



US\$14.17bn Market cap
40% Free float
US\$7.09mn Avg. daily volume

Target price 193.6 *22.8% over current*
Consensus price 161.7 *1% over current*
Current price 160.0 *as at 19/10/2014*

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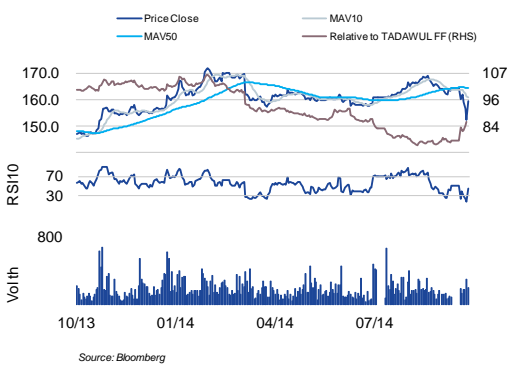
Existing rating

Underweight **Neutral** **Overweight**

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

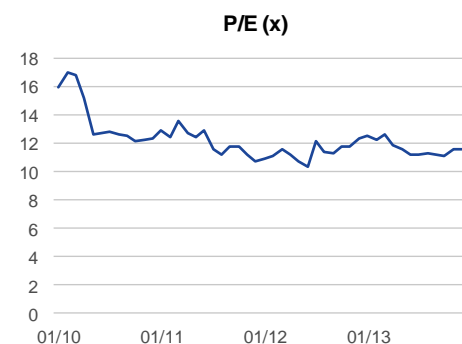


Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	4,980	4,240	4,238	5,315
Revenue Growth	-1.4%	-14.9%	-0.1%	25.4%
EBITDA (mn)	3,869	4,240	3,151	3,988
EBITDA Growth	-3.0%	9.6%	-25.7%	26.6%
EPS	12.37	13.54	9.00	11.27
EPS Growth	0.4%	9.4%	-33.5%	25.2%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

SAFCO
Robust Q3 earnings

SAFCO reported surprisingly robust numbers for Q3 as its net profit soared 24.4% y-o-y to SAR913mn, topping our and consensus estimates by a wide margin. Gross and operating profits, too, were ahead of our expectations. We had expected SAFCO to operate at near-optimal utilization rates in the wake of the agriculture season in Asia; however, we believe the company may have operated at higher-than-anticipated utilization rates or off-loaded the inventory, which resulted in the beat. We will analyze the results once the detailed financials are released. For now, we continue to remain Overweight on SAFCO with a target price of SAR193.6 a share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Top-line number yet to be released:** SAFCO is yet to publish its Q3 revenues. Given the robust performance, we expect SAFCO to post a stronger top-line (our estimate: SAR1,108mn; consensus: SAR1,137mn).
- Profits ahead of our estimates:** SAFCO reported an operating profit of SAR866mn (up 28.1% y-o-y) beating our forecast of SAR718.2mn (consensus: SAR714mn). SAFCO's operating profit surged sharply despite urea prices inching up by a modest 6% y-o-y, indicating it might have operated at considerably higher utilization rates. The net profit came in at SAR913mn, ahead of our and consensus forecast of SAR772.9mn and SAR773.4mn respectively.
- Valuation and conclusion:** SAFCO has been witnessing earnings volatility over the past few quarters on account of volatile ammonia and urea prices. Moreover, the lower export tax on Chinese urea exports was expected to further exert downward pressure on the urea prices. However, the recent firming of urea prices is a positive sign for SAFCO indicating that the fertilizer market is yet to see the supply glut. Further, the expected commencement of SAFCO-V in early 2015 is expected to bolster the company's earnings. We continue with our Overweight rating on the stock with a target price of SAR193.6 a share.

Figure 1 SAFCO: summary of Q3 2014 results

(SAR mn)	Q3 2013	Q2 2014	Q3 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	1,072	936	1,426	33.1%	52.4%	1,108
Gross profit	695.0	602.0	890.0	28.1%	47.8%	753.7
Gross profit margin (%)	64.8%	64.3%	62.4%			68.0%
Operating profit	676.0	579.0	866.0	28.1%	49.6%	731.5
Net profit	734.0	639.0	913.0	24.4%	42.9%	773.0

Source: Company data, Al Rajhi Capital



Disclaimer and additional disclosures for Equity Research

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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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