الراجحي المالية
Al Rajhi Capital

Rating	NEUTRAL
Target price	SAR51.2 (-2.7% upside)
Current price	SAR52.6

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Key themes & implications

A lacklustre performance in Q2 led us to keeping the stock "under review" till the detailed financial statements had been released. After analyzing the financials, we believe the performance was more of a temporary occurrence unlikely to recur in the long run. However, Q3 could be another muted quarter.

Share information

Market cap (SAR/US$)	4.055bn / 1.081bn
52-week range	40.70 - 65.88
Daily avg volume (US$)	6.54mn
Shares outstanding	74.12mn
Free float (est)	56%

Performance	1M	3M	12M
Absolute	12.5%	-15.3%	17.9%
Relative to index	7.4%	-25.4%	-13.1%

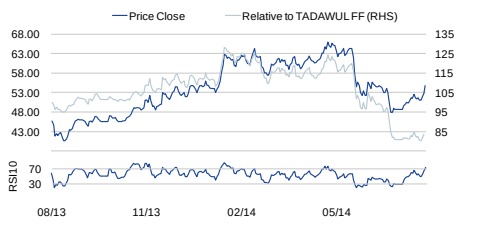
Major Shareholder:	
Arab Supply & Trading Co.	43.8%
Mohammad N. S. Al Otaibi	8.0%

Valuation

	12/12A	12/13A	12/14E	12/15E
P/E (x)	16.7	16.0	42.6	21.8
P/B (x)	2.2	2.1	2.2	2.0
EV/EBITDA (x)	20.0	21.2	31.7	16.3
Dividend Yield	3.2%	3.5%	1.6%	2.7%

Source: Company data, Al Rajhi Capital

Performance



Source: Bloomberg, Company data, Al Rajhi Capital

Company summary

Established in 1988, Astra is one of the industrial heavyweights in KSA with business operations in a diverse set of segments including pharmaceuticals, steel construction and mining across six of its subsidiaries.

Astra Industrial Group
Iraq situation to hit bottom line

The sharp decline in Astra's Q2 net profit came as a major surprise and prompted us to place the stock "under review" until the release of the detailed financial statements. While there were a number of reasons for the disappointing performance, the major reason for the miss was the higher costs associated with the commencement of operations at the company's Al Anmaa steel factory. The company's "other income", which has been majorly volatile over the past few quarters, was another drag on the bottom-line in Q2. We have revised our estimates taking into account the latest developments. In addition, we have also adjusted our cost of equity assumption, after the government's decision to allow foreigners to invest directly in the Saudi market. Based on our revised estimates and assumptions, we lower our target price slightly to SAR51.2 per share and maintain our Neutral rating.

Weak Q2 performance unlikely to recur: Astra reported a subdued set of results in Q2 2014, as all its profit lines missed our and consensus forecasts by wide margins. Net profit came in at just SAR3.1mn (-95% y-o-y, -95.1% q-o-q), one of the worst quarters for the company in recent times.

Higher operating costs dent margins: Astra reported a marginal 1.3% y-o-y increase in revenue to SAR453.3mn for Q2 2014. However, margins were dented considerably as cost of sales as well as general & administrative expenses increased sharply (as a percentage of sales). This was primarily because of commercial production start up at Al Tanmiah, as well as the scaling down of production at the factory, following the escalation of violence in Iraq. Further, a fire at the company's Al Anmaa steel factory resulted in a halt in production. However, these events seem to be temporary phenomenon, the latter of which has already been resolved. The company had stated that it would monitor events in Iraq and scale-up production accordingly. We do not expect the situation to get resolved this year.

Changes to our assumptions: The government's recent decision to allow foreigners to invest directly in the Saudi market will lead to increased interest in the market. We had earlier assumed a 1% additional risk premium for the Saudi market due to its limited access to foreign investors. However, with this development, we have reduced this risk premium by 50bps to 0.5% due to the improved integration with global markets.

Period End (SAR)	12/11A	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	1,382	1,496	1,772	1,851	2,231
Revenue Growth	23.3%	8.3%	18.4%	4.5%	20.5%
Gross profit margin	40.1%	41.3%	38.9%	35.2%	39.0%
EBITDA margin	15.6%	15.3%	12.6%	8.3%	13.4%
Net profit margin	18.0%	16.2%	14.3%	5.1%	8.3%
EPS	3.35	3.27	3.41	1.28	2.50
EPS Growth	-4.2%	-2.2%	4.3%	-62.4%	94.9%
ROE	14.3%	13.4%	13.5%	5.0%	9.6%
ROCE	9.1%	8.7%	7.7%	2.8%	8.2%
Capex/Sales	16.4%	10.1%	12.7%	8.0%	6.0%

Source: Company data, Al Rajhi Capital

Fall in steel demand to hit Q3: While operating costs escalated considerably due to commencement of production at the Al Tanmia steel plant, the top-line did not receive a corresponding boost due to a fall in demand for steel following political tensions in Iraq. On June 19, 2014, the company announced a scale down in production volumes due to declining sales volumes, while a fixed cost of SAR16mn per month would continue to be incurred. Given the current situation in Iraq, we do not expect steel output to improve this year. Consequently, the company could face a quarterly operating cost of nearly SAR50mn, which constitutes about 10% of its revenues. Overall, we anticipate another subdued Q3 performance with the Iraq situation likely to weigh on the bottom-line once again.

Conclusion and Valuation: Q2 2014 was a weak quarter for Astra which posted an operating loss for the first time in the past 6 years. The political situation in Iraq could be a major determinant in Astra's fortunes in the near future. Currently, we do not have clarity about the exact time-frame within which we can expect political concerns to ease. Given the company's performance in Q2 and the short-term headwinds it faces, we have revised our estimates on the company. Based on our new estimates and assumptions, we have reduced our target price to SAR51.2 per share and reiterate our Neutral rating.

Risks to our rating

Political situation in Iraq: The company's return to financial health depends heavily on the political situation in Iraq. If the situation resolves sooner than we anticipate(the next 6 months or so), we could witness a surge in demand within the steel segment resulting in higher revenues, while a delay in resolving the situation would have a counter-productive effect on the company's financial performance and our rating.

"Other income" volatile but significant: Astra's bottom-line has historically received a considerable lift from non-operating income. "Other income" contributed to nearly 20% of the company's earnings in Q2 2013 but entered negative territory in Q2 for the time first time since 2009. We believe the high level of contribution from "other income" to the company's profits and the volatility of the same pose a high risk for the company's financial performance.

Major Developments

Loan for expansion purposes

Astra Industrial Group announced on August 6, 2014 that it has signed a loan with the Saudi British Bank (SBB) to fund its capex plans. The loan value is SAR877.5mn and is for a duration of six years.

Dividend payout continues

Despite a net margin of just 0.7% in Q2 (13.8% in Q2 2013) and an operating cash outflow of SAR77mn, the company maintained its a dividend payout of SAR1.75 per share for the first half of 2014, amounting to a total of SAR129.7mn, unchanged from H1 2013. This was possible by virtue of a strong cash balance of about SAR140mn and raising debt of SAR224.1mn.

Income Statement (SARmn)	12/11A	12/12A	12/13A	12/14E	12/15E
Revenue	**1,382**	**1,496**	**1,772**	**1,851**	**2,231**
Cost of Goods Sold	(828)	(878)	(1,083)	(1,200)	(1,361)
Gross Profit	**554**	**618**	**689**	**651**	**870**
Government Charges	(14)	(10)	(29)	(13)	(13)
S.G. & A. Costs	(353)	(422)	(486)	(578)	(669)
Operating EBIT	**187**	**185**	**174**	**60**	**187**
Cash Operating Costs	(1,167)	(1,267)	(1,549)	(1,697)	(1,932)
EBITDA	215	229	223	154	299
Depreciation and Amortisation	(28)	(44)	(49)	(94)	(111)
Operating Profit	**187**	**185**	**174**	**60**	**187**
Net financing income/(costs)	(16)	(21)	(30)	(48)	(44)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses					
Net Profit Before Taxes	**232**	**214**	**211**	**31**	**190**
Taxes	-	-	-	-	(4)
Minority Interests	16	29	42	64	(1)
Net profit available to shareholders	**248**	**243**	**253**	**95**	**186**
Dividends	(130)	(130)	(142)	(65)	(111)
Transfer to Capital Reserve					

	12/11A	12/12A	12/13A	12/14E	12/15E
Adjusted Shares Out (mn)	74.12	74.12	74.12	74.12	74.12
CFPS (SAR)	3.512	3.475	3.512	1.684	4.022
EPS (SAR)	3.348	3.274	3.414	1.285	2.504
DPS (SAR)	1.750	1.750	1.912	0.876	1.502

Growth	12/11A	12/12A	12/13A	12/14E	12/15E
Revenue Growth	23.3%	8.3%	18.4%	4.5%	20.5%
Gross Profit Growth	14.3%	11.5%	11.4%	-5.4%	33.6%
EBITDA Growth		6.5%	-2.7%	-30.9%	93.9%
Operating Profit Growth	6.5%	-0.8%	-6.1%	-65.3%	210.7%
Net Profit Growth	-4.2%	-2.2%	4.3%	-62.4%	94.9%
EPS Growth	-4.2%	-2.2%	4.3%	-62.4%	94.9%

Margins	12/11A	12/12A	12/13A	12/14E	12/15E
Gross profit margin	40.1%	41.3%	38.9%	35.2%	39.0%
EBITDA margin	15.6%	15.3%	12.6%	8.3%	13.4%
Operating Margin	13.5%	12.4%	9.8%	3.3%	8.4%
Pretax profit margin	16.8%	14.3%	11.9%	1.7%	8.5%
Net profit margin	18.0%	16.2%	14.3%	5.1%	8.3%

Other Ratios	12/11A	12/12A	12/13A	12/14E	12/15E
ROCE	9.1%	8.7%	7.7%	2.8%	8.2%
ROIC	13.0%	10.3%	7.5%	2.3%	6.5%
ROE	14.3%	13.4%	13.5%	5.0%	9.6%
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	2.0%
Capex/Sales	16.4%	10.1%	12.7%	8.0%	6.0%
Dividend Payout Ratio	52.3%	53.4%	56.0%	68.2%	60.0%

Valuation Measures	12/11A	12/12A	12/13A	12/14E	12/15E
P/E (x)	16.3	16.7	16.0	42.6	21.8
P/CF (x)	15.6	15.7	15.6	32.5	13.6
P/B (x)	2.3	2.2	2.1	2.2	2.0
EV/Sales (x)	3.0	3.1	2.7	2.6	2.2
EV/EBITDA (x)	19.1	20.0	21.2	31.7	16.3
EV/EBIT (x)	22.0	24.7	27.2	80.9	26.1
EV/IC (x)	2.3	2.0	1.8	1.7	1.7
Dividend Yield	3.2%	3.2%	3.5%	1.6%	2.7%

Source: Company data, Al Rajhi Capital

Balance Sheet (SARmn)	12/11A	12/12A	12/13A	12/14E	12/15E
Cash and Cash Equivalents	578	536	197	61	224
Current Receivables	579	797	1,011	1,055	1,227
Inventories	552	836	781	1,092	1,116
Other current assets	132	229	284	284	284
Total Current Assets	**1,841**	**2,398**	**2,274**	**2,493**	**2,851**
Fixed Assets	1,072	1,179	1,329	1,384	1,407
Investments	2	2	2	2	2
Goodwill	44	44	44	44	44
Other Intangible Assets	3	4	2	1	1
Total Other Assets	-	-	-	-	-
Total Non-current Assets	**1,121**	**1,229**	**1,377**	**1,432**	**1,454**
Total Assets	**2,962**	**3,627**	**3,651**	**3,924**	**4,305**
Short Term Debt	545	1,029	945	1,095	1,245
Accounts Payable	104	172	150	204	257
Accrued Expenses	151	-	-	167	223
Dividends Payable	-	-	0	0	0
Other Current Liabilities	-	187	192	192	192
Total Current Liabilities	**845**	**1,432**	**1,321**	**1,691**	**1,951**
Long-Term Debt	-	-	-	-	-
Other LT Payables	225	289	374	374	374
Provisions	59	64	76	76	76
Total Non-current Liabilities	**284**	**353**	**450**	**450**	**450**
Minority interests	42	17	(30)	(94)	(93)
Paid-up share capital	741	741	741	741	741
Total Reserves	1,050	1,085	1,169	1,136	1,257
Total Shareholders' Equity	**1,791**	**1,826**	**1,911**	**1,877**	**1,998**
Total Equity	**1,833**	**1,842**	**1,881**	**1,783**	**1,905**
Total Liabilities & Shareholders' Equity	**2,962**	**3,627**	**3,651**	**3,924**	**4,305**

Ratios	12/11A	12/12A	12/13A	12/14E	12/15E
Net Debt (SARmn)	(33)	493	748	1,034	1,021
Net Debt/EBITDA (x)	(0.16)	2.15	3.35	6.71	3.42
Net Debt to Equity	-1.8%	26.8%	39.7%	58.0%	53.6%
EBITDA Interest Cover (x)	13.2	11.1	7.5	3.2	6.8
BVPS (SAR)	24.16	24.63	25.78	25.33	26.95

Cashflow Statement (SARmn)	12/11A	12/12A	12/13A	12/14E	12/15E
Net Income before Tax & Minority Interest	**232**	**214**	**211**	**31**	**190**
Depreciation & Amortisation	28	44	49	94	111
Decrease in Working Capital	(213)	(505)	(244)	(135)	(86)
Other Operating Cashflow	(316)	(11)	(42)	-	(4)
Cashflow from Operations	**(269)**	**(259)**	**(26)**	**(10)**	**212**
Capital Expenditure	(227)	(150)	(224)	(148)	(134)
New Investments	291	54	408	-	-
Others	(3)	(1)	-	-	-
Cashflow from investing activities	**61**	**(98)**	**183**	**(148)**	**(134)**
Net Operating Cashflow	**(208)**	**(357)**	**157**	**(158)**	**78**
Dividends paid to ordinary shareholders	(111)	(129)	(130)	(142)	(65)
Proceeds from issue of shares	-	-	-	-	-
Effects of Exchange Rates on Cash	(5)	(34)	(25)	-	-
Other Financing Cashflow	55	69	81	-	-
Cashflow from financing activities	**(154)**	**390**	**(163)**	**8**	**85**
Total cash generated	(362)	33	(6)	(150)	164
Cash at beginning of period	940	578	536	197	61
Implied cash at end of year	**578**	**611**	**530**	**48**	**224**

Ratios	12/11A	12/12A	12/13A	12/14E	12/15E
Capex/Sales	16.4%	10.1%	12.7%	8.0%	6.0%

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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