

February 03, 2010

ALMARAI (2280.SE)

12-Month Fair Value: SAR 200

Last Close (02 February, 2010): SAR 166

Recommendation: Buy - Risk Level: 3

- The Shoura Council of the Kingdom of Saudi Arabia requested the formulation of an action plan that will end the export of dairy products from the Kingdom in order to conserve water consumption. Some English-based news outlets have erroneously reported that the ban has taken effect, while this is not the case because the request has not turned into a law yet.
- The Shoura Council has advised to set up a mechanism to enforce a prior law issued by the Council of Ministers towards water preservation which, among other things, has identified the production of dairy products as one of the high water consumption industries.
- According to Almarai's management, the company has a special permit from the Saudi government, since 2007, to export dairy products to GCC countries. Almarai's sales outside the GCC represent only 1.1% of total revenue, thus we do not expect that a ban on sales to non-GCC countries to have a material impact on the company.
- Almarai is already taking steps to reduce its consumption of water in Saudi Arabia by increasing the use of imported alfalfa, as opposed to the use of domestically grown alfalfa.
- We will continue to monitor this matter very closely. However, we feel that in the short term it will have an immaterial effect on Almarai and hence would recommend investors to consider any pressure on the stock price as an opportunity.
- Our current 12-month fair value for Almarai, SAR 200, is now 20% over the closing price of 02 February 2010 (SAR 166); hence, our current recommendation on the stock is a "Buy".

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Related Research

- Almarai Initiation of Coverage - 17 Nov. 2009

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