

July 21, 2010

SAVOLA (2050.SE)

12-Month Fair Value: SAR 41

Last Close (21 July 2010): SAR 34.20

Recommendation: Buy - Risk Level: 4

- Savola posted a weaker-than-expected performance in 2Q2010 with both total revenue and EBITDA falling short of our expectations for the quarter.
- Savola's total revenue increased by 12%, year-on-year, to reach SAR 4.9 billion—a much slower rate compared to the 31% growth that was achieved in 1Q2010. Moreover, this result is 9% lower than our revenue forecast of SAR 5.4 billion for 2Q2010.
- EBITDA dropped by 23% in 2Q2010 to reach SAR 310 million, which led to a 290 basis points contraction in the EBITDA margin to 6.4%. This result is 31% lower than our forecast of SAR 451 million for the quarter.
- Savola has attributed the contraction in margins to the increase in prices of raw sugar in 1H2010, which reached record highs during the period. Savola faced difficulty in passing on the increased cost of raw sugar to the consumer, a scenario that was most evident in the Egyptian market. Sugar prices in Egypt did not increase at the same pace of the increase in global market prices, as the market is supplied with locally produced sugar that uses domestically grown beet root as its raw material. Moreover, SG&A expenses were impacted by the increase in the number of Panda stores, which are yet to realize their full revenue-generating potential.
- Net income declined by 2%, year-on-year, to SAR 208 million, while the net profit margin contracted from 4.9% in 2Q2009 to 4.3% in 2Q2010.
- In line with the company's stated dividend policy of paying out 10% of the company's share capital, each year, on a quarterly basis, Savola announced a quarterly dividend payment of SAR 0.25 per share for 2Q2010.
- We await more data to be released by the company regarding the segmental performance before we make our final assessment on the second quarter. Our fair value estimate for Savola stands at SAR 41, which is 20% above the stock's latest closing price. Hence, our recommendation on the stock is "Buy".

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Related Research

- Savola Initiation of Coverage - 03 June 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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