

August 25, 2010

SAVOLA (2050.SE)

12-Month Fair Value: SAR 41

Last Close (24 August 2010): SAR 32.50

Recommendation: Buy - Risk Level: 4

- Savola announced that it has reached a deal to acquire minority stakes in two of its major subsidiaries (Savola Food Company [SFC] and Al-Azizia Panda United [Panda]) through a share swap transaction with Al Muhaidib Group. The deal, which still awaits both regulatory and shareholder approval, involves three key elements outlined below:
 1. Al Muhaidib Group will transfer its 10% stake in SFC to Savola, thus eventually increasing its stake to 100%. SFC is the subsidiary through which Savola owns all its edible oils operations and the majority of its sugar businesses. The deal values SFC at SAR 5.1 billion, and accordingly Al Muhaidib Group's 10% stake in SFC at SAR 0.5 billion.
 2. Al Muhaidib Group will transfer an 18% stake in Panda to Savola, providing Savola with 92.4% ownership of the subsidiary. The deal values Panda, the largest grocery retailer in Saudi Arabia, at SAR 4.3 billion, and accordingly Al Muhaidib Group's 18% stake in the retailer at SAR 0.8 billion.
 3. In return, Al Muhaidib Group will receive 37.6 million newly issued Savola shares valued at SAR 1.3 billion (using the average market price during May 2010). This will increase Savola's total number of outstanding shares from 500 million to 537.6 million. Upon completion of the deal, Al Muhaidib Group's stake in Savola will rise to 14.8% (up from 8.4%) to become the largest shareholder in the company.
- The deal is subject to regulatory and shareholders' approval before it can go through. Savola stated that it expects to hold an extraordinary general assembly to vote on the deal in around four months (the projected time to obtain regulatory approval).
- This deal falls in line with Savola's strategy of buying out minority shareholders, as the company aims to drive growth by focusing on core operations.
- On 22 August 2010, Suleiman Bin Abdul Kadir Al-Muhaidib was named Chairman of the Savola's Board of Directors replacing Adel Bin Mohammad Fakhri—who was recently appointed as a minister in the Saudi Arabian government.
- This deal does not have any material impact on our per share valuation for Savola, as our fair value remains at SAR 41 per share post the deal on a fully diluted basis. This is 26% over Savola's closing price as of 24 August 2010; hence, our current recommendation for the stock is a "Buy."

Samir Murad, CFA

T. +965 259 5145

E. samir.murad@nbkcapital.com

Related Research

- Savola Analyst Comment - 21 July 2010
- 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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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 (Int'l.) 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 (Int'l.) 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