

Short-Term Rec.: Accumulate

Current Price*: SAR19.1

Long-Term Rec. : Accumulate

LT Fair Value : SAR37.2

• **Revenue In Line, Adjusted EBITDA Slightly Outperforms:** Savola Group's revenue for 4Q2008 rose 35.6% Y-o-Y to SAR3.6 billion, in line with our expectation. The growth was slower than the 41.0% Y-o-Y growth of 3Q2008, which coincided with the high-consumption month of Ramadan, as opposed to 2007 when Ramadan fell largely in 4Q2007. Adjusted EBITDA (excluding one-off write-down of inventory) increased by a slower 14.8% to SAR222.8 million, ahead of our forecast of SAR205.5 million, as the EBITDA margin shrank to 6.2% from 7.4% in 4Q2007, above our expected 5.7%.

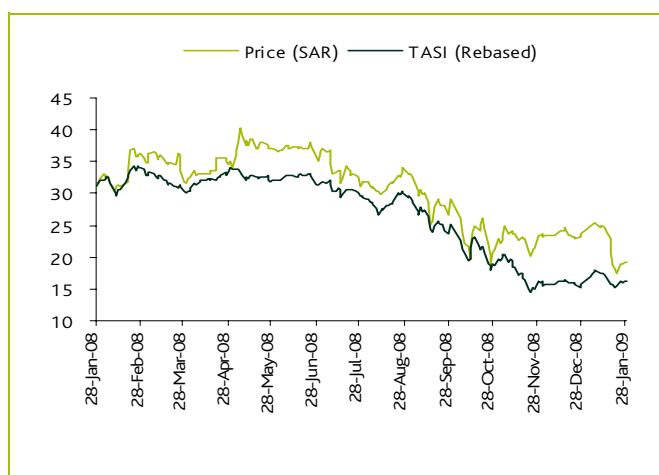
• **Significant Provisions Hit Bottom Line:** In 4Q2008, Savola booked a significant provision expense that consisted mostly of: i) SAR434 million booked at the holding company level representing the difference between the cost and the market value of available-for-sale investments, and ii) SAR242 million booked at the subsidiaries level representing a write-down of inventory value to reflect the sharp decline in global commodity prices. Normalized profit before taxes and minority (which excludes capital gains/losses, provisions and write-downs) slipped 1.9% Y-o-Y to SAR185.9 million, 11.1% below forecast because of higher depreciation and net interest expense, and a lower share of profit from associates. Provisions lowered Savola's bottom line into a loss of SAR463.8 million from a profit of SAR177.4 million in 4Q2007.

• **Food Segment Margins Contract:** Edible oils revenue retreated 42.6% Q-o-Q in 4Q2008 to SAR806 million, or only 23% of total revenue, its lowest percentage in 2008. Grocery retail revenue increased 21.7% Q-o-Q, to make up 51% of total revenue, and sugar revenue almost stabilized Q-o-Q, to make up 19%. While further breakdowns are not yet available, we believe Savola has begun to cut prices to pass on lower commodity prices and prevent inventory accumulation. Gross margins improved at all segments Q-o-Q except the food segment (mainly oils and to a lesser extent sugar), which suffered because of inventory stock bought at peak prices.

• **Merger with Giant in Effect, Agro-Processors Acquisition in the Pipeline:** The merger of Savola's grocery retail arm Panda with its local competitor Giant Stores took place effective 1 October, creating the second largest chain in the Gulf region after Carrefour. Its share of the Saudi grocery retail market is now estimated to be 5%. As of end-2007, Giant Stores had 16 outlets in Saudi Arabia and 38 in Lebanon, Qatar and Bahrain. In 1Q2009, Savola will finalize the acquisition of the third-largest edible oils maker in Pakistan, Agro-Processors, after signing an initial agreement in July.

• **Forecasts and Valuation to be Updated:** Our current LT Fair Value for Savola is SAR37.2 per share, which is the sum of: i) SAR30.4 per share for operations with recurring cash flows, and ii) SAR6.8 per share for Savola's investments. We will update our forecasts and valuation for Savola to include the impact of the Giant Stores merger and the acquisition of Agro-Processors and to reflect the current revaluation of assets in the region. We maintain our ST/LT Accumulate recommendation for the stock.

FLASH NOTE



*Prices as at 28 January 2009

	2008a	2009e	2010e
EPS	0.40	1.58	1.88
PER (x)	47.2	12.1	10.1
DPS	1.00	0.79	0.94
Div. Yield	5.2%	4.1%	4.9%
CFPS	0.63	0.93	1.38
PCF (x)	30.2	20.4	13.9
BVPS	13.10	15.86	16.80
PBV (x)	1.5	1.2	1.1

Stock Data	
Last Dividend	SAR0.25 on 2 Nov 2008
Mkt. Cap. / Shares (mn)	SAR9,550 / 500
Local Av. Monthly Liqd	SAR1,176
52-Week High/Low	SAR40.8 / 16.9
Bloomberg / Reuters	SAV AB / 2050.SE
Est. Free Float	63.4%

Figure 1: Summary of Financials

SAR million, unless otherwise stated

	4Q07	3Q08	4Q08	Y-o-Y	Q-o-Q	4Q08e	var.	2007	2008	Y-o-Y	2008e	var.	2009e	Y-o-Y
Revenue	2,630	3,919	3,567	35.6%	-9.0%	3,606	-1.1%	10,410	13,795	32.5%	13,834	-0.3%	16,097	16.7%
COGS *	(2,105)	(3,329)	(2,929)			(2,972)		(8,530)	(11,371)		(11,452)		(13,257)	
SG&A	(331.1)	(393.8)	(415.1)			(428.0)		(1,179)	(1,587)		(1,562)		(1,865)	
EBITDA*	194.0	196.5	222.8	14.8%	13.4%	205.5	8.4%	700.3	837.6	19.6%	820.4	2.1%	975.4	16.5%
EBITDA Margin	7.4%	5.0%	6.2%			5.7%		6.7%	6.1%		5.9%		6.1%	
Depreciation and Amortization *	(73.2)	(79.1)	(106.8)			(82.0)		(292.9)	(351.3)		(326.5)		(384.7)	
Other Operating Income	29.1	23.4	78.0			23.4		82.1	136.5		79.6		64.4	
Net Operating Profit	149.9	140.8	194.0	29.5%	37.8%	147.0	32.0%	489.4	622.8	27.3%	573.4	8.6%	655.1	5.2%
Net Operating Margin	5.7%	3.6%	5.4%			4.1%		4.7%	4.5%		4.1%		4.1%	
Share of Profits from Associates	46.8	101.0	45.3			97.0		241.7	335.2		386.9		424.4	
Net Interest Income (Expense)	(7.2)	(49.8)	(53.5)			(35.0)		(33.3)	(161.0)		(140.3)		(145.2)	
Normalized Profit before Taxes and Minority	189.5	192.0	185.9	-1.9%	-3.2%	209.0	-11.1%	697.8	796.9	14.2%	820.0	-2.8%	934.4	17.2%
Zakat and Taxes	(7.9)	(16.9)	14.2			(17.6)		(65.5)	(51.9)		(83.7)		(46.7)	
Gain on Sale of Investments	18.4	11.9	(35.3)			-		866.1	148.0		183.3		-	
Provisions, Write-downs and Impairments	(7.2)	-	(722.2)			-		(110.5)	(722.2)		-		-	
Prior Year Zakat	-	-	-			-		(50.0)	-		-		-	
Minority Interest	(15.4)	(28.9)	93.5			(28.7)		(107.9)	31.6		(90.7)		(96.7)	
Net Profit (Loss)	177.4	158.0	(463.8)			162.7		1,230	202.4		828.9		791.0	

*Adjusted to exclude provisions in 4Q2008

Source: Savola Group, EFG-Hermes estimates

Figure 2: Segmental Analysis

Revenue in SAR million, unless otherwise stated

	2007	1Q08	2Q08	3Q08	4Q08	Q-o-Q	2008	Y-o-Y
Oil								
Revenue	3,910	1,181	1,173	1,404	806	-42.6%	4,565	16.8%
Percent of Total Revenue	37%	39%	35%	36%	23%		33%	
Gross Profit Margin*	16.5%	17.2%	18.4%	12.8%	5.4%		15.4%	
Grocery Retail								
Revenue	3,806	1,096	1,197	1,481	1,803	21.7%	5,576	46.5%
Percent of Total Revenue	36%	37%	36%	38%	51%		40%	
Gross Profit Margin*	18.3%	17.6%	21.1%	18.0%	20.3%		19.8%	
Sugar								
Revenue	1,859	464	630	686	682	-0.6%	2,462	32.4%
Percent of Total Revenue	18%	15%	19%	18%	19%		18%	
Gross Profit Margin*	14.3%	11.1%	10.4%	12.2%	12.0%		8.5%	
Packaging								
Revenue	562	148	197	233	192	-17.5%	771	37.4%
Percent of Total Revenue	5%	5%	6%	6%	5%		6%	
Gross Profit Margin*	20.3%	19.7%	19.4%	18.6%	23.7%		20.3%	
Fast Food (Herfy)								
Revenue	375	105	122	118	122	3.7%	466	24.4%
Percent of total revenue	4%	4%	4%	3%	3%		3%	
Gross Profit Margin*	28.8%	34.3%	34.4%	37.9%	35.6%		35.6%	
Franchising								
Revenue	29	6	7	16	9	-43.1%	38	27.8%
Percent of Total Revenue	0%	0%	0%	0%	0%		0%	
Gross Profit Margin*	51.6%	56.4%	76.7%	65.5%	69.2%		68.6%	

*COGS exclude depreciation, amortization and provisions

Source: Savola Group

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