermarkets and hypermarkets offer. Finally, as Saudi people are religious and conservative, places of entertainment are limited. As a result, families tend to visit large stores partly for entertainment.

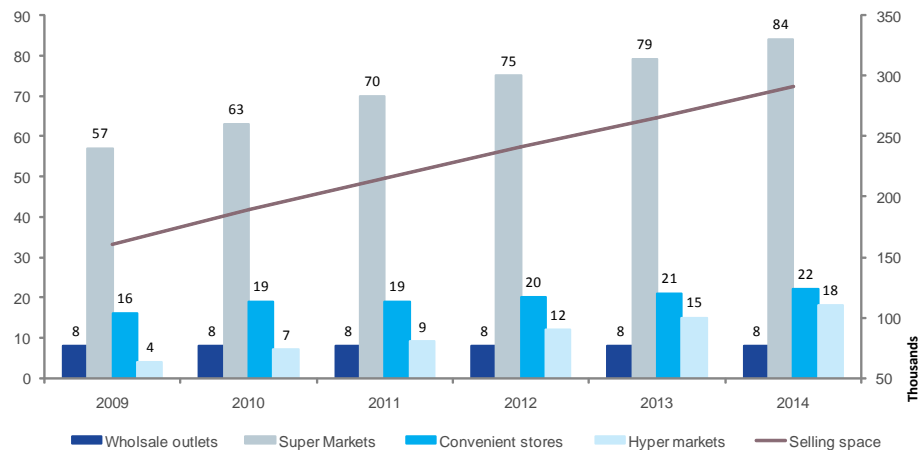
Although we believe that all large supermarkets and hypermarkets will benefit from this trend, we do not expect Alothaim to benefit to the same extent as the others. Our reasoning is that Alothaim is positioned as a low price retailer with simple stores targeting low to middle-income families, but these stores do not offer as much pleasure to visit as fancier supermarkets such as Carrefour and Hyper Panda. Nevertheless, Alothaim seems to be aware of this trend as it has recently launched fresh bakeries at its stores in order to provide its customers with something closer to what other retailers offer.

Alothaim is efficiently coping with the trend

We assume that growth in supermarkets and hypermarket will outstrip that of small convenience stores. Alothaim appears to see this trend and has set a clear strategy of focus on opening supermarket and hypermarket outlets. Although the company has a plan to open more than ten stores per year, we think this figure is a little optimistic considering the scarcity in locations, fierce competition, and upfront investments required. We expect that Alothaim will open between seven and nine outlets per year to reach 132 stores by 2014, with a selling space of close to 290,000 square metres. By our estimates, this will increase Alothaim’s market share of grocery market by 1.4% to reach roughly 5.4%.

We expect Alothaim to reach 132 stores by 2014

Figure 12. Alothaim: number of outlets and selling space



Source: Company data, Al Rajhi Capital

Competitive landscape suppressing margins

Seeking market share results in price war

Grocery retailing is becoming more competitive in Saudi Arabia as a result of local retailers’ expansion and the entrance of international players. This has increased customers’ options when it comes to grocery shopping. Since it is not easy for grocery retailers to differentiate themselves from others, most retailers have resorted to promotions and discounts to attract customers and hence gain market share. This has depressed their margins and hindered their profitability. Based on our research, Alothaim is one of the competitive retailers in offering low-priced items. Furthermore, it is actually perceived by consumers as the best retailer in terms of prices, even though this is not always true.

Alothaim is perceived by consumers as providing the lowest prices

Inflation is often not good news

Although retailers may benefit marginally from inflation in some items, the harm usually outweighs this slight advantage. This is because inflation normally limits consumers’ purchasing power and hence retailers’ sales. As a result, retailers tend to promote more heavily during high inflation periods, which eventually hurts their margins. Our estimate for food inflation this year is about 7.5%; we expect it to fall to roughly 5.5% in 2011. Though this rate is better than the peak food inflation, in double digits, appeared in 2008, it’s still higher than the normal inflation rate of 4%.

We expect food inflation rate around 5.5% in 2011



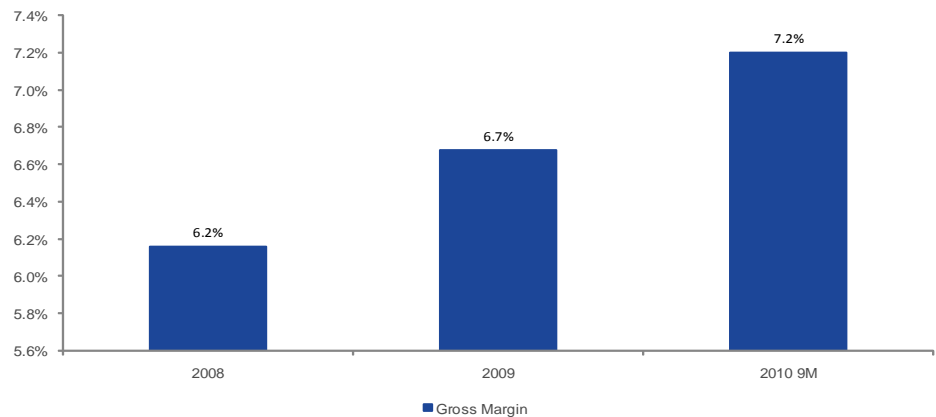
Alothaim improved its gross margin as a result of better contracts with suppliers

Retailers' expansion increases their bargaining power

Large retailers normally enjoy bargaining power over suppliers. In the Saudi retail market, we believe that large grocery retailers have not exploited this power adequately considering that the market is still fragmented. Despite the fact that large retailers currently have some power, they are still not giant enough to bargain confidently.

Nevertheless, the aggressive expansion that grocery retailers are undergoing is increasing their bargaining power gradually. Alothaim, for example, was able to improve its margins during the last two from 6.2% in 2008 to 7.2% in 2010. The company explicitly stated that this increase was mainly due to better contracts with suppliers. We believe that there is a potential for Alothaim to slightly improve its margins as a result of expansion.

Figure 13. Alothaim: gross margin



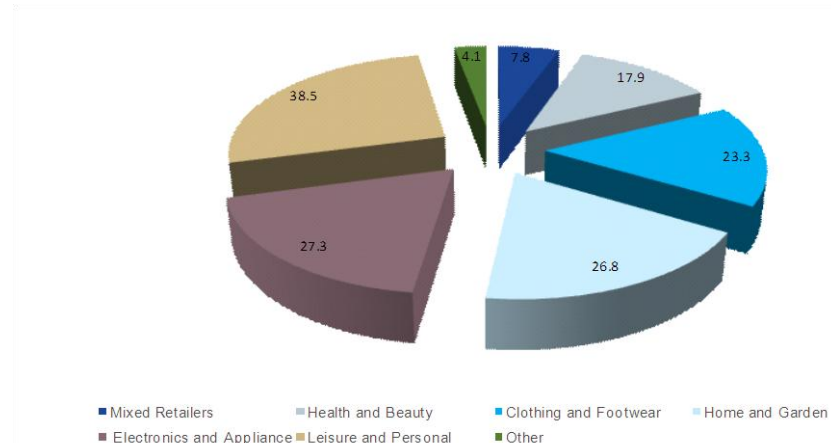
Source: Company data, Al Rajhi Capital

Leisure and personal goods is the biggest category and comprises roughly 26% of non-grocery sales

Non-grocery retail: latent growth

Non-grocery retailing comprises around 60% of the total retail market in Saudi Arabia. It encompasses many subsectors such as electronics & appliances, mixed retailers, health and beauty specialist retailers, clothing and footwear, leisure and personal goods, and others; these categories overlap as we can see large retailers operate in many simultaneously. Leisure and personal goods is the biggest category and comprises roughly 26% of non-grocery sales.

Figure 14. Saudi Arabia: Non-grocery sales value breakdown by sub-categories (SAR bn)



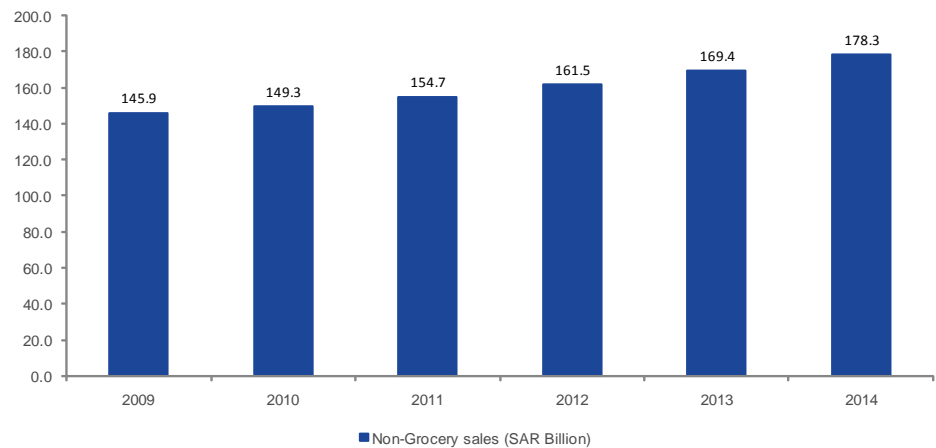
Source: Euromonitor, Al Rajhi Capital



We expect non-grocery retail market to continue growing and achieve a CAGR of 4.1% to reach SAR178bn by 2014

Driven by favourable demographics, changing lifestyle, improving education, and large retailers' aggressive expansion, we expect the non-grocery retail market to continue growing and to achieve a CAGR of 4.1% to reach SAR178bn by 2014, outperforming grocery retailing growth of 3.9%. We believe that two areas, clothing and footwear and electronics and appliances, will accelerate and achieve high CAGRs of 5.3% and 5.2% respectively, outperforming the average CAGR for other market categories of 3-4%.

Figure 15. Saudi Arabia: Non-Grocery market size



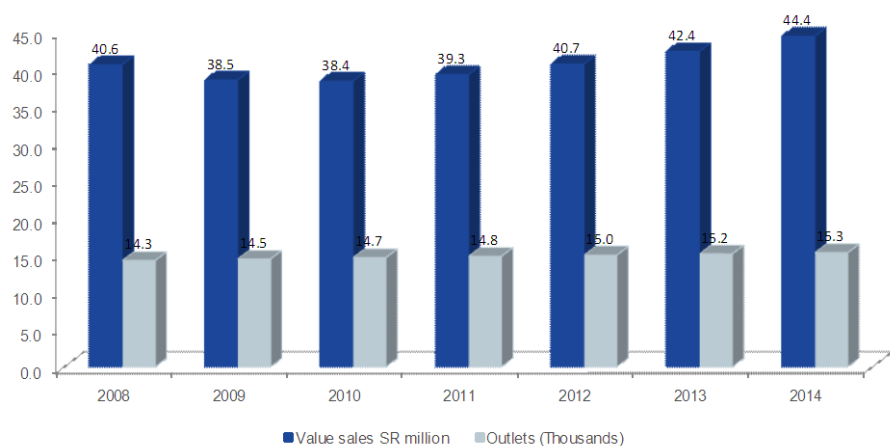
Source: Euromonitor, Al Rajhi Capital

Leisure and personal goods specialist retailers: diverse with decent growth

Demand for luxury goods was clearly impacted by economic downturn in 2009

Declining by 5% in 2009, the retail sales value of the leisure and personal goods segment is roughly SAR39bn. This subsector includes jewellery stores, booksellers, audiovisual stores, and sports goods stores. Despite the fact that some categories such as booksellers showed growth in 2009, the overall decline in this subsector's sales can be attributed to the decline of around 10% in sales of luxury goods and precious metals, as this area makes up the biggest portion of this market category. Demand for this category (jewellery and precious metals) was clearly impacted by the economic downturn. We expect sales to regain momentum in the future, growing by a CAGR of 3%, to reach SAR45bn by 2014.

Figure 16. Saudi Arabia: leisure and personal goods market



Source: Euromonitor, Al Rajhi Capital



Government spending in education which has peaked in 2010 should support books sales

New devices such as iPad and Amazon Kindle offer new ways of reading and instil new reading habits

Jarir is leading the market as a result of dynamic product mix and increasing selling space

Improving education supports booksellers

According to Euromonitor, booksellers, the second largest format of leisure and personal goods in terms of value, achieved sales growth of 9% in 2009. Sales were boosted by the rapid expansion of leading retailers in outlet number and more importantly the successful diversification strategies of the leading players in this format, such as Jarir. These retailers extended their ranges to include items such as IT and craft-related products, in addition to books and stationery aimed at children and young adults.

We believe that education is stimulating this segment's sales. Government spending in education has been strong over the last few years. In 2010, the government announced the highest spending ever in education. Several universities are under construction in different regions within the Kingdom. Scholarship programmes started five years ago and the government announced that it will continue these programmes for the next five years. All these factors are improving education which will be reflected in the sector's growth.

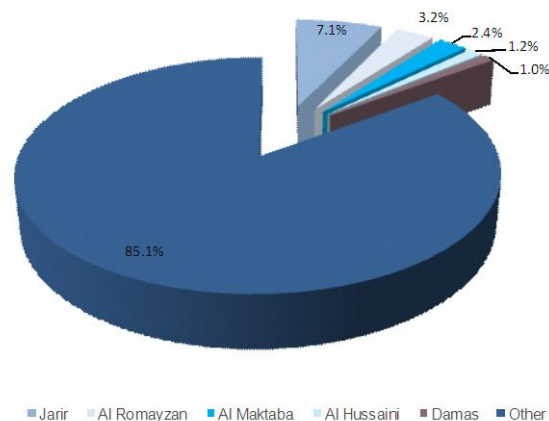
Technology may impair the books market

The fast-growing technology market benefits a few personal goods retailers which carry a wide range of items including electronics products such as Jarir. However, we think that this fast development may hinder growth in the books market. New devices such as iPad and Amazon Kindle offer new ways of reading and instil new reading habits. This trend is stimulated by the fact that the Saudi books market is not very open. Many new international publications are not offered in the Saudi market and it may take a long time before others appear in bookstores. However, Saudi Arabia is an emerging market and it may take some time for products such as iPad and Amazon Kindle to make an impact in the market.

Jarir is leading the personal goods market

With a market share of roughly 7%, Jarir is leading the leisure and personal goods market in Saudi Arabia (Euromonitor). The company was successfully able to increase its market share from 3.8% in 2005 to 7.1% in 2009 as a result of increasing stores and product variety. Although more than 50% of the company's revenues come from laptops and electronics sales, it is classified under leisure and personal goods as it was originally established as a bookstore. However, Jarir has cleverly exploited this situation to reflect its new business profile. This explains the company's slogan "not just a bookstore."

Figure 17. Saudi Arabia: market share in leisure & personal goods



Source: Euromonitor, Al Rajhi Capital

We believe that Jarir will continue to outperform overall growth in the leisure and personal goods sector. The aggressive expansion that Jarir is undergoing through opening new stores in Saudi Arabia and other GCC markets will support the company's growth. Furthermore, we think that the resilience of the company's product mix will allow it to cope with new trends. In other words, we see Jarir dynamic enough to abruptly respond to new trends and carry new products in its stores.

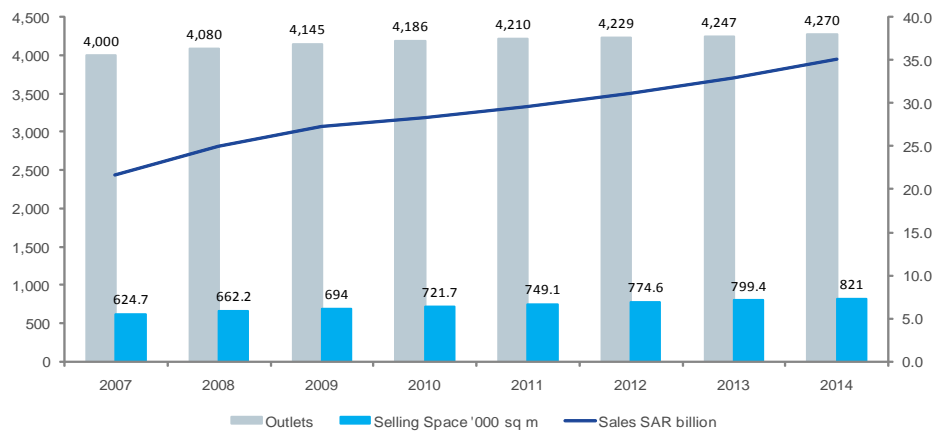


Electronics makes up more than 60% of Jarir's revenues

Electronics and appliances market: smart phones and tablets are leading growth

Despite the fact that the companies we are covering in this report are not classified under electronics and appliances, we think it is vital to go over this area quickly not only because it is the second largest subsector within the non-grocery retailing market, but also because more than 60% of Jarir's revenues come from sales of laptops and other IT products. Electronics and appliances makes up 18.5% of the non-grocery retailing industry. This segment has grown strongly during the last five years; and we expect it to achieve a CAGR of 5.2% over the next five years, outstripping other non-grocery categories except clothing and footwear. The market size is currently SAR27bn; we expect it to reach SAR35bn by 2014, with a selling space of roughly 821,000 square metres.

Figure 18. Saudi Arabia: Electronic & appliances sales, outlets, and selling space



Source: Euromonitor, Al Rajhi Capital

Smart phones, tablet, and video games will lead this segment's growth

Electronics market: growing but competitive

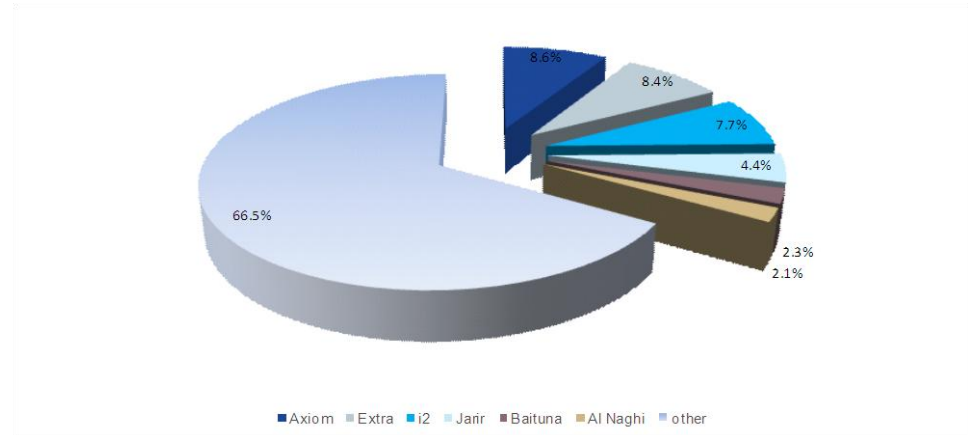
Driven by IT sales, we expect electronics and appliances to continue growing as this segment is still underpenetrated. According to the Saudi Communications and Information Technology Commission (CITC), IT sales including hardware, software, and IT services should grow by 17% and 11% in 2011 and 2012 respectively. By CITC estimates, internet users reached 9.8mn in 2009; this represents population penetration of 38%. We believe that smart phones, tablets, and their accessories will be driving this segment's growth. Jarir should benefit from this trend as it is leading this market and in our view is dynamic enough to introduce any new technologies in a relatively short space of time.

Nonetheless, there are several players in this market which has made it fiercely competitive. Axiom, Extra, and i2 are leading the industry in terms of sales value. Although it is classified as bookseller, Jarir has been able to thrive in this market through IT sales and has captured a market share of 4.4% by our estimates. Jarir has outperformed large electronics specialist retailers by focusing on personal computers, laptops, and other IT products.

The competitiveness of this market has forced large retailers to adopt aggressive marketing and promotion activities. Although strong service and maintenance centres are likely to support certain retailers, pricing and promotions seem to be the key drivers for consumers.



Figure 19. Saudi Arabia: electronics market share



Source: Euromonitor, Al Rajhi Capital

Electronics products: declining prices will impede sales value rather than margins

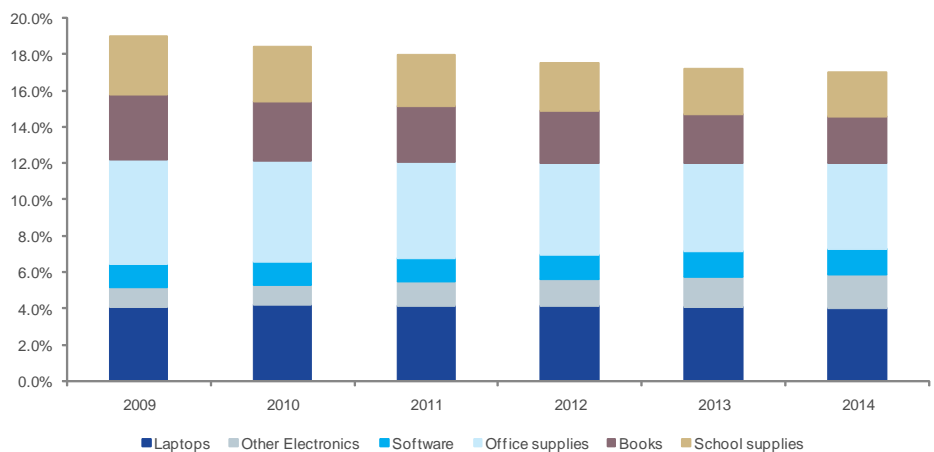
Declining prices will hurt sales value

Prices in the electronics industry tend to decline over time, leading to flat or negative sales growth for hardware producers. The more this industry develops, the more prices fall. We believe this fact is likely to hurt electronics retailers' sales' value. They may double sales volume, but the sales value may not reflect this dramatic climb.

Nevertheless, we think that large retailers should be able to maintain their margins despite the declining prices. The fact that electronics prices are falling is associated with declines in production costs and increases in production yields by manufacturers as their technology improves, which permits them to lower prices; retailers normally pass on the lower cost to consumers. Competition and retailers' determination to boost market share often lead to massive promotions, which are the real pressure on margins.

In Jarir case, we expect gross margin to decline slightly, remaining close to current level. We have based this on the assumption that higher margin electronics (smart phones, tablets, and their accessories) will achieve the highest growth.

Figure 20. Jarir: gross margin breakdown by categories



Source: Company data, Al Rajhi Capital



Clothing and footwear market: changing lifestyle is encouraging

We expect the apparel sector to achieve a CAGR of 5.3% over the next four years

According to Euromonitor, clothing and footwear achieved the highest CAGR of 8.6% over the last five years among non-grocery sectors. Driven by the entrance of many international brands and large retailers' aggressive expansion, we expect this sector to grow strongly (with a CAGR of 5.3% over the next five years), outperforming other non-grocery retailing. Clothing and footwear is the fourth largest non-grocery retailing market; with a size of SAR23.3bn, we expect this to reach SAR30.2bn by 2014.

Figure 21. Saudi Arabia: clothing & footwear market size



Source: Euromonitor, Al Rajhi Capital

Alhokair owns several major brands such as Zara, Gap, and Marks & Spencer

Sales of clothing and footwear are strongly seasonal, rising sharply before Eid El Fitr and Eid Al Adha (respectively the religious celebrations at the end of Ramadan, the fasting month for Muslims, and the end of the Hajj pilgrimage season). The clothing and footwear market encompasses men's clothing, women's clothing, children's wear, and shoes. With a market share of 8.6%, Al-Bandar Trading Company is leading in this market through major brands such as Bossini, Splash, and City Max. Alhokair comes right behind with a market share of 8.4%, ahead of major brands such as Zara, Bershka, and Marks & Spencer. Nevertheless, the market is still dominated by small stores and unbranded items. This offers great potential for large retailers to overtake smaller ones and gain more market share.

Figure 22. Clothing and footwear market share by companies and brands

Company	Market Share	Brand	Market Share
Al Bandar Trading Co	8.6%	Bossini	1.8%
Fawaz Al Hokair Group	8.4%	Splash	1.6%
M H Alshaya Co	6.0%	Max/City Max	1.5%
Al Sawani Group	5.1%	Shoe Mart	1.5%
Kamal Osman Jamjoom Est	0.9%	Baby Shop	1.3%
Al Faisaliah Group	0.2%	Mothercare	1.2%
Others	70.7%	Nayomi	0.9%
		Claire's	0.9%
		Zara	0.8%
		Bershka	0.7%
		Marks & Spencer	0.7%
		other	87.1%

Source: Euromonitor, Al Rajhi Capital

New generation in Saudi is more conscious of fashion than old generation

New generation's lifestyle stimulates growth

In addition to favourable demographics, Saudi lifestyle is undergoing significant changes, especially among the younger generation of both sexes. Although women are still required to wear the "abaya" (black overall) and veil when outside home, they have become more conscious about fashionable clothing and footwear. Men, meanwhile, are increasingly giving up the traditional white dress ("thoab") and wearing western casual dress, especially the



Apparel imports from China are increasing

Alhokair's gross margin of 44% is strong compared to retailers in other categories

young generation. Moreover, the strong trend toward gymnastic centres supports sports clothing and the footwear market.

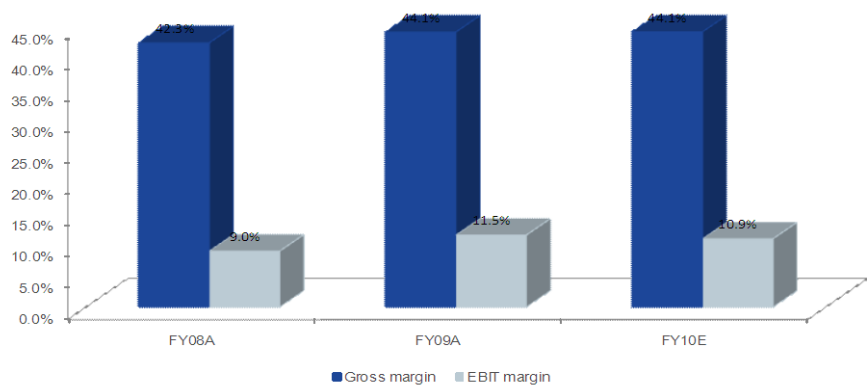
Imports from China and counterfeit stress large retailers

Competition is intensifying in the clothing sector due to increasing imports from China. These items are extremely appealing to families with limited income. Moreover, in a developing country such as the Kingdom where there are no tough restrictions on trading, counterfeiting of well known brands is popular. This appeals not only to families with limited income, but also to middle-class families. In general, we believe that middle and high-class families are more conscious of brand names.

Clothing retailers enjoy high margins

Unlike other retailers, clothing and footwear retailers enjoy higher margins. Although the clothing market in Saudi Arabia is fiercely competitive, pricing is not the only factor driving consumer behaviour. As a result, pressure on clothing retailers' margins is much lower than pressure on the margins of grocery retailers and retailers of other non-grocery categories such as electronics products. Alhokair, for instance, has achieved a strong gross and EBIT margin compared to other retailers.

Figure 23. Alhokair: gross & EBIT margins



Source: Company data, Al Rajhi Capital



Business analysis attractions and weak points of the stocks are balanced

Although Alhokair, Alothaim, and Jarir operate in different categories, they are all retailers with a similar business nature. Therefore, we think it is vital to compare the three companies strategically, financially and operationally.

Jarir, Alothaim, and Alhokair: well-positioned in their markets

The three companies are the leaders in their markets. Jarir is number one in both the books and laptop PC segments. Alhokair is the second in the apparel market right behind AlBandar Trading Company. Alothaim likewise is the second largest grocery retailer, coming behind Al-Azizia (owned by Savola). As the companies operate in different retailing subsectors, they have adopted different strategies to achieve their goals.

Jarir's dynamic business model allows it to capture new trends

Jarir pursues a dynamic strategy of capturing new business trends which has created a unique business model. We see this as a competitive advantage for the company. Although Jarir was known as a bookstore, more than 60% of its revenues currently come from electronics sales (IT devices). The company's slogan reflects its diverse business: it is "not just a book store." Jarir is dynamic enough to embrace any trend that offers growth and it manages to do so fast and ahead of competitors. New products launched by Jarir are on the shelves in all stores within two weeks. For instance, Jarir moved rapidly to carry smart-phones in its stores; it was one of the pioneers in launching electronic tablets (i.e. the iPad) in its outlets as well.

Alothaim stores are not fancy, catering to low to middle-class customers

Alothaim seems to be more pragmatic than other grocery stores. In terms of design and size, the company's stores are utilitarian and seem to be targeting the lower and middle classes. The design of these stores is simply not fancy; it is dull compared to other supermarkets and hypermarkets such as Safeway and Panda. However, the standard size of Alothaim's outlets is relatively small compared to those of other chains: 3,000 square metres for supermarkets and 5,000 square metres for hypermarkets. This has resulted in a higher return per metre (RPM) when compared to other stores such as Panda which has larger selling area standard. Alothaim is perceived as offering the cheapest prices, and therefore, it appeals to low and middle-class customers including both Saudis and other residents. Although Alothaim offers unbeatable prices on some items, we notice that certain other items are pricey compared to what other retailers offer. We suspect that Alothaim tends to be competitive in well-known items such as commodity foods and makes a higher margin out of other items.

Alhokair owns stores with different format targeting the middle class

Alhokair owns more than 800 stores including a wide range of apparel from children's and women's clothing to men's clothing and footwear targeting the middle class. Up to now sales in franchised clothing stores such as Zara and Gap have been the chief driver of sales growth for Alhokair. Although there is potential to grow further through this segment, the company sees greater growth potential in the children's and teenagers' clothing segment. We believe this view is justified considering the young Saudi population and the changing clothing style within the young generation. Furthermore, the company plans to broaden its customer base to include lower-income customers by offering new affordable brands that cater to this segment. For instance, it is about to launch a new stores chain (FG4), a joint venture with a European design company that will specifically target lower-class customers.

We expect Jarir to maintain strong SSS growth above 8%

Same-store sales growth: Jarir is outperforming

Same-store sales (SSS) growth is an important indicator of a retailing company's organic growth, in other words, its ability to grow within its same stores without opening new stores. The three companies are achieving healthy organic growth, but based on their own data and our estimates, Jarir is surpassing the other two companies. Jarir has achieved roughly 12.5% organic growth so far in 2010. This has been driven chiefly by its strong sales of smart-phones, video games, and laptops, and partly by the fact that 2009 as a base year was not strong in terms of revenues. Driven by tablets, smart phones, and games, we expect Jarir to continue to achieve strong same store sales growth of between 8% and 10% over the next three years.

Alothaim and Alhokair still achieve healthy SSS growth

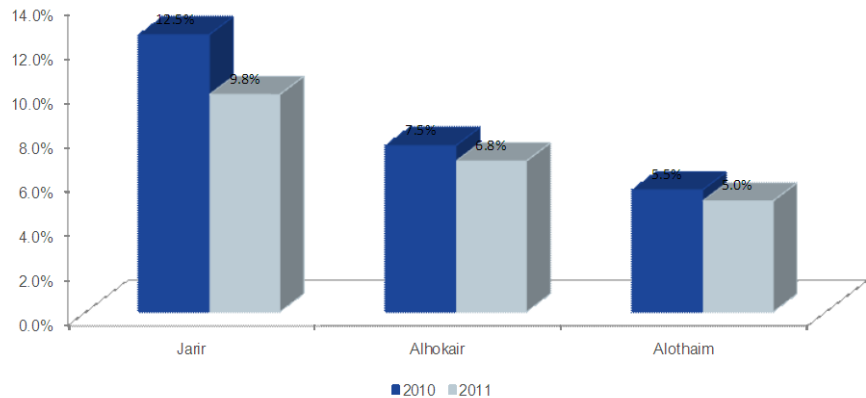
Alhokair is achieving strong organic growth as well. By our estimate, the company has achieved organic growth of 7.5% so far in 2010. The company is benefiting from the fast-



growing apparel market in the Kingdom, especially children's clothing. It has also benefited from rationalising some of its stores and shutting down underperforming ones. The moderately weak results of 2009 as a base year have also made a contribution to the strong growth so far in this year. Benefiting from the strong apparel market, we expect Alhokair to achieve same store sales growth of between 6.0% and 7.0% over the next three years.

Though healthy, Alothaim seems to be achieving the lowest organic growth among the three companies. By our estimate, Alothaim has achieved 5.5% same store sales growth so far in 2010. This reflects the grocery retailing market's slow growth pace. Although we see a changing trend toward supermarkets and hypermarkets from traditional grocery stores (bakala), we think that traditional stores will remain dominant. Furthermore, we do not expect Alothaim's stores to benefit fully from this trend as they do not offer the pleasure that other classy supermarkets and hypermarkets such as Safeway provide. Thus, we suppose that Alothaim will continue to achieve organic growth of about 5% - respectable, but less impressive than the growth rates achieved by the other two.

Figure 24. Same-store sales (organic) growth: Alhokair versus Alothaim versus Jarir



Source: Companies data, Al Rajhi Capital

Alhokair's gross margin of 44% is strong compared to Alothaim's and Jarir's

Alhokair achieves the highest margins

Despite the different business models of the three companies operate, we think it is useful to analyse their margins and the potential pressures that may impede them. The branded clothing business typically carries high profit margins because clothes tend to be manufactured in countries with low labour and raw material costs but sold at premium due to brand names. Not surprisingly, therefore, Alhokair achieves the highest gross margin of roughly 44% compared to 17.1% and 7.6% for Jarir and Alothaim respectively. However, administrative and marketing expenses in Alhokair are very high due to fierce competition and costs associated with managing stores. This results in an EBITDA margin of 15.3%, slightly higher than that of 14.2% in Jarir. Alothaim achieves the lowest EBITDA margin of 5.3%, reflecting the importance of its grocery business. However, it is important to note that EBITDA margin of 5.3% is reasonable when compared to other grocery retailers such as Kroger of the US with an EBITDA margin of 3.4% and Sainsbury's of the UK with an EBITDA margin of 5.9%.

Retailing in general faces considerable margin pressure and this is becoming more severe as competition intensifies. We believe that Alhokair faces the least pressure on margins as it operates in apparel retailing. The company has a high gross margin which gives it room to tolerate unexpected increases in costs. Moreover, consumers are more conscious of apparel brand names which allow fashion retailers to differentiate themselves. Thus, we expect Alhokair to maintain its margins and slightly improve them through international expansion as the company sighted these places such Kazakhstan and Jordan to be more profitable.

On the other hand, consumers of grocery and other non-grocery products such as electronics place greater emphasis on prices than purchasers of clothing. This puts more pressure on retailers such as Jarir and Alhokair. Jarir's gross margin has been declining as a result of its huge expansion in electronics (mainly laptop PCs), which is a low-margin category. As this

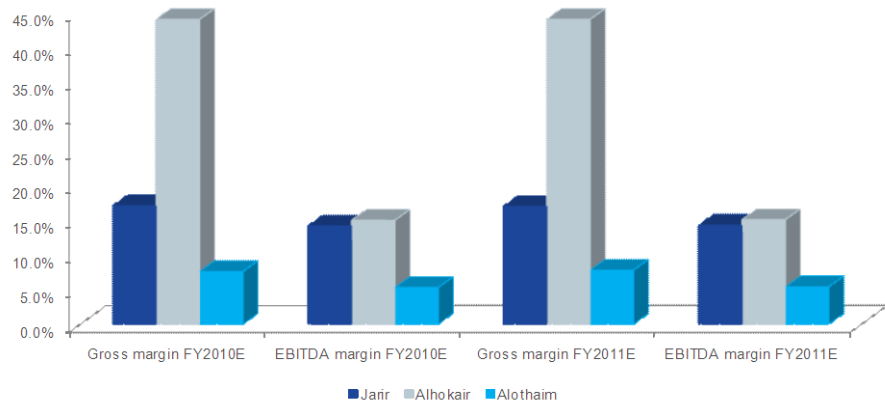


Unlike gross margin, Jarir Achieves EBITDA margin similar to Alhokair's

category currently represents around 70% of total revenues, we believe that Jarir will be able to maintain its gross margin at close to the current level as new electronics and accessories offer respectable margins. The concentration on electronics products such as smart-phones, tablets, games, and accessories to those products should help the company maintain its current level of profitability.

Alothaim is also facing challenges in maintaining or improving its margins. The problem of recent sharp increases in commodities and food prices in general which Alothaim cannot pass on to consumers is tricky. The company might benefit from raising prices in the short term but ultimately it would have to increase promotions to prevent customer loss which would erode the temporary benefit of higher prices. Despite this problem, Alothaim has been able to improve its margin over the last three years by improving its contracts with suppliers. We expect the aggressive expansion plan will increase the company's bargaining power and allow it to improve or at least maintain its margins.

Figure 25. Gross & EBITDA margins: Alhokair versus Alothaim versus Jarir



Source: Companies data, Al Rajhi Capital

Jarir achieves the highest sales per square metre among the three companies

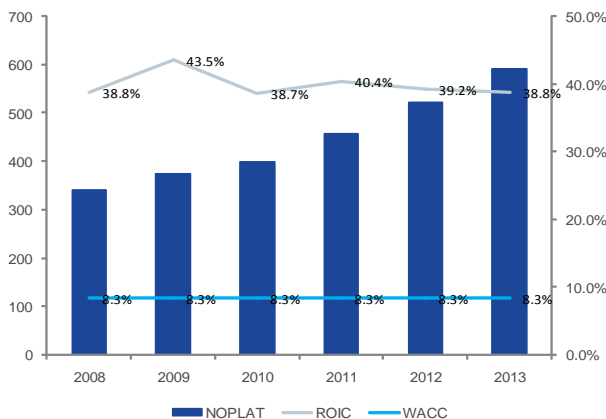
Jarir is achieving impressive returns

Although Jarir has the smallest selling area in square metres among the three companies, it achieves the highest sales per square metre. This stems from the company's planned investment. Looking at the returns of the three companies, Jarir achieves superior ROA, ROE, and ROIC among the three companies.

Jarir's ROIC of 38.7% is extremely impressive

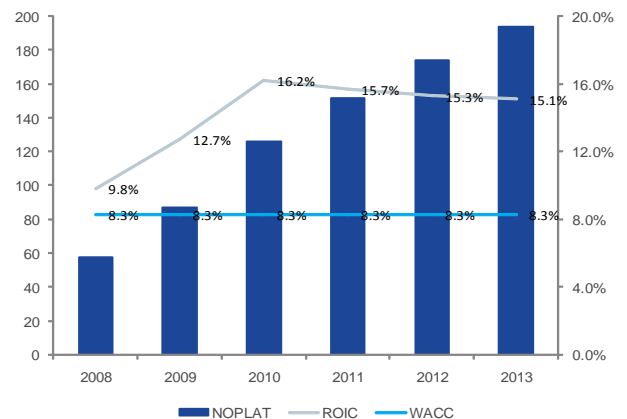
We calculate Jarir's ROIC at 38.7% for 2010. With WACC of roughly 8.3%, the company is making an outstanding economic profit spread of 30.4%. By our calculation Alhokair and Alothaim are achieving healthy economic profit spreads of 6.2% and 7.9% respectively.

Figure 26.1 Jarir: NOPLAT and return on invested capital



Source: Company data, Al Rajhi Capital

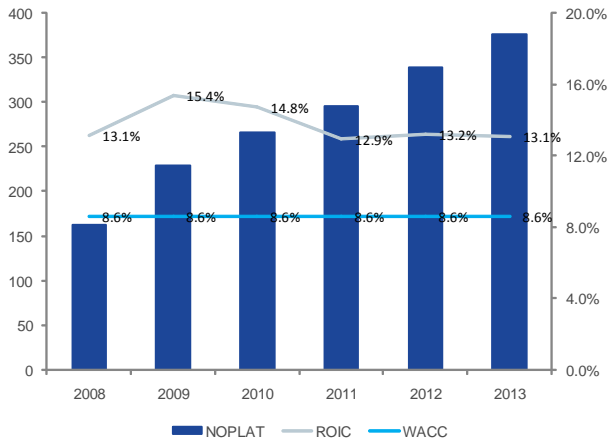
Figure 26.2 Alothaim: NOPLAT and return on invested capital



Source: Company data, Al Rajhi Capital

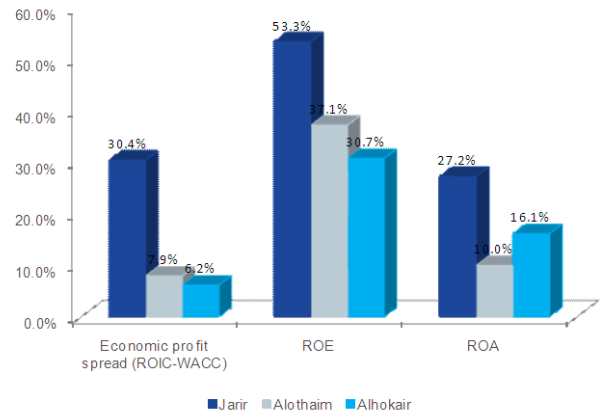


Figure 27.1 Alhokair: NOPLAT and return on invested capital



Source: Company data, Al Rajhi Capital

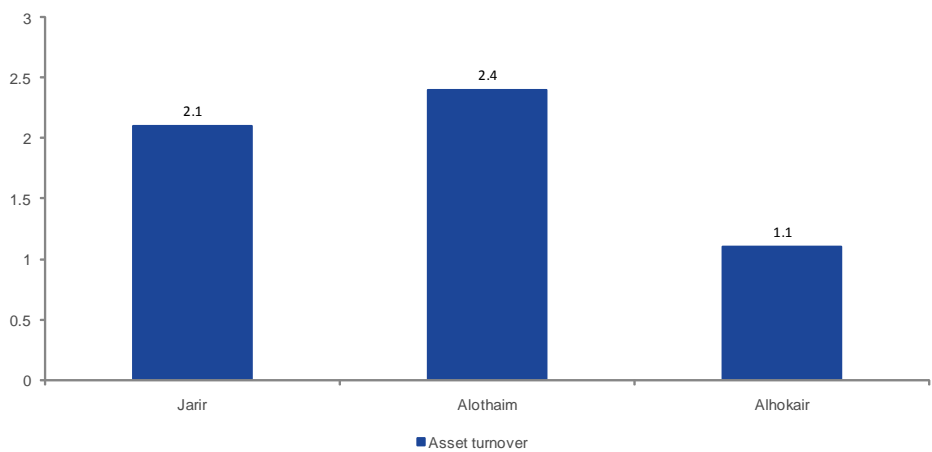
Figure 27.2 Retailers: economic profit spread, ROE, & ROA



Source: Companies data, Al Rajhi Capital

High economic profit for the three companies in this report partly reflects high asset turnover (revenues/assets). Based on our calculation, Alothaim achieves the highest asset turnover of the three 2.4x, which is normal level for a high-volume grocery retailer. We believe that it is impressive for Jarir, which is essentially now an electronics and office supplies retailer, to achieve assets turnover of 2.1x, i.e. a level close to that of Alothaim.

Figure 28. Asset turnover: Jarir versus Alothaim versus Alhokair



Source: Companies data, Al Rajhi Capital



Valuation: all three companies still offer value

In this section, we evaluate the three companies by looking at major financial ratios such as EV/EBITDA, P/E, and gearing ratios. We also value each company using two methods: comparative multiples and long run discounted economic profit (DEP).

EV/EBITDA and PE: Alhokair and Alothaim look more attractive; Jarir has healthier gearing

With regard to the relative valuation of the three companies, based on PE and EV/EBITDA only, Alhokair and Alothaim look more attractive with PE ratios of 7.7x and 11.0x and EV/EBITDA multiples of 7.1x and 7.3x respectively. Jarir with a PE ratio of 13.5x and an EV/EBITDA multiple of 11.9x looks more expensive than the other two companies. However, Jarir's valuation looks more reasonable when it is compared to retailers which operate in similar categories (see the discussion of comparative multiples analysis for Jarir below) and when Jarir's high growth potential is taken into account.

Alothaim and Alhokair appear more attractive considering EV/EBITDA

Figure 29. 2011 EV/EBITDA & PE

	Jarir	Alhokair	Alothaim
EV/EBITDA	11.9x	7.1x	7.8x
P/E	13.5x	7.7x	12.0x

Source: Companies data, Al Rajhi Capital

All three companies have healthy balance sheets, with measures of gearing such as net debt/EBITDA and net debt/equity under control. Jarir has the lowest gearing while Alothaim is slightly more leveraged.

Summary of our approach and conclusions

Our key method of valuation for the Saudi retailers is long-run discounted economic profit (DEP), sometimes also called discounted long-run EVA ("economic value added"). This is a simple variation on discounted cash flow and is mathematically equivalent. In our models, we make explicit forecasts for income statement, balance sheet and cash flow out to 2020. We then assume a steady fading of return on invested capital, i.e. excess return, down to the cost of capital over a period of up to 50 years from end of our period of explicit forecasting. This approach avoids a common problem in long-run modelling: namely, that the analyst stops forecasting at some arbitrary point when the company in question is still generating high returns. In terms of financial theory this is implausible, and excess returns will eventually disappear through competition, regulation or some other means.

Our DEP valuations are sensitive to many factors, including assumed revenue growth, EBITDA margin and capex/sales ratio in 2020, i.e. the last year of explicit forecasting. Another important variable is the assumed duration of the period of competitive advantage, i.e. the period during which the company generates returns above weighted average cost of capital (WACC). Deciding on the length of the period of the competitive advantage is naturally a subjective exercise. We have assumed 25 years for the three companies, Alhokair- Alothaim- and Jarir; on the grounds that they are well positioned in their markets and that it would take several years for rivals to challenge them effectively.

However, as with any DCF-based approach, the factor to which the DEP valuation is most sensitive is WACC. We have assumed a WACC of around 8.6% for Alhokair; we think that this comparatively high figure can be attributed to the company's Beta of 0.9. For Jarir and Alothaim, we have assumed a lower WACC of 8.3% which stems from their low Beta of 0.8. WACC is in turn highly sensitive to assumed terminal capital structure. Estimating terminal capital structure is again a rather subjective exercise. We have assumed a terminal debt/(debt plus equity) ratio of 30% for the three companies.

In addition to long-run DEP, we use comparative multiples analysis to value Alhokair, Alothaim, and Jarir in relation to other strong multinational players. Under this approach we

Our key long-run method of forecasting is discounted economic profit (DEP) forecasting

Alothaim and Jarir have lower Beta than Alhokair

We use comparative multiples analysis in addition to DEP



use comparisons of valuation measures – notably, EV/EBITDA and PE multiples– with other listed multinational retailers to estimate fair value. We have taken a weighted average of the two methods as our target price by giving a weight of 70% to the long-run DEP method and 30% to the comparative multiples analysis method. Arguably we should be using only the long-run DCF or DEP method, not only because it is theoretically more defensible, but also because it is well-suited to a sector like retail with reasonably predictable cash flows. However, we see the comparative multiples method as a good indicator of performance and pricing in the real world.

We rate Jarir Overweight and set a target price of SAR189.4, implying 25.8% upside potential. We rate Alhokair Overweight as well and set target price of SAR49.9, implying 18.5% upside potential. Although we find Althaim interesting, we rate it Neutral as its share price has appreciated recently. Jarir, Althaim, and Alhokair offer dividend yields of 5.2%, 3.5% and 4.5% respectively. We believe that dividends in all companies are sustainable considering that they enjoy strong cash flows.

Strong growth potential and the uniqueness of Jarir's business are likely to support its share price

While the share prices of both Alhokair and Jarir have performed strongly already, we believe that they can rise further. In addition to its strong prospects, Alhokair's financial ratios (PE and EV/EBITDA) still look low compared to Jarir and other international retailing companies. Jarir, on the other hand, seems more expensive considering its ratios. However, we believe that the uniqueness of its business model, the strong growth potential, dividend yield, and the professionalism and openness of its management justify a premium valuation and will support the share price in the future.

Once the market is opened, we expect international investors to buy Jarir

In this context, it is worth stressing that we expect the three companies, especially Jarir, to attract strong buying interest once international investors are allowed to participate fully in the Saudi stock market. We note that the Saudi Capital Market Authority (CMA) has been discussing opening the market to international investors and it is widely expected that they will be allowed to invest directly in Saudi stocks in the future.

Below we discuss fair value for the three companies in detail.

Jarir

We have selected four multinational apparel retailing companies as benchmarks for Jarir

As mentioned, we use two valuation methods: long-run EVA and comparative multiples analysis. For the multiple analysis, we use EV/EBITDA multiples and PE ratios. We believe that we have been selective and conservative by choosing strong multinational companies as benchmarks. Since Jarir operates in different retailing categories (books, electronics, and school & office supplies), we have selected four multinational companies to reflect Jarir's business. Despite the different markets in which they operate, we believe that they provide good comparables considering their business nature. We see Jarir in the Kingdom as enjoying the same strength as these companies in their regions. The table below shows these companies' major figures and ratios compared to Jarir's.

Figure 30. Jarir: comparative multiples analysis

Company	Market	Sector	PE	EV/EBITDA	Bloomberg Code
BEST BUY CO INC	NYSE	Retail (Technology)	13.1	5.6	BBY US
OFFICEMAX INC	NYSE	Office Supplies	25.2	12.7	OMX US
Staples	NASD	Office Supplies	17.3	8.1	SPLS US
PPR (Fnac)	EPA	Retail (Department & Discount)	28.5	14.7	PP FP
JARIR	TASI	Electronics, Books, & Office Supplies	13.5	11.9	JARIR AB

Source: Bloomberg, Al Rajhi Capital

Using the average of the benchmark companies' PE and EV/EBITDA ratios for 2010, we estimate a fair share price for Jarir at SR171.7. As noted, we have given a 30% weight to this method.

Using DEP, fair value for Jarir is SAR196.9

In the long-run DEP method of estimating Jarir's fair value, we use a WACC of 8.3%. Using our core assumption of a period of competitive advantage of 25 years, which means that it will take around 25 years for other rivals to compete efficiently with Jarir, we estimate fair value per share for Jarir at SAR196.9.4.



Figure 31. Jarir: weighted average cost of capital (WACC)

Risk-free Rate	3.2%
Market Risk Premium	8.0%
Adjusted Beta	0.9
Cost of Equity	10.0%
Pre-tax Cost of Debt	4.5%
Effective Tax rate	3.1%
After-tax Cost of Debt	4.4%
Target D/(D+E)	30.0%
WACC	8.3%

Source: ARC Research

We set our target price for Jarir at SAR189.4

We set our target price per share for Jarir at SAR189.4. We have arrived at this target price by giving a weight of 70% to the long-run EVA method (SAR196.9 fair value per share), and 30% to multiples (SAR171.7 fair value per share). We believe that the difference between these two methods can partly be attributed to the fact that Jarir is currently undergoing aggressive expansion. This expansion should boost the company's long-run fair value, given its high economic profits.

Alhokair

We have selected four multinational apparel retailing companies as benchmarks for Alhokair

As for Jarir, we use two valuation methods: long-run EVA and comparative multiples analysis. For the multiples analysis, we use EV/EBITDA multiples and PE ratios. We believe that we have been selective and conservative by choosing strong multinational companies as benchmarks.

Figure 32. Alhokair: comparative multiples analysis

Company	Market	Sector	P/E	EV/EBITDA	Bloomberg Code
Debenhams plc	NYSE	Retail (Apparel)	9.4	4.9	ANF US
The Gap Inc.	NYSE	Retail (Apparel)	11.2	4.7	GAP US
Inditex SA (ZARA)	MCE	Retail (Apparel)	21.3	11.6	ITX SM
Macy's, Inc.	NYSE	Retail (Department)	13.1	5.6	M US
Alhokair	TASI	Retail (Apparel)	7.7	7.1	ALHOKAIR AB

Source: Bloomberg, Al Rajhi Capital

Using the average of the benchmark companies' PE and EV/EBITDA ratios for 2010, we estimate a fair share price for Alhokair at SR54.0. As noted, we have given a 30% weight to this method.

We see DEP fair value for Alhokair at SAR48.1

In the long-run DEP method of estimating Alhokair's fair value, we use a WACC of 8.6%. Using our core assumption of a period of competitive advantage of 25 years, we estimate fair value per share for Alhokair at SAR48.1.

Figure 33. Alhokair: weighted average cost of capital (WACC)

Risk-free Rate	3.2%
Market Risk Premium	8.0%
Adjusted Beta	0.9
Cost of Equity	10.0%
Pre-tax Cost of Debt	4.5%
Effective Tax rate	4.3%
After-tax Cost of Debt	4.3%
Target D/(D+E)	30.0%
WACC	8.6%

Source: ARC Research



We set our target price for Alhokair at SAR49.0

We set our target price per share for Alhokair at SAR49.9. We have arrived at this target price by giving a weight of 70% to the long-run EVA method (SAR48.1 fair value per share), and 30% to multiples (SAR54.0 fair value per share).

We selected three international grocery retailers as benchmarks for Alothaim's business

Alothaim

Similarly, we use two valuation methods to arrive at our target price for Alothaim: long-run EVA and comparative multiples analysis. For the multiples analysis, we use EV/EBITDA multiples and PE ratios. We have been selective and conservative in our benchmarking. The table below illustrates these companies' major valuation ratios compared to Alothaim's.

Figure 34. Alothaim: comparative multiples analysis

Company	Market	Sector	PE	EV/EBITDA	Bloomberg Code
Sainsbury	LON	Retail (Grocery)	10.2	6.6	SBRY LN
TESCO	LON	Retail (Grocery)	13.7	9.4	TSCO LN
Kroger	NYSE	Retail (Grocery)	13.9	5.9	KR US
AL Othaim	TASI	Retail (Grocery)	11.0	7.3	AOTHAIM AB

Source: Bloomberg, Al Rajhi Capital

Using the average of the benchmark companies' PE and EV/EBITDA ratios for 2010, we estimate a fair share price for Alothaim at SAR76. As noted, we have given a 30% weight to this method.

We see DEP fair value for Alothaim at SAR90.8

In the long-run DEP method of estimating Alothaim's fair value, we use a WACC of 8.3%. Using our core assumption of a period of competitive advantage of 30 years, we estimate fair value per share for Alothaim at SAR90.8.

Figure 35. Alothaim: weighted average cost of capital (WACC)

Risk-free Rate	3.2%
Market Risk Premium	8.0%
Adjusted Beta	0.9
Cost of Equity	10.0%
Pre-tax Cost of Debt	4.5%
Effective Tax rate	4.5%
After-tax Cost of Debt	4.3%
Target D/(D+E)	30.0%
WACC	8.3%

Source: ARC Research

We set our target price for Alothaim at SAR86.4

We set our target price per share for Alothaim at SAR86.4. We have arrived at this target price by giving a weight of 70% to the long-run DEP method (SAR90.8 fair value per share), and 30% to the comparative multiples method (SAR76 fair value per share).



US\$1.619bn Market cap **87%** Free float **US\$0.501mn** Avg. daily volume

Target price **189.4** 26.40% over current
 Consensus price **176.0** 16.90% over current
 Current price **149.75** as at 15/12/2010

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Underweight **Neutral** **Overweight**

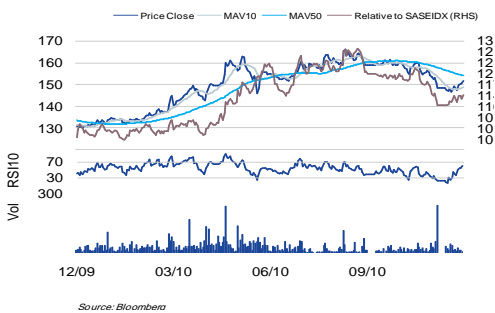
Key themes

Driven by rising population, improving education, and changing lifestyle, we expect the retail sector in Saudi Arabia to continue growing. Jarir has a very strong position in books, office and school supplies, and electronics markets. Jarir should continue to grow by opening new stores and benefiting from new electronics segment growth.

Implications

Jarir is our preferred stock in the retail sector. It is performing well operationally. Although Jarir's share price has performed well and cannot be called cheap, we expect the stock to continue to be supported by strong SSS growth, high transparency and a handsome dividend yield.

Performance

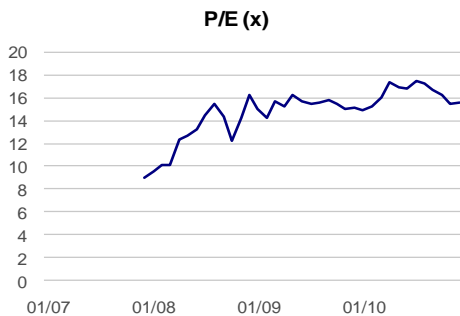


Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	2,555	3,048	3,520	4,045
Revenue Growth	1.4%	19.3%	15.5%	14.9%
EBITDA (mn)	403	439	494	564
EBITDA Growth	10.7%	9.0%	12.5%	14.1%
EPS	9.35	10.34	10.97	12.68
EPS Growth	12.4%	10.6%	6.0%	15.7%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Jarir

Not just a bookstore

Jarir is the biggest company in its sector by market capitalisation and is well positioned. Jarir has maintained strong revenue growth driven by its electronics segment except in 2009, which was hurt by the economic downturn. Robust SSS growth and new store openings are likely to support strong sales growth over the next three years. In our view this growth more than compensates for the margin contraction that has resulted from the expansion of electronics. Therefore, we rate Jarir as Overweight and set a target price of SAR189.4, implying 25.8% upside potential.

Market: We believe that the young (50% below 20) and rapidly growing population plays a vital role in stimulating the Saudi retail market. The other GCC countries have a young and growing population as well. Electronics (mainly smart phones, laptops, tablets, and video games) is one of the fastest growing categories within the retail market. The underpenetrated internet market and improving education are fuelling growth in this market category. We see Jarir as capable of coping with this trend and capturing more market share.

Robust same-store sales (SSS) growth: Jarir is currently achieving SSS (i.e. like-for-like) sales growth of above 12% by our estimate. Driven by the strong growth in laptops, smart phones, and tablets, we expect Jarir to maintain healthy SSS growth of above 8% over the next three years. This figure is far above the rate for comparable international retailers of 2-3%. We believe that Jarir's dynamic strategy will allow the company to cope with new trends and broaden its product mix which ought to support its like-for-like sales growth.

Margin trends: Jarir's recent growth has been driven by its electronics operations, which carry lower profit margins (especially laptop PCs) than other product categories. While the increasing importance of electronics has squeezed Jarir's overall margin, we think the resulting strong sales growth has more than compensated for the margin contraction. We expect the rate of decline in Jarir's gross margin to moderate from now on as new electronics products (smartphones and tablets) offering better margins start to offset the continuing increase in laptops as a proportion of total sales.

Opening new stores is key: Jarir currently has 29 stores of which 24 are in Saudi Arabia and four elsewhere in the GCC. It plans to expand its local and international operations by opening four stores per year. In addition to leasing land, Jarir owns strategic land in the Kingdom that will allow it to open new outlets. We expect total Jarir stores in Saudi Arabia and outside to reach 45 by 2014. While Jarir has not been acquisitive up to now, we will not be surprised to see it acquiring other retail chains in the future considering its healthy balance sheet.

Valuation: High EV/EBITDA justified: Using long-run discounted economic profit valuation, we estimate fair value per share for Jarir at SAR196.9. On a comparative multiples analysis basis, we estimate fair value at SAR170.0. Our target price for Jarir of SAR189.4 is a weighted average of the two estimates with a weight of 70% to the long run DEP method and 30% to the multiples. Although Jarir share price has performed well and is no longer cheap on a EV/EBITDA of 12.0x, we believe that this valuation is justified for a company which 1) is still in growth stage, 2) achieves robust SSS growth, 3) yields high economic profit (37%), 4) pays good dividends (Jarir yields 5.5%), and 5) is very transparent.



Corporate summary

Jarir Marketing Company is one of the leading retail companies in the GCC with a market value of US\$1.6bn. The company retails and wholesales books, school supplies, office supplies, laptops, software, and other electronic products. The retail sector of the company contributes to approximately 90% of the revenues. The company owns 29 branches, 25 are in Saudi while the remaining four are elsewhere in the GCC region and in Egypt.

Share information

Market cap (SAR/US\$) 6.07bn / 1.619bn
52-week range 130.0 - 166.0
Daily avg volume (US\$) 0.501mn
Shares outstanding 40.00mn
Free float (est) 87%

Performance:	1M	3M	12M
Absolute	-1.6%	-4.6%	15.8%
Relative to index	-2.5%	-6.7%	14%

Major Shareholder:
Jarir Investment company 12%
Mohammed Abdulrahman Alaqeel 9%

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	2,555	3,048	3,520	4,045
EBITDA (SARmn)	403	439	494	564
Net Profit (SARmn)	374	414	439	507
EPS (SAR)	9.35	10.34	10.97	12.68
DPS (SAR)	7.37	8.24	8.62	9.05
EPS Growth	12.4%	10.6%	6.0%	15.7%
EV/EBITDA (x)	14.7	13.4	12.0	10.7
P/E (x)	16.2	14.7	13.8	12.0
P/B (x)	8.4	7.5	6.7	5.7
Dividend Yield	4.9%	5.4%	5.7%	6.0%

Source: Company data, Al Rajhi Capital

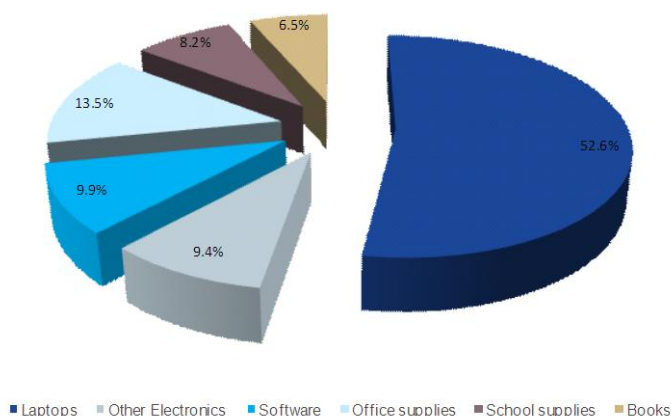
Dynamic strategy resilient product mix

More than 60% of Jarir's revenues come from electronics and IT devices

Jarir has been in the retail business for a long time. What we really like about the company is its resilience in adopting different positions. We see this as a unique business model that has created a competitive advantage for the company. Although Jarir was originally known as a bookstore, more than 60% of its revenues currently come from electronics sales (IT devices). The company's slogan reflects its diverse business: it is "not just a book store." Jarir is dynamic enough to embrace any trend that offers growth and it manages to do so fast and ahead of competitors. New products launched by Jarir are on the shelves in all stores within two weeks. For instance, Jarir moved rapidly to carry smart-phones in its stores; it was one of the pioneers in launching electronic tablets (i.e. the iPad) in its outlets as well.

As a result, Jarir has a very unique product mix that ranges from books, school supplies, and office supplies to laptops, smart-phones, video games, tablets, and other IT devices. We have no exact breakdown of revenues in these categories, but we estimate that electronics in general comprises around 70% of total sales. Laptops are the biggest product category within electronics.

Figure 36. Jarir: revenues breakdown by categories 2010



Source: Company data, Al Rajhi Capital

We expect the gross margin to remain at the current level or decline slightly

Jarir's electronics operations, especially laptop PCs, carry lower profit margins than other product categories. While the increasing importance of electronics has squeezed Jarir's overall margin, we think the resulting strong sales growth has more than compensated for the margin contraction. We expect the rate of decline in Jarir's gross margin to moderate from now on as new electronics products (smart phones and tablets) offering better margins start to offset the continuing increase in laptops as a proportion of total sales.



Smart phones, tablets, and video games are driving growth

Jarir has been growing by coping with the strong upward trend in electronics products and opening new stores. The laptops segment has been the key driver of sales over the last five years; this currently makes up more than 50% of total revenues. Although we expect laptops to continue to grow strongly, we believe that smart phones, video games, and tablets will take over and achieve the highest sales growth over the next three years.

Tablet pc is a new market that is growing rapidly all around the world. Despite the fact that Apple's iPad is still sold in Saudi Arabia through the black market, Jarir was one of the first retailers to bring the product to the Kingdom officially. Jarir has recently introduced other tablets, e.g. those made by Samsung. As many other electronics producers are expected to launch their own tablets, we expect the market to continue growing at a fast pace.

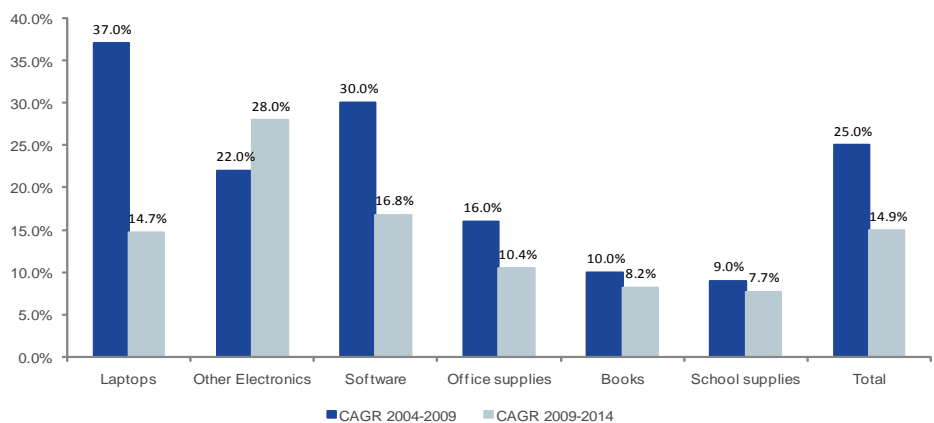
The smart-phones market is another immature market that is still booming, especially in emerging markets such as that of Saudi Arabia. RIM's Blackberry has gained wide consumer acceptance in the GCC region and appears still to be the most popular single handset in Saudi Arabia, although recently Apple's iPhone has been dominating headlines. Recently other brands such as Google and HTC have helped to expand the overall market size.

Video game is another market where we see potential growth for Jarir. This market is still fragmented with Tokyo Stores leading the market. Considering the young population of Saudi Arabia, we believe that Jarir can accelerate this category's sales.

Smart phones and tablets markets are still juvenile

We expect smart phones and tablets to achieve the highest growth over the next three years

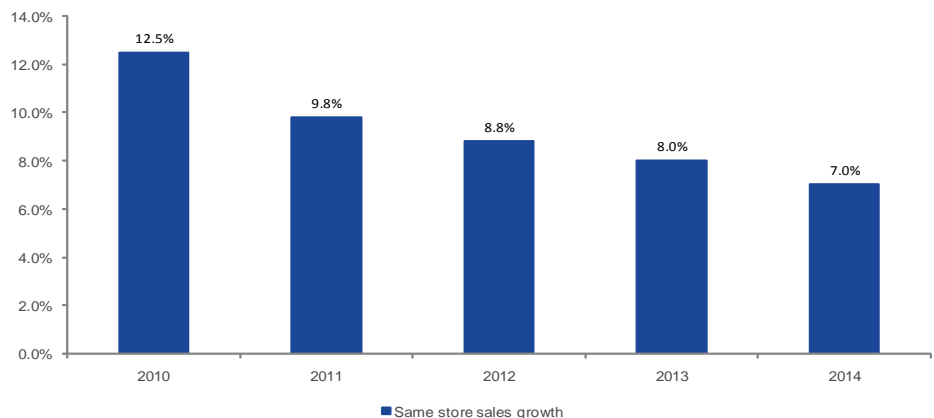
Figure 37. Jarir: sales growth by categories



Source: Company data, Al Rajhi Capital

We expect sales of new products to support Jarir's strong same store sales growth. By our estimates, Jarir is currently achieving SSS growth of above 12%; we expect the company to maintain strong SSS growth of above 8% over the next three years.

Figure 38. Jarir: Same store sales



Source: Company data, Al Rajhi Capital



Private labels comprise 11% of school, office, and computer supplies

17% of 2009 sales was contributed by loyalty cards holders

Jarir's SSS, ROA, ROE are incomparable

EV/EBITDA and EV/sales multiples are high, but dividend yield is respectable

Successful private labels and publications help margins

Jarir has successfully launched private brands, normally low quality labels that offer higher margins. These trademarks are mainly school, office, and computer supplies. The most well known school supplies private label is ROCO. Private labels sales comprise roughly 64% of wholesales to small books and school supplies stores, 40% of corporate sales, and 11% of total school, office, and computer sales.

Furthermore, Jarir Publications is another successful endeavour. The company translates and publishes US and UK best sellers; Jarir has published more than 1,650 US and UK titles. Jarir Publications also exports to Egypt, the UAE, Kuwait, Syria, Jordan, Oman, and Lebanon. Although the private labels and publication is small, it is an additional method by which Jarir can help offset its declining margins.

Loyalty cards support sales

According to Jarir, it has currently over 325,000 active loyalty cards outstanding. Holders of these cards contributed 17% of 2009 total sales. We believe that such activity is important in retailing business. Electronics retailing is becoming more competitive in the Kingdom; these loyalty cards should help Jarir not only to maintain its customers, but also to attract new ones. Moreover, Jarir's service centre enjoys good reputation among customers. This is important in helping to support the company's status and hence its sales.

Jarir versus international retailers

We compared Jarir with Alothaim and Alhokair in the sector section of this report, but it is more relevant to compare the company with international retailers which operate in similar categories within the retail industry.

Jarir offers higher growth and returns

Jarir is achieving same-store sales (SSS), a major measure of efficiency in retailing, at a level which is far above that of comparable international retailers. This indicates that the company is still in a growth stage and has potential to develop in the future. Although Jarir's gross margin is lower than that of the three international companies shown below, its EBITDA margin is much higher than for all of them. Furthermore, Jarir achieves by far the highest ROA and ROE.

Figure 39. Jarir vs. International retailers

Company	SSS	Gross Margin	EBITDA Margin	ROA	ROE
Staples	-1.0%	26.7%	8.0%	5.7%	12.0%
BEST BUY CO INC	0.1%	24.5%	6.4%	8.2%	24.0%
OFFICEMAX INC	0.4%	24.1%	1.6%	0.0%	-0.6%
JARIR	12.5%	19.0%	15.8%	31.0%	53.1%

Source: Bloomberg, Reuters, Al Rajhi Capital

Jarir seems expensive, but worth a premium

Although Jarir P/E's is within the sector average, its EV/EBITDA and EV/sales multiples are high compared to those of similar international retailers. We think that this concern is justified by the fact that Jarir 1) is still in a growth stage, 2) achieves robust SSS growth, and 3) offers a respectable dividend yield of 5.5%. The latter figure is much higher than for the other international retailing companies.

Figure 40. Jarir vs. International retailers

Company	P/E	EV/EBITDA	EV/Sales	Div yield
Staples	17.3	8.1	0.7	1.6%
BEST BUY CO INC	13.1	5.6	0.4	1.4%
OFFICEMAX INC	25.2	12.7	0.4	n/a
JARIR	13.7	12.0	1.7	5.5%

Source: Bloomberg, Reuters, Al Rajhi Capital



Looking forward: we expect strong Q4 and full year results

We expect Jarir to achieve robust sales growth of 19.3% in 2010

As we are approaching the year end, we think it is useful to highlight our forecasts for Q4 and full year. We expect Jarir to report strong results comparable to those of the last three quarters. In terms of revenues, we expect Jarir to achieve robust year-on-year sales growth of 16.7% driven by the start of the new school year in October and the launch of new products such as tablets. This should result in full-year sales growth of 19.3%. In terms of profits, we expect Q4 net profit to grow by 12.6% from last year same period, resulting in 10.6% full-year net profit growth.

Figure 41. Jarir: 2009 Q4A vs. 2010 Q4E & FY2009A versus FY2010E

(SAR) mn	2009Q4A	2010Q4E	YOY % chg.	FY2009A	FY2010E	YOY % chg.
Total Revenues	724	845	16.7%	2,555	3,048	19.3%
Gross Profit	137	158	15.5%	486	527	8.3%
	18.9%	18.7%		19.0%	17.3%	
EBITDA	110	130	17.8%	403	439	9.0%
EBITDA margin (%)	15.2%	15.4%		15.8%	14.4%	
Net Income	103	117	12.6%	374	414	10.6%

Source: Company data, Al Rajhi Capital

Valuation: Jarir still offers value

We expect Jarir to achieve a solid sales growth of 19.3% in 2010

We use two valuation methods for the companies in this report: long-run EVA and comparative multiples analysis. For the multiples analysis, we use EV/EBITDA multiple and PE multiples. We believe that we have been selective and conservative by choosing strong multinational companies as benchmarks. Since Jarir operates in different retailing categories (books, electronics, and school and office supplies), we selected four multinational companies to reflect Jarir's business. Despite the different markets in which they operate, we believe that they provide good comparables considering their business nature. We see Jarir in the Kingdom as enjoying the same strength as these companies in their respective regions.

Using DEP, fair value for Jarir is SAR196.9

Using the average of the benchmark companies' PE and EV/EBITDA ratios for 2010, we estimate a fair share price for Jarir of SAR171.7. As noted, we have given a 30% weight to this method. In the long-run DEP method of estimating Jarir's fair value, we use a WACC of 8.3%. Using our core assumption of a period of competitive advantage of 25 years, we estimate fair value per share for Jarir of SAR196.9.

Arguably, Jarir's share price has performed well already and does not seem attractive on an EV/EBITDA multiple of 12.0x and a P/E ratio of 13.7x. However, we still believe that Jarir offers value and have arrived at this conclusion by considering several factors:

- Jarir has a dynamic business model which enables it to embrace new trends.
- Same-store sales (SSS) growth is currently robust at above 12% and we expect the figure to remain above 8% over the next three years.
- Jarir is still in a growth stage: driven by strong SSS and opening new stores, we expect Jarir to achieve sales growth above 13% over the next three years.
- Jarir offers matchless ROIC of 37%.
- The company's dividend yield is respectable at 5.5%; this is higher than the yields of local and international retailers.
- High transparency: although in our view Jarir is not as transparent as Almarai, it is widely considered as fairly open and transparent compared to Saudi companies.

We set our target price for Jarir at SAR189.4

We set our target price per share for Jarir at SAR189.4. We have arrived at this target price by giving a weight of 70% to the long-run EVA method (SAR196.9 fair value per share), and 30% to multiples (SAR171.7 fair value per share). This implies 26% upside potential and so we recommend Jarir as Overweight.



Risks associated with our assumptions

It is important to highlight that our valuation relies heavily on future forecasts which are uncertain. We have come up with several assumptions including growth (i.e. the opening of new stores), gross margin, cost of capital, and market trends to predict future performance. Based on our research we have tried to arrive at the most accurate assumptions; however, reality may deviate from our forecasts depending on new macro-economic or micro-economic factors. Competition is another factor that could influence our assumptions. New entrants and/or transformation of current rivals' business models in response would cause a change in the whole market, and hence in our estimates.



We expect revenues to reach SAR4.1bn by 2012

Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue	2,521	2,555	3,048	3,520	4,045
Cost of Goods Sold	(2,085)	(2,069)	(2,522)	(2,918)	(3,357)
Gross Profit	436	486	527	602	688
Government Charges					
S.G. & A. Costs	(86)	(102)	(110)	(135)	(154)
Operating EBIT	350	384	417	467	534
Cash Operating Costs	(2,156)	(2,152)	(2,609)	(3,026)	(3,481)
EBITDA	364	403	439	494	564
Depreciation and Amortisation	(14)	(19)	(23)	(27)	(30)
Operating Profit	350	384	417	467	534
Net financing income/(costs)	(14)	(13)	(11)	(17)	(14)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	2	14	13	-	-
Other Expenses					
Net Profit Before Taxes	342	385	426	450	520
Taxes	(9)	(11)	(12)	(11)	(13)
Minority Interests	-	-	-	-	-
Net profit available to shareholders	333	374	414	439	507
Dividends	-	(295)	(330)	(345)	(362)
Transfer to Capital Reserve					

	12/08A	12/09A	12/10E	12/11E	12/12E
Adjusted Shares Out (mn)	40.00	40.00	40.00	40.00	40.00
CFPS (SAR)	8.67	9.82	10.91	11.65	13.44
EPS (SAR)	8.32	9.35	10.34	10.97	12.68
DPS (SAR)	0.00	7.37	8.24	8.62	9.05

Growth	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue Growth	44.7%	1.4%	19.3%	15.5%	14.9%
Gross Profit Growth	30.9%	11.7%	8.3%	14.3%	14.2%
EBITDA Growth	25.0%	10.7%	9.0%	12.5%	14.1%
Operating Profit Growth	26.0%	9.9%	8.4%	12.1%	14.3%
Net Profit Growth	20.5%	12.4%	10.6%	6.0%	15.7%
EPS Growth	-39.8%	12.4%	10.6%	6.0%	15.7%

Margins	12/08A	12/09A	12/10E	12/11E	12/12E
Gross profit margin	17.3%	19.0%	17.3%	17.1%	17.0%
EBITDA margin	14.4%	15.8%	14.4%	14.0%	13.9%
Operating Margin	13.9%	15.0%	13.7%	13.3%	13.2%
Pretax profit margin	13.5%	15.1%	14.0%	12.8%	12.9%
Net profit margin	13.2%	14.6%	13.6%	12.5%	12.5%

Other Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
ROCE	41.3%	45.7%	44.7%	45.3%	43.4%
ROIC	42.7%	42.5%	47.0%	44.0%	45.9%
ROE	51.4%	53.1%	54.0%	51.0%	51.6%
Effective Tax Rate	2.6%	2.8%	2.9%	2.5%	2.5%
Capex/Sales	2.0%	1.2%	1.6%	2.0%	5.5%
Dividend Payout Ratio	0.0%	78.8%	79.7%	78.6%	71.3%

Valuation Measures	12/08A	12/09A	12/10E	12/11E	12/12E
P/E (x)	18.2	16.2	14.7	13.8	12.0
P/CF (x)	17.5	15.5	13.9	13.0	11.3
P/B (x)	8.8	8.4	7.5	6.7	5.7
EV/Sales (x)	2.4	2.3	2.0	1.7	1.5
EV/EBITDA (x)	16.5	14.7	13.6	12.2	10.7
EV/EBIT (x)	17.1	15.4	14.4	12.9	11.3
EV/IC (x)	6.8	6.9	5.8	5.3	4.5
Dividend Yield	0.0%	4.9%	5.4%	5.7%	6.0%

Source: Company data, Al Rajhi Capital

We expect Jarir to achieve revenue growth of 19.3% in 2010

We expect the gross margin to decline slightly but to remain above 17%

P/E and EV/EBITDA for Jarir are relatively high, but are justified by the company's strong growth



Jarir has a healthy and strong balance sheet

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	24	40	92	83	127
Current Receivables	190	181	271	315	303
Inventories	391	421	507	590	619
Other current assets	-	37	37	37	37
Total Current Assets	605	679	907	1,025	1,086
Fixed Assets	522	535	561	604	796
Investments	36	36	36	36	36
Goodwill	-	-	-	-	-
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	558	571	597	640	832
Total Assets	1,163	1,250	1,503	1,664	1,918
Short Term Debt	42	37	125	125	125
Accounts Payable	241	277	338	393	437
Accrued Expenses	-	57	68	75	85
Zakat Payable	-	-	-	-	-
Dividends Payable	-	-	-	-	-
Other Current Liabilities	10	11	8	8	8
Total Current Liabilities	293	382	539	601	655
Long-Term Debt	150	100	100	100	150
Other LT Payables	9	18	22	22	22
Provisions	24	27	32	32	32
Total Non-current Liabilities	183	145	154	154	204
Minority interests	-	-	-	-	-
Paid-up share capital	300	400	400	400	400
Total Reserves	387	323	410	509	659
Total Shareholders' Equity	687	723	810	909	1,059
Total Equity	687	723	810	909	1,059
Total Liabilities & Shareholders' Equity	1,163	1,250	1,503	1,664	1,918

Gearing ratios are at low levels

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	168	97	133	142	149
Net Debt/EBITDA (x)	0.46	0.24	0.30	0.29	0.26
Net Debt to Equity	24.4%	13.5%	16.4%	15.7%	14.0%
EBITDA Interest Cover (x)	25.3	29.9	40.7	28.7	41.7
BVPS (SAR)	17.17	18.07	20.26	22.73	26.47

Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	342	385	426	450	520
Depreciation & Amortisation	14	19	23	27	30
Decrease in Working Capital	(44)	36	(107)	(65)	36
Other Operating Cashflow	(15)	(12)	(14)	(28)	(27)
Cashflow from Operations	296	426	327	384	560
Capital Expenditure	(52)	(32)	(48)	(70)	(222)
New Investments	-	-	-	-	-
Others	1	0	0	-	-
Cashflow from investing activities	(51)	(32)	(48)	(70)	(222)
Net Operating Cashflow	245	395	279	314	338
Dividends paid to ordinary shareholders	(255)	(338)	(326)	(340)	(358)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	-	(50)	-	-	-
Cashflow from financing activities	(253)	(393)	(238)	(340)	(308)
Total cash generated	(8)	2	42	(26)	30
Cash at beginning of period	18	24	40	92	83
Implied cash at end of year	10	26	81	66	113

We expect capex to increase as a result of expansion plans

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	2.0%	1.2%	1.6%	2.0%	5.5%

Source: Company data, Al Rajhi Capital



US\$0.769bn Market cap	50% Free float	US\$1.537mn Avg. daily volume
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Target price	49.90	18.50% over current
Consensus price	47.00	11.60% over current
Current price	41.90	as at 15/12/2010

Research Department
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Underweight	Neutral	Overweight
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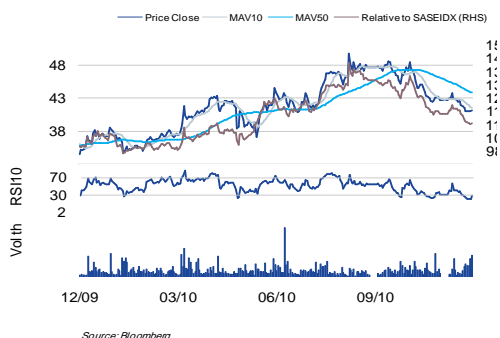
Key themes

Driven by rising population, improving education, and changing lifestyle, we expect the retail sector in Saudi Arabia to continue growing. Alhokair has a very strong position in the Saudi fashion market. The company will continue to grow through M&A activity, opening new stores, and benefiting from new upward trends in electronics.

Implications

Alhokair is our second pick in the retail sector. It is performing well operationally and offers growth in the near term at a reasonable valuation. We expect M&A activity, healthy SSS growth, and a handsome dividend yield to support Alhokair's share price.

Performance

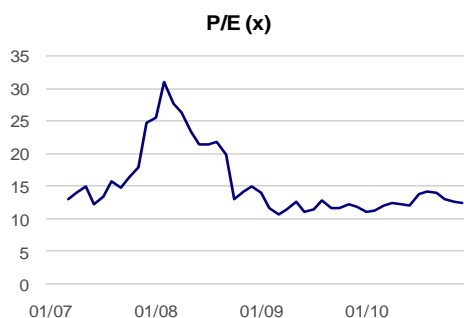


Earnings

Period End (SAR)	03/09A	03/10A	03/11E	03/12E
Revenue (mn)	2,074	2,463	2,799	3,161
Revenue Growth	9.9%	18.8%	13.6%	12.9%
EBITDA (mn)	318	361	418	486
EBITDA Growth	35.8%	13.8%	15.5%	16.4%
EPS	3.31	4.77	4.91	5.54
EPS Growth	14.4%	44.1%	2.9%	12.9%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Alhokair

Attractive at current level

Alhokair is a leading company in the fast-growing Saudi apparel market and has achieved strong sales growth. The main growth drivers have been large stores such as ZARA and Gap, which it runs on a franchise basis, and the acquisition of Wahba Trading. Besides opening new stores, we think Alhokair will expand further through M&A. Despite risks from international expansion, we think healthy SSS growth will drive overall sales expansion over the next three years. We rate Alhokair as Overweight and set a target price of SAR49.9, implying 21.1% upside potential.

Market: We believe that the young (50% below 20) and rapidly growing population plays a vital role in stimulating the Saudi retail market. The other GCC countries also have a young and growing population. Apparel (mainly footwear and children's clothing) is one of the fastest growing segments within the retail market. The changing lifestyle of the young Saudi generation (including a shift towards western casual clothing) is one of the factors fuelling growth in this segment. We believe that Alhokair is benefiting from this trend and capturing greater market share.

Healthy same-store sales (SSS) growth: By our estimate, Alhokair has achieved organic growth of close to 7.5% so far in 2010. Alhokair is benefiting from the fast-growing apparel market in the Kingdom, especially children's clothing. It has also benefited from rationalising some of its stores and shutting down underperforming ones. The moderately weak results of 2009 as a base year have made some contribution to the strong growth so far in this year. Looking forward, we expect Alhokair to achieve SSS growth of between 6.0% and 7.0% over the next three years.

M&A is a key growth option: Alhokair has completed different acquisitions locally such as Wahba Trading and internationally such as Retail Group in Egypt and Jordan. As the company has a high market share of apparel market in the Kingdom and opening new stores might result in cannibalisation of sales at its existing stores, we expect it to pursue a strategy of acquisition in order to achieve its local growth goals. However, we see the company's ambitious expansions plans in countries such as Egypt and Kazakhstan as risky, since they may distract Alhokair from its core market, the Saudi retail market.

Valuation – attractive multiples: Using long-run discounted economic profit valuation, we estimate fair value per share for Alhokair at SAR48.1. On a comparative multiples analysis basis, we estimate fair value at SAR54.0. Our target price for Alhokair of SAR49.9 is a weighted average of the two estimates with a weight of 70% assigned to the long run DEP method and of 30% to the multiples. In our view, Alhokair is still underpriced on an EV/EBITDA multiple of 7.0x and a P/E ratio of 7.5x. We believe that strong like-for-like sales growth, the handsome dividend yield of 4.8%, and a reasonable valuation (cheaper than for Jarir) will support Alhokair's share price. Therefore, we rate Alhokair Overweight with a target price of SAR49.9, implying 19% upside potential.



Corporate summary

Fawaz Abdulaziz Al Hokair Company is one of the leading fashion retailers in Saudi Arabia with a market value of \$US0.7bn. Al-Hokair is primarily engaged in the fashion retail industry targeting all the ages in both genders. The company sells a range of fashion items from luxury apparel to classic and trendy and sport wear, in addition, to shoes, bags, and accessories. Al-Hokair acts as a franchiser of more than 50 international brands such as Zara, Gap, Marks & Spencer, and Aldo.

Share information

Market cap (SAR/US\$)	2.884bn / 0.769bn		
52-week range	34.60 - 49.70		
Daily avg volume (US\$)	1.537mn		
Shares outstanding	70.00mn		
Free float (est)	50%		
Performance:	1M	3M	12M
Absolute	-3.5%	-13.6%	18.7%
Relative to index	-3.8%	-16.1%	10.2%
Major Shareholder:			
Fas Company	49%		
Abdulmajeed Abdulaziz Alhokair	7%		

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	03/09A	03/10A	03/11E	03/12E
Revenue (SARmn)	2,074	2,463	2,799	3,161
EBITDA (SARmn)	318	361	418	486
Net Profit (SARmn)	232	334	343	388
EPS (SAR)	3.31	4.77	4.91	5.54
DPS (SAR)	-	2.00	2.10	2.31
EPS Growth	14.4%	44.1%	2.9%	12.9%
EV/EBITDA (x)	8.5	7.8	7.0	6.4
P/E (x)	12.9	8.5	7.5	7.7
P/B (x)	2.7	2.3	2.0	1.7
Dividend Yield	0.0%	4.7%	4.9%	5.4%

Source: Company data, Al Rajhi Capital

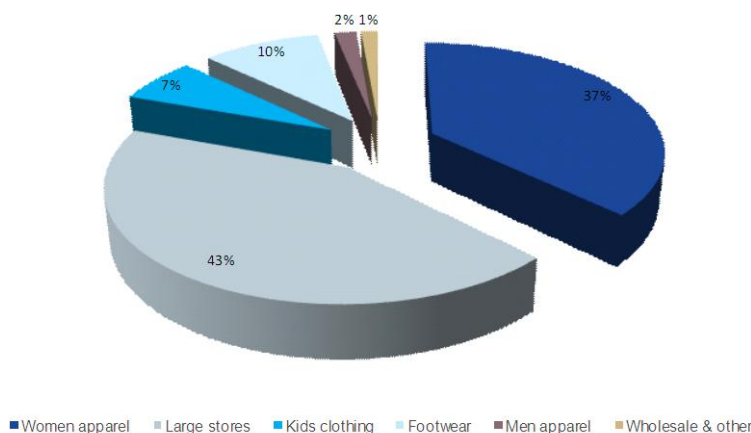
Wide range of stores department stores are leading

Alhokair is about to launch a new stores chain, FG4

Alhokair owns more than 800 stores offering a wide range of apparel from children’s and women’s clothing to men’s clothing and footwear targeting the middle class. Up to now sales in franchised clothing stores such as Zara and Gap have been the chief driver of sales growth for Alhokair. Although there is potential to grow further through this segment, the company sees greater growth potential in the children’s and teenagers’ clothing segment. We believe this view is justified considering the young Saudi population and the changing clothing style within the young generation. Furthermore, the company plans to broaden its customer base to include lower-income customers by offering new affordable brands that cater to this segment. For instance, it is about to launch a new stores chain (FG4), a joint venture with a European design company that will specifically target lower-class customers.

Currently, large stores sales such as Zara and Gap comprise 43% of total revenues for Al Hokair. Pure women’s clothing stores represent the second largest segment with 37% of total sales. Although there is potential to grow further through this segment, the company sees greater growth potential in the children’s and teenagers’ clothing segment. We believe this view is justified considering the young Saudi population and the changing clothing style within the young generation.

Figure 42. Alhokair: revenues breakdown by category



Source: Company data, Al Rajhi Capital

We expect Alhokair’s like-for-like sales growth to remain above 6%

By our estimate, the company has achieved organic growth of 7.5% so far in 2010. The company is benefiting from the fast-growing apparel in the Kingdom, especially children’s clothing. It also has benefited from rationalising some of its stores and shutting down



Wahba contribute 9% of 2009 sales

Alhokair plans to make overseas sales comprise more than 40% of total sales by 2015

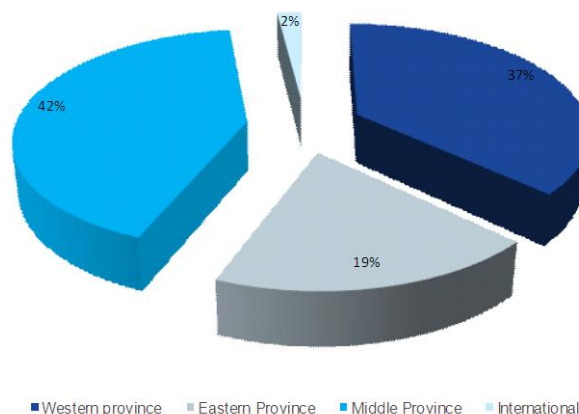
underperforming ones. The moderately weak results of 2009 as a base year have made some contribution to the strong growth so far in this year. Looking forward, we expect Alhokair to achieve SSS growth of between 6.0% and 7.0% over the next three years.

M&A is key, but internationally risky

Alhokair acquired Wahba, a mid-market local fashion retailer. Wahba owns around 127 stores and contributed around 9% of Alhokair's revenues last year. As Alhokair has a high market share of apparel market in the Kingdom and opening new stores might result in cannibalisation of sales at its existing stores, we expect it to pursue a strategy of acquisition strategy in order to achieve its local growth goals.

Alhokair plans to expand its international operations in Egypt, Jordan, and Kazakhstan through joint ventures and acquisitions. The company has recently announced that it is closing the acquisition of Retail Group in Egypt and Jordan with a value of SAR49mn. Currently, international sales only represent 2% of the total, but the company plans to raise this proportion to more than 40% by 2015. This expansion could be fruitful, but we believe that it is risky and may complicate the company's operations. According to the company, it is currently studying the feasibility of acquiring other companies locally and globally.

Figure 43. Alhokair: sales breakdown by region



Source: Company data, Al Rajhi Capital

Alhokair versus international retailers

We have compared Alhokair (Apparel) with Althaim and Jarir in the industry section of this report. Althaim and Jarir also operate in the retail industry but in different categories, namely grocery and electronics. However, it is perhaps more meaningful to compare the company to international retailers which operate in similar categories within retail industry.

Alhokair achieves strong SSS and reasonable returns

Alhokair is achieving same-store sales (SSS) growth which is well above the level of international retailers. This indicates that the company is still in a growth stage and has a potential to develop in the future. Gross margin, ROA, and ROE are reasonable compared to international retailers.

Figure 44. Alhokair vs. International retailers

Company	SSS	Gross Margin	EBITDA Margin	ROA	ROE
The Gap Inc.	-4.3%	40.0%	17.4%	14.1%	23.7%
Inditex SA (ZARA)	n/a	57.0%	20.1%	16.4%	26.1%
Macy's, Inc.	-5.3%	40.5%	9.7%	1.6%	7.5%
Alhokair	7.5%	44.0%	15.3%	16.1%	28.0%

Source: Bloomberg, Reuters, Al Rajhi Capital

Alhokair's SSS is strong, the gross margin is comparable



Reasonable EV/EBITDA and EV/sales, and attractive PE and dividend yield

Alhokair looks attractive on a multiple valuation

Alhokair's EV/EBITDA and EV/sales multiples are within the range of international peers. Helped by the very low effective Saudi tax rate, Alhokair looks cheap on a PE basis compared to similar retailers. Alhokair's dividend yield is much higher than that offered by the international peers and, in our view, is one of the company's major attractions.

Figure 45. Alhokair vs. International retailers

Company	P/E	EV/EBITDA	EV/Sales	Div yield
The Gap Inc.	11.2	4.7	0.2	1.9%
Inditex SA (ZARA)	21.3	11.6	3.0	1.9%
Macy's, Inc.	13.1	5.6	0.7	0.8%
Alhokair	7.5	7.0	1.2	4.8%

Source: Bloomberg, Reuters, Al Rajhi Capital

We expect Q3 top and bottom lines growth of 15.7%, 22.3% respectively

Looking forward: we expect strong Q3 results

Alhokair's fiscal year starts on 1st April, meaning that the current quarter (Q4 2010) is the third fiscal quarter for the company. Coinciding with the Hajj season and the Eid Al-Adha holiday and the start of the new school year, we expect Alhokair to report strong top-line growth similar to the level of the first two quarters. We expect sales to grow by 15.3% from the corresponding period last year. Moreover, we expect strong net profit growth of 22.3%, driven by lower administrative and marketing expenses.

Figure 46. Alhokair: 2009 Q3A versus 2010 Q3E

(SAR) mn	2009Q3A	2010Q3E	YOY % chg.
Total Revenues	463	536	15.7%
Gross Profit	227	257	13.5%
	48.9%	48.0%	
EBITDA	68	78	14.8%
EBITDA margin (%)	14.6%	14.5%	
Net Income	42	52	22.3%

Source: Company data, Al Rajhi Capital

We see DEP fair value for Alhokair at SAR48.1, and SAR54.0 using multiples

Valuation: Alhokair still offers value

We use two valuation methods: long-run EVA and comparative multiples analysis. For the multiples analysis, we use EV/EBITDA multiples and PE ratios. We believe that we have been selective and conservative by choosing strong multinational companies as benchmarks.

Using the average of the benchmark companies' PE and EV/EBITDA ratios for 2010, we estimate a fair share price for Alhokair at SAR54.0. As noted, we have given a 30% weight to this method. In the long-run DEP method of estimating Alhokair's fair value, we use a WACC of 8.6%. Using our core assumption of a period of competitive advantage of 25 years, we estimate fair value per share for Alhokair at SAR48.1.

We set our target price for Alhokair at SAR49.9

We set our target price per share for Alhokair at SAR49.9. We have arrived at this target price by giving a weight of 70% to the long-run EVA method (SAR48.1 fair value per share), and 30% to multiples (SAR54.0 fair value per share). This implies 19% upside potential.

Risks associated with our assumptions

It is important to highlight that our valuation relies heavily on future forecasts which are uncertain. We have come up with several assumptions including growth (i.e. the opening of new stores), gross margin, cost of capital, and market trends to predict future performance. Based on our research we have tried to arrive at the most accurate assumptions; however, reality may deviate from our forecasts depending on new macro-economic or micro-economic factors. Competition is another factor that could influence our assumptions. New entrants and/or transformation of current rivals' business models in response would cause a change in the whole market, and hence in our estimates.



We expect revenues to reach SAR3.1bn by 2012

We expect revenue growth to remain strong at above 13.0%

The gross margin should remain at the current level of 44.0%

Alhokair achieves respectable ROIC of 16-17%

P/E and EV/EBITDA are attractive at the current level

Income Statement (SARmn)	03/08A	03/09A	03/10A	03/11E	03/12E
Revenue	1,888	2,074	2,463	2,799	3,161
Cost of Goods Sold	(1,089)	(1,161)	(1,378)	(1,566)	(1,770)
Gross Profit	799	914	1,085	1,232	1,391
Government Charges					
S.G. & A. Costs	(630)	(675)	(815)	(930)	(1,043)
Operating EBIT	169	239	270	302	348
Cash Operating Costs	(1,654)	(1,757)	(2,102)	(2,381)	(2,675)
EBITDA	234	318	361	418	486
Depreciation and Amortisation	(65)	(78)	(92)	(115)	(138)
Operating Profit	169	239	270	302	348
Net financing income/(costs)	0	(43)	(0)	(13)	(13)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	42	45	82	69	69
Other Expenses					
Net Profit Before Taxes	211	241	351	358	404
Taxes	(9)	(11)	(14)	(9)	(10)
Minority Interests	-	1	(4)	(5)	(6)
Net profit available to shareholders	202	232	334	343	388
Dividends	-	-	(140)	(147)	(162)
Transfer to Capital Reserve					
	03/08A	03/09A	03/10A	03/11E	03/12E
Adjusted Shares Out (mn)	70.00	70.00	70.00	70.00	70.00
CFPS (SAR)	3.82	4.41	6.13	6.63	7.60
EPS (SAR)	2.89	3.31	4.77	4.91	5.54
DPS (SAR)	0.000	0.000	2.000	2.100	2.310
Growth	03/08A	03/09A	03/10A	03/11E	03/12E
Revenue Growth	19.2%	9.9%	18.8%	13.6%	12.9%
Gross Profit Growth	19.8%	14.4%	18.7%	13.6%	12.9%
EBITDA Growth	-5.4%	35.8%	13.8%	15.5%	16.4%
Operating Profit Growth	-15.7%	41.3%	12.8%	12.1%	15.0%
Net Profit Growth	0.5%	14.4%	44.1%	2.9%	12.9%
EPS Growth	-49.8%	14.4%	44.1%	2.9%	12.9%
Margins	03/08A	03/09A	03/10A	03/11E	03/12E
Gross profit margin	42.3%	44.1%	44.0%	44.0%	44.0%
EBITDA margin	12.4%	15.3%	14.7%	14.9%	15.4%
Operating Margin	9.0%	11.5%	11.0%	10.8%	11.0%
Pretax profit margin	11.2%	11.6%	14.3%	12.8%	12.8%
Net profit margin	10.7%	11.2%	13.5%	12.3%	12.3%
Other Ratios	03/08A	03/09A	03/10A	03/11E	03/12E
ROCE	19.6%	16.9%	16.2%	14.0%	14.5%
ROIC	16.1%	18.5%	17.5%	16.7%	15.0%
ROE	22.9%	23.7%	28.0%	24.8%	24.2%
Effective Tax Rate	4.2%	4.4%	3.9%	2.5%	2.5%
Capex/Sales	14.3%	6.0%	10.8%	12.0%	11.0%
Dividend Payout Ratio	0.0%	0.0%	42.0%	42.8%	41.7%
Valuation Measures	03/08A	03/09A	03/10A	03/11E	03/12E
P/E (x)	14.8	12.9	9.0	8.7	7.7
P/CF (x)	11.2	9.7	7.0	6.5	5.6
P/B (x)	3.5	2.7	2.3	2.0	1.7
EV/Sales (x)	1.5	1.3	1.2	1.1	1.0
EV/EBITDA (x)	12.1	8.5	8.0	7.2	6.4
EV/EBIT (x)	16.7	11.3	10.8	10.0	9.0
EV/IC (x)	2.3	1.8	1.6	1.3	1.3
Dividend Yield	0.0%	0.0%	4.7%	4.9%	5.4%

Source: Company data, Al Rajhi Capital



Balance sheet is expanding as a result of M&A activities

Balance Sheet (SARmn)	03/08A	03/09A	03/10A	03/11E	03/12E
Cash and Cash Equivalents	24	76	68	307	269
Current Receivables	-	-	-	-	-
Inventories	378	476	559	614	695
Other current assets	320	362	447	447	447
Total Current Assets	722	914	1,074	1,368	1,411
Fixed Assets	505	584	813	1,034	1,243
Investments	363	260	234	234	234
Goodwill	-	61	61	61	61
Other Intangible Assets	-	78	85	85	85
Total Other Assets	-	-	-	-	-
Total Non-current Assets	868	983	1,193	1,414	1,623
Total Assets	1,590	1,897	2,267	2,782	3,034
Short Term Debt	370	70	96	96	96
Accounts Payable	154	149	179	205	221
Accrued Expenses	-	-	-	-	-
Zakat Payable	-	-	-	-	-
Dividends Payable	-	-	-	-	-
Other Current Liabilities	175	224	285	285	285
Total Current Liabilities	698	444	560	585	602
Long-Term Debt	-	300	350	637	637
Other LT Payables	-	-	-	-	-
Provisions	29	39	38	38	38
Total Non-current Liabilities	29	339	388	676	676
Minority interests	-	20	32	38	44
Paid-up share capital	700	700	700	700	700
Total Reserves	163	394	587	783	1,013
Total Shareholders' Equity	863	1,094	1,287	1,483	1,713
Total Equity	863	1,114	1,319	1,521	1,757
Total Liabilities & Shareholders' Equity	1,590	1,897	2,267	2,782	3,034

Gearing is still at a low level

Ratios	03/08A	03/09A	03/10A	03/11E	03/12E
Net Debt (SARmn)	346	294	378	427	465
Net Debt/EBITDA (x)	1.48	0.93	1.05	1.02	0.96
Net Debt to Equity	40.1%	26.4%	28.7%	28.0%	26.5%
EBITDA Interest Cover (x)	(522.1)	7.4	1,064.2	31.8	38.8
BVPS (SAR)	12.33	15.63	18.39	21.19	24.47

Cashflow Statement (SARmn)	03/08A	03/09A	03/10A	03/11E	03/12E
Net Income before Tax & Minority Interest	211	241	351	358	404
Depreciation & Amortisation	65	78	92	115	138
Decrease in Working Capital	59	(88)	(153)	(29)	(65)
Other Operating Cashflow	(7)	38	(17)	(9)	(10)
Cashflow from Operations	329	269	273	435	467
Capital Expenditure	(269)	(124)	(266)	(336)	(348)
New Investments	(90)	(98)	36	-	-
Others	4	(6)	(4)	-	-
Cashflow from investing activities	(355)	(227)	(234)	(336)	(348)
Net Operating Cashflow	(27)	42	39	99	119
Dividends paid to ordinary shareholders	(245)	-	(138)	(147)	(158)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	-	3	10	-	-
Cashflow from financing activities	23	3	(52)	140	(158)
Total cash generated	(3)	45	(12)	239	(39)
Cash at beginning of period	28	24	76	68	307
Implied cash at end of year	24	69	64	307	269

We expect capex to climb as a result of expansionary activity

Ratios	03/08A	03/09A	03/10A	03/11E	03/12E
Capex/Sales	14.3%	6.0%	10.8%	12.0%	11.0%

Source: Company data, Al Rajhi Capital



US\$0.478bn Market cap	55% Free float	US\$2.218mn Avg. daily volume
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Target price	86.38	8.31% over current
Consensus price	86.00	7.84% over current
Current price	77.00	as at 15/12/2010

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Underweight	Neutral	Overweight
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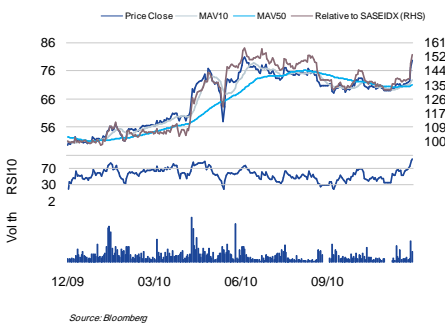
Key themes

Driven by rising population, improving education, and changing lifestyle, we expect the retail sector in Saudi Arabia to continue growing. Alothaim has a very strong position in the grocery market. We expect it to continue growing by opening new stores and benefiting from Saudis' changing lifestyle.

Implications

Alothaim is a respectable company which we find interesting. It is performing well operationally and financially. However, its attractions seem to be reflected in the share price, which has appreciated recently.

Performance



Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	3,155	3,496	3,960	4,465
Revenue Growth	8.2%	10.8%	13.3%	12.8%
EBITDA (mn)	133	182	233	279
EBITDA Growth	38.4%	36.7%	27.9%	19.6%
EPS	3.45	6.38	6.42	6.98
EPS Growth	24.5%	85.2%	0.6%	8.8%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Alothaim

Attractions almost priced in

Alothaim is one of the leading companies in the Saudi grocery market and is continuing to gain market share. New store openings and a shift towards shopping in supermarkets and hypermarkets have been driving its growth. We expect store openings in new geographic regions and healthy same store sales growth to drive further expansion over the next few years. However, the share price has already risen sharply and offers limited upside to our target price of SAR86.4. We rate Alothaim Neutral.

Market: We believe that the young (50% below 20) and rapidly growing population plays a vital role in stimulating the Saudi retail market. The grocery retail market is still fragmented and is dominated by small stores ("bakala"). Given both the low proportion of retail sales in supermarkets and hypermarkets and people's desire to enjoy a more modern lifestyle, the large retailers are set to grow considerably. We believe that Althoaim is benefiting from this trend and capturing greater market share.

Healthy same-store sales (SSS) growth: By our estimate, Alothaim has achieved 5.5% same store sales growth so far in 2010. This reflects the grocery retailing market's slow growth pace. Although we see a changing trend toward supermarkets and hypermarkets from traditional bakala, we think that traditional stores will remain dominant. Furthermore, we do not expect Alothaim's stores to benefit fully from this trend as they do not offer the pleasure that other classier supermarkets and hypermarkets such as Safeway provide. Therefore, we suppose that Alothaim will continue to achieve organic growth of about 5%. This is respectable, but less impressive than the growth rates achieved by the other two companies in this report.

Opening new stores is the chief mode: Alothaim currently has 29 stores in Saudi Arabia including four formats: hypermarket, supermarket, corner stores and wholesale stores. The company has an explicit plan to increase its selling area by focusing more on supermarkets and hypermarkets. Although the company expects to open more than ten stores per year, we think this figure is a little optimistic considering the scarcity of suitable sites, fierce competition, and the up-front investment required. We expect that Alothaim will open between seven and nine outlets per year to reach 132 stores by 2014, with total selling space by then of close to 290,000 square metres.

Valuation: Using long-run discounted economic profit valuation, we estimate fair value per share for Alothaim at SAR90.8. On a comparative multiples analysis basis, we estimate fair value at SAR76.0. Our target price for Alothaim of SAR86.4 is a weighted average of the two estimates with a weight of 70% assigned to the long run DEP method and of 30% to the multiples. In our view, Alothaim's share price is reasonable on an EV/EBITDA multiple of 7.8x and a PE ratio of 12.0x. Although the company has healthy like-for-like sales growth and a decent dividend yield of 3.2%, its share price has recently rallied and now offers only 11-12% upside potential to our target price. Therefore, we rate Alothaim Neutral.



Corporate summary

Abdullah Al Othaim Markets is the second grocery retailer in Saudi Arabia with a value of \$US0.5bn. The company is an extension of Saleh Al-Othaim company which was founded in 1957. Al-Othaim has around 29 stores that wholesales and retails food products & supplies, household equipments, electrical and mechanical equipment, cooked and non-cooked catering services and other products. Furthermore, Al-Othaim owns private labels such as HALEY, Proof, SHERR, and REX.

Share information

Market cap (SAR/US\$)	1.794bn / 0.478bn		
52-week range	49.70 - 81.00		
Daily avg volume (US\$)	2.218mn		
Shares outstanding	22.50mn		
Free float (est)	55%		
Performance:	1M	3M	12M
Absolute	15.6%	12.7%	59.5%
Relative to index	15.3%	10.2%	51%
Major Shareholder:			
Alothaim company	27.6%		
Abdulaziz Saleh Alothaim	17.7%		

Source: Bloomberg, Al Rajhi Capital

Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	3,155	3,496	3,960	4,465
EBITDA (SARmn)	133	182	233	279
Net Profit (SARmn)	78	144	144	157
EPS (SAR)	3.45	6.38	6.42	6.98
DPS (SAR)	2.50	2.50	2.63	2.76
EPS Growth	24.5%	85.2%	0.6%	8.8%
EV/EBITDA (x)	13.0	9.5	7.5	6.2
P/E (x)	22.4	12.1	12.0	11.1
P/B (x)	5.1	4.0	3.4	2.8
Dividend Yield	3.2%	3.2%	3.4%	3.6%

Source: Company data, Al Rajhi Capital

Alothaim: so practical utilitarian stores cater to low to middle class

Alothaim seems to be more pragmatic than other grocery stores. Its stores are utilitarian in terms of design and size, and target lower and middle-class customers. The design of its stores is certainly not fancy; indeed, it is dull compared to other supermarkets and hypermarkets such as Safeway and Panda. Also worth noting that the standard size of Alothaim's outlets is relatively small compared to other chains, with supermarkets of around 3,000 square metres and hypermarkets of around 5,000 square metres. This has resulted in a higher return per square metre (RPM).

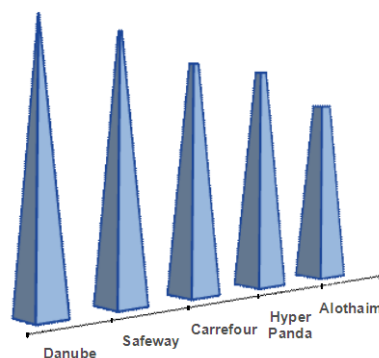
Alothaim is perceived as offering the cheapest prices, and therefore it appeals to lower and middle-income customers including both Saudis and other residents. Although Alothaim offers unbeatable prices on some items, we notice that certain other items are pricey compared to what other retailers offer. We suspect that Alothaim tends to be competitive on well known items such as commodity foods and makes a higher margin out of other items.

Alothaim provides unbeatable prices for few items, but other items are pricey

Al Rajhi Capital survey of perceptions of retailers

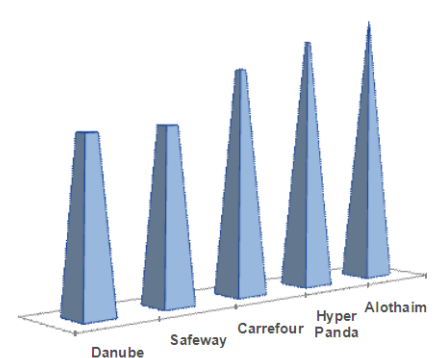
We have conducted a small-scale survey of customer's perceptions of Saudi retailers. Though by no means scientific, we believe that it provides a certain insight into consumers' opinions. We asked 40 people, men and women, which chain offers the most pleasing experience and which one provides the best prices. Based on their responses, Danube and Safeway (Tamimi) seem to provide a better shopping experience, while Alothaim and Hyper Panda offer more competitive prices.

Figure 47.1 Stores ranking: shopping experience



Source: Al Rajhi Capital

Figure 47.2 Stores ranking: best price



Source: Al Rajhi Capital

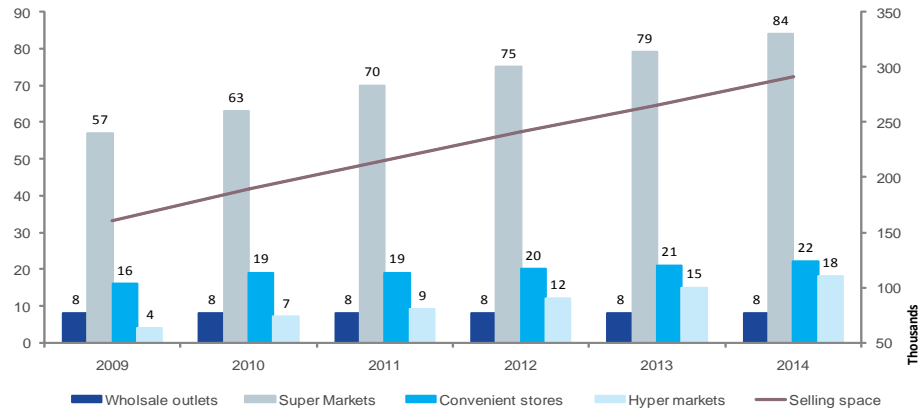


We expect Alothaim's total number of outlets to reach 132 by 2014

Opening new stores is the chief mode

Alothaim has an explicit plan to increase its selling area by focusing more on supermarkets and hypermarkets. Although the company expects to open more than ten stores per year, we think this figure is a little optimistic considering the scarcity of suitable sites, fierce competition, and the up-front investment required. We have therefore assumed that Alothaim opens between seven and nine outlets per year to reach 132 stores by 2014, with total selling space by then of close to 290,000 square metres. By our estimates, this will increase Alothaim's market share of the grocery retail market by 1.4% to reach 5.4%.

Figure 48. Alothaim: number of outlets and selling space



Source: Company data, Al Rajhi Capital

We expect Alothaim to continue expanding in larger cities as well as smaller ones

Recent entry to Western province widens the company's presence

Alothaim announced recently that it has opened two hypermarkets in Jeddah, which are the first outlets for Alothaim in the western province of Saudi Arabia. The aggregate selling area of the two stores is 13,000 square metres, with one of them located inside the Sawari shopping mall. This step should not only add to the company's top and bottom lines, but also broaden its presence within the Kingdom as Jeddah is one of the largest cities in Saudi Arabia.

Alothaim plans to continue expanding in smaller cities which are less competitive and have affordable land prices. There are new stores in the pipeline in many cities such as Hail, Arar, Madina, Makkah, and Ta'if. This complies with the company's strategy of expanding its operations geographically.

SSS is currently around 5.5%, we expect it to remain close to 5%

Same store sales growth still at healthy level

By our estimate, Alothaim has achieved 5.5% same store sales growth so far in 2010. This reflects the grocery retailing market's slow growth pace. Although we see a changing trend toward supermarkets and hypermarkets from traditional grocery stores ("bakala"), we think that traditional stores will remain dominant. Furthermore, we do not expect Alothaim to benefit fully from the trend towards shopping in larger stores as its stores do not offer the pleasure that other, classier supermarkets and hypermarkets such as Safeway provide. Thus, we suppose that Alothaim will continue to achieve organic growth of about 5%. This is respectable, but less impressive than the growth rates achieved by the other two.

Private labels make up only 4% of total sales

Private labels still under development

Alothaim owns several private labels in food and other areas such as HALEY, SHERR, PROOF, and REX. However, they are still tiny and contribute less than 4% of total sales. Normally, the main purpose of having such labels is to improve margins, but for Alothaim these items do not yet offer any higher margin, which means that so far they have been of little use. Nevertheless, according to Alothaim, it is working on improving these labels. The company aims to make private labels comprise 15% of total sales and make them more profitable.



Alothaim versus international retailers

We compared Alothaim with Jarir and Alhokair in the sector section of this report, but it is perhaps more relevant to compare the company with international retailers which operate in similar categories within the retail industry.

Alothaim: strong SSS growth, ROA and ROE, and reasonable gross and EBITDA margins

Alothaim offers higher growth and competitive returns

Alothaim is achieving same-store sales (SSS) growth, a major measure of efficiency in retailing, at a level which is far above that of comparable international retailers. This indicates that the company is still in a growth stage and has potential to develop in the future. Alothaim's gross margin is within the range of the three international companies shown below, but its EBITDA margin is lower. Nevertheless, Alothaim achieves by far the highest ROA and ROE. This difference cannot only be explained by the low Saudi effective tax rate.

Figure 49. Alothaim vs. International retailers

Company	SSS	Gross Margin	EBITDA Margin	ROA	ROE
Sainsbury	2.2%	5.4%	5.9%	5.6%	12.5%
TESCO	4.0%	8.1%	8.5%	5.1%	16.9%
Kroger	5.0%	23.1%	8.5%	0.3%	1.4%
Alothaim	5.5%	7.6%	5.2%	10.0%	33.4%

Source: Bloomberg, Reuters, Al Rajhi Capital

Alothaim's multiples do not look expensive considering the company is still in growth stage

Alothaim's multiples are within sector range

Alothaim's PE ratio of 12x and EV/EBITDA multiple of 7.8x are within the range for the sector. The EV/sales multiple of 0.5 is also comparable to the level for international grocery retailers. Alothaim offers a respectable dividend yield comparable to the level for the three international companies shown below. On the basis of relative valuation, we believe that Alothaim does not look expensive considering that the company is still in growth stage.

Figure 50. Alothaim vs. International retailers

Company	P/E	EV/EBITDA	EV/Sales	Div yield
Sainsbury	10.2	6.6	0.5	4.0%
TESCO	13.7	9.4	0.7	3.1%
Kroger	13.9	5.9	0.3	1.9%
Alothaim	12.0	7.8	0.5	3.2%

Source: Bloomberg, Reuters, Al Rajhi Capital

Looking forward: we expect decent top line and strong bottom line for Q4 and full year results

We expect Alothaim to achieve robust net income growth of 85.2% in 2010

As we are approaching the year end, we think it is useful to highlight our forecasts for Q4 and the full year. We expect Alothaim to report results comparable to those of the last three quarters. In terms of revenues, we expect Alothaim to achieve respectable year-on-year sales growth in Q4 of 13.0%. This should result in full-year sales growth of 10.8%. In terms of profits, we expect Q4 net profit to grow by 110.5% from the corresponding period last year. This sharp increase can be explained by the weak net profit in Q4 2009 which included an unusual loss of SAR19mn. We expect full-year net profit to reach SAR144mn.

Figure 51. Alothaim: 2009Q4A vs. 2010Q4E & FY2009A vs. FY2010E

(SAR) mn	2009Q4A	2010Q4E	YOY % chg.	FY2009A	FY2010E	YOY % chg.
Total Revenues	783	884	13.0%	3,155	3,496	10.8%
Gross Profit	72	80	10.2%	211	267	26.9%
	9.2%	9.0%		6.7%	7.6%	
EBITDA	44	55	24.3%	133	182	36.7%
EBITDA margin (%)	5.6%	6.2%		4.2%	5.2%	
Net Income	16	35	110.5%	78	144	85.2%

Source: Company data, Al Rajhi Capital



Valuation: Alothaim's attractions almost priced in

We use two valuation methods to arrive at our target price for Alothaim: long-run EVA and comparative multiples analysis. For the multiples analysis, we use EV/EBITDA multiples and PE ratios. We have been selective and conservative in our benchmarking.

We see DEP fair value for Alothaim at SAR90.8

Using the average of the benchmark companies' PE and EV/EBITDA ratios for 2010, we estimate a fair share price for Alothaim at SAR76.0. As noted, we have given a 30% weight to this method. In the long-run DEP method of estimating Alothaim's fair value, we use a WACC of 8.3%. Using our core assumption of a period of competitive advantage of 30 years, we estimate fair value per share for Alothaim at SAR90.8.

We set our target price for Alothaim at SAR86.4

We set our target price per share for Alothaim at SAR86.4. We have arrived at this target price by giving a weight of 70% to the long-run DEP method (SAR90.8 fair value per share), and 30% to the comparative multiples method (SAR76.0 fair value per share). On this basis, Alothaim's share price only offers 11-12% upside potential, suggesting that its attractions as an investment are already largely reflected in the price.

Risks associated with our assumptions

It is important to highlight that our valuation relies heavily on future forecasts which are uncertain. We have come up with several assumptions including growth (i.e. the opening of new stores), gross margin, cost of capital, and market trends to predict future performance. Based on our research we have tried to arrive at the most accurate assumptions; however, reality may deviate from our forecasts depending on new macro-economic or micro-economic factors. Competition is another factor that could influence our assumptions. New entrants and/or transformation of current rivals' business models in response would cause a change in the whole market, and hence in our estimates.



We expect revenues to reach SAR4.5bn by 2012

Income Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue	2,915	3,155	3,496	3,960	4,465
Cost of Goods Sold	(2,736)	(2,944)	(3,229)	(3,651)	(4,117)
Gross Profit	179	211	267	309	348
Government Charges					
S.G. & A. Costs	(121)	(121)	(138)	(154)	(174)
Operating EBIT	59	89	129	155	174
Cash Operating Costs	(2,819)	(3,022)	(3,314)	(3,727)	(4,186)
EBITDA	96	133	182	233	279
Depreciation and Amortisation	(37)	(44)	(53)	(78)	(105)
Operating Profit	59	89	129	155	174
Net financing income/(costs)	2	6	9	(7)	(13)
Forex and Related Gains	-	-	-	-	-
Provisions	-	-	-	-	-
Other Income	3	(16)	10	-	-
Other Expenses					
Net Profit Before Taxes	64	80	148	148	161
Taxes	(2)	(2)	(4)	(4)	(4)
Minority Interests	-	-	-	-	-
Net profit available to shareholders	62	78	144	144	157
Dividends	-	(56)	(56)	(59)	(62)
Transfer to Capital Reserve					

	12/08A	12/09A	12/10E	12/11E	12/12E
Adjusted Shares Out (mn)	22.50	22.50	22.50	22.50	22.50
CFPS (SAR)	4.43	5.41	8.74	9.88	11.64
EPS (SAR)	2.77	3.45	6.38	6.42	6.98
DPS (SAR)	0.000	2.500	2.500	2.625	2.756

We expect revenues growth to accelerate next year

Growth	12/08A	12/09A	12/10E	12/11E	12/12E
Revenue Growth	25.7%	8.2%	10.8%	13.3%	12.8%
Gross Profit Growth	16.4%	17.3%	26.9%	15.6%	12.8%
EBITDA Growth	6.6%	38.4%	36.7%	27.9%	19.6%
Operating Profit Growth	-1.6%	51.4%	45.0%	20.0%	12.2%
Net Profit Growth	4.2%	24.5%	85.2%	0.6%	8.8%
EPS Growth	-47.9%	24.5%	85.2%	0.6%	8.8%

Gross margin will remain respectable above 7.6%

Margins	12/08A	12/09A	12/10E	12/11E	12/12E
Gross profit margin	6.2%	6.7%	7.6%	7.8%	7.8%
EBITDA margin	3.3%	4.2%	5.2%	5.9%	6.2%
Operating Margin	2.0%	2.8%	3.7%	3.9%	3.9%
Pretax profit margin	2.2%	2.5%	4.2%	3.7%	3.6%
Net profit margin	2.1%	2.5%	4.1%	3.6%	3.5%

AlOthaim returns are reasonable

Other Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
ROCE	19.1%	15.2%	20.4%	18.8%	17.5%
ROIC	16.5%	14.8%	18.5%	19.5%	17.6%
ROE	23.2%	24.2%	37.1%	30.5%	27.7%
Effective Tax Rate	2.7%	2.9%	2.9%	2.5%	2.5%
Capex/Sales	9.5%	4.8%	8.1%	7.6%	6.0%
Dividend Payout Ratio	0.0%	72.6%	39.2%	40.9%	39.5%

P/E and EV/EBITDA are within the industry range

Valuation Measures	12/08A	12/09A	12/10E	12/11E	12/12E
P/E (x)	27.9	22.4	12.1	12.0	11.1
P/CF (x)	17.4	14.3	8.8	7.8	6.6
P/B (x)	5.8	5.1	4.0	3.4	2.8
EV/Sales (x)	0.6	0.6	0.5	0.4	0.4
EV/EBITDA (x)	18.0	13.0	9.5	7.5	6.2
EV/EBIT (x)	29.5	19.5	13.4	11.2	10.0
EV/IC (x)	3.0	2.6	2.2	1.8	1.5
Dividend Yield	0.0%	3.2%	3.2%	3.4%	3.6%

Source: Company data, Al Rajhi Capital



Expansion will increase the size of the company's balance sheet

Balance Sheet (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Cash and Cash Equivalents	27	107	10	10	25
Current Receivables	56	-	-	-	-
Inventories	217	220	283	317	366
Other current assets	78	90	79	79	79
Total Current Assets	378	417	373	407	471
Fixed Assets	606	721	952	1,177	1,340
Investments	90	99	102	102	102
Goodwill	-	-	15	15	15
Other Intangible Assets	-	-	-	-	-
Total Other Assets	-	-	-	-	-
Total Non-current Assets	696	820	1,070	1,294	1,457
Total Assets	1,074	1,237	1,442	1,700	1,927
Short Term Debt	276	95	140	140	140
Accounts Payable	427	472	566	634	692
Accrued Expenses	-	-	-	-	-
Zakat Payable	-	-	-	-	-
Dividends Payable	-	-	-	-	-
Other Current Liabilities	47	64	75	75	75
Total Current Liabilities	750	631	781	849	907
Long-Term Debt	9	242	204	306	379
Other LT Payables	-	-	-	-	-
Provisions	16	22	27	27	27
Total Non-current Liabilities	25	264	231	333	406
Minority interests	-	-	-	-	-
Paid-up share capital	225	225	225	225	225
Total Reserves	74	118	205	293	389
Total Shareholders' Equity	299	343	430	518	614
Total Equity	299	343	430	518	614
Total Liabilities & Shareholders' Equity	1,074	1,237	1,442	1,700	1,927

Gearing ratios are within the normal range

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Net Debt (SARmn)	258	230	334	436	494
Net Debt/EBITDA (x)	2.68	1.72	1.83	1.87	1.77
Net Debt to Equity	86.3%	67.0%	77.6%	84.1%	80.5%
EBITDA Interest Cover (x)	(51.0)	(21.4)	(20.3)	32.9	21.5
BVPS (SAR)	13.29	15.24	19.12	23.04	27.30

AlOthaim enjoys strong cash flows

Cashflow Statement (SARmn)	12/08A	12/09A	12/10E	12/11E	12/12E
Net Income before Tax & Minority Interest	64	80	148	148	161
Depreciation & Amortisation	37	44	53	78	105
Decrease in Working Capital	9	95	50	34	9
Other Operating Cashflow	(4)	(2)	(11)	(11)	(17)
Cashflow from Operations	106	217	240	248	258
Capital Expenditure	(276)	(152)	(284)	(302)	(268)
New Investments	-	(3)	-	-	-
Others	-	(3)	(142)	-	-
Cashflow from investing activities	(276)	(159)	(425)	(302)	(268)
Net Operating Cashflow	(169)	57	(185)	(54)	(10)
Dividends paid to ordinary shareholders	-	(34)	(113)	(56)	(61)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	-	-	-	-	-
Other Financing Cashflow	-	-	-	-	-
Cashflow from financing activities	52	(18)	(10)	17	(34)
Total cash generated	(117)	40	(195)	(37)	(44)
Cash at beginning of period	18	27	107	10	10
Implied cash at end of year	(99)	66	(88)	(27)	(34)

We expect capex to accelerate, reflecting expansion

Ratios	12/08A	12/09A	12/10E	12/11E	12/12E
Capex/Sales	9.5%	4.8%	8.1%	7.6%	6.0%

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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