

July 22, 2012

SAVOLA (2050.SE)

12-Month Fair Value: SAR 34.70

Recommendation: Hold

Last Close (21 July 2012): SAR 35.10

- Savola reported preliminary financial results for 2Q2012 that were better than our forecasts. The company achieved a top line of SAR 6.99 billion in 2Q2012, 10.7% over the same period last year, and 1.5% higher than our forecast. The company attributed the top-line growth to improved market share in the retail sector.
- Savola reported an operating profit of SAR 603.8 million in 2Q2012, an outstanding growth of 42.6% over 2Q2011 and 23.5% higher than our forecast. Accordingly, the EBIT margin jumped year-on-year (YoY), from 6.7% in 2Q2011 to 8.6% in 2Q2012. Although we were expecting an enhancement in the operating profit margin in 2Q2012, we did not expect such a significant jump. We believe the improvement came as a result of: 1) lower input costs due to easing commodity prices for the most part of 1H2012, 2) improved efficiency in the edible oil divisions in emerging economies, and 3) increased utilization of Panda's retail stores.
- Consequently, net income (before capital gains) grew by an exceptional 48% YoY to reach SAR 341.3 million in 2Q2012. The impressive growth came 10% above Savola's management net income guidance of SAR 310 million for 2Q2012. This pushed Savola's net income margin up to 4.9% in 2Q2012 compared to 3.7% in 2Q2011.
- Savola announced a dividend of SAR 0.30 per share for 2Q2012, which is higher than the usual quarterly payment of SAR 0.25 per share. This makes 2Q2012 the second consecutive quarter in which there was an increase in the dividend per share. We see this as an indication of a higher overall dividend payment for FY2012. If this level of dividend per share is maintained for the remainder of the year, it will translate into a dividend yield of 3.4% for FY2012.
- Overall, we view the company's results positively considering Savola's exposure to some markets that have been operating in a challenging environment. However, we remain cautious over the recent spike in some of Savola's key input costs, namely corn prices (a 35.7% increase YTD). If corn prices remain elevated, we believe this could impact the company's profitability towards the end of 2012, or beginning of 2013. Savola did not change its net income guidance of SAR 2.1 billion for FY2012, and is guiding for a net income of SAR 340 million for 3Q2012. We maintain our fair value of SAR 34.70 per share. As a result, our recommendation on the stock remains "Hold."

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Related Research

- Analyst Comment - 18 April 2012
- Savola Update - 19 March 2012

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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