Audi Saradar Investment Bank sal

EQUITY RESEARCH

ENTITY OF AUDI SARADAR GROUP

CURRENT PRICE	SAR 33.4
FAIR VALUE	SAR 38.2
RATING	ACCUMULATE

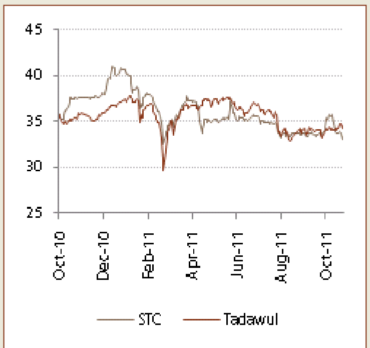
SAUDI TELECOM COMPANY

HIGHLIGHTS

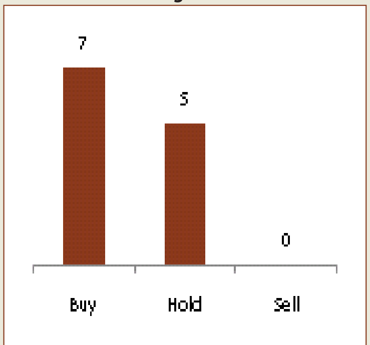
Stock Data	
Ticker	STC AB
Upside Potential	14.4%
Bloomberg Median Target Price (SAR)	41.9
Market Cap (SAR mn)	66,800
Market Cap (USD mn)	17,813
Number of Shares (mn)	2,000
Average Monthly Liquidity (SAR mn)	764
52 week Low (SAR)	33.0
52 week High (SAR)	44.2

Ownership Structure	
Saudi Government	70.0%
General Organization for Insurance	7.0%
Public Pension	6.6%
Free Float	16.4%

STC Stock Performance



Bloomberg Consensus



COMPANY COVERAGE

Kristle-Jo Sreik
Equity Analyst
Kristle-Jo.Sreik@asib.com

Youssef Nizam, CFA
Head of Equity Research
Youssef.Nizam@asib.com

ACQUISITION MODE: SYNERGIES NOT REALIZED YET

A GROWING INT'L PORTFOLIO AMID DOMESTIC RECOVERY

Revenue growth continues to take its toll in all of STC's holdings, with apparent growth in the domestic unit by 4% in 9M 2011 which restores confidence to the group given its 67% contribution. We foresee modest revenue growth for the coming years mainly driven by its attractive bundled packages. STC's international portfolio is bound to grow by 12% by year end; and is forecasted to account for 37% of total consolidated revenues by 2014. We highlight Turk Telekom's better-than-expected consolidated top line growth in 9M 2011 which contributes over half of STC's overseas portfolio; driven by a 3.9% q-o-q improvement in AVEA's blended ARPU. We also credit Maxis for mitigating its weakening position in the market through signing an agreement with U Mobile to share Maxis' 3G radio access networks translating into higher revenues for the company.

MORE M&A NEEDED TO SUPPORT 50% OF OVERSEAS REVENUES BY 2014

STC's management revealed its intention of undertaking major acquisitions in the Middle East next year seizing some attractive opportunities. Given that we expect the current foreign operations to deliver ~37% of total 2014 revenues; inevitably there is a substantial need for further acquisitions to arrive at management's 50% threshold. The impending deals on the table are 2 green-field operations in Syria and Iraq. We suppose that expanding regionally would realize more synergies for STC, however, we shed the light on the mounting competitive landscape in Iraq and the further overhang in Syria.

INTEGRAL COST-CUTTING INITIATIVES

STC is no longer focusing on revenue generation strategies solely, but is looking into maintaining a viable cost-reduction program through different initiatives. Initially, STC outsourced their call center and formed a joint venture with Aegis in an attempt to reduce the workforce by around 20%. Subsequently, STC and Mobily started talks of infrastructure pooling to moderate the CAPEX program in its home market. In addition to the early retirement program which should gain traction in the short to medium term. We illustrate that most of the initiatives are of long-term nature and their tangible impact on margins materialize 3 years after execution.

VALUATION & RISKS

We initiate our coverage with an accumulate rating; and a target price of SAR 38.2 offering an upside potential of 14.4%. STC trades at a 2011e and 2012e PE multiple of 8.8x and 8.3x respectively, slightly under the 8.5x PE MENA telecom average of 2012. Besides, it offers an attractive dividend yield of 6.0% just in line with the MENA telecom average. Downside risks include the elevated foreign exchange volatility arising from the foreign borrowings of STC's subsidiaries (namely Turk Telekom), the volatile capital structure subsequent to the awaited M&A wave, and the inherent risk of the M&A activity; realizing synergies or not.

FINANCIAL DATA

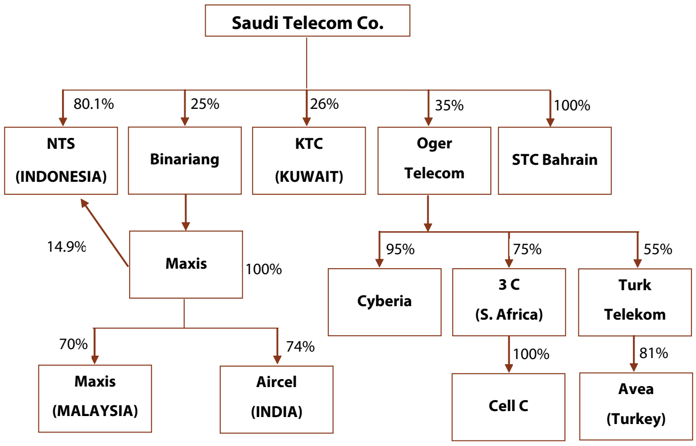
	2010	2011e	2012e	2013e
Revenues (in millions of SAR)	51,786	55,113	57,792	59,640
EBITDA (in millions of SAR)	19,620	20,364	21,036	21,709
EBITDA Margin (%)	37.89%	36.95%	36.40%	36.40%
Net Income (in millions of SAR)	9,436	7,576	8,058	8,472
EPS (in SAR)	4.72	3.79	4.03	4.24
P/E (x)	7.1	8.8	8.3	7.9
DPS (in SAR)	3.00	2.00	2.50	3.00
Dividend Yield (%)	9.0%	6.0%	7.5%	9.0%

INVESTMENT RATIONALE

A GROWING INT'L PORTFOLIO AMID DOMESTIC RECOVERY

Revenue growth continues to take its toll in all of STC's holdings, with secular performance in the foreign SME subsidiaries. Nevertheless, our analysis will focus on selected contributors.

Chart 1: STC's holdings



Source: Company Reports

Chart 2: Revenue Composition 9M 2011

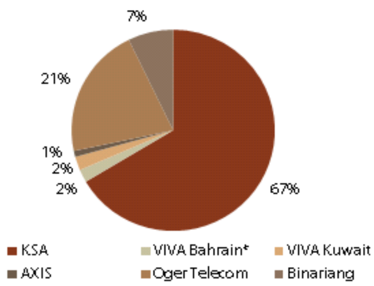
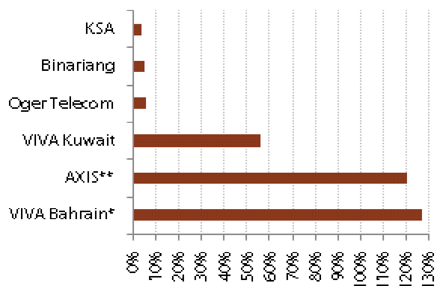


Chart 3: Revenues Y-o-Y Growth 9M 2011



**includes Gulf Digital Media Holding Bahrain*
***growth adjusted according to full consolidation method*
Source: Company Reports

Saudi Arabia

Moderate top-line growth driven by bundled packages

Focusing on the company's core asset that is KSA, we believe that the organic growth rate of 4% achieved during the first 9 months of the year restores confidence to the group given its 67% contribution. Yet, we remain skeptical regarding the sustainability of the group's EBITDA margin due to the witnessed reduction in domestic margins which we expect at 45% by year end, losing as much as 5 percentage points since 2008. We foresee modest revenue growth for the coming years mainly driven by its attractive bundled packages, yet at a relatively minor scale.

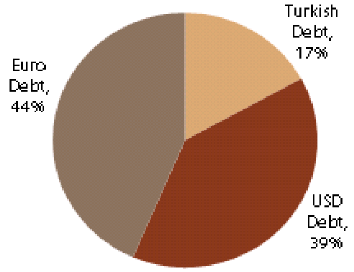
Turk Telekom & AVEA

Revenues beat yet overshadowed by high F/X losses impacting bottom line

Turk Telekom posted better-than-expected consolidated top line growth in Q3 2011 boosting management full year guidance towards a revenue growth between 9-10% for 2011 (previous guidance 5-7%), which we believe is feasible. We forecast the unit's contribution at 18% of total 2011 consolidated revenues and over half of that of the overseas. Consistently, EBITDA margins stabilized between Q2 and Q3 2011 at 42.3%, and we forecast it marking 43% by the end of the year. AVEA (the mobile arm of Turk Telekom) succeeded in mildly improving its blended ARPU by 3.9% q-o-q owing that to the increase in data usage, incoming traffic and roaming revenues; a good indicator for accretive cash flows feeding into STC's consolidated figures.

Bottom-line earnings deteriorated 52%; borne by the depreciation of the Turkish lira by 12.78% and 5.47% vs. the USD and Euro in Q3 2011 respectively. Aside from consolidating lower values, STC tolerated additional FX losses attributable to Turk Telekom's foreign borrowing practices.

Chart 4: Debt Profile of Turk Telekom as of Q3 2011



Source: Company Reports

Cell-C

Cell-C's 2010 released statements revealed satisfactory growth with revenues in local currency improving 5%, amid an unchanged EBITDA although management admitted a 6% y-o-y increase in blended ARPU. Simultaneously, the company remains a highly indebted one with a total debt of 8 billion Rand as of the end of 2010 translating into a debt/EBITDA ratio of 5.7x. The CEO had announced during August 2011 that Cell C should become profitable "quite soon", however we don't foresee that reversal unless the company secures a higher EBITDA margin which is currently capped at 15%. We assume 6% annual growth rate for 2011 and an unchanged EBITDA margin.

Tower sale to realize cash value and decrease OPEX

Management reported 63% HSPA+ population coverage, and expects very high demand for mobile broadband services in South Africa. In anticipation of that, it is planning to increase its capacity on its network by adding 42Mbps capable sites. However, with MTN and Vodacom growing their broadband capacity and occupying roughly 18.5 million data subscribers, we tone down Cell-C's ability of capturing a good market share in that area. Besides, Cell-C's leverage creates a shortfall with regards to its capability of boosting its CAPEX program. However, the company ought to be credited for divesting 3,200 of its towers to American Tower Corporation for $430 million. American Tower will buy 1,400 sites and up to 1,800 additional ones that will be built in the next 2 to 3 years. The transaction will realize cash value for Cell-C and thus shrink its OPEX.

Maxis – Malaysian unit

Weakening mitigated by sharing operating frequency spectrum

Maxis reported lesser revenues in the first half of 2011 compared to the same period in 2010, as a result of intense competition in the market. We expect a mild y-o-y retreat in Q3 top line figures as well; which haven't been officially released by Maxis yet. To mitigate the potential weakening in EBITDA margins, the company signed an agreement with U Mobile to share Maxis' 3G radio access networks (RAN) for an initial period of 10 years. The contract also encompasses LTE sharing upon rolling out the technology. The CEO of Maxis said that greater cost savings will be achieved translating into increased revenue for both companies. Maxis is expected to account for ~5% of the total group revenue in 2011, and to approach 4% going forward until 2014.

AXIS

AXIS's entrance to the Indonesian mobile market triggered a wave of price reductions driving down ARPUs, which in return mounted up its subscriber base to 15 million in a relatively short period of time. Then again, high-churn rates estimated at least at 15% are an alarming matter but hugely led by the low-priced starter packs. Generally, the mobile industry growth has normalized due to the crowded competitive landscape, yet the ~2% broadband penetration rate is obviously the industry's catalyst.

Possible adverse regulatory changes

On the regulatory front, the industry awaits two major alterations:

- Lowering the basic interconnection rate: According to an article posted in Indonesia Finance Today, the government will lower basic interconnection tariffs for fixed wireless services this year below the current Rp 144 ($0.016) per minute tariff.
- Bandwidth-based frequency fee instead of BTS-based fee: Under the new regulation, operators will be charged frequency cost based on bandwidth. Therefore, large operators with higher number of BTS will benefit the most as they will be paying lower fees to the government.

AXIS's market share estimated below 6%; conveys a relatively minute national coverage; hence it needs to optimize its frequency usage. The unit is expected to account for 3.3% of STC's consolidated 2011 foreign revenues and 4.7% by 2014. Whilst advocating; AXIS's current share of total consolidated revenues is quite diluted at ~1%.

Consolidated Figures

On a consolidated basis, we foresee overseas revenues at 37% of the total top-line figure by 2014, and we assume improvement in domestic operations yet at a minor scale.

Chart 5: Revenue Composition

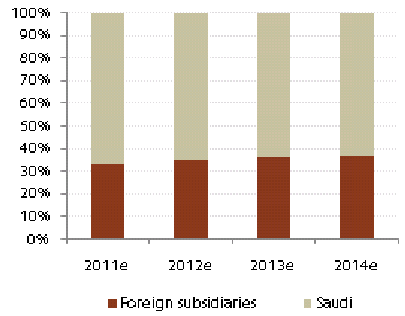
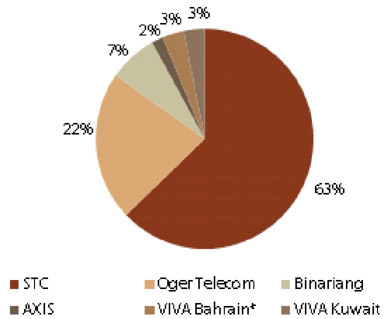


Chart 6: Revenue Breakdown 2014e



**includes Gulf Digital Media Holding Bahrain*
Source: ASIB estimates

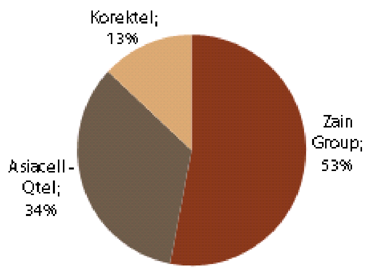
MORE M&A NEEDED TO SUPPORT 50% OF OVERSEAS REVENUES IN 2014

STC's management revealed its intention of undertaking major acquisitions in the Middle East next year seizing some attractive opportunities. The head of international operations Mr. Ghassan Hasbani was quoted by Reuters on November 5, 2011 saying: *"I see 2012 as a year of potential acquisitions, we are now in more acquisitions mode than before...Given market conditions and the global economic situation, it is a buyer 's market, no doubt."* Given that we expect foreign operations to deliver ~37% of total 2014 revenues; inevitably there is a substantial need for further acquisitions to arrive at management's 50% threshold. The strategy will predominantly focus on acquisitions or new licenses in the MENA region and then moving on to Asia. The impending deals on STC's agenda are the Syrian and Iraqi licenses, with the possibility of increasing their stake in the current holdings.

Iraqi license: Increasing competitive dynamics and adverse regulatory changes

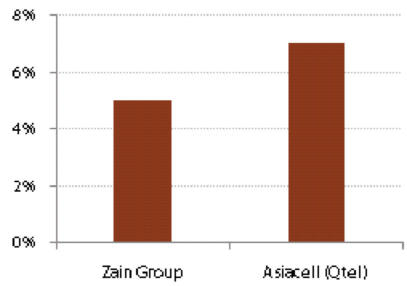
In early 2010, the Iraqi government revealed its intention of awarding a 4th mobile license in order to stimulate the market's liberalization. Recent reports assured that the auction is expected to materialize early 2012. Iraq's mobile competitive scene has mounted with penetration rates around 80%. This seems as an appealing country to operate within; albeit muted by single-digit customer growth.

Chart 7: Market Shares in Iraq



Source: Company reports, ASIB estimates

Chart 8: Subscriber Growth in H1 2011



Source: Company reports, ASIB estimates

On the regulatory front, the Iraqi government imposed strict measures on the operators propelling them to disburse their full license fees although they were formerly stipulated to install them over a 5-year period. Furthermore, the companies were penalized for missing their public offerings on the Iraq Stock Exchange which is part of their license contract.

Syrian license: Further overhang

The intact Syrian mobile market is governed by a duopoly between Syriatel and MTN Group. Both companies exhibited flat or even declining revenues in the first half of 2011 owed to the political unrest impacting consumer behavior. A 3rd entrant to the Syrian territory will trigger profound changes given that 1) mobile penetration rates are < 50%, and 2) data revenues are posting very high double-digit growth like MTN's 44.8% achieved in H1 2011.

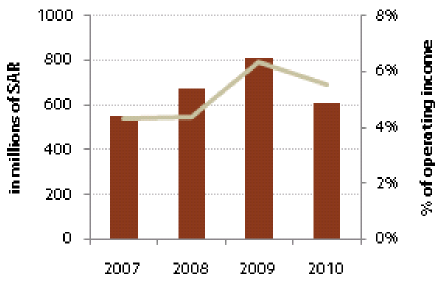
Given the recent developments in Syria, we believe that the auction for the 3rd mobile license will be put on hold for a while.

The MENA mobile industry has been an interest to some international players, with the latest being France Telecom that aims to expand its presence in emerging markets. We suppose that expanding regionally would realize more synergies for STC, however launching two simultaneous green-field operations would heavily weigh down on STC's bottom-line and threatens the company's ability to achieve 50% of foreign revenues by 2014.

INTEGRAL COST-CUTTING INITIATIVES

STC is no longer focusing on revenue generation strategies solely, but is looking into maintaining a viable cost-reduction program through different initiatives. Initially, STC outsourced their call center and formed a joint venture with Aegis in an attempt to reduce the workforce by around 20%. Subsequently, STC and Mobily started talks of infrastructure pooling to moderate the CAPEX program in its home market. Also the company has taken "employee reduction measures" such as the early retirement program which should gain traction in the short to medium term.

Chart 9: Early retirement program

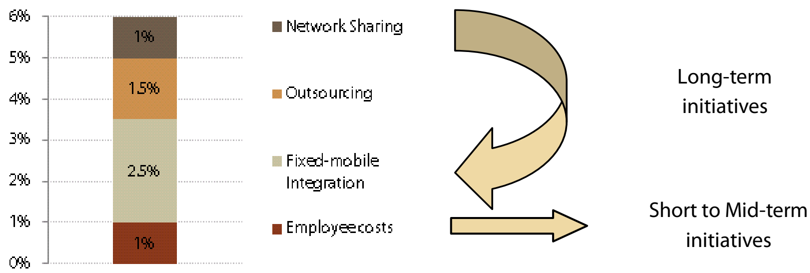


Source: Company reports

There is no company guidance on the early retirement program scheme going forward, however we believe that the costs are to subdue in the medium term. The financial benefits and operational efficiencies of these initiatives are challenging to quantify. Nevertheless, according to Booz&co. the outsourcer can expect to derive efficiency gains of at least 10% to 15%, and as much as 15% to 20% due to economies of scale.

Booz&co. also flagged the ability of incumbent operators to integrate fixed and mobile technology when migrating into next-generation networks and thus capturing synergies. Typically, this generates the most savings; leading to EBITDA improvement of 7% to 11%. Additionally, STC can realize synergies in areas such as product development, that has been ratified through their latest "Xband Jood Premium" bundle catering for the whole household needs for just SAR 346/month which gained momentum in KSA.

Chart 10: Best Impact of Cost Optimization Measures on EBIT Margin (Impact 3 years into execution)



Source: Booz & Co.

However, we did not integrate any of the above potential savings awaiting their preliminary realization. Such initiatives will offer significant opportunities for further upside revisions in the medium to long-term investment horizon.

INVESTMENT CONCLUSION

On the domestic front, STC's operations were negatively impacted from the entrance of two competitors; however the positive performance of 2011 ascertains its stabilization and preserves its market share. On the other hand, since 2007 STC has started its expansions with around $6.0billion of foreign investments. STC's consolidated revenues recorded SAR34,458 million in 2007 and are expected to reach SAR 55,113 million in 2011. However, the real synergies of these expansions are yet to be realized.

Further expansions are still in the pipeline. However, given the absence of further details on such expansions, we will set our base-case scenario assuming the current status-quo of the firm. Accordingly, the growth assumptions and the dividend payout policies are being determined.

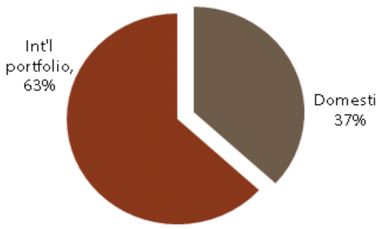
We initiate our coverage with an accumulate rating; and a target price of SAR 38.2 offering an upside potential of 14.4%. STC trades at a 2011e and 2012e PE multiple of 8.8x and 8.3x respectively, slightly under the 8.5x PE MENA telecom average of 2012. Besides, it offers an attractive dividend yield of 6.0% just in line with the MENA telecom average. In the event of new developments, we will revise our assumptions and hence our model.

INVESTMENT RISK

ELEVATED F/X RISK WITH MORE FOREIGN DEBT

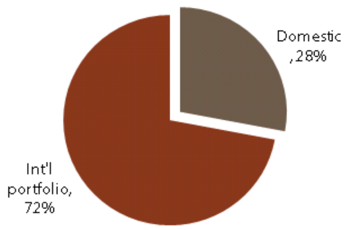
STC's massive expansion strategy inherently tilted its debt composition towards more borrowings at the subsidiaries' level. The uncertain direction of foreign currency exposure deems the company's earnings more volatile than its domestic peers that do not have overseas operations.

Chart 11: Debt Composition 9M 2010



Source: Company reports

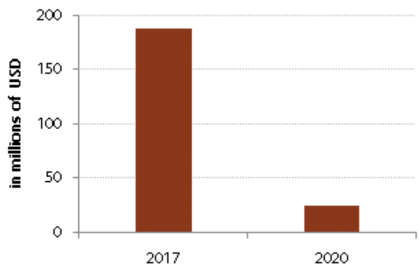
Chart 12: Debt Composition 9M 2011



Source: Company reports

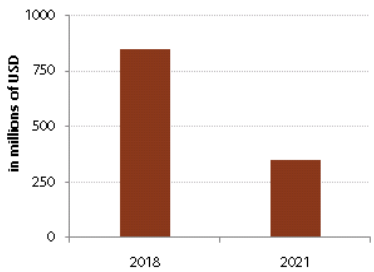
Foreign lending at the subsidiaries' level; and specifically in USD and Euros make STC susceptible to further foreign exchange risk. Below we exhibit some of STC's foreign debt portfolio.

Chart 13: Binariang Holding proportionate USD Loans



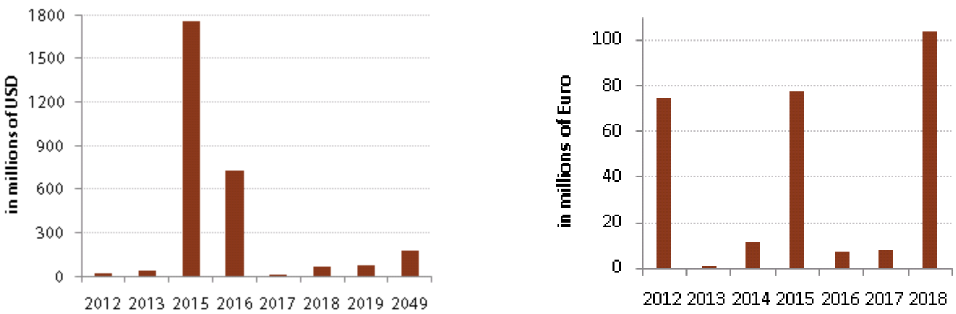
Source: Bloomberg

Chart 14: AXIS USD Loans



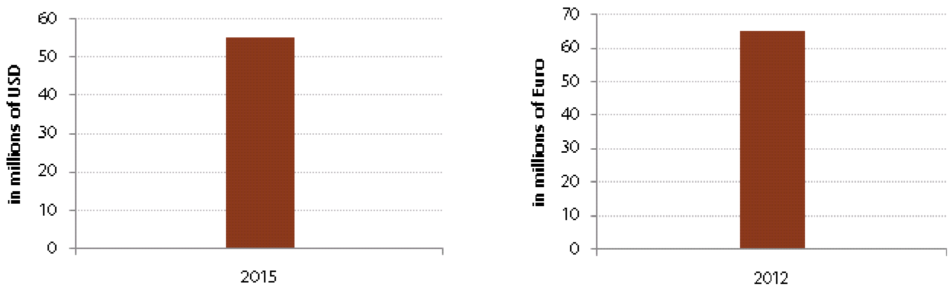
Source: Bloomberg

Chart 15: Oger Telecom Holding proportionate USD & Euro Loans



Source: Bloomberg

Chart 16: Cell C proportionate USD & Euro bonds



Source: Bloomberg

VOLATILE CAPITAL STRUCTURE SUBSEQUENT TO THE NEW M&A WAVE

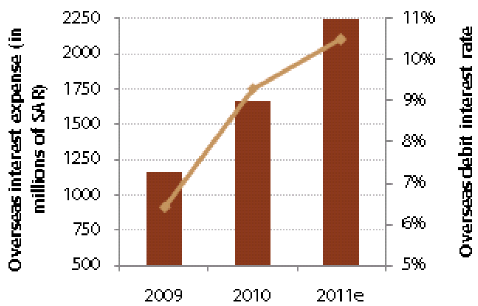
STC's continuous overseas expansion has led to an increase in its net debt to EBTIDA ratio from 0.36 to 1.23 between 2007 and 2010 respectively. This is one of our major concerns with the company as it will pursue further international expansion to realize 50% of foreign sales by 2014, and thus adhere to a more volatile capital structure. STC's management is confident of their ability to tap into debt markets and secure funding at good rates. A rights issue might be needed as well.

Albeit there could be a risk for its leverage to increase even more, this will utterly depend on the scale of the operation which is unpredictable. In our assumptions, we suppose that STC will maintain its current level of operations and that its debt will be reimbursed regularly over the years. Nonetheless, we will shed the light on some of the risks commensurate with the company's expansion strategy.

🗁 Debt servicing: Interest rate risk

STC's international borrowing rendered higher financing costs on its P&L. Between 2009 and 2010; overseas interest rates soared 288 basis points and are expected to scale up another 120 points by year end. We remain cautious on STC's debt to equity target mix which is inherently associated with the required expansion funding. Not to mention the interest rate risk on STC's entire portfolio due to uncertain future interest rate movements, especially as we head into 2013.

Chart 17: Overseas Interest Expense and Interest Rate



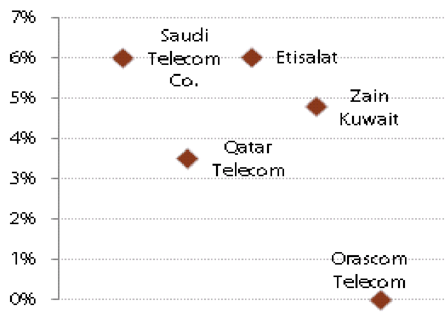
Source: Bloomberg, ASIB estimates

Uncertain dividend policy: Downside risk on upgrading dividend payout after acquisitions

STC was and remains one of the preferred dividend plays by Saudi retail investors. A 2011e dividend yield of 6% is just in line with the telecom MENA space. Going forward, we assume that the company will fulfill its SAR 2 payout for this year, and upgrade to a SAR 2.5 payout for 2012, equivalent to a 7.5% yield. However, we have assigned a 33% weight on the dividend discount model which simulates a progressive dividend payout given all the uncertainties surrounding STC's cash flow usage and particularly the timing and execution of its acquisitions. The scale of operations and the desired funding are the decisive parameters of the dividend policy, and we believe that if 2012 was the year of acquisitions, there is a high risk that the company might not upgrade its payout. Yet, we highlight management's capability of safeguarding the SAR 2 payout for the near future.

On a more selective basis, STC stands out with a relatively attractive dividend yield compared to its direct regional peers.

Chart 18: 2011e Dividend Yields



Source: Bloomberg, ASIB estimates

THE RISK OF NOT REALIZING POTENTIAL SYNERGIES

STC's management has been highly criticized about overpaying on their international portfolio. Yet, there is no doubt that the higher exposure to emerging markets, the higher the transaction multiples. In addition, in case of an overvalued target company; the risk of realizing potential synergies widens, and thus the company's fundamentals fall below market expectations.

Table 1: Transaction deals

Subsidiary	Investment (Bn of USD)
Oger Telecom	2.56
Binariang	3.10
Kuwait	0.9
Bahrain	0.23

Source: Company reports

The post-integration phase of the deals is accompanied by a large number of uncertainties which makes the company vulnerable to financial risks. Furthermore, STC's minority stake in its major holdings caused it to fall as a victim to the recent scandal arising out of the Aircel-Maxis deal. The Central Bureau of Investigation are currently conducting an inquiry into the transaction after former Aircel owner alleged that he was forced to sell the telecom company to the Maxis Group.

VALUATION

Our valuation is based on the following main assumptions:

1. We forecast that domestic competition will be rational, conveying relatively low positive growth in the coming years for the Saudi unit.
2. Continuous de-gearing.
3. Status quo level of operations; given that continued expansion would imply an increased leverage and this depends on the scale of the transaction which is largely unpredictable.
4. Progressive dividend payout.
5. Increase in interest rates expense starting 2013.
6. Forecasts are conducted in local currencies and translated to Saudi Riyals using the 3 year average of the respective currencies.

DIVIDEND DISCOUNT MODEL

Our 4-year forecasted dividend discount model generated an intrinsic fair value of SAR 34.03; based on: 1) Risk-free rate of 1.98%, 2) beta of 0.79, 3) expected market return of 14.38%, 4) required return on equity of 11.89%, 5) perpetual growth rate of 3.00%.

Table 2: Dividend Discount Model

	2011e	2012e	2013e	2014e
Net Income (in millions of SAR)	7,576	8,058	8,472	8,630
Earnings Per Share (in SAR)	3.79	4.03	4.24	4.31
Dividend Payout Ratio (%)	53%	62%	71%	81%
Dividends Per Share (in SAR)	2.00	2.50	3.00	3.50
Discount Factor	1.12	1.25	1.40	1.57
Present Value of DPS (in SAR)	1.79	2.00	2.14	2.23
Present Value of Terminal Value (in SAR)	25.87			
Fair Value/Share (in SAR)	**34.03**			

FREE CASH FLOW MODEL

Our 4-year forecasted free cash flow model implied an intrinsic fair value of SAR 42.21; based on a WACC of 10.56% and a perpetual growth rate of 1.00%.

Table 3: Free Cash Flow Model

(In mn of SAR unless otherwise stated)	2011e	2012e	2013e	2014e
Net Income	7,576	8,058	8,472	8,630
Non-Cash Charges	8,782	8,955	9,033	9,183
Interest Expense Net of Tax	2,128	1,917	1,946	1,968
Change in Working Capital	(417)	564	144	257
Capex	(8,000)	(8,958)	(9,363)	(9,449)
Free Cash Flow to the Firm	10,069	10,537	10,231	10,588
Discount Factor	1.11	1.22	1.35	1.49
Present Value of FCFF	9,107	8,620	7,570	7,085
Present Value of Terminal Value	74,819			
Intrinsic Value of the Firm	107,201			
Less: Net Debt (as of Q3 2011)	(22,788)			
Intrinsic Value of Equity	84,413			
Fair Value/Share (in SAR)	**42.21**			

PEER VALUATION

Using the peer-weighted average forward PE of 10.09, a fair value of SAR 38.22 was derived for STC based on our 2011 EPS estimate of SAR 3.79.

Table 4: Relative Valuation

Company Name	Country	PE 11
Saudi Telecom Co.	Kingdom of Saudi Arabia	8.82
Qatar Telecom	Qatar	9.56
Etisalat	United Arab Emirates	11.05
Zain Kuwait	Kuwait	10.93
	Average	**10.09**

FAIR VALUE

By allocating an equal-weighting scheme to the 3 valuation methods, we arrive at a fair value of SAR 38.2; an upside potential of 14.4% from the current market price.

COMPANY PROFILE

STC is an integrated telecommunication service provider present in KSA and 8 other countries. It was the only operator in Saudi Arabia until the monopoly was broken by mobile operator Etihad Etisalat in 2005. In September 2007, the company began expanding on an international scale by acquiring 25% of Malaysian-based Maxis Group. Maxis Group manages mobile operations in Malaysia, India, and Indonesia. STC also has a 35% stake in Oger Telecom which oversees the Turkish and South African subsidiaries. By 2008, it had acquired 26% of Kuwait Teleco-Company, and in January 2009 it acquired Bahrain's third mobile license for USD 230 million. Finally, STC had taken full control of Indonesia's PT Natrindo following an increase in its stake from 51% to 80.1%. The company plans to undertake further acquisitions in 2012 and particularly in the region.

SWOT ANALYSIS

STRENGTHS

- Fully integrated telecom company offering attractive bundled packages.
- Monopoly over fixed broadband market share.
- Governmental support of the Kingdom of Saudi Arabia.

WEAKNESSES

- Earnings volatility arising from the emerging market currency exposure.
- Volatile capital structure to follow the planned acquisitions.
- Unpredictable financial benefits arising from the cost-cutting initiatives.

OPPORTUNITIES

- Revenue diversification from the vast international portfolio.
- Possibility of increasing ownership stakes in its holdings namely Binariang Holding and Oger Telecom.
- Under-penetrated broadband market particularly in Indonesia and India.

THREATS

- Unforeseen weakness in the domestic operations.
- Low coherence within the group and hence lesser synergies.
- Reduction of the dividend payout.
- Overpaying on M&A due to 1) higher transaction multiples in the emerging markets, and 2) incorrectly assessing the post-integration phase of the acquisition.

FINANCIALS

Income Statement (SAR million)	2009	2010	2011e	2012e	2013e	2014e
Revenues	50,780	51,786	55,113	57,792	59,640	60,963
EBITDA	20,612	19,620	20,364	21,036	21,709	22,069
EBITDA Margin	40.59%	37.89%	36.95%	36.40%	36.40%	36.20%
EBIT	12,813	10,978	11,582	12,081	12,676	12,886
EBIT Margin	25.23%	21.20%	21.02%	20.90%	21.25%	21.14%
Net Profit	10,863	9,436	7,576	8,058	8,472	8,630
EPS	5.43	4.72	3.79	4.03	4.24	4.31
DPS	3.00	3.00	2.00	2.50	3.00	3.50

Balance Sheet (SAR million)	2009	2010	2011e	2012e	2013e	2014e
Cash and Cash Equivalents	7,710	6,051	11,669	13,137	13,813	13,866
Other Current Assets	12,190	12,653	13,922	14,598	15,363	15,871
Property, Plant, & Equipment (net)	52,737	55,127	55,566	56,789	58,341	59,828
Intangibles	29,222	31,837	30,616	29,395	28,174	26,953
Other Non-Current Assets	4,965	5,112	5,112	5,112	5,112	5,112
Total Assets	106,824	110,780	116,885	119,032	120,803	121,630
Dues to Banks	31,290	30,188	31,188	28,304	25,904	23,483
Other Liabilities	24,701	27,128	27,979	29,220	30,129	30,894
Minority Interests	8,798	8,468	9,145	9,877	10,667	11,521
Total Shareholders' Equity	42,035	44,996	48,572	51,630	54,102	55,732
Total Liabilities & Shareholders' Equity	106,824	110,780	116,885	119,032	120,803	121,630

Cash Flow (SAR million)	2009	2010	2011e	2012e	2013e	2014e
Net Income	10,863	9,436	7,576	8,058	8,472	8,630
Non-Cash Charges	7,799	8,642	8,782	8,955	9,033	9,183
Others	(1,459)	2,513	1,711	2,481	2,090	2,225
Capital Expenditures & Intangibles	(13,543)	(12,365)	(8,000)	(8,958)	(9,363)	(9,449)
Free Cash Flow to the Firm	3,661	8,226	10,069	10,537	10,231	10,588

Key Ratios	2009	2010	2011e	2012e	2013e	2014e
P/E (x)	6.1	7.1	8.8	8.3	7.9	7.7
Dividend Yield (%)	9.0%	9.0%	6.0%	7.5%	9.0%	10.5%
P/B (x)	1.6	1.5	1.4	1.3	1.2	1.2
Sales Growth (%)	7.0%	2.0%	6.4%	4.9%	3.2%	2.2%
EPS Growth (%)	-1.6%	-13.1%	-19.7%	6.4%	5.1%	1.9%
Payout Ratio (%)	55%	64%	53%	62%	71%	81%
Dividend Cover (x)	1.81	1.57	1.89	1.61	1.41	1.23
ROE (%)	25.8%	21.0%	15.6%	15.6%	15.7%	15.5%
ROA (%)	10.2%	8.5%	6.5%	6.8%	7.0%	7.1%
Capex/Sales (%)	31%	19%	15%	16%	16%	16%
Net Debt/EBITDA (x)	1.14	1.23	0.96	0.72	0.56	0.44
Total Debt/Equity (x)	0.62	0.56	0.54	0.46	0.40	0.35

FAIR VALUE DEFINITION

It is an unbiased estimate of the 12-month potential market price of the stock

RATING GUIDE

SELL	REDUCE	HOLD	ACCUMULATE	BUY
Downside -30%	-10%	+10%	+30%	Upside

BUY: Upside potential in share price is more than 30%

ACCUMULATE: Upside potential in share price is between 10 and 30%

HOLD: Upside or downside potential in share price less than 10%

REDUCE: Downside potential in share price is between 10 and 30%

SELL: Downside potential in share price is more than 30%

ISSUER

Audi Saradar Investment Bank

Audi Saradar Investment Bank SAL • Lebanese joint stock company with a registered capital of 10,000,000,000 Lebanese Pounds • Commercial Registrar in Beirut: 30812 • Holding number 33 on the Central Bank's Banks List.

Bank Audi Plaza • Bab Idriss • Beirut 2021 8102 Lebanon • P.O. Box 11-2560 • Beirut 1107 2808 • Lebanon. Phone: +961 1 964072 • Fax: +961 1 970403 • Email: contactus@asib.com

DISCLAIMER

This research document is disclosed to you on a confidential basis. Receipt and/or review of this research document constitute your agreement not to copy, modify, redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of the same by the Audi Saradar group or without the express written consent of Audi Saradar Investment Bank SAL.

This material is not intended for dissemination, distribution to, or use by, any person or entity in any country or jurisdiction which would subject Audi Saradar Investment Bank SAL or any entity within the Audi Saradar group, to any registration or licensing requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this material is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching any applicable legal or regulatory requirements.

Your attention is drawn to the fact that you should not access this material if the regulations of your country of citizenship and/or residency or any applicable regulations prohibit it. In any case, persons who are subject to any restrictions in any country, such as US persons are not permitted to access information contained herein.

Neither the information, nor any opinion expressed herein constitute an offer or an invitation, or a recommendation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. This research document provides general information only, is not intended to provide personal investment advice or recommendation and does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive it. Investors should seek financial, legal or tax advice regarding the appropriateness and suitability in investing in any securities, other investment or investment strategies discussed or forecasted in this document.

The information herein was obtained from various public sources believed in good faith to be reliable but we do not guarantee its accuracy nor completeness. Neither Audi Saradar Investment Bank SAL nor any entity within the Audi Saradar group represent that the information contained in this document is complete, accurate or free from any error and make no representations or warranties whatsoever as to the data, information and opinions provided herein.

This research document and any information, opinion, and prospect contained herein reflect a judgment at its original date of publication by Audi Saradar Investment Bank SAL and are subject to change without notice. Audi Saradar Investment Bank SAL and/or any entity within the Audi Saradar group may have issued, and may in the future issue, other research documents that are inconsistent with, and reach different conclusions from, the information and opinions presented in this research document. Those research documents reflect the different assumptions, views and analytical methods of the analysts who prepared them; Audi Saradar Investment Bank SAL and the Audi Saradar group are under no obligation to ensure that such other documents are brought to the attention of any recipient of this document.

Audi Saradar Investment Bank SAL, any entity within the Audi Saradar group, their officers and/or one or more of their affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments. Audi Saradar Investment Bank SAL and/or any entity within the Audi Saradar group may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this document. In addition, Audi Saradar Investment Bank SAL, any entity within the Audi Saradar group and/or any of their strategists, analysts and sales staff, may take a view that is inconsistent with that taken in this research report.

The price, value of and income from any of the securities or financial instruments mentioned in this document can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Any forecasts on the economy, stock market, bond market or the economic trends of the markets are not necessarily a guide to future returns. You should understand that statements regarding future prospects may not be realized. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future returns. As a result of the preceding, you may lose, as the case may be, the amount originally invested.

Audi Saradar Investment Bank SAL and any entity within the Audi Saradar group shall not be liable for any loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document nor for any decision or investment made on the basis of information contained herein."