



Savola Group Company

3Q-08 preliminary results

Overweight

Price (SR)	22.00
12-month target price (SR)	39.20
Potential upside/downside (%)	↑ 78

Stock details

52-week range H/L (SR)	43/20		
Market cap (\$mn)	2,937		
Shares outstanding (mn)	500		
Listed on	Tadawul		
Price perform (%)	1M	3M	12M
Absolute	(16.2)	(29.1)	(14.2)
Rel. to market	(1.9)	(0.7)	4.5
Avg daily turnover (mn)	SR	US\$	
3M	32.6	8.7	
12M	97.7	26.1	
Reuters code	2050.SE		
Bloomberg code	SAVOLA AB		
Website	www.savola.com		

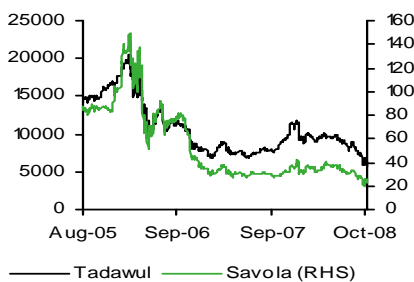
Valuation multiples

	07A	08E	09E
Reported P/E (x)	8.9	12.7	9.8
Adjusted P/E* (x)	15.2	11.3	6.8
Reported P/B (x)	1.5	1.5	1.3
Adjusted P/B* (x)	1.0	0.9	0.9
EV/EBITDA (x)	18.8	9.9	7.7
Div yield (%)	5.1	4.5	4.5

Source: NCBC Research estimates

*MCap adj for MV of listed investments divided by normalised incomes less underlying dividends

Share price performance



Source: NCBC Research

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Please refer to the last page for important disclaimer

Savola announced 3Q-08 results yesterday with revenues growing 39% yoy to SR3.9 bn (in line with our expectation). However, Savola's reported net incomes grew only 4.6% to SR158 mn (16% below our estimate of SR188 mn, and 40% below market consensus). Normalized net incomes continue to show resilience with 51% growth in 9M-08

Financials

		2007A	2008E	2009E	2010E	CAGR %
Revenues	SRmn	10,409.5	13,869.8	19,523.5	24,545.8	33.1
EBITDA	SRmn	1,017.7	1,333.5	1,892.9	2,362.5	32.4
Adj. net income*	SRmn	536.4	707.6	1,128.1	1,437.7	38.9
Assets	SR	1.43	1.42	2.26	2.88	26.2
Equity	SR	1.58	1.0	1.0	1.3	
EBITDA margin	SR	7,156.9	7,520.5	8,148.7	8,961.4	
Adj. net margin*	%	9.8	9.6	9.7	9.6	
Normalized ROE	%	4.7	5.5	7.4	8.0	
Normalized ROA	%	8.1	9.6	14.4	16.8	

Source: Company, NCBC Research estimates, *Excluding capital gains on sale of investments (post tax)

- Strong performance on top line:** Savola's revenues expanded 39.3% to SR3.9 bn in 3Q 08, broadly in line with our projection of SR3.8 bn, largely due to expansions both inside and outside the Kingdom, coupled with higher sales owing to one month of Ramadan falling during the quarter. The company's revenues in 9M 08 grew 30.8% to SR10.2 bn (in line with our estimate of SR10.1 bn).
- Strong growth in operating profits:** Driven by higher sales, Savola's operating profit grew 22.8% to SR242 mn in 3Q 08, (7% below our estimate of SR261 mn). The 9M 08 operating income stood at SR719 mn (up 33.9%), in line with our estimate of SR735 mn.
- Reported net incomes below our / market expectations:** Savola's reported net incomes climbed only 4.6% to SR158 mn, (16% below our estimate of SR188 mn, and 40% below market consensus). However, the 9M 08 reported net income stood at SR666 mn (4% below our estimate of SR696 mn) and down 36.6% from a higher base on SR1,050 mn in 9M 07 (note that results in 2Q 07 included SR712 mn of exceptional profit from Savola's sale of its stake in Egyptian Fertilizer Co)
- Operational incomes continue to show robust growth:** Though reported net incomes are down 36.6% in 9M 08, adjusted for exceptional items, we estimate that recurring net incomes are up a healthy 50.9% for the first nine months of 2008. We await the detailed financials to establish the accurate figure.

Quarterly results snapshot

SR mn	3Q 08	% YoY	% Var [^]	9M 08	% YoY	% Var [^]
Revenues	3,900	40.0	2.1	10,200	30.8	0.8
Operating Profits	242	22.8	(7.2)	719	33.9	(2.3)
Net incomes	158	4.6	(16.0)	666	(36.6)	(4.3)
Recurring net incomes	158*	N/A	N/A	510	50.9**	(5.6)

Source: Company, NCBC Research

[^] % Var indicates variance from NCBC forecasts

*Assumes the figure does not contain any non-recurring items

**Calculated after deducting SR712 mn as exceptional items from 9M 07 net income

- Market expectations were unrealistic:** We believe consensus net income forecasts for the quarter were too optimistic with peers extrapolating results from Q2-08 (net income SR 258 mn) to the third quarter, not recognizing that Q3 results are usually sharply lower sequentially, reflecting the summer period (a traditionally slack quarter of the year)

Evaluating consensus forecasts				
SR mn	Revenues	Var %	Net Income	Var %
Bakheet	NA	NA	317	(50.2)
KSB	NA	NA	264	(40.2)
EFG Hermes	3,470	12.4	231	(31.6)
NCBC	3,809	2.4	188	(16.0)
Actual Q3-08	3,900		158	

Source: NCBC Research

- Why the variance between forecasts and Savola's actual results?** We await the company's detailed financials to review the reasons for variance in our forecasts. In the interim we expect that the results could have been impacted by higher tax rates (given the growing extent of the company's operations in countries like Egypt and Algeria), or larger minority interests (given the recent acquisitions of Panda, etc.)
- IPO of Herfy in 1Q 09:** Herfy (Savola owns a 70% stake in this fast food company) announced on October 25 that it has planned to float 30% in an IPO. Yesterday, media quoted the company's managing director saying that the company planned to proceed on the IPO to sell 30% of its shares after its full-year results. In our view, this continues to be one of the catalysts for the company to unlock the embedded value in its business.
- Outlook remain positive: Upbeat valuations remain intact, Herfy IPO to provide a great catalyst:** We remain optimistic on Savola's growth prospects given the growing market for food & retailing and the company's strong & established presence in the sector. Savola's SR18 bn expansion plan to grow its core business both organically & inorganically adds to our optimism. Although Savola's 9M 08 reported net income declined significantly, the operating income, which is the true indicator of its core business performance, grew healthy during the same period. Furthermore, Savola's recently expansion into Algeria, Turkey & Pakistan (edible oils) and its new sugar plant in Egypt, in addition to retail expansion (acquisition of Giant Stores) provide visibility of medium term revenues.

We expect Savola to post healthy top and bottom line growth in 2009. The recent decline in the company's share price to SR22 (a 9.5% decline since initiation of coverage versus the 13.5% fall in the broader market) provides an even more compelling investment argument. The stock now trades at an adjusted P/E of 6.8x 2009E. We await the detailed financials from the company and in the interim maintain our current earnings forecast and overweight recommendation with a target price of SR39.2, an upside of 78%

**NCBC INVESTMENT RATINGS**

- Overweight:** Target price represents expected returns in excess of 15% in the next 12 months
- Neutral:** Target price represents expected returns between -10% and +15% in the next 12 months
- Underweight:** Target price represents a fall in share price exceeding 10% in the next 12 months
- Price Target:** Analysts set share price targets for individual companies based on a 12-month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12-month horizon

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