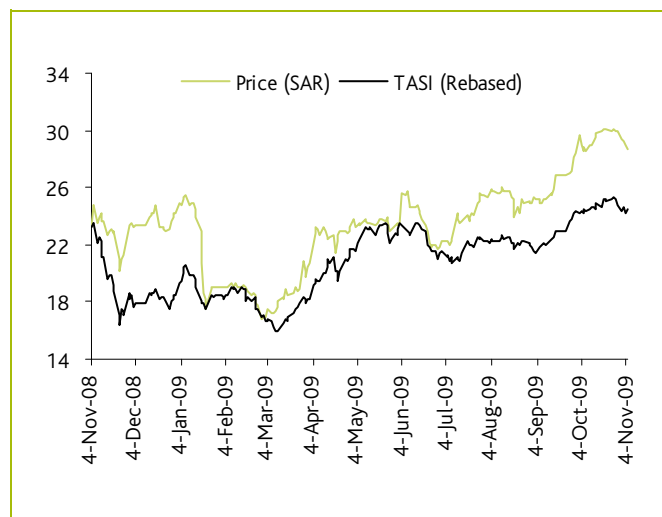


Short-Term Rec.: Buy
Long-Term Rec. : Buy

Current Price*: SAR 28.7
LT Fair Value : SAR 39.4

- 3Q2009 Results Sweeter than Ever, As Expected:** Savola has reported its third set of solid results for this year. 3Q2009 net profit was SAR278 million, soaring 76% Y-o-Y and coming in 11% above the company's target of SAR250 million and 6% above our estimate on better margins. The strong net profit growth was driven by sales from new subsidiaries and a widening in the EBITDA margin. Savola has raised its FY2009 net profit target (excluding capital gains) by 6% to SAR846 million. We maintain our forecast for FY2009e normalised net profit at SAR851 million and net profit at SAR878 million. For 4Q2009e, we expect normalised net profit of SAR196 million, compared to management's SAR190 million.
- Revenue Growth Soars:** Revenue grew 30% Y-o-Y to SAR5.1 billion, although food revenue inched down 2% as decreasing raw material prices were largely passed on to consumers. Food sales volumes grew at a double-digit rate thanks to the consolidation of Iranian edible oil, Savola Behshahr (in 2Q2009), and higher sales from new operations (sugar in Egypt, oil in Algeria). Retail revenue soared 32% driven by the consolidation of Giant stores (in 4Q2008) and the opening of new stores. 2009 revenue peaked in 3Q2009 as it included the month of Ramadan (August-September), when food consumption shoots up.
- Margin Expansion, is it Sustainable?** EBITDA (including other operating income) grew 115% Y-o-Y to SAR472 million, 8% above estimates. The adjusted EBITDA margin continued to widen, adding 370 bps Y-o-Y to reach 9.3%, 100 bps above our estimates. YTD, margins have benefited from: i) a Y-o-Y decline in average raw material prices, not fully passed on to consumers, ii) consolidation of higher-margin Savola Behshahr, and iii) improved margins at start-ups. Although 2009's average raw sugar prices have risen above 2008 levels, the decline in edible oil prices more than compensate. While a sharp, generalised, increase in commodity prices could affect margins negatively, we nevertheless expect margins to remain above 2008 levels that were depressed by pre-operating expenses at start-ups and inventory write-downs.
- The Story Looks Even Better, Upgrade ST to Buy:** We upgrade our ST recommendation to Buy from Accumulate. We like Savola's focus on expanding its core food operations, a strategy management adopted almost two years ago. With expansion and acquisitions planned in almost all lines of business, this strategy bodes well for both earnings quality and its future growth outlook. Savola recently outlined a plan to expand its sugar business into countries where it operates an edible oil factory, whenever economically justified, to benefit from supply and distribution synergies. This follows on from the success of this strategy in Saudi Arabia and Egypt. In support of this, Savola has recently formed a 40%-owned joint venture to bid for six Turkish sugar factories with a capacity of up to 0.5 million tons.
- Reviving Plan to Take Herfy Public:** Management have revived the plan to take its fast food chain, Herfy, public, possibly in 2010. This plan was put on hold after the stock market crash at the end of 2008. Savola expects Herfy to grow its stores to 158 by the end of 2009, up from 138 stores at the end of 2008, and to increase its net profit by 10% to SAR110 million.

FLASH NOTE



*Price as at 4 November 2009

	2009e	2010e	2011e
EPS	1.76	2.02	2.35
PER (x)	16.4	14.2	12.2
DPS	1.00	1.20	1.40
Div. Yield	3.5%	4.2%	4.9%
CFPS	2.10	1.84	2.45
PCF (x)	13.7	15.6	11.7
BVPS	13.53	14.35	15.30
PBV (x)	2.1	2.0	1.9

Figures in SAR, unless otherwise stated

Stock Data

Last Ex-Div Date	SAR0.25 on 24 October 2009
Mkt. Val. / Shares (mn)	SAR14,350 / 500
Av. Mthly Liqd. (mn)	SAR466.6
52-Wk. High / Low	SAR30.7 / 16.5
Bloomberg / Reuters	SAVAB / 2050 SE
Est. Free Float	71.0%

Figure 1: Summary of Income Statement

In SAR million, unless otherwise stated

	3Q08	2Q09	3Q09	Y-o-Y	Q-o-Q	3Q09e	Diff	9M08	9M09	Growth	2008a	2009e	Growth
Revenue	3,919	4,357	5,104	30%	17%	5,302	-4%	10,228	13,096	28%	13,821	17,632	28%
Adj. EBITDA*	219.9	393.5	472.4	115%	20%	438.5	8%	673.3	1,145	70%	988.2	1,486	50%
Adj. EBITDA Margin	5.6%	9.0%	9.3%			8.3%		6.6%	8.7%		7.1%	8.4%	
Depreciation and Amortisation	(79.1)	(119.0)	(121.3)			(117.3)		(244.5)	(347.3)		(366.8)	(460.7)	
Net Operating Profit	140.8	274.5	351.1	149%	28%	321.1	9%	428.8	797.3	86%	621.3	1,025	65%
Net Operating Margin	3.6%	6.3%	6.9%			6.1%		4.2%	6.1%		4.5%	5.8%	
Share of Profits From Associates	101.0	100.4	97.5			95.0		289.9	304.8		335.2	386.3	
Net Interest Income (Expense)	(49.8)	(67.9)	(49.3)			(62.6)		(107.6)	(169.0)		(153.7)	(240.1)	
Profit before One-offs, Taxes & MI	192.0	307.1	399.3	108%	30%	353.5	13%	611.1	933.1	53%	802.8	1,171	46%
Net Investment (Capital) Gain	11.9	11.2						183.3	26.7		148.0	26.7	
Investment Provisions and Inventory Write-down											(727.4)		
Zakat & Taxes	(16.9)	(21.2)	(49.5)			(22.3)		(66.2)	(84.9)		(53.4)	(75.9)	
Minority Interest**	(28.9)	(84.6)	(71.9)			(69.1)		(62.0)	(192.0)		32.3	(244.7)	
Net Profit	158.0	212.5	277.9	76%	31%	262.1	6%	666.2	682.9	3%	202.4	877.6	334%
Normalised Net Profit (Excluding Investment Gain)	146.1	201.3	277.9	90%	38%	262.1	6%	482.9	656.2	36%	689.0	850.8	23%

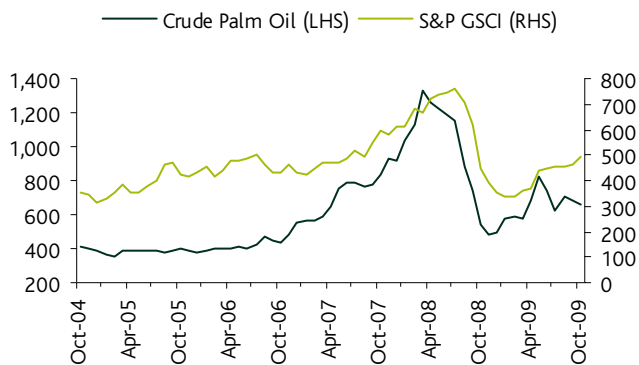
*Includes Other Operating Income

**The consolidation of Savola Behshar significantly increased the minority interest in 2Q2009 and 3Q2009

Source: Savola, EFG-Hermes estimates

Figure 2: Crude Palm Oil Price* and S&P GSCI

USD per ton, unless otherwise stated

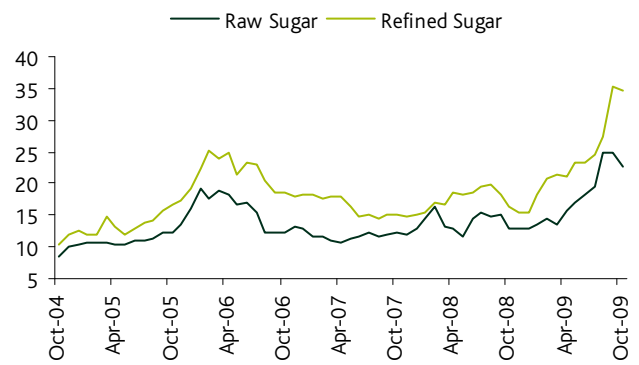


*Malaysian palm oil board price

Source: Bloomberg, EFG Hermes

Figure 3: Raw and Refined Sugar Prices*

Cent per pound, unless otherwise stated



*CSCE No.11 for raw, Brazil White Sugar Spot for refined

Source: Bloomberg, EFG-Hermes

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