

July 12, 2010

ALMARAI (2280.SE)

12-Month Fair Value: SAR 219

Last Close (11 July 2010): SAR 192

Recommendation: Accumulate - Risk Level: 3

- Almarai reported a 20.2% increase in total revenue in 2Q2010 to SAR 1.7 billion—a result that is driven by a continued strong performance in the bakery segment and a higher-than-expected growth in long-life dairy. Excluding the effect of the HADCO acquisition, which took place on October 15, 2009, Almarai's top-line would have increased by 15.5%.
- Sales of fresh dairy, which accounts for 45.4% of total revenue, increased by 13.3% in 2Q2010 (year-on-year) to reach SAR 790 million. In our last update we noted that growth in long-life dairy will outperform the growth of fresh dairy, especially after Almarai's latest effort to push the long-life products. This was the case in 2Q2010, as sales of long-life dairy increased by 23.7% year-on-year. In continuation of the 1Q2010 performance, bakery sales increased by a stellar 35% in 2Q2010. On the other hand, growth in sales of fruit juice slowed down to 17.7% in 2Q2010 (compared to 24.4% in 1Q2010).
- Almarai achieved an EBITDA of SAR 485.6 million in 2Q2010 (a 24% increase over the 2Q2009 level), and registered an improvement in the EBITDA margin from 27.1% in 2Q2009 to 27.9% in 2Q2010.
- Net profit followed in-line with the rest of the company's performance, improving from SAR 287.1 million in 2Q2009 to SAR 334.1 million in 2Q2010—a 19.5% growth year-on-year. Moreover, the company was able to maintain net profit margin at 19.7%.
- The company continued to exhibit strong cash generating capabilities, as cash flow from operations increased from SAR 713 million in 1H2009 to SAR 858.6 million in 1H2010. Almarai managed to report this increase in cash from operating activities despite the SAR 32.7 increase in working capital due to seasonality. Capex in 1H2010 reached SAR 1.1 billion, which falls in line with Almarai's capex guidance of approximately SAR 2 billion for 2010 (which we account for in our model).
- Almarai's management will be hosting a conference call later today (July 12, 2010), which will help us formulate a more complete opinion on the company's performance in 2Q2010.
- This set of results by Almarai gives us confidence in the company's ability to achieve our forecast for the year of SAR 6,967 million in total revenues and SAR 1,872 million in EBITDA. Hence, we reiterate our 12-month fair value for Almarai of SAR 219 and "Accumulate" recommendation.

Samir Murad, CFA

T. +965 259 5145

E. samir.murad@nbkcapital.com

Related Research

- Almarai Update - 20 May 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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NBK CAPITAL**Kuwait****Head Office**

38th Floor, Arraya II
 Al Shuhada Street, Block 6, Sharq
 P.O.Box 4950, Safat 13050
 Kuwait
 T. +965 2224 6900
 F. +965 2224 6905

MENA Research

35th Floor, Arraya II
 Al Shuhada Street, Block 6, Sharq
 P.O.Box 4950, Safat 13050, Kuwait
 T. +965 2224 6663
 F. +965 2224 6905
 E. menaresearch@nbkcapital.com.kw

Brokerage

37th Floor, Arraya II
 Al Shuhada Street, Block 6, Sharq
 P.O.Box 4950, Safat 13050, Kuwait
 T. +965 2224 6964
 F. +965 2224 6978
 E. brokerage@nbkcapital.com

United Arab Emirates**NBK Capital Limited**

Precinct Building 3, Office 404
 Dubai International Financial Center
 P.O.Box 506506
 Dubai, UAE
 T. +971 4 365 2800
 F. +971 4 365 2805

Turkey**NBK Capital**

Arastima ve Musavirlik AS,
 Sun Plaza, 30th Floor,
 Dereboyu Sk. No.24
 Maslak 34398, Istanbul, Turkey
 T. +90 212 276 5400
 F. +90 212 276 5401

NATIONAL BANK OF KUWAIT**Kuwait****National Bank of Kuwait SAK**

Abdullah Al-Ahmed Street
 P.O. Box 95, Safat 13001
 Kuwait City, Kuwait
 T. +965 2242 2011
 F. +965 2243 1888
 Telex: 22043-22451 NATBANK

Jordan**National Bank of Kuwait SAK**

Head Office
 Al Hajj Mohd Abdul Rahim Street
 Hijazi Plaza, Building # 70
 P.O.Box 941297,
 Amman -11194, Jordan
 T. +962 6 580 0400
 F. +962 6 580 0441

United States of America**National Bank of Kuwait SAK**

New York Branch
 299 Park Avenue, 17th Floor
 New York, NY 10171, USA
 T. +1 212 303 9800
 F. +1 212 319 8269

Vietnam**National Bank of Kuwait SAK**

Vietnam Representative Office
 Room 2006, Sun Wah Tower
 115 Nguyen Hue Blvd, District 1
 Ho Chi Minh City, Vietnam
 T. +84 8 3827 8008
 F. +84 8 3827 8009

INTERNATIONAL NETWORK**Bahrain****National Bank of Kuwait SAK****Bahrain Branch**

Seef Tower, Al-Seef District
 P.O. Box 5290, Manama, Bahrain
 T. +973 17 583 333
 F. +973 17 587 111

Lebanon**National Bank of Kuwait****(Lebanon) SAL**

Sanayeh Head Office
 BAC Building, Justinian Street
 P.O. Box 11-5727, Riyad El Solh
 1107 2200 Beirut, Lebanon
 T. +961 1 759 700
 F. +961 1 747 866

United Kingdom**National Bank of Kuwait (Intl.) Plc****Head Office**

13 George Street,
 London W1U 3QJ, UK
 T. +44 20 7224 2277
 F. +44 20 7224 2101

China**National Bank of Kuwait SAK****Shanghai Representative Office**

Suite 1003, 10th Floor,
 Azia Center, 1233 Lujiazui Ring Rd.
 Shanghai 200120, China
 T. +86 21 6888 1092
 F. +86 21 5047 1011

Saudi Arabia**National Bank of Kuwait SAK****Jeddah Branch**

Al-Andalus Street, Red Sea Plaza
 P.O. Box 15385
 Jeddah 21444, Saudi Arabia
 T. +966 2 653 8600
 F. +966 2 653 8653

Iraq**Credit Bank of Iraq**

Street 9, Building 187
 Sadoon Street, District 102
 P.O.Box 3420, Baghdad, Iraq
 T. +964 1 7182198/7191944
 +964 1 7188406/7171673
 F. +964 1 7170156

NBK Investment**Management Limited**

13 George Street
 London W1U 3QJ, UK
 T. +44 20 7224 2288
 F. +44 20 7224 2102

France**National Bank of Kuwait (Intl.) Plc****Paris Branch**

90 Avenue des Champs-Elysees
 75008 Paris, France
 T. +33 1 5659 8600
 F. +33 1 5659 8623

ASSOCIATES**Qatar****International Bank of Qatar (QSC)**

Suhaim bin Hamad Street
 P.O.Box 2001
 Doha, Qatar
 T. +974 447 3700
 F. +974 447 3710

United Arab Emirates**National Bank of Kuwait SAK****Dubai Branch**

Sheikh Rashed Road, Port Saeed
 Area, ACICO Business Park
 P.O. Box 88867, Dubai
 United Arab Emirates
 T. +971 4 2929 222
 F. +971 4 2943 337

Egypt**Al Watany Bank of Egypt**

13 Al Themar Street
 Gameat Al Dowal AlArabia
 Fouad Mohie El Din Square
 Mohandessin, Giza, Egypt
 T. +202 333 888 16/17
 F. +202 333 79302

Singapore**National Bank of Kuwait SAK****Singapore Branch**

9 Raffles Place #51-01/02
 Republic Plaza, Singapore 048619
 T. +65 6222 5348
 F. +65 6224 5438

Turkey**Turkish Bank****Head Office**

Valikonagl Avenue No. 1
 P.O.Box 34371 Nisantasi,
 Istanbul, Turkey
 T. +90 212 373 6373
 F. +90 212 225 0353