



# **GCC Food Industry**

**28 June, 2011**



**ALPEN  
CAPITAL**



ALPEN  
CAPITAL

---



***Alpen Capital was awarded the “Best Research House” at the Banker Middle East Industry Awards 2011***

## Table of Contents

<b>1.</b>	<b>REPORT HIGHLIGHTS .....</b>	<b>3</b>
1.1.	Scope of the report.....	3
1.2.	Executive Summary .....	3
1.3.	Industry outlook.....	3
1.4.	Investments positives / Key growth drivers .....	4
1.5.	Trends.....	4
1.6.	Challenges .....	4
<b>2.</b>	<b>GLOBAL MARKET ANALYSIS.....</b>	<b>5</b>
2.1.	Market Size .....	5
2.2.	Trends.....	5
<b>3.</b>	<b>GCC MARKET ANALYSIS.....</b>	<b>9</b>
3.1.	Methodology.....	9
3.2.	Industry Performance.....	9
3.3.	Supply-side factors.....	13
3.4.	Demand-side factors .....	16
<b>4.</b>	<b>CHALLENGES.....</b>	<b>19</b>
4.1.	Weak agriculture increases dependence on imports.....	19
4.2.	Upward price pressure .....	19
<b>5.</b>	<b>INDUSTRY TRENDS AND OPPORTUNITIES.....</b>	<b>21</b>
5.1.	Shift in consumption pattern.....	21
5.2.	Increasing demand for processed food .....	21
5.3.	Dependence on imports expected to continue .....	22
<b>6.</b>	<b>M&amp;A ACTIVITIES .....</b>	<b>23</b>
<b>7.</b>	<b>FINANCIAL PERFORMANCE AND VALUATION.....</b>	<b>25</b>
7.1.	Financial performance.....	25
7.2.	Valuation Analysis.....	32
	<b>COUNTRY PROFILES.....</b>	<b>37</b>
	<b>COMPANY PROFILES .....</b>	<b>50</b>

# 1. Report Highlights

## 1.1. Scope of the report

This report studies the GCC food sector with a focus on production, import and consumption volumes of key segments and their growth potential. It analyses the growth drivers, trends and future prospects for the sector. Additionally, it covers country profiles to gauge the market dynamics in each of the six countries and profiles major players by evaluating their performance against peers and the industry as a whole.

The food market can be broadly subdivided into the fresh/agricultural and processed food segments. The fresh food market consists of fruits and vegetables, marine products and grains, while the processed food segment comprises packaged food and beverages. Packaged food includes dairy, meat and poultry, bakery and cereals, canned food, chilled food, confectionery, dried food, frozen food, oils and fats, sauces, dressings and condiments, snacks and spreads. The report does not include the beverages segment.

## 1.2. Executive Summary

The GCC countries, with a total population of 40 million, are amongst the world's richest in terms of oil and gas reserves and per capita wealth. However, when it comes to food sufficiency, due to water shortage and lack of arable land, these countries need to import almost 90% of their food requirements. This backdrop makes the growth and outlook of the food sector a very important issue for the GCC countries.

Domestic production is insufficient to meet the current requirements and food imports in the GCC region stood at USD25.8 billion in 2010. High dependence on imports makes the GCC food supply very vulnerable and highly dependent on the world food market. In the past, any form of disruption in food imports, either due to policy restrictions by exporting countries or natural calamities has affected the region significantly. As a result, food security is an important issue for the region and the countries have taken initiatives to enhance domestic production and at the same time to secure food imports through international agricultural investments.

## 1.3. Industry outlook

The total population of the GCC region expanded at an annual average rate of 3.3% compared to the global average of 1.1% over 2000–10. According to the Economist Intelligence Unit (EIU), population in the GCC region is likely to increase further and cross the 50 million-mark by 2020 from the current level of 40.6 million. Food consumption per capita in the region is below the developed economies and is expected to grow at a relatively higher rate, catching up with the developed economies standards.

We estimate that due to population growth and increased per capita income, food consumption will reach 51.5 million tonnes by 2015, growing at a CAGR of 4.6% over the period 2011-15, while the food consumption per capita will increase at a CAGR of 2.1% over the period 2011-15. Meeting this increasing demand for food arising out of the growing consumption is both a challenge for the GCC governments and an opportunity for private sector players to expand with in the market.

The food sector in the GCC is highly consolidated with the three leading companies Almarai, Savola and Kuwait Food Company (Americana) contributing over three-quarters to total revenue of listed companies. All segments of the food sector, except livestock, are evidently monopolistic. At an average P/E of about 15.0x, GCC companies compare favorably at a moderate discount-to-P/E multiple of 16.0x for US companies and 16.9x for Asia-Pacific market. Considering EV/EBITDA metrics too, GCC companies at 9.6x is at

*With high dependence on imports, food security is a key concern for GCC countries*

*We forecast food consumption to expand at a CAGR of 4.6% during 2011-15*



discount with peers in Asia-Pacific and relatively at par to those in the US. Given this low valuation and considering the strong growth potential that the regional market poses, we believe food companies in GCC offer an attractive investment proposition for long-term investors.

#### **1.4. Investments positives / Key growth drivers**

- Strong GDP growth and increasing per capita income are expected to drive food consumption in the GCC countries. The region's GDP is expected to reach USD1.8 trillion in 2015 from USD1.1 trillion in 2010. The per capita income is likely to increase to USD38,100 from USD26,700 during this period.
- The GCC population is expected to expand from 40.6 million in 2010 to 45.6 million in 2015, contributing to the growth in food consumption.
- Per capita consumption in the region is low compared to that in developed economies and is expected to increase at a relatively higher rate.

*Rising income and rapidly expanding population are likely to continue to drive the per capita food consumption*

#### **1.5. Trends**

- In line with the global trend, the region is also going to see a changing consumption pattern - a shift to a protein-rich diet that includes meat and dairy products from a carbohydrate-based one that consists of staple food items such as cereals.
- Increasing urbanization, hectic lifestyles, growing popularity of large food retail formats and presence of multinational food companies in the GCC region are expected to increase the popularity of high-value processed foods among consumers, driving their consumption.
- While there is a growing awareness and drive about healthy living, obesity rates are high and diabetes is a concern for the region. As a consequence, demand for health food (also known as the functional food) which is high on energy and nutrition is expected to gain traction. This is likely to be a fast growing segment.

*Changing consumer lifestyles and food preferences are increasing demand for packaged foods*

#### **1.6. Challenges**

- The high dependence on imports for the region is going to continue and this makes the issue of food security critical for the region. The Governments need to undertake the necessary steps to secure imports for the growing population.
- Due to high dependence on imports, the region is also susceptible to external food price shocks. The increase in food prices in the past few years has put significant inflationary pressure on the GCC economies with consumer prices reaching double digits during 2008–09.
- During periods of high inflation, measures by the government to regulate the price of end products create challenges and reduce margins for local manufacturers as their raw material costs increase.

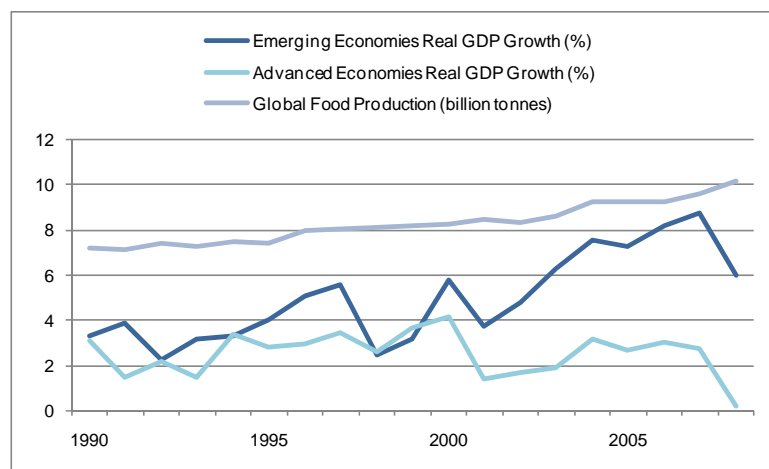
On an overall basis, our outlook for the sector is positive. While regional valuations are currently low and have been impacted by the recent economic and political crises, we believe that there is potential for them to trend upwards again. High dependence on imports, while posing a challenge for the economy, creates several opportunities for private sector companies to position themselves and take advantage of the growing demand.

## 2. Global Market Analysis

### 2.1. Market Size

The global food market was valued at USD4.2<sup>1</sup> trillion at the end of 2009—fresh food/agricultural produce accounted for 52.6% of the total value, while packaged foods contributed the rest. The sector expanded at a CAGR of 3.7% (by value) during the five-year period to 2009 from USD3.7 trillion in 2005. Rapid economic growth in the past decade along with an increase in population boosted global food consumption. A large part of this growth was driven by increasing prosperity in emerging markets, which have expanded faster than their counterparts in the developed world.

Exhibit 1: Global Real GDP Growth vs. Food Production



Source: IMF (International Monetary Fund), FAO (Food and Agriculture Organization)

**Global food production is not growing at a commensurate pace when compared to the global GDP growth**

Strong growth in per capita income and rapid urbanization are likely to drive growth in the global food market. Furthermore, the increasing number of nuclear families is likely to expand the share of processed or packaged food vis-à-vis traditional fresh products in the global food market. According to Datamonitor, the food market worldwide is expected to record a CAGR of 4.4% over 2009–14 and reach USD5.3 trillion by the end of 2014.

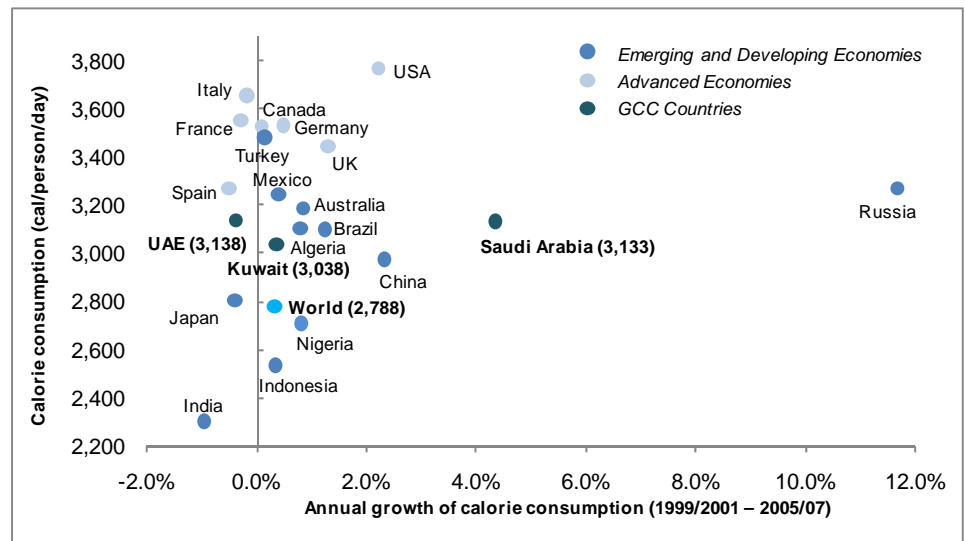
### 2.2. Trends

#### Despite steady growth, per capita consumption remains low in developing countries

Food consumption growth has been steady in developing and emerging economies. Also, the growth rate in these regions is relatively higher than developed markets. Per capita dietary energy consumption (expressed in terms of kcal per person per day and considered a measure of food intake) in major developing and emerging countries such as Brazil, China, India, Russia, Saudi Arabia and UAE grew 0.7% annually on an average between 1999/2001 and 2005/07. This is higher than the 0.4% growth in the US and 0.2% in the UK. However, the per capita consumption level continues to lag. On an average, per capita dietary energy consumption in Brazil, China, India and Russia stood at nearly 18–40%, lower than the US during 2005/07, while it was nearly 17% lower in both Saudi Arabia and the UAE.

<sup>1</sup>Datamonitor

**Exhibit 2: Per capita calorie consumption per day across the world**



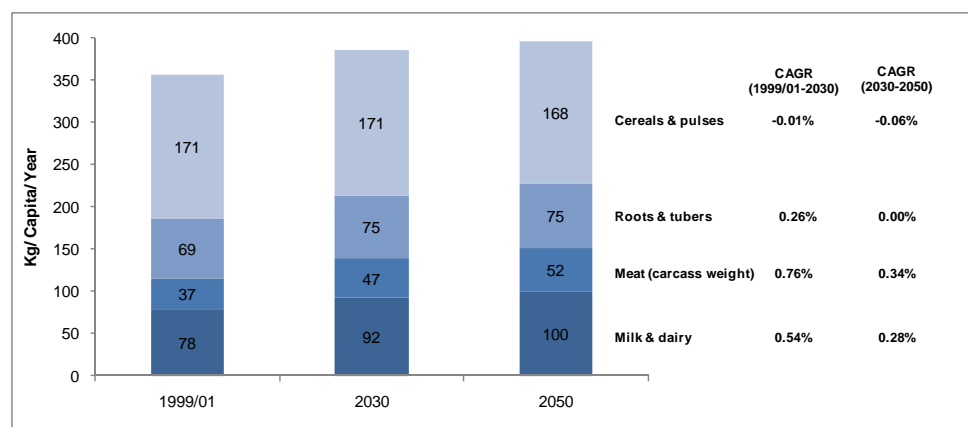
Source: FAOSTAT, 2007

**Consumption pattern shifting to protein-rich diet**

*As income of an economy grows, the diet would move towards protein based consumption*

Increasing proportion of affluent population and rapid urbanization have led to a shift in the dietary preferences of global consumers. Urbanization has emerged as a major factor influencing the global demand for livestock products (meat, dairy products and eggs). Urbanization stimulates improvement in infrastructure (including cold chains) which facilitates trade of perishable goods. Increasing migration from rural to urban areas, particularly in emerging economies, has led to a shift in preferences for food. Contrary to the less-diversified diets of rural communities, city dwellers favor a diet that is rich in animal proteins and fats. Thus, the food consumption pattern is steadily shifting from carbohydrate-based staple foods (such as cereals) to protein-rich diets such as meat and dairy products. This combined with growth in population is boosting the demand for livestock products.

**Exhibit 3: Global per capita food consumption**



Source: World Agriculture: towards 2030/2050, FAO

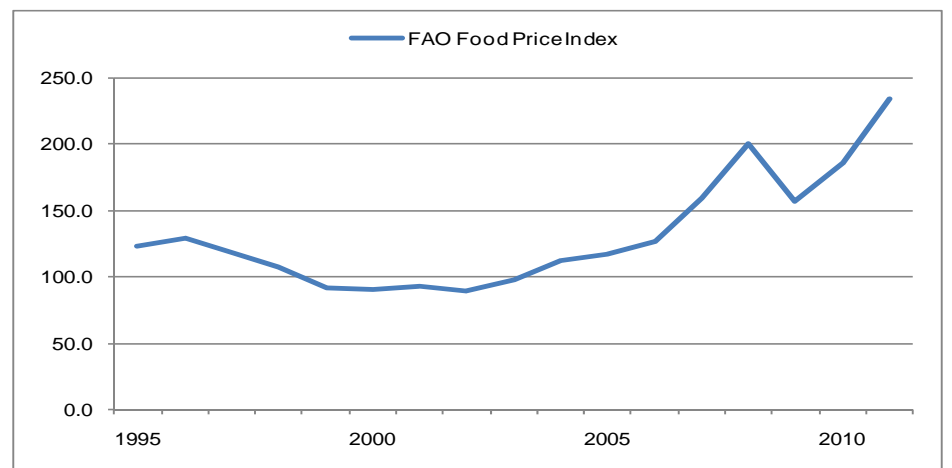
Developing economies are the key drivers of such protein rich diets. During the period 1980-2005, the per capita consumption of meat in developing countries increased at a CAGR of 3.2%, substantially higher than 0.3% and 1.3% in developed economies and

global average, respectively. A similar trend is observed in the per capita milk consumption; it increased at a CAGR of 1.6% in developing countries, higher than 0.2% and 0.3% in developed economies and global average, respectively. Population and disposable income growth in developing economies, which continues to be higher than the global and developed economies averages, are the two key underlying factors driving strong consumption of livestock products in the region.

### Rising food inflation

Since 2003, global food prices underwent a structural shift with prices of almost all agricultural commodities witnessing an upward trend. The Food and Agricultural Organization's (FAO) index comprising meat, dairy, cereals, oils and sugar prices, which fell from 123.2 in 1995 to 97.7 in 2003, increased to over 158.6 in 2007. The rise in food prices culminated into a food price shock during 2007-08. During 2006-08, the average price for rice rose 217% while that for wheat, maize and soybean increased 136%, 125% and 107%, respectively.

**Exhibit 4: FAO food price index (1995-2011)**



Source: FAO

*Food inflation is on the rise after falling in 2009*

Apart from rising consumption which caused a structural shift in food prices, some of the key contributing factors driving food prices include:

- Growing use of food crops in bio-fuels that is not only diverting grains (maize and rapeseed) from food but also taking the agricultural land away from food production
- Stagnation in agricultural productivity that is resulting in further tightening of the demand-supply situation
- Natural disasters such as droughts in Australia during 2007-09, torrential rains in the Indian sub-continent during 2010 and ban on grain exports by Russia in 2010

Rising food prices would have a negative impact on the overall food consumption, as it might shift the consumption patterns towards lesser priced food items like staples, away from high value food items like meat, fruits and milk.

### Increasing demand for halal food

The demand for halal food has been increasing significantly due to rising Muslim population worldwide. The global Muslim population currently stands at over 1.8 billion, with the majority following a halal diet. The world's halal food market was worth an

*Demand for halal food is set to increase with the growth of the global Muslim population*





*Increasing health concerns are driving the consumption of health/ functional food products like protein bars*

estimated USD640 billion in 2010, accounting for as much as 12% of the global food trade. The Muslim population across the globe is expected to grow considerably and account for 30% of the world's population by 2025 compared to 24% currently. Demand for halal food is thus likely to increase significantly, especially in the key markets like Indonesia, Algeria, Iraq, Morocco, Iran, Malaysia, Egypt, Turkey, Tunisia, Jordan, Lebanon, Yemen, and Syria apart from the GCC nations.

#### **Rising demand for health food**

There is increasing awareness about health food (also known as the functional food segment), which is high on energy and nutrition, in the global food market. Consumers are more inclined toward dairy products and cereals that offer inherent health benefits, ranging from anti-oxidants to pro-biotics. Protein bars and meal replacement shakes are the major products in the category. This range aims to promote wellness and longevity, and prevents chronic diseases apart from providing basic nutrition to the body. The largest markets for functional foods are the US and Asia-Pacific, which together account for nearly 75% of the total market.

## 3. GCC Market Analysis

### 3.1. Methodology

To assess the size of the industry, three important parameters have been considered: the consumption pattern; per capita income; and population. Our projections are based on the following:

- Population and per capita income estimates of the six GCC countries, as per International Monetary Fund (IMF).
- Historical food consumption data, updated until 2007, available from the Arab Agricultural Statistics Yearbooks.
- General shift in dietary pattern in the region from a carbohydrate-rich to one rich in proteins as well as high-value products.

We have developed forecasts for consumption across all food categories – meat, milk, cereals, vegetables, fruits and others<sup>2</sup> – for all GCC countries up to 2015. We have used rising per capita income as a parameter as it directly affects per capita food consumption, while an expanding population would inevitably mean higher consumption in terms of volume. The region's per capita food consumption is lower compared to that in developed economies. Thus, increasing per capita income is likely to boost food consumption during the forecast period.

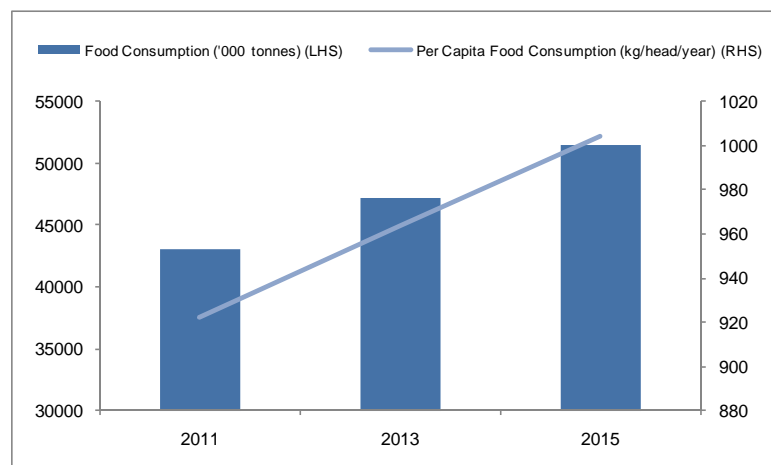
### 3.2. Industry Performance

We forecast the per capita food consumption in the region to expand at a CAGR of 2.1% over 2011-15 (as against an estimated CAGR of 0.9% over 2007-10), mainly due to rising incomes in the region. Overall food consumption too will grow at a faster pace than it did over the last three years, owing to the rising incomes as well as fast growing population in the region. It is expected to expand at a CAGR of 4.6% over 2011–15 to 51.5 million metric tonnes in 2015 (as against an estimated CAGR of 4.1% over 2007-10).

*Consumption pattern, per capita income and population were considered to assess the industry size*

*Food consumption in the region is expected to grow at a CAGR of 4.6% over 2011-2015*

Exhibit 5: GCC food consumption, per capita consumption



Source: FAO

<sup>2</sup> Others include potato, pulses, sugar, oil, fish and eggs



**Though all GCC countries will witness growth in food consumption, Saudi Arabia will remain the volume leader**

Food consumption across the region is expected to expand albeit at a varied rate. This is mainly due to variations in disposable income and population growth. Saudi Arabia would continue to play a key role in terms of volume, accounting for around 64% of GCC's total food consumption in 2015. Consumption in Qatar, Oman and the UAE is likely to grow at a relatively higher rate as population in these countries is expected to expand at 4.0%, 3.2% and 3.0%, respectively, on an average during 2011–15.

**Food consumption shares of Qatar, Oman and UAE are set to rise over 2011-15**

**Exhibit 6: Country wise food consumption share within GCC (%)**

Country	2011	2013	2015
Saudi Arabia	64.9%	64.5%	64.0%
UAE	18.3%	18.5%	18.9%
Qatar	3.6%	3.7%	3.9%
Oman	6.1%	6.2%	6.3%
Kuwait	5.5%	5.5%	5.4%
Bahrain	1.5%	1.5%	1.5%
<b>GCC Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Arab Agricultural Statistics Yearbook, Alpen Capital

In line with the changing global dietary trend, we expect the consumption of high-value and protein-rich products like meat, fruits, dairy and other food products (sugar, oil, fish/eggs) to grow at a higher rate compared to that of staples such as cereals. However, cereals would remain the leading segment, by volume. The consumption of milk & milk products is also likely to increase considering that the per capita consumption is low in the region compared to that in developed and most other developing countries.

**Exhibit 7: Consumption (%) of total food consumption at GCC level**

Segment	2011	2013	2015
Cereals	43.7%	42.7%	41.6%
Milk & milk products	14.9%	15.0%	15.0%
Vegetables	13.1%	13.2%	13.2%
Fruits	12.4%	12.6%	12.8%
Meat	5.6%	5.8%	6.0%
Others	10.3%	10.7%	11.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Arab Agricultural Statistics Yearbook, Alpen Capital

**Share of dairy products and meat is expected to increase, however cereals will continue to account for the majority of total food consumed**

Cereals are the largest food category in the GCC, accounting for 43.7% of total consumption. Saudi is the leading market for cereals, consuming over 50% of the overall food consumed. Milk & milk products form a major constituent of the diet in Kuwait, Qatar and Oman.

## Country level detailed forecasts

**Exhibit 8: Saudi Arabia food consumption ('000 tonnes)**

Category	2011	2013	2015	CAGR (2011-15)
Cereals	14,705	15,722	16,655	3.2%
Milk & Milk products	3,586	3,948	4,326	4.8%
Vegetables	3,393	3,720	4,060	4.6%
Fruits	2,911	3,216	3,514	4.8%
Meat	1,478	1,673	1,877	6.2%
Others	1,863	2,197	2,556	8.2%
<b>Total</b>	<b>27,936</b>	<b>30,476</b>	<b>32,988</b>	<b>4.2%</b>

Source: Alpen Capital

**Food consumption in Saudi Arabia is projected to grow at 4.2% over 2011-15**

Overall food consumption in **Saudi Arabia** is projected to grow at 4.2% during 2011–15. Cereals would remain the largest segment but is expected to grow at the slowest pace among all food categories. On the other hand, meat will record highest growth at (6.2%), followed by fruits and milk & milk products.

**Exhibit 9: UAE food consumption ('000 tonnes)**

Category	2011	2013	2015	CAGR (2011-15)
Cereals	1,983	2,136	2,292	3.7%
Milk & Milk products	1,151	1,287	1,428	5.5%
Vegetables	1,327	1,467	1,618	5.1%
Fruits	1,493	1,682	1,887	6.0%
Meat	344	390	439	6.3%
Others	1,570	1,790	2,048	6.9%
<b>Total</b>	<b>7,868</b>	<b>8,752</b>	<b>9,712</b>	<b>5.4%</b>

Source: Alpen Capital

**Food consumption in UAE is projected to grow at 5.4% over 2011-15**

Food consumption in the **UAE** is projected to grow at 5.4% during 2011–15. Meat (6.3%) and fruits (6.0%) segments are likely to register the highest growth; milk & milk products segment is estimated to grow at 5.5%. Cereals will remain the largest segment, closely followed by fruits. Other food items (including pulses, sugar, oil, fish, eggs and potato) are expected to register a strong growth of 6.9%.

**Exhibit 10: Qatar food consumption ('000 tonnes)**

Category	2011	2013	2015	CAGR (2011-15)
Cereals	463	515	568	5.2%
Milk & Milk products	460	514	572	5.6%
Vegetables	186	214	247	7.4%
Fruits	161	187	217	7.8%
Meat	120	140	163	8.0%
Others	174	201	232	7.5%
<b>Total</b>	<b>1,564</b>	<b>1,771</b>	<b>1,999</b>	<b>6.3%</b>

Source: Alpen Capital

**Food consumption in Qatar is projected to grow at 6.3% over 2011-15**

Food consumption in **Qatar** is projected to grow at 6.3% during 2011–15, the highest among GCC countries. Milk & milk products may overtake cereals to be the leading segment in the country. Meat, fruits and vegetables are expected to record a strong growth. Other food items including pulses, sugar, oil, fish, eggs and potato would also register a strong growth of 6.3%.

*Food consumption in Oman is projected to grow at 5.3% over 2011-15*

**Exhibit 11: Oman food consumption ('000 tonnes)**

Category	2011	2013	2015	CAGR (2011-15)
Cereals	722	783	842	3.9%
Milk & Milk products	582	616	649	2.8%
Vegetables	296	333	374	6.0%
Fruits	526	596	673	6.4%
Meat	140	164	193	8.4%
Others	382	445	520	8.0%
<b>Total</b>	<b>2,648</b>	<b>2,937</b>	<b>3,251</b>	<b>5.3%</b>

Source: Alpen Capital

Food consumption in **Oman** is projected to grow at 5.3% over 2011-2015. Cereals will remain the leading segment, while fruits, meat and vegetables are expected to register strong growth. Other food items which include pulses, sugar, oil, fish, eggs and potato would also register a strong growth of 8.0%.

*Food consumption in Kuwait is projected to grow at 4.1% over 2011-15*

**Exhibit 12: Kuwait food consumption ('000 tonnes)**

Category	2011	2013	2015	CAGR (2011-15)
Cereals	842	897	951	3.1%
Milk & Milk products	473	503	533	3.0%
Vegetables	352	385	419	4.5%
Fruits	138	155	173	5.8%
Meat	253	283	317	5.8%
Others	321	359	400	5.7%
<b>Total</b>	<b>2,379</b>	<b>2,582</b>	<b>2,793</b>	<b>4.1%</b>

Source: Alpen Capital

Food consumption in **Kuwait** is projected to grow at 4.1% over 2011–15. Cereals will remain the leading segment. Fruits, meat and vegetables are likely to register strong growth. Other food items which include pulses, sugar, oil, fish, eggs and potato are estimated to register a strong growth of 5.7%.

*Food consumption in Bahrain is projected to grow at 5.0% over 2011-15*

**Exhibit 13: Bahrain food consumption ('000 tonnes)**

Category	2011	2013	2015	CAGR (2011-15)
Cereals	90	95	99	2.4%
Milk & Milk products	184	194	204	2.6%
Vegetables	91	99	108	4.4%
Fruits	106	118	131	5.4%
Meat	77	86	95	5.4%
Others	113	124	136	4.7%
<b>Total</b>	<b>671</b>	<b>740</b>	<b>814</b>	<b>5.0%</b>

Source: Alpen Capital



*Despite aiming for food security since a long time, the region is able to produce only a quarter of the total food demand*

Food consumption in Bahrain is projected to grow at 5.0% over 2011–15. Milk & milk products and fruits are the two largest segments in the country. Fruits, meat and vegetables would register strong growth. Other food items which include pulses, sugar, oil, fish, eggs and potato will also register a strong growth of 4.7%.

### 3.3. Supply-side factors

#### Food Production

Due to the scarcity of arable land and an arid climate, agricultural food production in the GCC region has been minimal. According to the FAO, of the total area, the land suitable for cultivation is just 1.7% in Saudi Arabia and 3.0% in the UAE compared to 18.4% in the US, 23.7% in the UK, 16.3% in China and 51.6% in India. Nonetheless, Saudi Arabia, which produces cereals (mainly wheat), vegetables, fruits, meat (poultry) and dairy products, leads GCC countries in food production. Governments in the region have been striving to achieve self-sufficiency in food for a long time now. Such efforts in Saudi Arabia helped the country in becoming a net exporter of wheat during the early 1990s. The UAE and Qatar produce mainly fruits, vegetables and fish. Kuwait largely produces vegetables and fruits, while Oman is a major producer of fish in the region. Bahrain produces fish and red meat. Production in the region totaled 11.2 million metric tonnes in 2007. The major produce of each GCC country are listed in the table below.

Exhibit 14: Major produce, by country

Country	Major Produce
Saudi Arabia	Wheat, tomatoes, melons, dates, citrus, mutton, chickens, eggs, milk
UAE	Dates, vegetables, watermelons, poultry, eggs, dairy products, fish
Kuwait	Vegetables, fruits
Qatar	Fruits, vegetables, poultry, dairy products, beef, fish
Bahrain	Cotton, rice, corn, wheat, beans, fruits, vegetables, livestock
Oman	Dates, limes, bananas, alfalfa, vegetables, camels, cattle, fish

Source: Arab Agriculture Statistics Yearbook

#### Domestic production vs. imports of major segments

GCC countries largely rely on imports to meet most of their food requirement. These nations imported as much as 37.2 million metric tonnes of food in 2007, more than three times the food produced locally.

- **Milk & Milk products segment**

The dairy segment comprises milk and its derivatives: cheese, cream, spreadable fats and yogurt. Saudi Arabia is the largest producer of milk and dairy products in the region, followed by the UAE and Oman. Saudi Arabia produces nearly 30% of milk & milk products locally. Separately, the UAE produces just 17% of its domestic demand. The other four countries produce less than 10% of their overall food consumption.

Production of milk & milk products in the GCC region has, however, not increased in tandem with the growth in demand. Consequently, almost 80% of total consumption is met through imports from the rest of the world.

- **Meat**

The meat segment comprises of red meat and poultry meat. Meat is an important part of the diet in the GCC region. Saudi and Kuwait are large producers of meat in the region.

*Saudi imports 70% of total milk & milk products consumed, UAE 83%, while others import over 90%*

*UAE, Oman and Qatar depend heavily on imports for both red meat and poultry meat*

*All the GCC countries, except Saudi Arabia, depend totally on imports for cereals*

*Saudi and Kuwait are major producers of vegetables in the region*

*Saudi, UAE and Oman are major producers of fruits*

*Governments encourage agriculture through various support schemes*

The region meets 56% of its meat requirement through imports.

Saudi Arabia produces nearly 60% of poultry meat and 40% of red meat consumed in the country; the rest is imported. On the other hand, Kuwait and Bahrain produce 70% of the total red meat consumed and 25% of poultry meat consumed. UAE, Oman and Qatar depend heavily on imports (over 75%) for both the segments.

- **Cereals**

The cereals segment comprises of wheat, rice, maize and barley. Cereal production in the GCC region is very low as cultivation is water-intensive. Saudi Arabia was self-sufficient in wheat production as of 2010. However, production is being decreased in a phased manner (would continue until 2016) in the wake of the government's measures to conserve water. The GCC region meets more than 80% of its cereal requirement through imports.

The region entirely depends on the import for all of their maize, rice and barley demand. The five countries except Saudi Arabia import all of their wheat demand as well. Saudi currently produces enough wheat to meet its demand, but the government's decision to roll back allocation of water to wheat irrigation by 2016 will eventually lead to higher dependence on wheat imports over the next few years.

- **Vegetables**

The segment includes vegetables like eggplant, tomato, pumpkin, cauliflower, cabbage, gourds, etc. Vegetables are produced at a relatively large scale in the region; in Saudi Arabia and Kuwait, domestic production exceeds imports. Around 30% of demand for vegetables in the region is met through imports.

Saudi and Kuwait produce 90% and 66% of their vegetable consumption respectively. Oman produces nearly half of its total consumption, while UAE, Qatar and Bahrain depend heavily on imports to cater their total consumption.

- **Fruits**

The segment includes fruits like banana, watermelon, citrus fruits, mango, guava, etc. Fruits, just as vegetables, are produced in large quantities in Saudi Arabia. Imports account for 40% of total demand for fruits in the region.

Saudi, UAE and Oman produce around 70% of their total consumption need, while the other three countries depend on imports for over 75% of their total consumption need.

### **Government a key link to the agricultural capacity in the region**

The agricultural capacity in the region mostly thrives on governmental support. The governments incentivize the agriculture production in the region by offering direct and indirect support to farmers in many ways:

- Farms, seeds, fertilizers and other inputs are provided free of cost or at subsidized rates by the governments. The level of support offered would vary from country to country. Saudi Arabia, for example, provides farmland free of cost, while the UAE provides half the cost for crop protection, veterinary services, and other inputs such as fertilizers. Qatar subsidizes the cost of land leveling, seeds, fertilizers, and cultivation.
- Governments provide price support to make the costly process of agriculture attractive in the region. Saudi Arabia, for example, provided guaranteed prices for wheat and other cereals (which it is now phasing out), while the UAE purchases dates and fodder in some emirates at a guaranteed price.

- The governments undertake public warehousing to ensure food security.
- Most governments allow free mining of groundwater for the use of agriculture.

Local food processing market in the region has grown rapidly over the past few years. Most of the growth has been facilitated by the government's aid in the form of direct subsidies on food equipment, attractive financing options and imposition of higher import tariffs. Governments in the region impose high tariffs on imports which compete with locally produced goods like meat, eggs, sugar and other processed foods, thereby passing on a cost advantage to local players. The UAE's government, for example, announced in Aug 2010 that they intend to spend over USD1.4 billion over the next few months to promote the domestic food processing market. UAE currently has over 150 food processing units. With continued support from the government, the food processing units in the UAE are now increasingly positioning themselves to expand their production and become meaningful suppliers of food, especially in the halal food segment. Saudi Arabia, on the other hand, is a leading supplier of biscuits and tinned products in the Middle East.

Given the significant growth potential, several international companies are also setting up food processing plants in the UAE and Saudi Arabia. Duty-free access to markets across the GCC region adds to the prospects.

#### **Trade liberalization**

Following the liberalization of trade (i.e., removal of barriers to foreign investment in food distribution – retail/food outlets), the availability of processed food products has improved; also, they have become more affordable. Transnational food corporations such as McDonald's, KFC, Tyson and Kraft are contributing to growth in the GCC processed food products market. A natural outcome of this is the increasing westernization of food habits in the region.

#### **Food Security**

Disruption in food imports, either due to policy restrictions by exporting countries or natural calamities, has always affected the region significantly. Also, food imports are significantly costlier than the local produce. It is therefore important for the governments in the region to strive to achieve food security in order to reduce their dependence on imports.

However given the limitation due to unfavorable climatic conditions and limited availability of arable land in the region, the GCC governments are currently pursuing a two-pronged strategy in order to secure their food supply.

- Investing in agriculture in countries where there is surplus land and has favorable climate. Besides Turkey, most target countries are in Africa (Sudan, Ethiopia, South Africa) and Asia (Pakistan, Indonesia, Kazakhstan, Vietnam). Saudi Arabia and the UAE have already gone ahead with investments in farmland in countries with which they share close economic and cultural ties and geographic proximity. Interestingly, while such moves are mainly being led by governments, private companies like Planet Food World and Almarai are also participating.

*UAE has over 150 food processing units*

*Trade liberalization and growing popularity of the retail format have exposed the consumers to a broad range of options*

*Governments are using a two-pronged approach to tackle the problem of food security*

**Exhibit 15: A few acquisitions by GCC countries in the past**

Country	Recent farmland acquisition details
Saudi	Established an USD800 million public company to manage its “food security initiative”
Saudi	Jannat announced plans to buy between 100,000 to 215,000 hectares of land, including a USD100 million investment in agricultural production in Africa, particularly in Egypt and Sudan
Saudi	Planet World Food planned to invest USD3 billion in various partnerships with Turkish farmers
Saudi	Pakistan sought USD6 billion in financial and oil aid from Saudi Arabia in return for agricultural land which could be tilled by Saudis
Saudi	Menafea Holdings Ltd. plans to invest USD125 million to develop a 5,000-hectare farm and build a fruit-processing plant in Zambia
UAE	Purchased 400,000 hectares of land in the Sudan
UAE	Equity firm Abraaj Capital acquired 324,000 hectares in Pakistan
UAE	A private sector investment firm signed a contract to lease around 700,000 hectares of farmland in Morocco
UAE	A private sector agriculture fund worth USD350 million was launched to acquire farmland in Eastern European countries like Romania and Africa
Qatar	Acquired 40,000 hectares of farm land in Kenya
Kuwait	Planned investment in land projects in Sudan and Cambodia

Source: Alpen Capital

- Encouraging the domestic food processing industry so that imports of processed food decrease. The aim is to source domestic and foreign raw materials from outside and then processes them within the region. This is akin to policies promoting movement up the value chain in hydrocarbons where GCC countries such as Saudi Arabia and the UAE have been investing heavily in refining and petrochemicals.

A third idea that has been mooted is building strategic food reserves along the lines of energy reserves in the US and food stockpiles in India. A few GCC countries have already taken steps in this regard, with Oman leading the way, followed by Saudi Arabia and the UAE. However, the cost of building such reserves is high. Besides, they are more apt for times of crisis rather than as a solution for the long term. Securing steady supplies and import substitution of processes that add value to the basic product are better strategies over the medium to long term.

### 3.4. Demand-side factors

While rising income and expanding population are the two main factors contributing to growth in overall food consumption in the GCC region, urbanization, trade liberalization and the boom in retail format have played their part in furthering the growth of food industry in the region.

#### Growing income

The GCC region has witnessed robust economic growth led by a steady rise in crude oil prices since 2000 and conscious economic diversification. The region's per capita income, despite a setback to economic activity in 2009 due to the global crisis, increased at a CAGR of 5.4% to USD26,750 over 2000–10. It is expected to expand at a CAGR of 3% to USD38,150 during 2010–15.

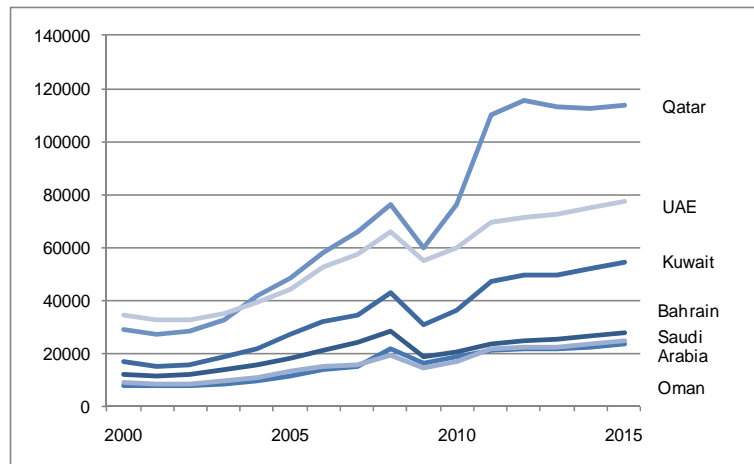
**Building strategic reserves is more apt for times of crisis rather than a long term solution**



*The per capita income of the region grew at a rate of 5.4% over 2000-10*

Amid increasing affluence, the consumption of food, especially processed and protein-rich products is rising. With GCC economies continuing to expand at a rate higher than developed countries, the region's per capita income is expected to increase at a CAGR of 7.1%<sup>3</sup> during 2010–15; Saudi Arabia is likely to register 7.8% growth and the UAE 5.3%.

**Exhibit 16: Growth in per capita income (USD)**



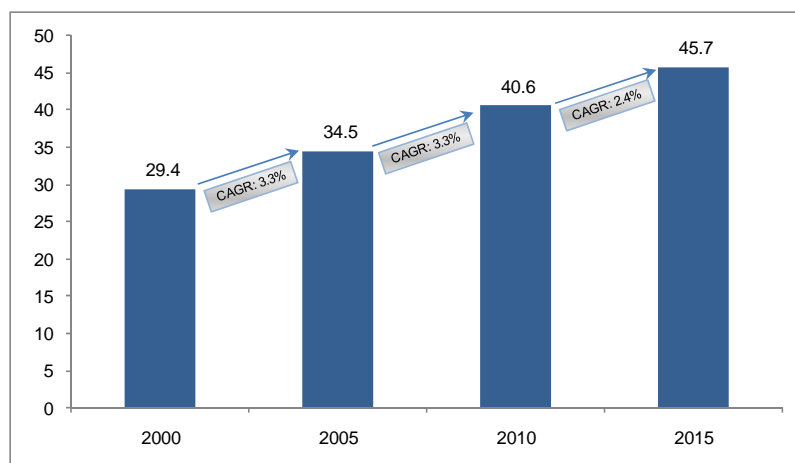
Source: IMF

**Strong population growth**

*Population grew at 3.3% over the last decade, expected to grow at 2.4% over the next five years*

According to the IMF, the GCC region's population expanded at a CAGR of 3.3% to 40.6 million during 2000–10. Qatar witnessed the highest growth (10.7%) and Oman the least (2.2%) over this period. The population of Saudi Arabia, the most populous country in the GCC region, grew 2.5%. Although the growth in population in GCC countries is likely to slow down, it is expected to expand at a strong CAGR of 2.4% to 45.6 million during 2010–15. Saudi Arabia's population is likely to increase by approximately 3 million. A growing population would mean higher food consumption.

**Exhibit 17: Population growth in GCC (million)**



Source: IMF

**Urbanization**

*Urban population has more than trebled during the last three decades*

Urbanization (and the resultant improvement in marketing and distribution infrastructure) has a profound effect on food consumption. It helps attract large supermarkets (retail

<sup>3</sup> IMF Estimates



*Permeation of retail channels  
is aiding accessibility of high  
value processed products*

formats) and improves access to foreign supplies (imports), making available a wider range of choices. The urban population in the GCC region more than tripled from 9.5 million in 1980 to an estimated 32 million in 2010. The level of urbanization in the UAE, Oman and Saudi Arabia was ~78%, ~72% and ~82.1%, respectively, during the year. This was low compared to the GCC average of 85.8% and Kuwait's 98.4%. With a smaller portion of their population residing in rural areas, urbanization in these countries is likely to proceed unabated.

**Growing popularity of retail format**

Retail formats have become increasingly popular in GCC countries, especially Saudi Arabia and the UAE, the two largest markets for food in the region. With the arrival of retail stores, accessibility to several food items, especially packaged foods, in these two countries has increased. There are over 50 hypermarkets in Saudi Arabia, all based in its five major cities: Riyadh, Dammam, Jeddah, Mecca and Madina. In the GCC region, the hypermarket phenomena started in the UAE, which has over 80 hypermarkets. Due to the presence of retail stores, growth in the dried processed food, canned preserved food, chilled processed food and confectionery segments is picking up in the region.

## 4. Challenges

### 4.1. Weak agriculture increases dependence on imports

#### Dearth of favorable climatic conditions for agriculture

The greater part of land in the GCC region is desert and, therefore, not suitable for agriculture. According to the FAO, 1.4% of total land area in this region is arable, with the figure varying from a high of 2.9% for Bahrain to a low of 0.1% for Oman. Another problem here is the low level of water resources—the agricultural sector consumes most of the extracted fresh water, although the percentage of consumption varies from country to country. Due to the poor water resources, the contribution of agriculture to the overall GDP in the region is low.

*Arid land and water scarcity deter agriculture in the region*

**Exhibit 18: Arable Land, 2010 (%), Contribution of agriculture to GDP, 2010 (%)**

Country	% Arable Land	% Contribution to GDP
Saudi Arabia	1.7%	2.7%
UAE	0.8%	0.9%
Kuwait	0.8%	0.3%
Qatar	1.6%	0.1%
Bahrain	2.9%	0.5%
Oman	0.1%	1.4%

*Source: FAO, Bloomberg*

Water is a very scarce resource in the region. GCC countries account for 40% of the world's desalination capacity. In Saudi Arabia, desalination plants provide as much as 70% of the total drinking water. Due to the increasing population as well as robust economic growth, demand for water (both per capita and in absolute terms) would continue to increase across the region. It would compete heavily with demand in the agricultural sector, which uses up a significant amount of water in the region.

#### Food security is a concern to the governments in the region

With its population growing at three times the global average, the GCC region is increasingly depending on imports to meet food requirements. The high dependence is expected to continue, making food security a very important issue for the region—governments cannot afford to fail in securing ample food supplies for their respective population. Therefore, they must take necessary steps to ensure imports are uninterrupted.

*Food security is a prime concern for the regional governments*

### 4.2. Upward price pressure

#### Rising food prices pushing headline inflation up in GCC region

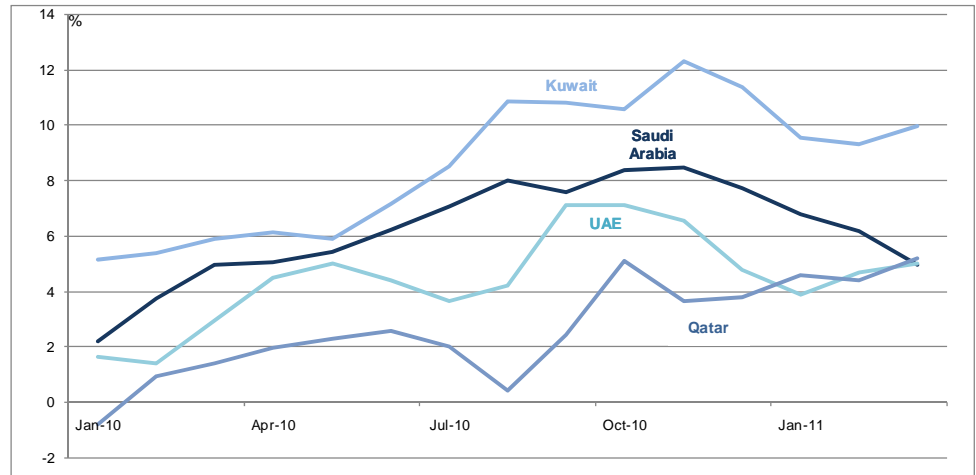
The dynamics of food inflation in the GCC region are different from those in other countries. The region lacks a strong agriculture sector with nations almost totally dependent on imports to meet consumption needs; therefore, it is highly susceptible to external food price shocks.

*The region is susceptible to external food price shocks, given its dependence on imports*

In 2008, the rising food prices along with housing-related inflation pushed the headline inflation numbers to its peak. This year too policymakers are likely to be wary of high food prices. In the GCC region, food inflation was the highest in Kuwait in 2010, touching 12.3% in November. In Saudi Arabia, high food prices were the prime reason behind the peak

inflation figure of 5.8% in October and November 2010. Prices have come down from their highs since then, lowering the headline inflation in the country. In the UAE, despite very low or even negative inflation figures for housing (the largest component of the consumer price index), headline inflation has been rising steadily for the past few months due to increasing food inflation.

**Exhibit 19: Food inflation in GCC countries (%)**



Source: FAO, Alpen Capital

#### Government measures to tackle inflation likely to hurt local players

With food inflation in the region approaching an all-time high, governments may be compelled to slash import duties on food items to ensure that exorbitant prices do not hit consumers. This would mean that imported food items are going to be priced closer to local production. In this scenario, consumers may prefer to switch to imported products which could affect the local food industry adversely. Government regulations also put pressure on local producers as they cannot raise prices beyond a certain limit, thus hurting their profitability.

## 5. Industry trends and opportunities

### 5.1. Shift in consumption pattern

#### Meat

As in other parts of the world, with increasing per capita income, consumption patterns are changing in the GCC region—people are switching from a carbohydrate-based to a protein-based diet. The trend is expected to continue. For example, meat consumption increased at a higher CAGR than cereal consumption in Saudi Arabia, Kuwait and the UAE over 1992–2000, 2000–2007 and 1992–2007, indicating shifting preferences amid higher per capita income.

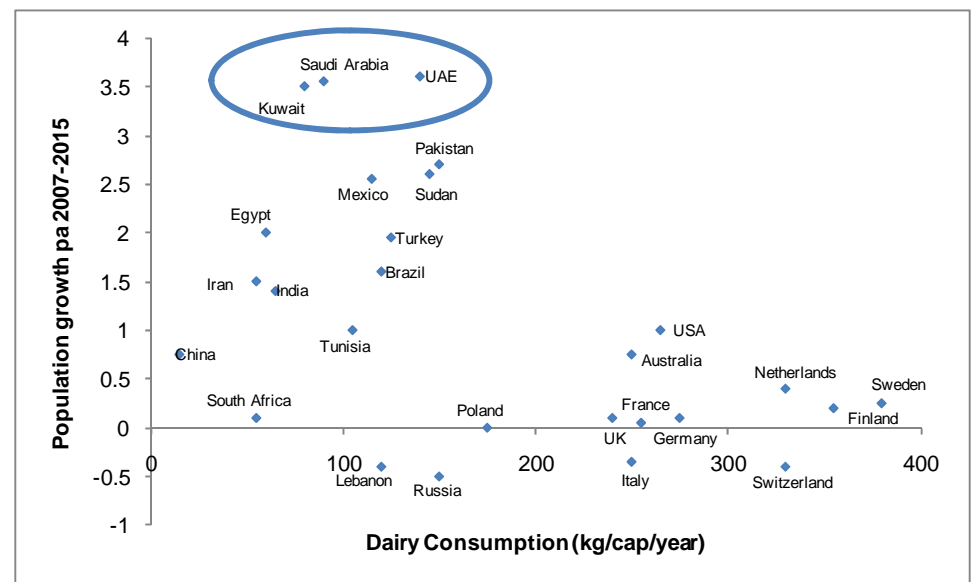
#### Milk & Milk products

The per capita consumption of dairy products in GCC countries is low, with its consumption being one quarter of that in high dairy consuming countries such as Sweden or Finland.

*Consumption patterns are changing from a carbohydrate-based diet to a protein-based diet*

*Dairy in Saudi, UAE and Kuwait has high growth potential*

Exhibit 20: Population growth per annum vs. dairy consumption per capita



Source: FAO, World Bank

Due to the scarcity of water in the region and warm climate conditions, milk and milk products are an essential part of the regular diet. Milk products such as ‘zabadi’ and ‘laban’ are consumed regularly along with meals; with their consumption increasing during the holy Ramadan period. Growing health consciousness, especially among the young population, is yet another contributor to the rising demand for dairy products. These factors indicate that the countries in the GCC region are at an attractive stage, with extremely high potential to grow, given the high expected population growth, increasing incomes, changing consumption trends and the low current average consumption.

### 5.2. Increasing demand for processed food

Demand for processed food is growing across all categories, including canned & frozen food, health/functional foods as well as bakery & cereals. It accounts for half of the total food market in the GCC region. With growing urbanization and lesser time to cook elaborate meals amid hectic lifestyles, demand for ready-to-eat chilled processed,

canned/preserved and frozen processed food is expected to increase. In addition, the younger population, a major part of the total GCC population, is showing significant preference for processed food items from both local and international chains. Sustained growth in the processed market segment and its rapid development have prompted companies worldwide to enter into licensing agreements with manufacturers based in Saudi Arabia and the UAE to produce various international food brands. Saudi Arabia is the Middle East's leading exporter of processed and packaged food items, from biscuits to tinned products to condiments.

### Demand for health food to gain pace

Obesity rates in the GCC region have more than trebled since 1980. The adult obesity rate<sup>4</sup> in Saudi Arabia and the UAE, as measured by the Body Mass Index, stood at 35.6% and 33.7% of the total population, respectively. This placed Saudi Arabia at the 7th position globally and the UAE at the 10th; Bahrain (28.9%) and Kuwait (28.8%) were at the 12th and 13th positions, respectively. Consequently, people are now becoming health conscious and turning towards healthy and diet foods.

Diabetes is another concern in the GCC region leading the shift to healthy foods. Around 13% of the population in the UAE and 13.5% in Saudi Arabia suffers from diabetes—the two are among the top five countries with regard to the prevalence of the disease.

Demand for healthy alternatives such as meal replacement products and low-fat dairy is expected to increase as public awareness about healthier eating habits grows. In addition, television and the internet, by giving greater exposure to the western world, are contributing to the increase in demand for packaged food.

### 5.3. Dependence on imports expected to continue

Food imports totaled USD25.8 billion in 2010, or more than 3% of the region's GDP, with Saudi Arabia accounting for 65% of the value. The trend is set to continue, according to the Economist Intelligence Unit; it estimates food imports to grow to USD53.1 billion by 2020, with Saudi Arabia accounting for two-thirds of the total.

Exhibit 21: GCC Food Imports Estimates (USD billion)

Country	2010E	2015E	2020E
Bahrain	0.7	1.1	1.6
Kuwait	2.3	3.6	5.3
Oman	2.1	3.3	4.8
Qatar	1.3	2.1	3.3
Saudi Arabia	16.8	24.5	35.2
UAE	3.6	5.5	8.4
<b>GCC Total</b>	<b>25.8</b>	<b>36.3</b>	<b>53.1</b>

Source: EIU (E – estimates)

*Rising health concerns are turning the consumers towards health/functional food*

*According to the EIU projections, the region is expected to continue to depend on imports over next five years*

<sup>4</sup> World Health Organization



## 6. M&A Activities

Food companies in GCC region have been on an acquisition spree to expand and diversify their business and to reach out to newer geographic markets. Larger companies like Almarai and Savola, who enjoy larger economies of scale and stronger financial resources, are the key players.

Number of M&A transactions in the food sector in the GCC peaked in 2007 as rising oil prices brightened the economic prospects of regional economies. However, global economic crisis dented the investor confidence leading to a slide in global M&A activity, also impacting food companies in GCC. Recovery in global economy along with rise in commodity prices have renewed investors' interest in GCC food companies thus driving improvement in transaction activity.

**Exhibit 22: Major M&A deals in GCC food sector**

Acquirer	Target Company	Year	Consideration (USD million)
Almarai	HADCO	2009	253
Al Safwa Group	Danah Al Safat Foodstuff Co	2007	139
Almarai	Agro Industrial Projects	2009	127
United Industries	Saudi Dairy & Foodstuff	2007	125
Savola	Geant	2009	117
Almarai	Teeba	2009	72
Savola	Yudum	2007	53
Bayan Holding	Palms Agro Production	2007	44
IFFCO	Australian Agricultural Co.	2009	43
Milk Products Holdings Investments	Saudi New Zealand Milk Products	2010	36
Sultan Center Food Products	Kuwait United Poultry	2007	35
Fonterra Cooperative Group	Saudi New Zealand Dairy Products	2009	33
Al-Medina Financing and Investment	Palms Agro Production	2007	28
Almarai	Western Bakeries	2007	17
Savola	Giant Stores	2008	N/A

Source: Bloomberg, Zawya, Alpen Capital

Almarai is an early and aggressive practitioner of M&A in the GCC and abroad, acquiring several companies in the past, especially during 2007-2009. Over this period, Almarai spent over USD500 million acquiring multiple target companies in the food sector, including HADCO for around USD253 million in 2009.

Savola, the other large player in the region's food sector, too has adopted an aggressive M&A strategy, making a string of acquisitions in Saudi Arabia and abroad. Major acquisitions of Savola include Turkish oil Company Yudum in 2008, Saudi Arabia based retail Geant and Giant stores in 2009. Besides these, Savola also holds strategic non-controlling stake in several GCC food companies, including Almarai.

*Almarai and Savola are the leaders in M&A deals*



Given strong growth potential, the region is likely to see a buzzing activity in the M&A space, driving further consolidation in the food sector. Broader strategic objectives such as concentric diversification, market share expansion and reach in the domestic and regional markets are expected to be the key factors fueling such acquisitions. The larger players – Almarai and Savola, are likely to be leading acquirers.

## 7. Financial performance and Valuation

### 7.1. Financial performance

*We selected top 20 listed companies for analyzing the financial performance of the sector, categorized under four distinct segments*

**The peer Group:** Our analysis covers the top 20 listed companies in the GCC region. These companies are categorized under four segments, by operations, a below:

- Agri & Agri Processing
- Dairy
- Processed & Frozen Foods and
- Livestock (Meat, Fish & Poultry)

In this section, we assess the financial performance of the industry over a three-year period (comprising of top 20 publicly listed food companies) in the GCC.

Exhibit 23: Financial performance

Company Name	Country	Revenue * (USD Million)	Revenues, 3 Yr Avg Annual Growth %	EBIT Margin, 3 Yr Avg %	EBITDA Margin, 3 Yr Avg %	Net Income Margin 3 Yr Avg %	Return on Equity, 3 Yr Avg %	Return on Asset, 3 Yr Avg %
<b>Agri/ Agri processing</b>								
Savola	Saudi	5,849	26.6%	3.8%	8.4%	3.7%	9.8%	4.0%
Agthia Group PJSC	UAE	287	21.6%	9.7%	13.3%	10.5%	11.0%	8.3%
Areej Vegetable Oils	Oman	182	15.0%	3.8%	5.2%	2.5%	23.4%	5.6%
Oman Flour Mills Co SAOG	Oman	128	12.6%	15.9%	19.0%	14.2%	16.5%	14.7%
Salalah Mills Co	Oman	79	26.2%	13.0%	16.0%	10.9%	25.9%	10.7%
Al Jouf	Saudi	61	10.1%	26.5%	43.0%	25.4%	11.9%	10.7%
Tabuk Agriculture	Saudi	43	1.8%	9.6%	25.3%	8.5%	3.8%	3.3%
<b>Average</b>		<b>947</b>	<b>16.3%</b>	<b>11.8%</b>	<b>18.6%</b>	<b>10.8%</b>	<b>14.6%</b>	<b>8.2%</b>
<b>Dairy/ Juice</b>								
Almarai Co Ltd	Saudi	1,897	22.7%	21.3%	29.8%	18.4%	22.9%	10.9%
National Agriculture Dev Co	Saudi	396	10.6%	3.6%	16.9%	1.0%	1.2%	0.7%
Saudi Dairy & Foodstuff Co	Saudi	303	8.9%	10.2%	13.9%	11.5%	20.0%	13.6%
<b>Average</b>		<b>865</b>	<b>14.1%</b>	<b>11.7%</b>	<b>20.2%</b>	<b>10.3%</b>	<b>14.7%</b>	<b>8.4%</b>
<b>Processed/ Frozen Foods</b>								
Kuwait Food Company (Americana)	Kuwait	2,410	15.3%	10.2%	15.5%	6.3%	13.0%	6.6%
Halwani Bros Co	Saudi	201	10.6%	11.3%	14.1%	8.9%	12.4%	9.6%
Zad Holding Co	Qatar	103	38.7%	11.5%	17.0%	14.0%	10.3%	8.4%
Food Products Co	Saudi	20	4.6%	12.8%	21.7%	16.8%	6.9%	6.3%
<b>Average</b>		<b>683</b>	<b>17.3%</b>	<b>11.5%</b>	<b>17.1%</b>	<b>11.5%</b>	<b>10.7%</b>	<b>7.7%</b>
<b>Meat/ Fishes/ Poultry</b>								
Qatar Meat & Livestock Co	Qatar	56	21.1%	(59.7%)	(58.0%)	19.5%	14.3%	11.1%
A'Saffa Foods SAOG	Oman	50	26.7%	19.6%	24.5%	16.3%	25.5%	10.4%
Oman Fisheries Co	Oman	46	22.2%	1.0%	2.9%	0.8%	8.1%	7.6%
Danah Al Safat Foodstuff	Kuwait	40	7.3%	(8.1%)	0.4%	(0.5%)	0.7%	0.5%
Saudi Fisheries	Saudi	26	(1.6%)	(20.5%)	(9.6%)	(24.3%)	(20.1%)	(13.7%)
Jazan Development Co	Saudi	19	45.3%	(6.7%)	12.1%	(20.8%)	(2.1%)	(1.8%)
<b>Average</b>		<b>40</b>	<b>20.1%</b>	<b>(12.4%)</b>	<b>(4.6%)</b>	<b>(1.5%)</b>	<b>4.4%</b>	<b>2.4%</b>
<b>Industry Average</b>		<b>610</b>	<b>17.3%</b>	<b>4.4%</b>	<b>11.6%</b>	<b>7.2%</b>	<b>10.8%</b>	<b>6.4%</b>
<b>Industry Median</b>		<b>91</b>	<b>15.1%</b>	<b>9.9%</b>	<b>14.8%</b>	<b>9.7%</b>	<b>11.5%</b>	<b>8.0%</b>

Source: Zawya, Alpen Capital (\* Figures are LTM, Red is below Average and Green is above Average); Note: Savola has significant retail and other operations, equivalent to nearly 53% of its total revenue, while Kuwait Food Company (Americana) has significant restaurant sales ~52% of total



**Top three listed companies contribute over 83% of total revenues in our sample universe**

Average revenue for companies under our analysis stands at USD610 million. The top 3 companies of the industry contribute over 83% of the total revenues and approximately 87% of the total operating income (EBIT) of the above set. The median operating margin of the industry, average of the last three years (2007-10), stood at 9.9%. Majority of the companies (9 out of 20) had stronger EBIT margins in excess of 10%. Almarai and Al Jouf lead the sector, with consistent annual EBIT margins in excess of 21% during the last three years; Last three years average EBIT stands at 21.3% for Almarai and 26.5% for Al Jouf.

#### **Revenue performance**

Annual revenue growth of the industry, during the last three years, averaged 17.3%. Most of this growth was driven by robust year-on-year (YoY) performance in 2008, when the industry recorded average revenue growth of 34.1%. Strong demand and pricing environment as well as expanded production capacity both through organic and inorganic route were the key factors behind this impressive performance in 2008. The revenue growth however moderated to an average of just 5.8% YoY in 2009, as the global recession affected both demand and the average price realizations in that year. Since then the growth has steadily bounced back to an average of 12.0% YoY in 2010 (LTM growth averaged 11.9% at the end of first quarter 2011) on the back of healthy recovery in demand and improvement in average price realizations.

In terms of annual average revenue growth during 2007-10, Jazan Development and Zad Holding lead the sector with growth of 45.3% and 38.7%. Food Processing and Meat/fish/poultry companies were the top performing segments. Amongst underperformers, Saudi Fisheries reported a marginal decline in revenues over the three year period.

#### **Profitability**

The median operating margin (EBIT), last 3 year average, of the industry stands at 9.9%. While some of the companies in the sector, Almarai and Al Jouf generated stronger operating margins of over 20%, losses generated by livestock companies has impacted the overall financial performance of the food sector.

The industry's median Net Income margin stands at 9.7%. Al Jouf leads the group with last three year annual average net income margin of 25.4% whereas Saudi Fisheries and Jazan Development reported negative net income margin of (24.3%) and (20.8%), respectively.

The food sector's Median ROE currently stands at 11.5% and average ROE of the industry is 10.8%. Salalah Mills has the highest ROE at 25.9%, whereas Saudi Fisheries and Jazan Development both generated negative returns of (20.1%) and (2.1%), respectively.

We expect profits of food companies to improve from current levels over the long run, benefiting from strong underlying factors, driving healthy growth in demand, and efficiency gains as they upgrade their production facilities with newer technologies and consolidate existing facilities while keeping a tight check on costs. Expansion in new growth markets within the GCC and outside is also likely to aid in the growth.

**Median EBIT margin stood at 9.9%, profitability dented by loss making livestock companies**

## Segment wise performance

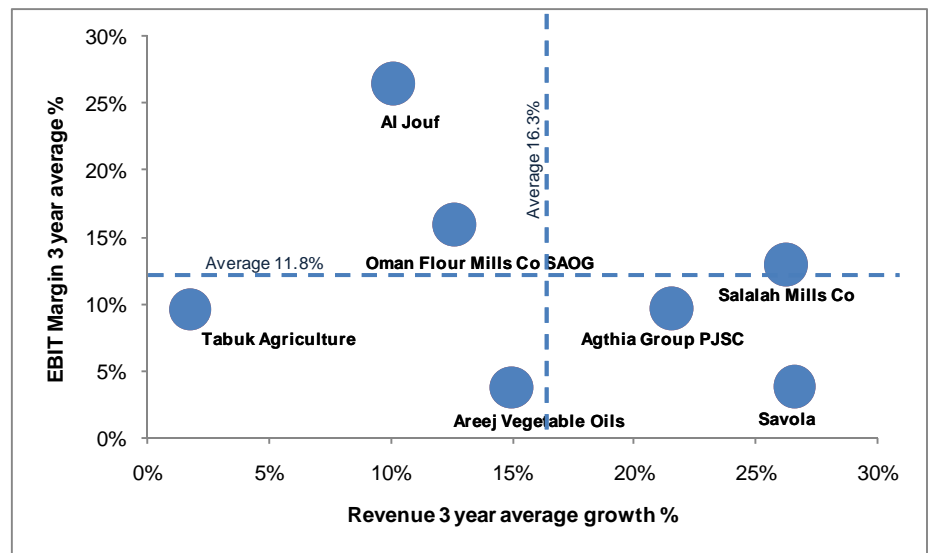
### Agri & Agri processing segment

#### *Savola dominates the food processing segment*

The segment is dominated by Saudi Arabia based, Savola Group, which accounts for approximately 88% of the aggregate revenues of agri-processing companies. Backed by Savola's last three year annual average revenue growth of 26.6%, revenue growth of agri-processing companies averaged 16.3%. Savola witnessed significant growth in revenues due to generally growing demand environment in both of its core sectors, food and retail, and several companies that it acquired during 2008-09. The acquisitions helped further expand the company's operations and reach both within the GCC and internationally.

Salalah Mills and Agthia Group are the two other leading companies that reported stronger average annual revenues growth of 26.2% and 21.6%, respectively, whereas Tabuk Agriculture's top-line grew at a nominal 1.8%.

**Exhibit 24: Agri-processing companies (Avg 3 Yr – Revenue Growth, EBIT Margin )**



*Savola and Salalah lead the pack in terms of revenue growth, whereas Al Jouf has the highest EBIT margin*

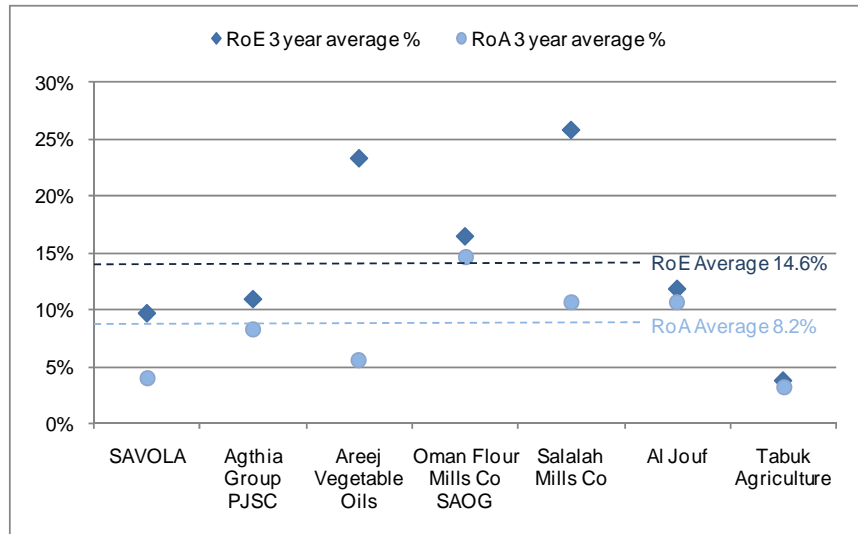
Source: Zawya, Alpen Capital

Agri processing companies' profitability at operating level averaged 11.8%. Leading agri-processing company, Savola, reported a lackluster EBIT margin of 3.8%, a tad better than Areej Vegetable. Sharp drop in prices of commodity foodstuffs substantially affected the margins of Savola (producer of sugar and edible oil) towards the end of 2008; it reported EBIT margin of just 1.7% in 2008. Al Jouf was the most profitable agri-processing company in GCC registering EBIT margin of 26.5%.



**Agri processing companies' 3-year average RoE stood at 14.6%, while RoA averaged 8.2%**

**Exhibit 25: Agri Processing Companies (ROE, ROA)**



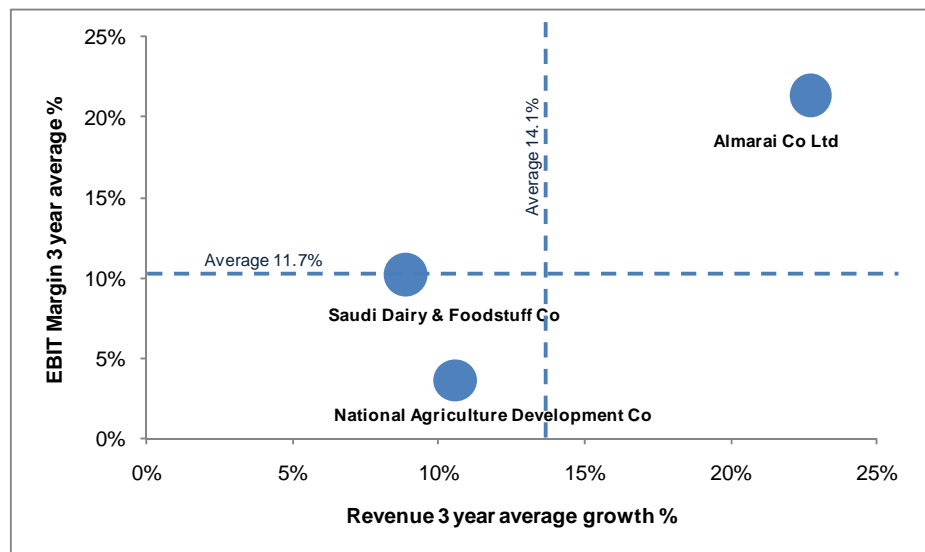
Source: Zawya, Alpen Capital

Agri-processing companies' ROA and ROE averaged 8.2% and 14.6% respectively. Salalah Mills and Areej vegetable generated the maximum returns in the group. With ROE of 25.9%, Salalah was the top-performer not only amongst agri processing companies but all across the food sector.

#### Dairy Segment

Dairy segment of the food sector in GCC comprises of three Saudi based companies. Almarai is the largest dairy company in the region contributing over 73% of the group's total revenues. Almarai outperformed its smaller peers by huge margins, registering last three year annual average revenue growth of 22.7%. Almarai chiefly benefited on account of aggressive acquisitions, made over the past couple of years, and strong sales volumes registered across the product categories. National Agriculture Development Company (NADEC) underperformed its peers with 8.9% revenue growth.

**Exhibit 26: Dairy Companies (Avg Revenue Growth, Avg EBIT Margin)**

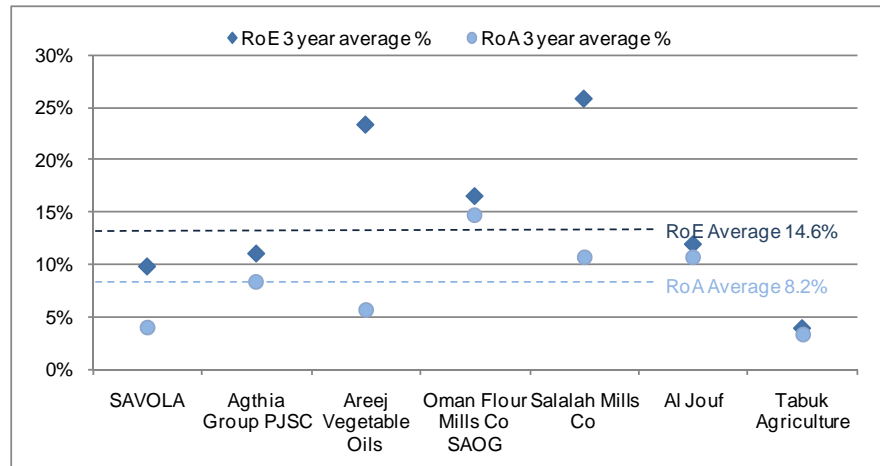


Source: Zawya, Alpen Capital

**NADEC's trailed its peers with EBIT margin of 3.6%**

Dairy companies' profitability at operating level averaged 11.7%. Almarai was an outperformer with EBIT margin of 21.3%, whereas NADEC's profitability trailed its peer group with 3.6% EBIT margin.

**Exhibit 27: Dairy Companies (ROE, ROA)**



Source: Bloomberg, Alpen Capital

**Almarai lead with 3-year average RoE of 22.9%**

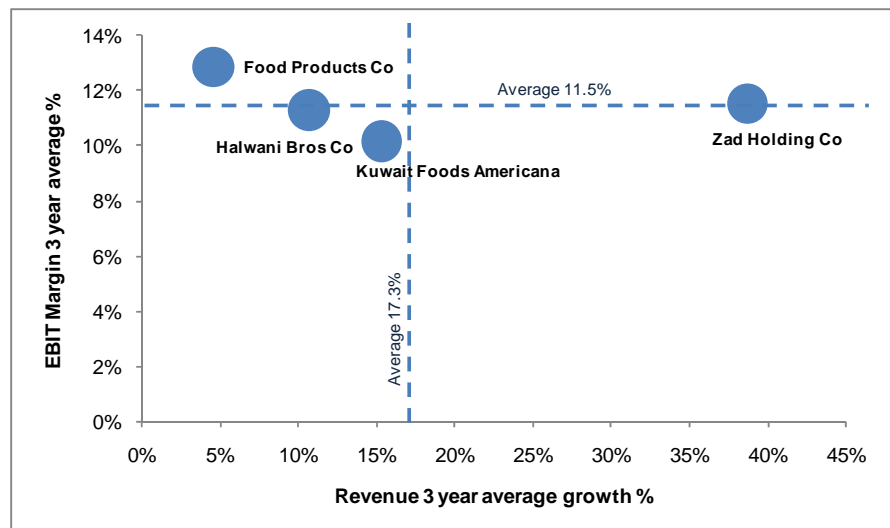
Dairy companies generated last three year average ROA of 8.4% and ROE of 14.7%. Almarai and Saudi Dairy & Foodstuff Company generated ROE of 22.9% and 20.0% respectively, whereas NADEC's low ROE of 1.2% of negatively impacted the segment's overall ROE.

**Processed & Frozen Food Segment**

**Kuwait Food Company (Americana) is the dominant company in this segment**

Food processing companies in GCC region are dominated by Kuwait Food Company (Americana), which generates more than 10 times the revenues as compared to its closest competitor. While Kuwait Food Americana reported revenue growth of 15.3%, strong top-line growth of smaller player, Zad Holding (growth of 38.7%), helped the group clock in average revenue growth of 17.3%. Most of Zad's top-line growth is attributed to over 130% YoY growth recorded in 2008. Saudi based Food Products Company reported less noteworthy revenue growth of 4.6%.

**Exhibit 28: Processed & Frozen Food Cos (3 Yr Avg – Rev Growth, EBIT Margin )**

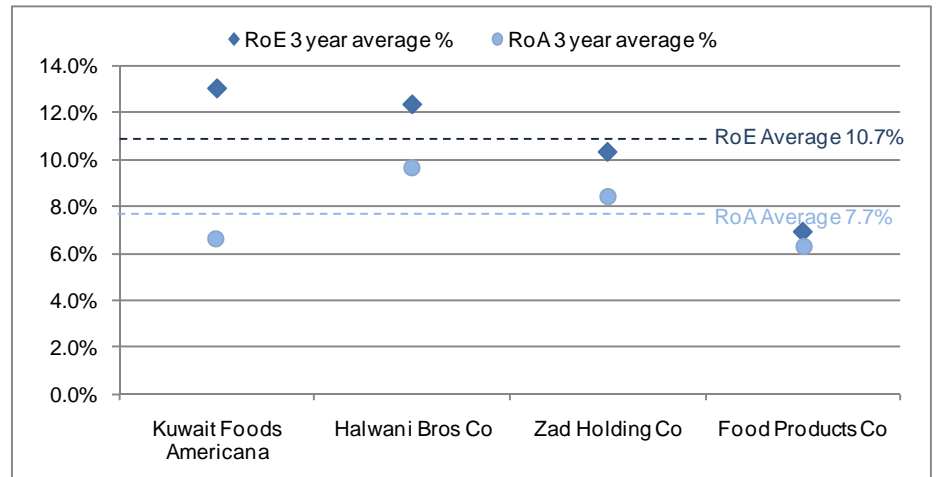


Source: Bloomberg, Alpen Capital

**Food products Co reported 3-year average EBIT margin of 12.8%**

Food processing companies' EBIT margin averaged 11.5%. Zad Holding and Food Products Company registered EBIT margin of 11.5% and 12.8%, respectively. With a close check on costs, Food Products company managed to keep their margin high.

**Exhibit 29: Processed & Frozen Food Companies (ROE, ROA)**



Source: Bloomberg, Alpen Capital

**Kuwait Food Company (Americana) generated the leading RoE of 13.0%**

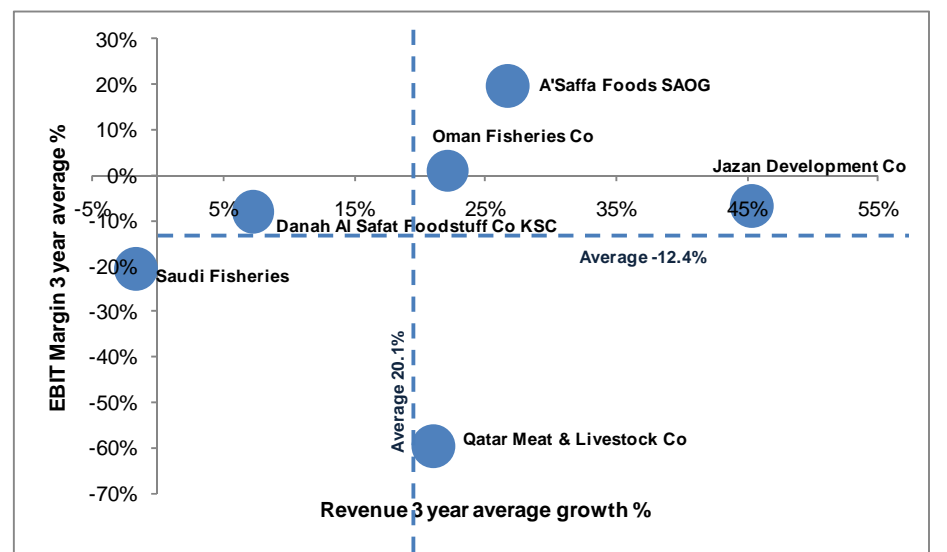
ROA and ROE of food processing companies averaged 7.7% and 10.7%, respectively over the last three years. Kuwait Food Company (Americana) generated the maximum returns amongst the group companies with ROE of 13.0%.

**Livestock (Meat, fish & poultry) segment**

Unlike other segment in Food sector, Livestock segment of the food sector is a fragmented one with absence of any major player. The largest company, Qatar Meat & Livestock Co, generated LTM revenues of USD56.4 million. Revenue growth of the livestock companies averaged 20.1%. Jazan Development and A'saffa Foods registered robust revenue growth of 45.3% and 26.7%, respectively. Qatar Meat & Livestock Company grew 21.1%. Saudi Fisheries registered decline in revenues, decreasing the overall top-line performance of the livestock companies.

**Qatar Meat, the leading company in the pack, posted average revenue growth of 21.1%**

**Exhibit 30: Livestock Companies ( 3 Yr Avg – Revenue Growth, EBIT Margin )**

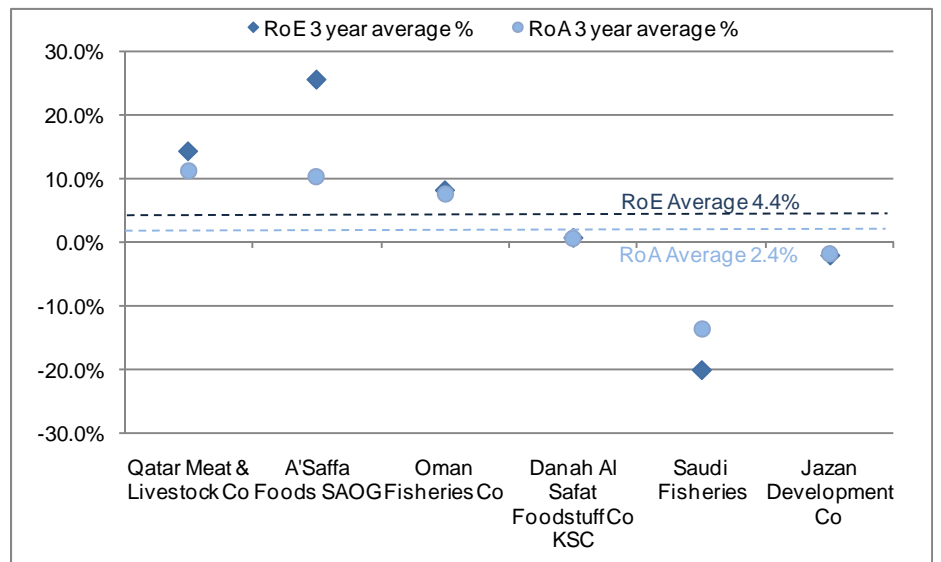


Source: Bloomberg, Alpen Capital

**A'saffa leads the segment  
with RoE of 25.5%**

Most of the livestock companies are in losses at operating level with the exception of A'Saffa Foods which registered a decent EBIT margin of 19.6% and Oman Fisheries of 1.0%. Qatar Meat & Livestock Company was the underperformer in the group with EBIT margin of a negative (59.7%). This was largely on account of sale prices of livestock being capped by government's continued regulation on livestock prices, while the input costs continued to rise. However, including the compensation received from the government of Qatar on selling livestock at subsidized prices, Qatar Meat & Livestock Company posted a healthy net income margin of 19.5% in the last three years. Other companies in operating losses include Danah Al Safat Foodstuff Company, Saudi Fisheries and Jazan Development Company. Since the companies did not report the reasons for the losses, similar reasons such as cap on prices, surging costs, and/or level of subsidies/ grant from governments could be assumed as few of the factors responsible for underperformance of these companies. Additionally, Jazan Development could have been adversely affected due to losses on its real estate projects.

**Exhibit 31: Livestock Companies (ROE, ROA)**



Source: Bloomberg, Alpen Capital

Operating losses and Low EBIT margins of the livestock companies lead to low returns for the segment. Livestock companies' ROA and ROE averaged 2.4% and 4.4% respectively.

## 7.2. Valuation Analysis

Exhibit 32: Ratio Analysis

Company Name	Country	P/E	P/BV	EV/EBITDA	Inventory Turnover	Fixed Asset Turnover	Current Ratio
<b>Agri/ Agri processing</b>							
Savola	Saudi	20.8	1.95	11.3	7.3	4.1	0.9
Agthia Group PJSC	UAE	10.7	1.18	8.5	3.4	2.2	2.3
Areej Vegetable Oils	Oman	6.8	1.46	4.8	5.1	4.9	1.0
Oman Flour Mills Co SAOG	Oman	16.9	1.75	NA	4.9	3.4	11.5
Salalah Mills Co	Oman	11.9	2.80	9.1	3.8	1.9	1.2
Al Jouf	Saudi	9.9	1.02	4.7	1.9	0.8	6.1
Tabuk Agriculture	Saudi	22.9	1.42	7.7	2.4	0.5	2.2
<b>GCC Average</b>		<b>14.3</b>	<b>1.65</b>	<b>7.7</b>	<b>4.1</b>	<b>2.5</b>	<b>3.6</b>
<b>US Average</b>		<b>15.1</b>	<b>1.9</b>	<b>9.3</b>	<b>7.7</b>	<b>5.3</b>	<b>1.7</b>
<b>Asia Pacific Average</b>		<b>14.6</b>	<b>1.3</b>	<b>7.0</b>	<b>8.8</b>	<b>4.7</b>	<b>2.1</b>
<b>Dairy/ Juice</b>							
Almarai Co Ltd	Saudi	16.7	3.35	12.7	3.3	1.0	1.2
National Agriculture Development Co	Saudi	32.3	1.62	11.9	2.7	0.9	0.7
Saudi Dairy & Foodstuff Co	Saudi	7.2	2.23	7.5	4.3	4.5	3.0
<b>GCC Average</b>		<b>18.7</b>	<b>2.40</b>	<b>10.7</b>	<b>3.5</b>	<b>2.1</b>	<b>1.6</b>
<b>US Average</b>		<b>16.9</b>	<b>2.2</b>	<b>10.0</b>	<b>10.7</b>	<b>4.6</b>	<b>1.2</b>
<b>Asia Pacific Average</b>		<b>7.4</b>	<b>0.8</b>	<b>5.7</b>	<b>27.0</b>	<b>4.1</b>	<b>1.8</b>
<b>Processed/ Frozen Foods</b>							
Kuwait Food Company (Americana)	Kuwait	12.6	2.13	7.7	7.2	3.0	1.1
Halwani Bros Co	Saudi	13.1	2.08	8.9	3.2	4.0	3.8
Zad Holding Co	Qatar	9.1	0.91	NA	7.1	3.6	2.0
Food Products Co	Saudi	25.5	2.42	18.1	2.7	1.0	9.5
<b>GCC Average</b>		<b>15.1</b>	<b>1.89</b>	<b>11.6</b>	<b>5.0</b>	<b>2.9</b>	<b>4.1</b>
<b>US Average</b>		<b>21.1</b>	<b>3.9</b>	<b>13.1</b>	<b>4.9</b>	<b>6.9</b>	<b>1.9</b>
<b>Asia Pacific Average</b>		<b>9.9</b>	<b>1.0</b>	<b>6.1</b>	<b>9.4</b>	<b>4.6</b>	<b>5.3</b>
<b>Meat/ Fishes/ Poultry</b>							
Qatar Meat & Livestock Co	Qatar	8.7	1.48	12.0	8.1	3.8	3.1
A'Saffa Foods SAOG	Oman	15.1	3.61	4.9	3.6	1.0	2.4
Oman Fisheries Co	Oman	15.1	0.80	14.0	8.2	18.8	12.3
Danah Al Safat Foodstuff Co KSC	Kuwait	NM	0.52	NM	2.2	1.3	4.8
Saudi Fisheries	Saudi	NM	9.06	NM	1.6	0.8	1.0
Jazan Development Co	Saudi	NM	1.76	NM	2.4	0.2	1.7
<b>GCC Average</b>		<b>13.0</b>	<b>2.87</b>	<b>10.3</b>	<b>4.4</b>	<b>4.3</b>	<b>4.2</b>
<b>US Average</b>		<b>7.6</b>	<b>1.3</b>	<b>5.0</b>	<b>8.3</b>	<b>6.5</b>	<b>2.3</b>
<b>Asia Pacific Average</b>		<b>44.9</b>	<b>2.0</b>	<b>30.3</b>	<b>17.1</b>	<b>2.9</b>	<b>3.2</b>
<b>GCC Industry Average</b>		<b>15.0</b>	<b>2.2</b>	<b>9.6</b>	<b>4.3</b>	<b>3.1</b>	<b>3.6</b>
<b>US Industry Average</b>		<b>16.0</b>	<b>2.4</b>	<b>9.8</b>	<b>7.7</b>	<b>5.8</b>	<b>1.7</b>
<b>Asia Pacific Industry Average</b>		<b>16.9</b>	<b>1.2</b>	<b>10.4</b>	<b>13.4</b>	<b>4.3</b>	<b>3.3</b>

Source: Bloomberg, Alpen Capital (All Figures as on 26 June 2011, Red is above Average and Green is below Average, NM – Not meaningful, NA – Not available)

**GCC companies in food sector have a healthy upside potential given the growing population and incomes in the region**

**Amongst agri processing companies, Salalah Mills and Al Jouf are trading at attractive valuation multiples**

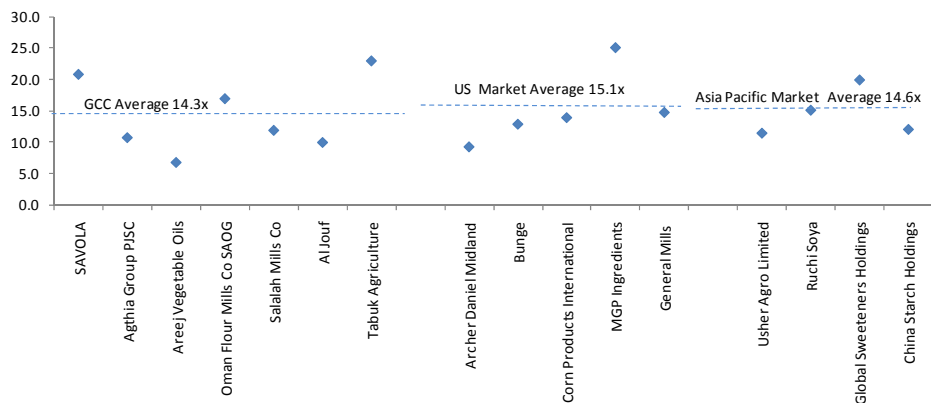
### Valuation against global players

GCC companies in the food sector trades favorably at an average P/E of about 15.0x as compared to 16.0x for American markets and 16.9x for Asia Pacific market peers. On EV/EBITDA too, GCC companies at 9.6x trade at discount to Asia Pacific companies and American peers' average. The average P/E and EV/EBITDA numbers for Asia Pacific and the American region have been derived taking into account companies in each of the segments of the food sector to get the best representation of the industry. We contend that food companies in the GCC have huge growth potential, given the strong projected population, favorable consumption trend and incomes in the region. This along with easing of political crisis in the region is likely to boost valuations further up.

### Agri & Agri Processing

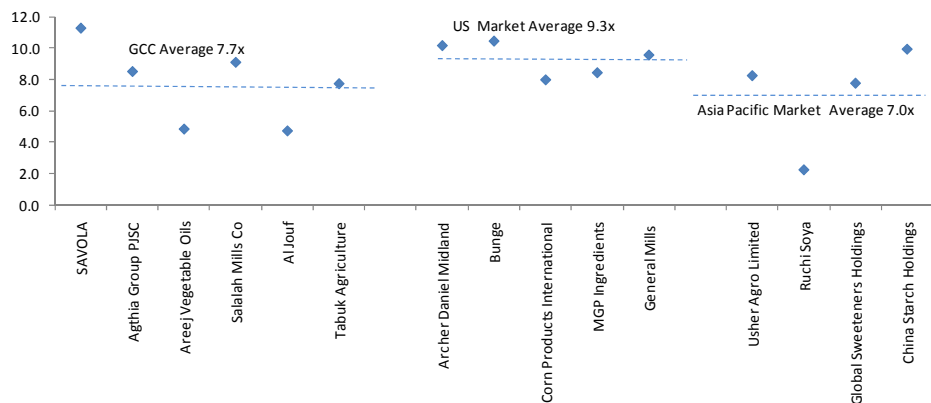
Agri processing companies are trading at average P/E of 14.3x and EV/EBITDA of 7.7x. Tabuk Agriculture is trading at a high P/E of 22.9x whereas Savola commands the highest valuation multiples with EV/EBITDA of 11.3x and P/E of 20.8x. Many players are trading at valuation multiples less than that of the industry average. We find the valuation attractive for companies such as Salalah Mills and Al Jouf who are trading either close or below the industry average but operate at healthy EBIT margins. Majority of the agri processing companies in GCC players are trading at a discount compared to their global peers.

**Exhibit 33: Agri Processing Companies - P/E Relative Valuation Chart**



Source: Bloomberg, Alpen Capital

**Exhibit 34: Agri Processing Companies – EV/EBITDA Relative Valuation Chart**



Source: Bloomberg, Alpen Capital

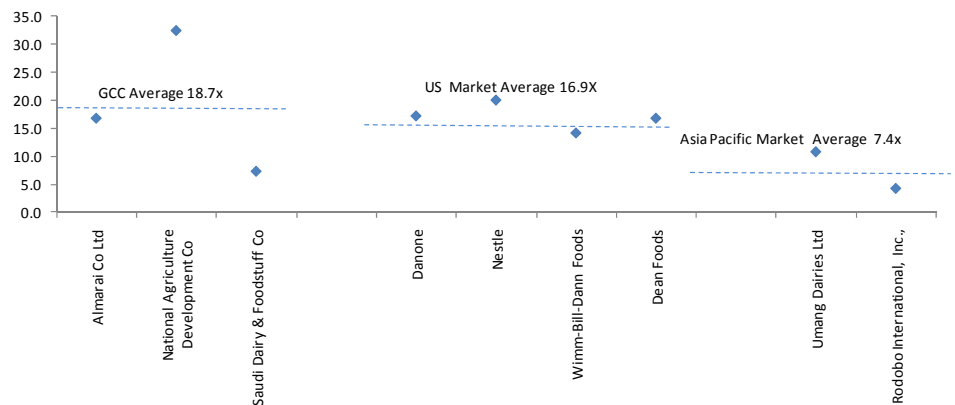
**GCC companies in food sector have a huge upside potential given the growing population and incomes in the region**

**Dairy companies in GCC, with average P/E of 18.7x and EV/EBITDA of 10.7x, are trading at a premium to their global peers**

## Dairy

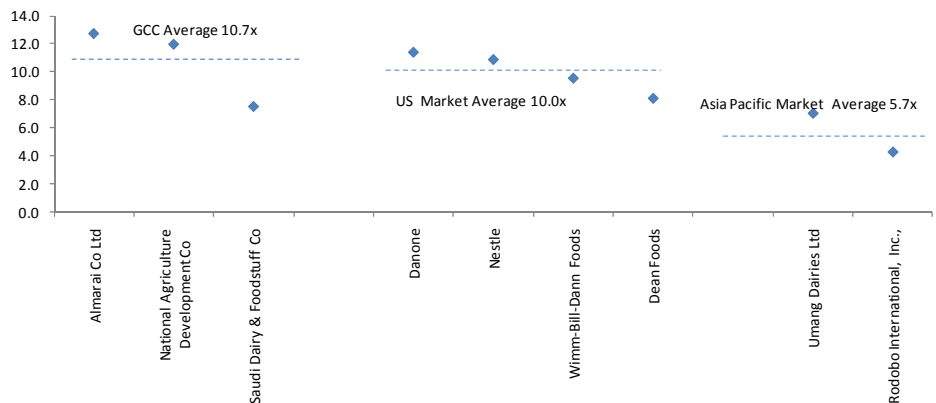
Dairy companies in GCC, with average P/E of 18.7x and EV/EBITDA of 10.7x, are trading at a premium to their global peers. Given lackluster performance of NADEC compared to its peers it remains the most overvalued company in relative terms. Leading dairy player Almarai is trading at a P/E of 16.7x which compares favorably with US peers but is at a premium to dairy companies in Asia pacific. This premium is justified given the company's concerted diversification efforts and strong future growth potential. Saudi Dairy & Foodstuff Company is trading at a steep discount to its peers.

**Exhibit 35: Dairy - P/E Relative Valuation Chart**



Source: Bloomberg, Alpen Capital

**Exhibit 36: Dairy – EV/EBITDA Relative Valuation Chart**



Source: Bloomberg, Alpen Capital

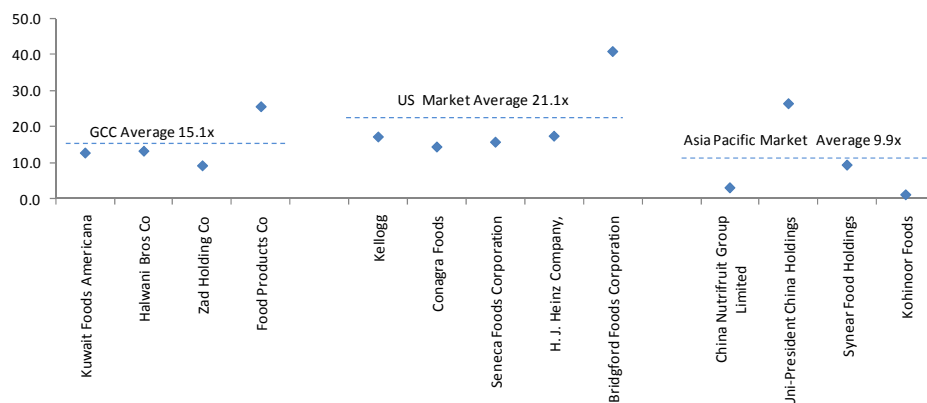
**On EV/EBITDA and P/E, Processed & Frozen Foods companies in GCC are trading at slightly premium to Asian peers, but discount to US peers**

## Processed & Frozen Foods

Food processing companies in GCC are trading at average P/E of 15.1x and EV/EBITDA multiple of 11.6x. On both P/E and EV/EBITDA terms, valuation of GCC companies is slightly premium to that of Asian peers, but at discount to American companies. Given lower comparative valuation and strong financial performance of Halwani Brothers over the recent quarters we foresee a healthy upside potential in the company's valuation over the coming years.

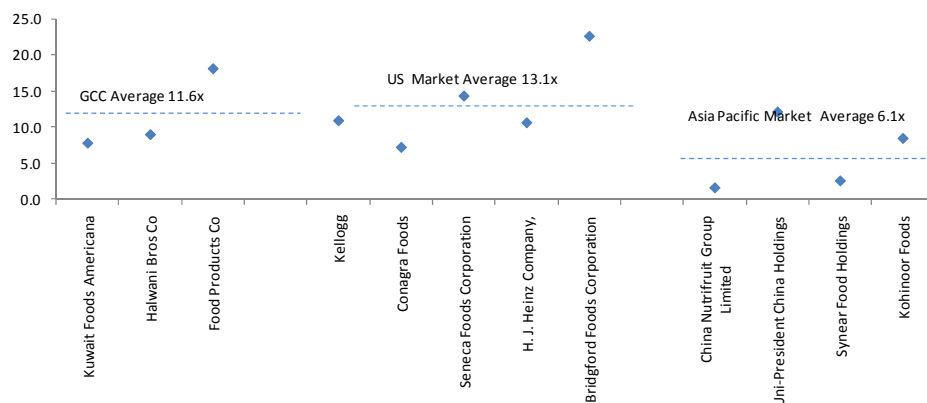


**Exhibit 37: Food processing companies - P/E Relative Valuation Chart**



Source: Bloomberg, Alpen Capital

**Exhibit 38: Food processing companies – EV/EBITDA Relative Valuation Chart**



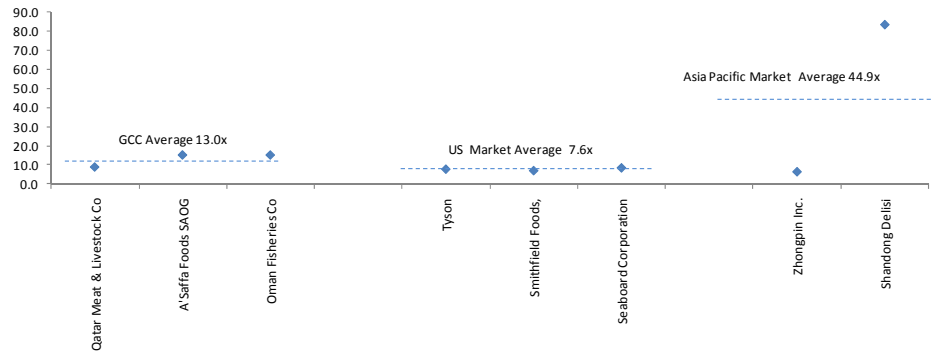
Source: Bloomberg, Alpen Capital

### Livestock (Meat, Fish & Poultry)

**Weak financial performance of livestock companies in GCC had skewed comparative valuation of overall segment**

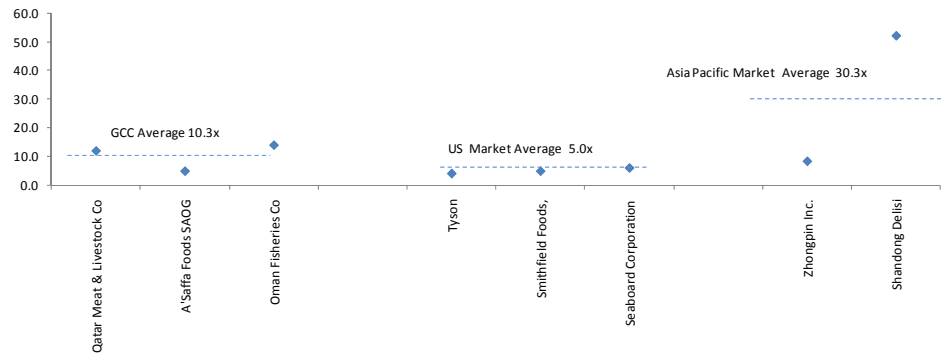
Given dismal performance reported by livestock companies in GCC over the past few quarters, their comparative valuation does not reflect a true picture of their fundamentals. Of the six livestock companies under our study, three had reported net loss over LTM and hence their P/E cannot be computed. Remaining livestock companies are trading at average P/E of 13.0x and EV/EBITDA of 10.3x which compares favorably with Asia Pacific peers but at a premium to American livestock companies.

### Exhibit 39: Livestock companies - P/E Relative Valuation Chart



Source: Bloomberg, Alpen Capital

### Exhibit 40: Livestock companies – EV/EBITDA Relative Valuation Chart



Source: Bloomberg, Alpen Capital

# Country Profiles

## Saudi Arabia

### Economic Overview

Saudi Arabia's GDP is estimated to have grown 3.7% in 2010 after averaging 3.1% each year during 2005–09, according to the IMF. The economy is expected to benefit from rising oil prices. IMF projects the Saudi Arabia's GDP to expand 4.6% (on average) each year during 2011–15.

### Macro-economic Indicators

Indicators	Unit	2010E	2011E	2015E
GDP	US\$ bn	443.7	578.6	717.9
Population	mn	26.1	26.7	29.0
Inflation	%	5.4	6.0	4.0
GDP per capita	US\$	16,995.8	21685.1	24,736.3

Source: IMF, Economist Intelligence Unit

### Food Imports

Year	Imports (USD billion)	CAGR
2010	16.8	12%
2015	24.5	8%
2020	35.2	8%

Source: EIU

### Key Food Players

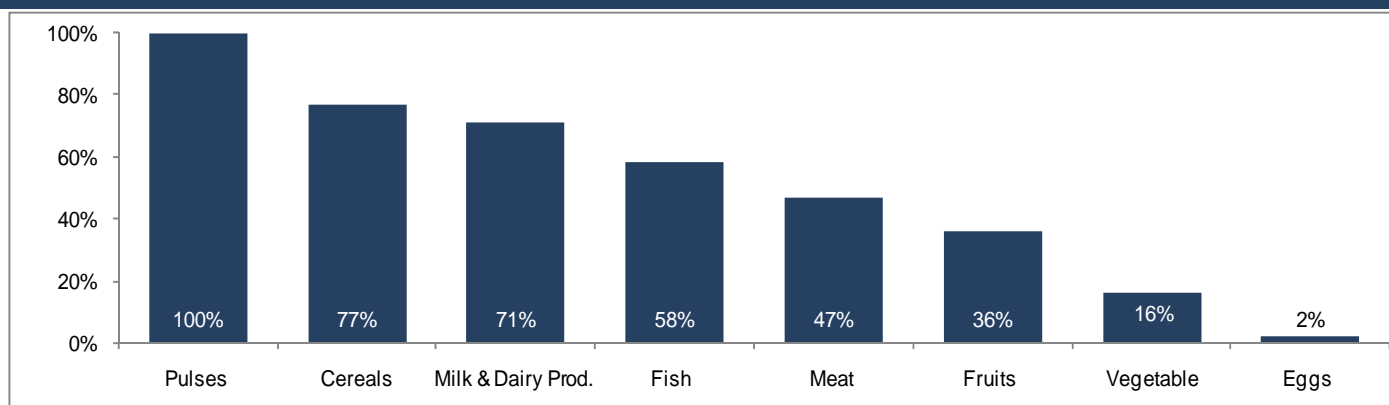
Company	Type
SAVOLA	Food & Dairy
Almarai Co Ltd	Food & Dairy
National Agriculture Development Co	Food & Dairy
Saudi Dairy & Foodstuff Co	Food & Beverages
Halwani Bros Co	Food & Dairy

### Food Scenario

Agriculture contribution-2010 GDP	2010 Arable Land	Food Produced locally
2.7%	1.7%	Wheat, barley, tomatoes, melons, dates, citrus; mutton, chickens, eggs, milk

Source: FAO, Bloomberg

### Key Food Commodities: 2007 Dependence on imports for consumption



Source: Arab Agriculture Statistics Yearbook - 2009

## Industry Scenario

Saudi Arabia imports 80% of its total food requirements. It is the largest market in the region owing to its huge population base—Saudi Arabia accounts for over 65% of the region's population. The population of Saudi Arabia has been growing 2.3-2.6% annually over the last two decades, making it a lucrative market for the food sector. Some key factors that have a bearing on the food sector are listed below:

- The standard Saudi diet is rich in meat, processed foods, sugar and caffeine.
- The Saudi dairy market was worth USD3.7 billion in 2009, according to Datamonitor. Cheese and milk contribute the most (35.3% and 32.5%, respectively) to the dairy market's value.
- The poultry market was worth USD3.2 billion in 2010. Saudis consume both frozen (60%) and fresh poultry products (40%). Saudi Arabia is the third-largest importer of chicken in the world after Russia and Japan.
- According to Datamonitor, in 2009, the food retail industry was valued at USD36.8 billion, after expanding at a CAGR of 15.6% during 2005–09. Consumers opt for hypermarkets, supermarkets and discount stores that constitute 56.1% of the food retail industry, followed by food and drink specialists (26.9%).

## Key Driving Factors

- The key driver of the food sector in Saudi Arabia is its population, which is the largest among GCC countries and growing at among the world's fastest rate. As per Business Monitor International estimates, the **Saudi population is estimated to double by 2023**.
- Saudi processed foods industry benefits from the country's **favorable demographic profile**. The Saudi Labour Ministry estimates that nearly 70% of the population was less than 30 years of age in 2010. This is higher compared to 44% in the UAE, 48% in Kuwait, 50% in Qatar, and 54% in Bahrain, as per UN estimates.
- Sale of ready-to-consume food products is driven by additional **demand from pilgrims** during Hajj. According to Jones Lang La Salle, pilgrims visiting Saudi Arabia are expected to increase at a CAGR of 5.9% during 2008–19.
- Saudi Arabia's **high ratio of people suffering from obesity and diabetes implies that it could have a strong market for health food**. According to the Saudi Arabian Ministry of Health, 51% of Saudi women, 45% of Saudi men, 29% of teenage girls and 36% of Saudi boys are obese.
- **Education and changing lifestyle**, rising employment in the private sector and among females is providing an impetus to the ready-to-eat food products market.

## Government Initiatives

- Government benefits and subsidies increased land under cultivation to 9 million acres from 400,000 acres in 1976. Saudi Arabia is one of the global leaders in terms of acquiring land in third countries—it cultivates these lands and exports farm products back to itself, thereby ensuring food security.
- Currently, the government provides subsidies for wheat production by supplying free desalinated water, which is quite expensive otherwise. However, it plans to cease this by 2016. The government also aims to phase out production of water-intensive crops and source it through imports to preserve the country's scarce water resources.
- The government supports the value-added food processing sector through financing schemes and subsidies to ensure dependence is only on raw input materials. It allocated USD12.3 billion for the development of agricultural infrastructure, including irrigation, electricity, transportation and mills in 2010.
- The government's initiatives led to the development of the dairy industry, which now also contributes to the country's exports.
- The Saudi Company for Agricultural Investment & Animal Production (SCAIAP) was established in 2009 to invest USD800 million in agriculture and livestock production companies as a measure to enhance food security.

## United Arab Emirates

### Economic Overview

According to the IMF, UAE's GDP is estimated to grow 3.3% in 2011 compared to 3.2% in 2010, mainly due to a rebound in tourism and other services as well as rising oil prices. The IMF projects the economy to expand at a CAGR of 4.1% during 2011–15.

### Food Imports

Year	Imports (USD billion)	CAGR
2010	3.6	11%
2015	5.5	9%
2020	8.4	9%

Source: EIU

### Macro-economic Indicators

Indicators	Unit	2010E	2011E	2015E
GDP*	US\$ bn	301.9	363.8	453.6
Population	mn	5.1	5.2	5.9
Inflation*	%	0.9	4.5	2.2
GDP per capita	US\$	59,716.9	69,872.4	77,395.3

Source: IMF, Economist Intelligence Unit

Note: \* indicates 2010 numbers are actual

### Key Food Players

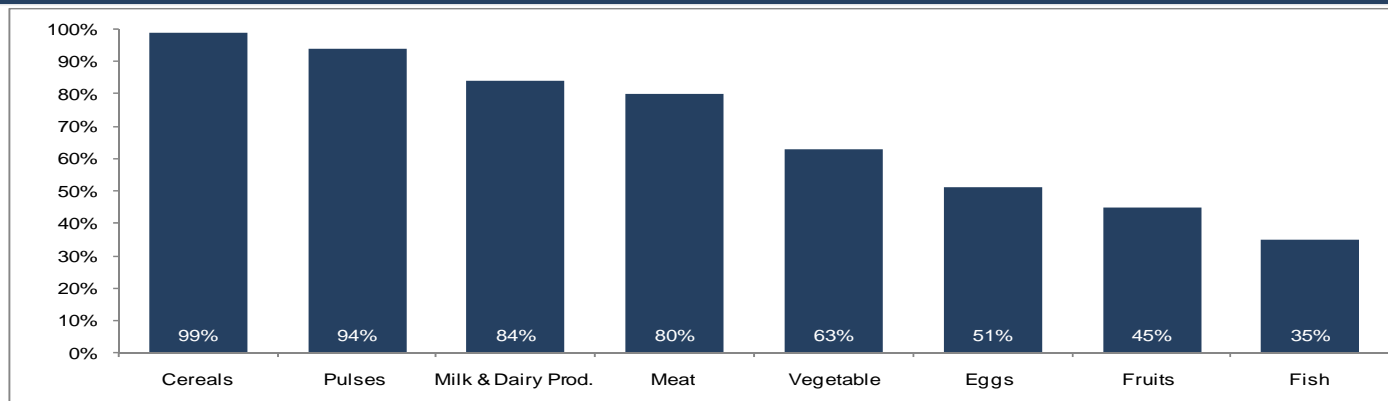
Company	Type
Agthia Group PJSC	Food & beverages
Ras Al Khaima Poultry & Feeding Company	Poultry
Sahar Enterprises	Food
Al Ghurair Foods	Food & edible oil
International Foodstuffs Company	Candy & confections

### Food Scenario

Agriculture contribution-2010 GDP	Arable Land	Food Produced Locally
0.90%	0.80%	Dates, vegetables, watermelons; poultry, eggs, dairy products, fish

Source: FAO, Bloomberg

### Key Food Commodities: 2007 Dependence on imports for consumption



Source: Arab Agriculture Statistics Yearbook - 2009

## Industry Scenario

Food consumption in the UAE (by value) has been growing 12% per year; within this, demand for food staples has increased 30%, as per the Ministry of Economy. According to official reports, the region currently imports 85% of its food requirement. The salient features of UAE's food sector are:

- Meat consumption stood at 18x of the global average in 2009. This is primarily ascribed to high per capita income (which encourages spending on high-cost food items) and demand from the tourism industry.
- Fruits and vegetables is the largest component of food consumed (accounting for 35% of the total).
- The dairy market (worth USD568.3 million) is dominated by Yogurt & Fromage Frais, which accounted for 34.4% of the total market in terms of value, according to Datamonitor.
- The food retail industry expanded at a CAGR of 20.6% during 2005–09 and was valued at USD6.1 billion in 2009. Within this sub-sector, hypermarkets, supermarkets and discount stores accounted for 82.9% of total sales, as per Datamonitor. Notably, UAE's Mass Grocery Retail (MGR) is one of the largest sectors in the Gulf.
- Sales in retail food outlets constitute 75–80% of imported consumer-ready products and 20–25% of locally processed foods, according to Ras Al Khaimah Investment Authority (RAKIA).
- The USD3 billion food processing industry, growing at an average annual rate of 11%, is a major contributor to re-exports.

## Key Driving Factors

- **The growing tourism industry** is beneficial for the food sector. As per official figures, UAE hosted approximately 11.6 million tourists during 2010. Dubai and Abu Dhabi plan to add 16,539 and 7,849 rooms, respectively.
- The government's initiatives to **develop other emirates** (for instance, Ras Al Khaimah) would increase the number of expatriates in the UAE raising demand for food. Currently, expatriates constitute 85% of the nation's population.
- Strong **demand from the catering industry** that serves in-flight meals has benefited UAE's food sector. Currently, more than 120 airlines operate flights to and from Dubai. Officials reported Dubai International Airport handled 46.3 million passengers during 2010 ranking it fourth globally.
- UAE's food industry generates additional revenues from its **strong re-exports** mainly due to its strategic location. The UAE imports raw or semi-processed agricultural products for further processing and re-export. The country re-exports nearly 50% of imported food products to other GCC countries as well as Russia, India, Pakistan and East Africa.
- The 10% annual growth in the **sweets and confectionary industry** is adding to growth in the food industry. During 2009, the industry was estimated at approximately USD 82 million (AED300 million), according to Dubai Chamber of Commerce and Industry; it contributed to 37% of food exports.

## Government Initiatives

- During June 2011, the government announced a scheme in partnership with retailers to offer basic food under 400 categories at lower prices. The support scheme has been launched for six months through 70 outlets and involves retailers such as Carrefour, Lulu and Spinney's.
- In an effort to improve food security, the government has been investing in agriculture projects abroad, especially in Vietnam, Cambodia, Egypt, Pakistan, Romania, Sudan and the Americas, to secure food supplies and safeguard against market fluctuations.
- Abu Dhabi Fund for Development announced plans to invest in 30,000 hectares (equivalent to 30 square kilometer) of land in Sudan; it intends to commence with production of fodder and later wheat, corn and potatoes. The investment is likely to extend up to 400,000 hectares of land.
- The UAE government encourages the value-added food manufacturing sector to cater local and re-export markets. In line with this, the government has invested USD1.4 billion since 1994. As a result, the country currently has 150 food processing plants.



## Kuwait

### Economic Overview

Kuwait's GDP is estimated to have grown 2.0% in 2010 after contracting 5.2% in 2009. The growth is mainly driven by the rise in oil prices. IMF estimates the economy to grow 5.3% during 2011 and record a CAGR of 4.9% during 2011–15.

### Food Imports

Year	Imports (USD billion)	CAGR
2010	2.3	11%
2015	3.6	9%
2020	5.3	8%

Source: EIU

### Macro-economic Indicators

Indicators	Unit	2010E	2011E	2015E
GDP	US\$ bn	131.3	172.8	217.9
Population	mn	3.6	3.7	4.0
Inflation	%	4.1	6.1	2.9
GDP per capita	US\$	36,412.0	46,969.8	54,736.7

Source: IMF, Economist Intelligence Unit

### Key Food Players

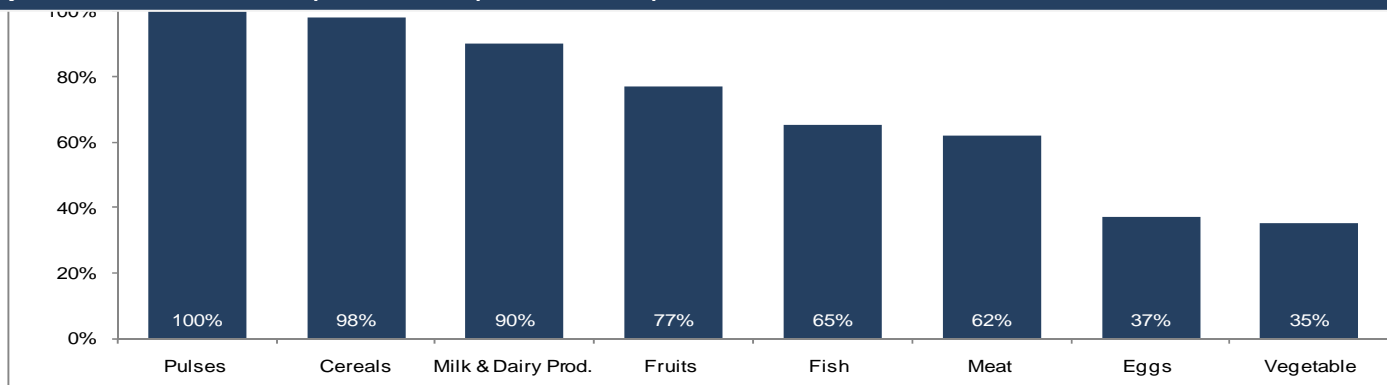
Company	Type
Kuwait Foods Company	Fast food
Danah Al Safat Foodstuff Co KSC	Fish & sea food
Kout Food Group	Fast food
Kuwait United poultry company	Poultry farming
United foodstuff industries Group Company	Grain Products

### Agriculture Scenario

Agriculture contribution-2010 GDP	Arable Land	Food Produced Locally
0.30%	0.80%	Fish

Source: FAO, Bloomberg

### Key Food Commodities: 2007 Dependence on imports for consumption



Source: Arab Agriculture Statistics Yearbook - 2009

## Industry Scenario

Kuwait imports around 98% of its total food requirement. Food consumption habits are changing in Kuwait as consumers are becoming more inclined towards western foods, while snacks and processed foods too are gaining popularity in the region. Kuwait relies heavily on animal produce, which accounts for 36% of total food consumption.

### Key Driving Factors

- According to consulting firm A T Kearney's 2010 Global Retail Development Index, Kuwait was **ranked second among the top 30 emerging markets for retail expansion**. The ranking, based on 25 macroeconomic and retail-specific variables, augurs well for MGR outlets.
- Food items account for 30% of average **household spending** in Kuwait (*compared to 15% in UAE and Qatar*). This coupled with the high GDP per capita bodes well for the food sector.
- Kuwait's **ratio of urban population to total population is one of the highest in the world**. As per UN estimates, 98.4% of the nation's population is urban. The urban population generally consumes more processed, ready-to-eat high value food items relative to the rural population.
- The **USD130 billion investment plan** to diversify the economy would have a multiplier effect that would create demand for all categories of food products.

### Government Initiatives

- Kuwait established The Public Authority for Agriculture Affairs & Fish Resources (PAAAFR), which focuses on attaining self-sufficiency in fish sector and agricultural products. The government allocated KWD22.14 million to PAAAFR for 2010–11.
- Kuwait has a long-term cooperation pact with Vietnam that ensures food security for the former and energy security for the latter.
- Kuwait leased 50,000–130,000 hectares of land from Cambodia for 70–90 years to produce rice. The rice produced in Cambodia would be exported to Kuwait. In return, Cambodia received soft loans worth USD546 million for infrastructure projects.
- The country established the Kuwait Institute for Scientific Research (KISR) to conduct research in the area of biotechnology in order to facilitate crop yield in salty soil and hot climate; improve fisheries management, animal feeding and care and other related areas.
- The nation established the Kuwait Fund for Arab Economic Development (KFAED) and the USD100 million Decent Living Fund to assist people across the world in various areas, including food security.

## Oman

### Economic Overview

Oman's GDP grew 4.2% in 2010 compared to 1.1% in 2009. Oman projects a record expenditure of USD21.12 billion for the current financial year. Higher tourist arrivals and foreign direct investments would also contribute to the growth in the current fiscal. IMF estimates Oman's GDP to expand at a CAGR of 4.6% during 2011–15.

### Food Imports

Year	Imports (USD billion)	CAGR
2010	2.1	17%
2015	3.3	9%
2020	4.8	8%

Source: EIU

### Macro-economic Indicators

Indicators	Unit	2010E	2011E	2015E
GDP	US\$ bn	55.6	66.0	82.6
Population	mn	3.0	3.1	3.5
Inflation	%	3.3	3.5	3.0
GDP per capita	US\$	18,657.0	21,421.3	23,670.8

Source: IMF, Economist Intelligence Unit

### Key Food Players

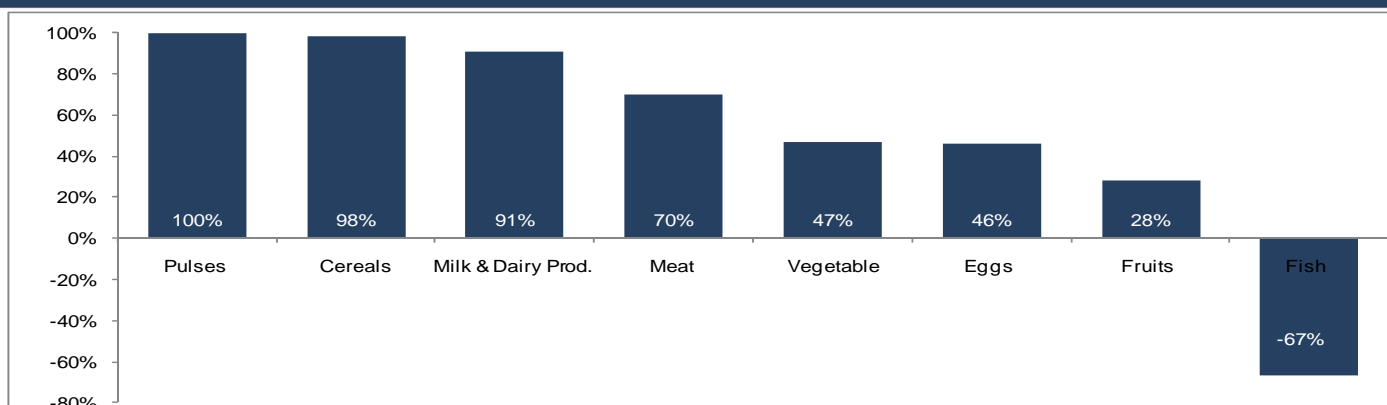
Company	Type
Oman Flour Mills Company	Food Processing
A'Saffa Foods	Poultry
Salalah Mills Company	Wheat
Oman Fisheries Company	Fish
Areej Vegetable Oils	Oil

### Agriculture Scenario

Agriculture contribution-2010 GDP	Arable Land	Food Produced Locally
1.40%	0.1%	Dates, limes, bananas, alfalfa, vegetables; camels, cattle, fish

Source: FAO, Bloomberg

### Key Food Commodities: 2007 Dependence on imports for consumption



Source: Arab Agriculture Statistics Yearbook - 2009

## Industry Scenario

Oman meets around 80% of its food requirement through imports. However, the nation depends less on the import of farm food compared to other GCC countries. Agriculture, livestock and fisheries were the main sources of income for about 66% of the Omani population in 2008. Approximately 100 food processing units in the country utilize locally produced food products as raw material. On an average, these units export 60% or more of their overall production. According to official estimates, exports by the agricultural and foodstuff sector accounted for more than a third of total non-oil exports in 2008.

The Omani fisheries sector is the key contributor to the country's food sector and economy. The fisheries industry provides livelihood to more than 200,000 people who undertake fishing activities across the country's 1,700 kilometer coastline. Growing importance of the sector persuaded the government to establish a separate Ministry of Fisheries by Royal Decree in 2007 in order to govern regulations and legislation.

## Key Driving Factors

- The **food sector is likely to continue enjoying benefits provided by the government** since most of the country's population is employed in the agriculture, livestock, fisheries and food processing sectors.
- Oman's **fishing sector offers a high growth potential to the country's industrial fishing and processing**. According to the Ministry of Agriculture and Ministry of Fisheries Wealth December 2009 report, the fishing sector grew at an annual rate of 6.4% during 2000–07. Traditional fishing contributed 89.2% to total fish production.
- Oman's **increasing self-sufficiency to produce food items is beneficial for food processing companies** in the country as locally produced raw materials lower input cost. According to the latest official estimates, Oman has attained self-sufficiency in producing tomatoes, cabbages, carrots, potatoes, corn and all kinds of melons. Overall, the nation has achieved 72% self-sufficiency in fruits, 54% in eggs and 53% in vegetables.
- As per Eastern Mediterranean Regional Health System Observatory, Oman's **median age is 18.8 years, one of the lowest among GCC nations**. Thus it is beneficial for the food sector as young population is more inclined towards processed and ready-to-consume food items.
- Oman's population expanded at a CAGR of 1.9% during 2000–10, the lowest among GCC countries. The IMF estimates the country's **population to expand at a CAGR of 3.2% during 2011–15**. This is expected to benefit the food sector.

## Government Initiatives

- The Omani government offers subsidies to greenhouses in order to raise local food production. The country currently has 3,000 greenhouses. Single and double greenhouses are offered OMR2,000 and OMR4,000, respectively. Furthermore, soil-less growing techniques are offered OMR3,000 and OMR6,000 for single and double shade, respectively.
- Since 2000, Oman's government has invested OMR20.1 million in agriculture and fishery development. It has also infused OMR39.4 million on water resources to improve agriculture and fishing activities.
- Oman's ministry is working on a long-term "Strategic Plan for Sustainable Development of Agriculture" in association with the Arab Organization for Development of Agriculture (AODA).
- The nation announced funding totaling OMR4 million to support projects for rural women in livestock and honey breeding. Oman has also earmarked OMR10 million for modern irrigation system, agricultural automation and livestock breeding technologies; OMR4 million for pest-control programs; and OMR3 million for research on developing agriculture sector.
- According to the Commerce and Industry Minister, the nation's food security strategy is to increase local food production and reserves. The government announced plans to build 56 warehouses at a cost of OMR0.42 million.
- The Ministry of Agriculture completed the digital mapping of pastures in April 2011. This was the first phase of development and management of pastoral resources in around 261,000 hectares of land.
- The government is also acquiring farm land in foreign countries to ensure food security.

## Qatar

### Economic Overview

According to the IMF, Qatar's GDP is estimated to have grown 16.3% in 2010 compared to 8.6% in 2009. The growth can be attributed to massive expansion in the nation's hydrocarbons capacity. The IMF estimates a slowdown in the country's growth to an average annual rate of 4.9% during 2012–15, after a 20.0% expansion in 2011.

### Food Imports

Year	Imports (USD billion)	CAGR
2010	1.3	13%
2015	2.1	10%
2020	3.3	9%

Source: EIU

### Macro-economic Indicators

Indicators	Unit	2010E	2011E	2015E
GDP	US\$ bn	129.5	194.3	234.8
Population	mn	1.7	1.8	2.1
Inflation	%	-2.4	4.2	4.0
GDP per capita	US\$	76,167.8	109,881.4	113,533.7

Source: IMF, Economist Intelligence Unit

### Key Food Players

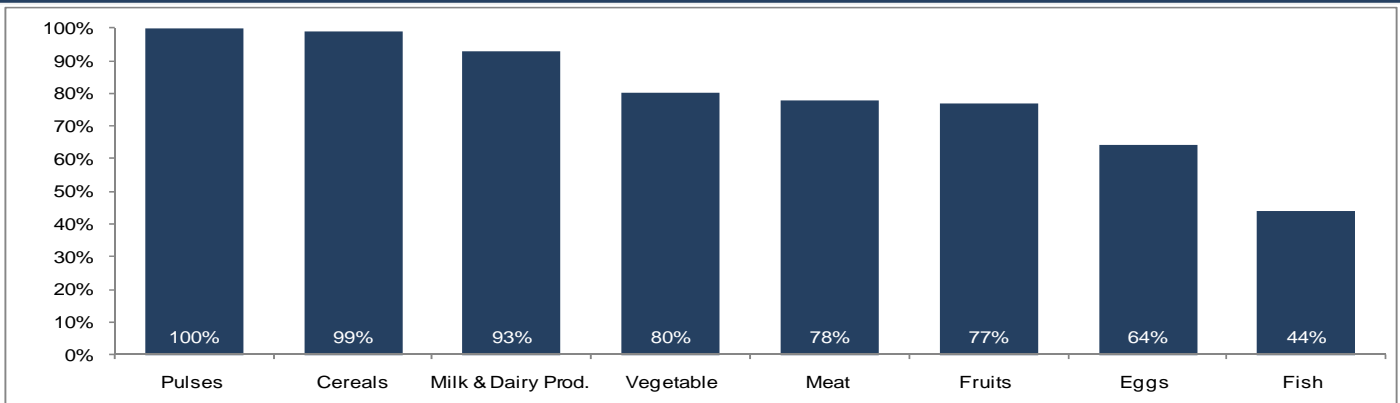
Company	Type
Zad Holding Company	Grain
Qatar Meat & livestock Company	Meat
Arab Qatari Company	Dairy
Qatar Tunisian Food Company	Edible oil
Oriental Bakery	Bakery

### Agriculture Scenario

Agriculture contribution-2010 GDP	Arable Land	Food Produced Locally
0.1%	1.6%	Fruits, vegetables; poultry, dairy products, beef, fish

Source: FAO, Bloomberg

### Key Food Commodities: 2007 Dependence on imports for consumption



Source: Arab Agriculture Statistics Yearbook - 2009

## Industry Scenario

Qatar currently meets 90% of its food requirement through imports. Some of the prominent features of the country's food sector are:

- The country's per capita food consumption increased 4.73% yoy in 2010. Among animal products, the Qatari population prefer lamb, mutton and goat meat.
- Mass grocery retail (MGR)'s sales rose 16.01% yoy in 2010.

## Key Driving Factors

- After winning the bid to host the **FIFA 2020 World Cup**, the Qatari government has drafted an infrastructure spending plan totaling USD50 billion. The initiative is likely to boost the demand for food and have a multiplier effect on population growth. The country is expected to see a rise in expatriates, mainly due to the increased need for workers to support the infrastructure development plans.
- **Development of the hospitality industry** would further boost demand in the food sector. According to the FIFA, Qatar has earmarked USD17 billion to develop hotel properties in the next five years. According to the Qatar Tourism Authority, the industry would have 90,000 new rooms over the next 12 years.
- Qatar's **GDP per capita** is the highest in the GCC region and **among the highest in the world**, as per IMF data. This has led to high per capita food consumption by value, thus benefiting the food industry.
- The country has high **economically active population, the highest among GCC countries**. According to official figures by the UN, around 84% of the nation's population was economically active in 2009 (compared to 55% in Saudi Arabia, 78% in the UAE, 56% in Oman, 69% in Kuwait and 64% in Bahrain). This has increased the demand for high value and processed food products.
- The **confectionary market's growth rate** (24%) has outperformed the GCC's average (15%), according to a TNS Media Intelligence survey.
- Qatar's **demographic profile** (86% of total population comprise expatriates; 95.8% urban) is favorable for the packaged and processed food sector.

## Government Initiatives

- The Qatar National Food Security Program (QNFSP) expects to attain 60–70% food security by 2023 through the development of four sectors: renewable energy, desalination and water management, agricultural production, and food processing. The nation plans to meet this target in five stages (currently under planning phase; execution phase is likely to commence in 2013). Through the QNFSP, the government is looking for measures to encourage the food processing industry.
- Qatar's Investment Authority, through its company Hassad Food, has adopted a strategy to invest in agricultural businesses in foreign countries. So far, the company has invested USD500 million to acquire stakes in global agricultural firms.
- In April 2011, the country signed a Memorandum of Understanding (MoU) with the US to enhance worldwide food security.
- Qatar is seeking to lease 400,000 hectares of land in Kenya against a USD3.5 billion loan to the latter's government.
- The country agreed to invest USD200 million in Cambodia in order to secure purchasing options on yields from crops.
- The Qatar Investment Authority (QIA) established a USD1 billion joint venture with Vietnam. The QIA would provide 90% of funds for investment in various sectors, including agriculture.
- Qatar is in the process of acquiring farm land in countries such as Argentina, Ukraine and Turkey. The move is intended to ensure food security and hedge risks related to food price volatility.

## Bahrain

### Economic Overview

According to the IMF, Bahrain's GDP increased 4.1% in 2010 compared to a rise of 3.1% a year earlier. The growth can be ascribed to recovery in the manufacturing, hotels, construction and finance sectors. The IMF projects the Bahrain's GDP to expand 3.1% during 2011 and at a CAGR of 5.5% during 2012–15.

### Food Imports

Year	Imports (USD billion)	CAGR
2010	0.7	12%
2015	1.1	9%
2020	1.6	8%

Source: EIU

### Macro-economic Indicators

Indicators	Unit	2010E	2011E	2015E
GDP	US\$ bn	22.7	26.5	33.7
Population	mn	1.1	1.1	1.2
Inflation	%	2.0	3.0	2.5
GDP per capita	US\$	20,474.8	23,465.5	27,606.2

Source: IMF, Economist Intelligence Unit

### Key Food Players

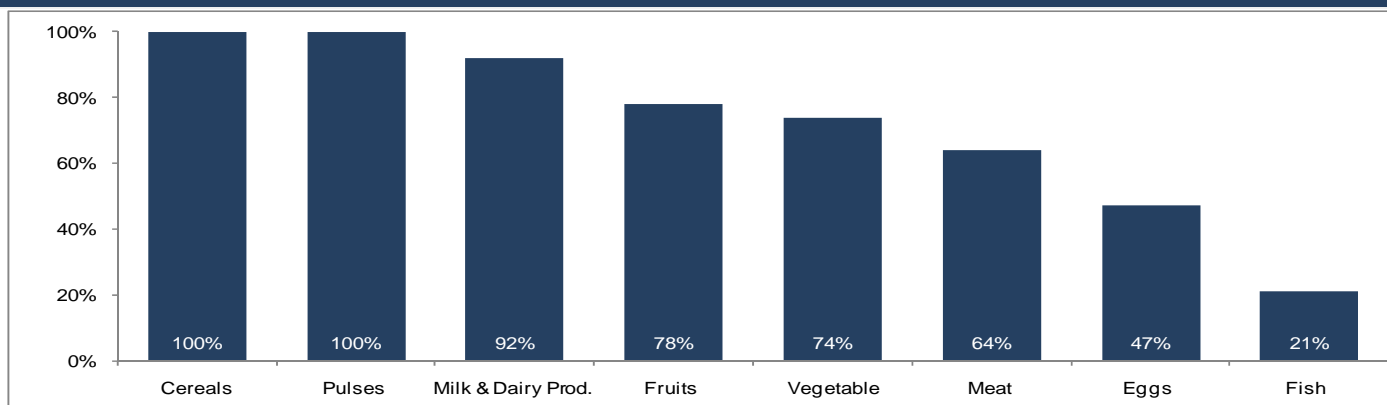
Company	Type
Bahrain Maritime & Mercantile International	General food
Awal dairy company	Dairy
Bahrain Flour Mills Company	Grain
Delmon Poultry Company	Poultry

### Agriculture Scenario

Agriculture contribution-2010 GDP	Arable Land	Food Produced Locally
0.5%	2.9%	Cotton, rice, corn, wheat, beans, fruits, vegetables; cattle, water buffalo, sheep, goats

Source: FAO, Bloomberg

### Key Food Commodities: 2007 Dependence on imports for consumption



Source: Arab Agriculture Statistics Yearbook - 2009



## Industry Scenario

The food processing industry is a key economic engine for Bahrain. The government is undertaking various initiatives to attract foreign investment in the country. Currently, 45% of people employed in the sector are Bahrainis.

Bahrain has the largest proportion of arable land to total land in the GCC. Similar to other GCC peers, Bahrain is highly dependent on imports to meet its food requirement. The country has limited water resources. The key features of the country's food sector are:

- Animal produce is vastly consumed in the country (41% of people's diet). This share is larger compared to Kuwait's 36% and Qatar's 39%.
- In 2008, chicken meat, milled rice and cheese of whole cow milk were the top food commodities imported (in stated order) in terms of value.
- Cereal consumption in Bahrain (15% of total food consumed) is the lowest in the GCC.

## Key Driving Factors

- Bahrain's strategic **location** has helped it emerge as an attractive destination for food processing firms. The nation is well-connected to Saudi Arabia, the largest market in the Gulf region, through a 25 kilometer causeway. It is also well-connected to other major markets such as Kuwait, Iran, and Qatar (40 km causeway planned to commence from 2013).
- **Policies** related to the establishment of food manufacturing facilities are quite accommodating in Bahrain. The country allows 100% foreign ownership, 0% tax rate, no duties on capital goods and raw material, and free trade agreements with the US and GCC markets. Thus, the nation has managed to exert a pull on the world's renowned brands such as Kraft, Intercol (Nestle) and Coca Cola. These companies cater to the burgeoning GCC markets.
- Bahraini customers have **high preference for high-value branded products**. According to Business Monitor International, the global economic recession in 2009 led to a shift in consumer preference. (Customers preferred small-sized packs of high brand products over large packs and did not shift to cheaper brands.)
- The proportion of **educated and economically active population** (as a percentage of total population) has been increasing in Bahrain. This is likely to fuel the food sector's growth as such population has a higher appetite for high value and processed food products.

## Government Initiatives

- The government offers subsidies on three basic commodities: red meat, poultry and flour. According to the Bahrain Chamber of Commerce and Industry (BCCI), the country provided subsidies totaling BHD4.2 million in 2010; the figure is estimated at BHD6.5 million in 2011.
- The country's Ministry of Industry and Commerce encourages the foodstuff processing industry to preserve agricultural and animal products through processing. According to the ministry, more than 112 factories manufacture various food products in Bahrain.
- The nation is undertaking various initiatives to ensure food security. It has come up with schemes that encourage the private sector to produce leafy vegetables in greenhouses. It is also supporting the private sector to produce fish, poultry, sugar and dates.
- The government and private sector firms are investing in the overseas markets to acquire farmland for the production of fruit, vegetables, rice and corn in an attempt to meet the rising demand. Bahrain has purchased farmland in India, Pakistan, Philippines, Thailand, Turkey and Sudan.

# Company Profiles

## Almarai Co Ltd.

### Company Description

Almarai is a Saudi Arabia-based company engaged in the manufacture and distribution of consumer foods and beverages (primarily in the Middle East). The company sells dairy and juice products under the Almarai brand; bakery products under L'Usine and 7Days brands; and poultry products under the Alyoum brand. Established in 1976 as a traditional dairy farming company, Almarai has diversified its business lines over the years through organic and inorganic growth strategies to include variants of milk products, bakery products, poultry, arable and horticultural products, and most recently, infant nutrition products.

Almarai is a market leader in dairy products and juices in Saudi Arabia and the neighboring Gulf Cooperative Council (GCC) countries. It is also one of the largest integrated dairy operators in the world. The company serves over 40,000 consumers through 89 distribution depots across six GCC nations.

### Business Segments and Product Portfolio

- Almarai operates through four reportable segments: Dairy and Juice, Bakery, Poultry, and Arable and Horticulture.
- Leading revenue generators for 2010 within the products category were Fresh Dairy (accounting for 45.7%), Cheese and Butter (18.5%), Bakery (11.9%), Fruit Juice (10.8%) and Long-life Dairy (9.5%).
- In 2010, revenues from the GCC region accounted for 99% of total revenues. A major portion of revenues were derived from Saudi Arabia (71.2%), followed by the UAE (10.5%), Kuwait (5.8%), Oman (5.0%), Qatar (4.3%) and Bahrain (2.3%).
- Revenue by channel is diversified as Small groceries (contributed 33% to revenues in 2010),

### Key Strengths

- The company's total revenue expanded at a CAGR of 24.2% during 2004–10. Revenue from Cheese & Butter and Dairy segments expanded at a CAGR of 26% and 19%, respectively, during 2005–10. Almarai is a market leader in dairy products.
- Almarai and Enfamil featured among Credit Suisse's top 27 global brands in 2010.
- Savola Group, a majority shareholder, is engaged in the packaging material and fast food business, which complements Almarai's operations and contributes to its growth.
- As part of expansion initiatives, Almarai plans to spend SAR6.5 billion under its five-year business plan.
- Vertically integrated business enables the company keep costs low.
- Extensive product portfolio and strong distribution network across the GCC region.

### Recent Developments and Future plans

- Almarai's infant nutrition plant (involving capital investment of SAR800 million) at Al Kharj, first of its kind in Saudi, is expected to be fully operational by the end of 2011.
- The company plans to expand its poultry business by increasing capacity from 17 million birds p.a. in 2010 to 25 million p.a. in 2011 and 100 million p.a. by 2012.
- Almarai seeks to drive growth and market share in both Jordan and Egypt through IDJ (International Dairy and Juice Co – JV with PepsiCo).
- Management targets to achieve a turnover of SAR15 billion (~USD4.0 billion) by 2015.

**Current price (USD)** 24.86

Price as on 26-06-2011

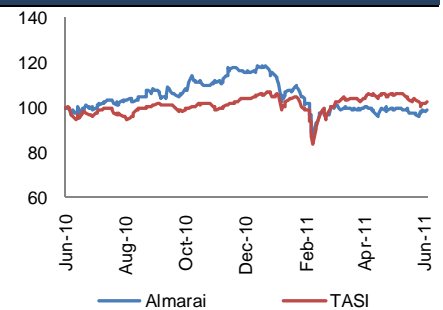
### Stock Details

Bloomberg ticker	ALMARAI AB
52 week high/ low	29.68/22.00
Market Cap (USD mn)	5,719
Enterprise value (USD mn)	7,083
Shares outstanding (mn)	230

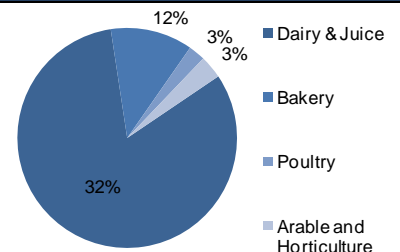
### Average Daily Turnover (000's)

	SAR	USD
3 M	24,372	6,499
12 M	25,613	6,830

### Share Price Chart



### Segment Revenues Contribution



### Valuation Multiples

	2010	Current	2011E
P/E (x)	20.0x	16.7x	15.7x
P/B (x)	4.2x	3.4x	3.1x
EV/S (x)	4.4x	4.4x	3.4x
Dividend Yield (%)	2.0	2.4	2.6

Source: Bloomberg

### Shareholding Structure

Savola Group	29.90%
HH Prince Sultan Bin Mohammed Bin Saud Al Kabir	28.60%
Omran Mohammed Omran and Partners Company	5.70%
HSBC Saudi Arabia Limited	3.49%
Public	32.31%
<b>Total</b>	<b>100.00%</b>

Source: Zawva



#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	1,546.6	1,848.7	18.2	
COGS	804.2	988.0	22.9	• Revenues increased to USD1,848.7 million (18.2% yoy) in 2010 due to growth in volumes across segments.
Operating Income	341.0	389.3	14.2	• Almarai's operating margin stood at 21.1% and net income margin stood at 18.5% in 2010.
Operating Margin (%)	21.8	21.1		• Net income rose 14.2% yoy to USD342.9 million in 2010.
Net Income	292.4	342.9	17.3	
Net Income Margin (%)	18.7	18.5		
ROE (%)	20.4	21.0		
ROA (%)	10.0	10.2		

Source: Company Data, Zawya

#### Key Risks/ Concerns:

- Inflationary pressure on feed and dairy commodities input costs may lead to shrinking margins
- Rising price of packaging materials
- Unrest in the GCC region

## Savola Group

### Company Description

Saudi Arabia-based Savola Group (Savola) primarily operates in three key sectors: Food (Edible Oils and Sugar), Retail and Plastics. In addition, the company invests in leading companies in Saudi Arabia, real estate, and investment funds. Founded in 1979, Savola employs around 17,000 people and operates primarily in the MENACA (Middle East, North Africa and Central Asia) region.

Savola is the world's largest manufacturer of branded cooking oil and the leading sugar refiner in the MENACA region. In Saudi Arabia, the company commands a 62% share in the edible oils market and 68% share in the sugar market. Additionally, Savola is the largest mass grocery retailer (MGR) by sales in Saudi Arabia.

### Business Segments and Product Portfolio

- Savola primarily operates through its subsidiaries in four segments: Savola Foods (Edible Oils, Food and Sugar), Savola Retail (Panda and Hyper Panda), Real Estate (Kinan International) and Savola Plastics.
- Revenues from the Saudi Arabia accounted for 65% of total revenues in 2010, followed by Egypt and Iran (12% each) and other countries (11%).
- Panda, a Savola Retail brand, owns and operates more than 124 supermarkets and hypermarkets across Saudi Arabia. The company's franchising unit has exclusive rights for 10 international fashion brands.

### Key Strengths

- Robust revenue growth, with a CAGR of 23.3% during 2006–10
- Diversified business profile: Food, Retail, Plastics and Investments
- Strong vertical integration, ranging from packaging to retail outlets
- Leading market player in the Saudi Arabian edible oils and sugar segment
- Strong brand portfolio: Almarai (Edible Oils), Arabi (Food) and Panda (Retail)
- Largest retailer with respect to sales and selling area in Saudi Arabia
- Plastic production facility received King Abdulaziz Quality Award as well as MRPII Class A, ISO 9001 and HACCP certification
- Ranked second in S&P's study on governance and transparency in Arabic countries
- Holds a 29.9% stake in Almarai Co Ltd (the latter produces and distributes consumer foods and beverages, which complements Savola's business).

### Recent Developments and Future Plans

- Savola would dispose its stake in Al Batool International Company, its franchising activity operator, in 2011.
- Savola is focused on investing in the retail segment; it plans to increase retail outlets to more than 160 by 2014 from 124 in 2010.
- The company targets to generate net income of SAR1.0 billion in 2011 (excluding capital gains and exceptional items) compared to SAR933 million in 2010.

Current price (USD) 7.27

Price as on 26-06-2011

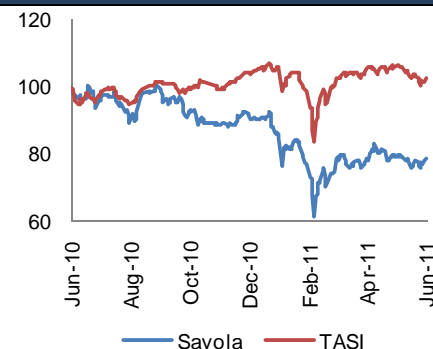
### Stock Details

Bloomberg ticker	SAVOLA AB
52 week high/ low	9.26/5.67
Market Cap (USD mn)	3,560
Enterprise value (USD mn)	5,162
Shares outstanding (mn)	500

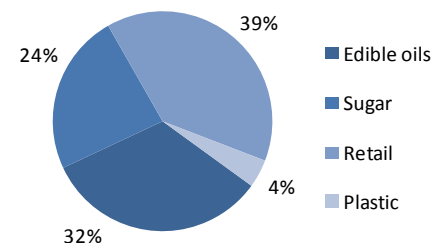
### Average Daily Turnover (000's)

	SAR	USD
3 M	13,767	3,671
12 M	16,584	4,422

### Share Price Chart



### Segment Revenues Contribution



### Valuation Multiples

	2010	Current	2011E
P/E (x)	18.0 x	20.8x	13.4x
P/B (x)	2.3 x	1.9x	1.7x
EV/S (x)	1.0 x	1.0x	0.8x
Dividend Yield (%)	3.9	2.7	3.6

Source: Bloomberg

### Shareholding Structure

Mr Mohammed I. Al Issa	11.90%
Organization for Social Insurance	10.90%
Others	17.20%
Public	60.00%
<b>Total</b>	<b>100.00%</b>

Source: Zawayya



#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	4776.7	5609.4	17.4	<ul style="list-style-type: none"><li>• Revenues grew 17.4% to USD5609.4 million in 2010 from USD4776.7 million in 2009.</li><li>• Profitability declined in 2010 as operating and net income margins stood at 4.5% and 4.2%, respectively.</li><li>• During 2010, ROE and ROA stood at 12.6% and 5.0%, respectively.</li></ul>
COGS	3830.5	4568.7	19.3	
Operating Income	254.1	251.3	-1.1	
Operating Margin (%)	5.3	4.5		
Net Income	253.7	236.5	-6.8	
Net Income Margin (%)	5.3	4.2		
ROE (%)	13.7	12.6		
ROA (%)	5.5	5.0		

Source: Company Data, Zawya

#### Key Risks/Concerns

- Volatile raw materials prices (edible oils, sugar and plastics)
- Lack of geographic diversification; has high dependence on Saudi Arabia (65% of total revenue in 2010)
- Key market places Saudi Arabia, Iran and Egypt may face geopolitical risks

## Kuwait Foods Americana

### Company Description

Kuwait-based Kuwait Food Company (Al Americana) operates food and beverage outlets and manufactures food products.

Al Americana operates over 1200 outlets across the MENA region. The company's franchises include globally recognized brands such as KFC, Pizza Hut, Hardee's, TGI Friday, Baskin Robbins, Costa Coffee, Krispy Kreme, and Signor Sassi. Al Americana manufactures and markets products in the region under its own brand names such as Americana Meat, Americana Cake, Farm Frites, California Garden, and Koki.

### Business Segments and Product Portfolio

- Al Americana is engaged in three main sectors: Restaurants, Industries, and Commercial.
- The Restaurants segment operates a chain of franchise stores. Industries segment undertakes manufacturing, processing and trading of food products; poultry and feed activities; and agricultural production and processing of dairy products. The segment operates as one of the largest poultry companies, Cairo poultry. The Commercial segment is engaged in the distribution of Heinz tomato Ketchup, Cadbury chocolates and other products in Kuwait.
- Al Americana is geographically well-diversified. The company generates 39% of revenues from Egypt and Africa, followed by South Gulf (24%), Saudi Arabia (19%), Kuwait (14%) and other countries (4%).

### Key Strengths

- The company is a leader in processed, frozen and cooked foods in the Arab region. The company has been operating in this space for the past 38 years.
- Al Americana has a strong own-brand consumer food portfolio with significant presence in the MENA region.
- Franchising opportunities are increasing; the company recently expanded the number of TGIF outlets and Darden Restaurants Inc.
- Egypt-based subsidiary Cairo Poultry is the largest and established company in MENA.
- The company's total revenues expanded at a CAGR of 22.5% during 2004–10.

### Recent Developments and Future plans

- T.G.I. Friday announced plans to add 30 additional restaurants in the Middle East over the next five years through its partnership with Americana Group in December 2010.
- Darden Restaurants, Inc., a full-service restaurant company, entered into a formal franchise agreement with Americana Group in October 2010 to develop and operate Darden's Red Lobster, Olive Garden and LongHorn Steakhouse brands in the Middle East and develop a minimum of 60 restaurants over the next five years.

Current price (USD) 5.67

Price as on 23-06-2011

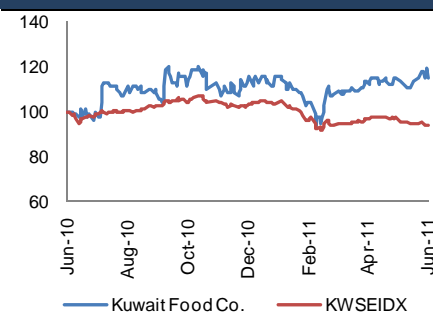
### Stock Details

Bloomberg ticker	FOOD KK
52 week high/ low	5.72/4.55
Market Cap (USD mn)	2,278
Enterprise value (USD mn)	2,852
Shares outstanding (mn)	402

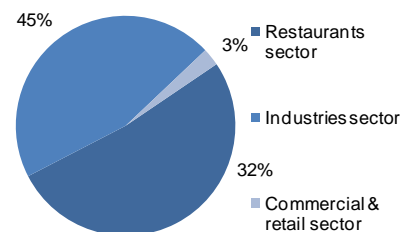
### Average Daily Turnover (000's)

	KWD	USD
3 M	142,262	515
12 M	153,788	545

### Share Price Chart



### Segment Revenues



### Valuation Multiples

	2010	Current	2011E
P/E (x)	13.9x	12.6x	12.7x
P/B (x)	2.0x	2.1x	1.7x
EV/S (x)	1.1x	1.1x	1.0x
Dividend Yield (%)	4.0	4.2	Na

Source: Bloomberg

### Shareholding Structure

Mohamed Abdulmoshin Al Kharafi and sons company	66.79%
Public	33.21%
<b>Total</b>	<b>100.00%</b>

Source: Zawya





#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	2,147.8	2,413.9	12.4	
COGS	1,683.7	1,876.4	11.4	• <i>Al Americana's total revenues grew 12.4% yoy to USD2,413.9 million in 2010.</i>
Operating Income	179.8	204.8	13.9	
Operating Margin (%)	8.4	8.5		• <i>Bottom line increased 13.9% to USD204.8 million, driven by enhanced operational performance.</i>
Net Income	126.4	163.9	29.7	
Net Income Margin (%)	5.9	6.8		• <i>Net margin improved by 90bps yoy to 6.8% in 2010</i>
ROE (%)	12.8	13.9		
ROA (%)	6.2	7.4		

Source: Company Data, Zawya

#### Key Risks/ Concerns:

- Flat margins due to rising prices of commodities
- Unstable geopolitical environment in MENA
- Potential outbreak of epidemics such as bird and swine flu

## Agthia Group PJSC

### Company Description

Agthia Group PJSC is an Abu Dhabi-based food and beverage group established in 2004. The company operates through four fully-owned subsidiaries: Al Ain Water (producer of bottled water and beverages), Grand Mills for Flour & Feed (engaged in the production of flour and animal feed), Al Ain Vegetable Processing and Canning Factory (manufacturer of tomato paste and frozen vegetables) and Al Ain Food & Beverages (an Egypt-based producer of tomato paste concentrate and fruit puree).

The company is organizationally structured into Agri Business and Consumer Business divisions in the UAE.

### Business Segments and Product Portfolio

- Agthia operates through three reportable segments: Flour and animal feed, Water and beverages, and Processed fruits and vegetables.
- Al Ain, the company's water and beverages brand, ranked second in the UAE Bottled market by volume (24% share), while Capri Sun ranked third in the UAE juice market by value (9.9% share).
- Grand Mill (under Flour and animal feed segment) is the leading brand in the UAE; it commands the largest market share (41%) in flour B2B volume market. The brand commands a 39% share in the flour B2C volume market and a 47% share in the feed volume market.
- Al Ain brand is the market leader in tomato paste volume market with 15% share.

### Key Strengths

- Market leader in flour, animal feed, bottled water and tomato paste business categories in the UAE.
- Product line extension to related business categories such as dairy products, processed fruits and vegetables, and frozen baked products.
- The company has strong financials. During 2006–10, net profit and revenues expanded at a CAGR of 41% and 23%, respectively.
- General Holding Corporation, an Abu Dhabi government entity, owns 51% of the company's shares.
- New initiatives in various segments have boosted growth prospects. Gross margins under Yoplait are estimated at 40–45%, while that under Fresh fruit and vegetables, Frozen baked goods and Isklar are likely to be 24–28%, 45–50%, 30–35%, respectively.

### Recent Developments and Future plans

- Agthia signed an agreement to obtain exclusive right to market 'Isklar' Norwegian premium glacial mineral water in the UAE, Qatar, Bahrain and Kuwait during Q1 2011.
- The company signed a license agreement with Chiquita Brands LLC, US, for exclusive rights to manufacture and distribute a range of natural fruit juice products under the Chiquita brand in the UAE, the GCC, Levant and Egypt during Q1 2011.
- In 2010, Agthia entered into a franchise agreement with Sodima, France, for exclusive rights to manufacture and distribute Yoplait brand dairy products in the GCC region. The brand's launch is scheduled in 2011.
- In 2010, the management announced plans to enter into the processing fresh fruit, juice and vegetable segment; operations are scheduled to begin in Q3 2011. The frozen baked segment would commence operations in Q2 2012.

Current price (USD) **0.54**

Price as on 26-06-2011

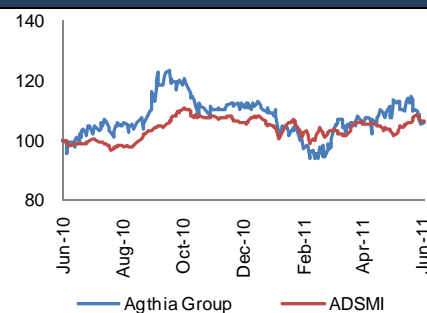
### Stock Details

Bloomberg ticker	AGTHIA UH
52 week high/ low	0.62/0.49
Market Cap (USD mn)	322
Enterprise value (USD mn)	309
Shares outstanding (mn)	600

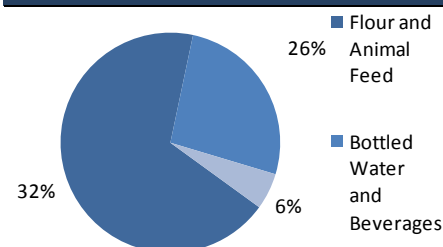
### Average Daily Turnover (000's)

	AED	USD
3 M	851	232
12 M	765	208

### Share Price Chart



### Segment Revenues



### Valuation Multiples

	2010	Current	2011E
P/E (x)	11.2x	10.9x	10.3x
P/B (x)	1.3x	1.2x	1.1x
EV/S (x)	1.2x	1.2x	1.0x
Dividend Yield (%)	2.0	2.5	2.5

Source: Bloomberg

### Shareholding Structure

General Holdings Corporation	51.00%
Abu Dhabi Public Pension fund	5.00%
Public	44.00%
<b>Total</b>	<b>100.00%</b>

Source: Zawya



#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	250.9	273.9	9.2	<ul style="list-style-type: none"><li>• Total revenues grew 9.2% yoy to USD273.9 million (exceeding the AED1 billion mark) due to strong volume growth in both bottled water and feed segments.</li><li>• At 11.5% in 2010, net income margin remained unchanged from the previous year. Net profit rose 9.4% in absolute terms to USD31.5 million.</li><li>• ROE and ROA for 2010 stood at 11.8% and 8.7%, respectively.</li></ul>
COGS	174.2	195.4	12.1	
Operating Income	28.7	27.6	(3.8)	
Operating Margin (%)	11.4	10.1		
Net Income	28.8	31.5	9.4	
Net Income Margin (%)	11.5	11.5		
ROE (%)	11.8	11.8		
ROA (%)	8.9	8.7		

Source: Company Data, Zawya

#### Key Risks/ Concerns:

- Profitability highly sensitive to change in prices of soft commodities and Polyethylene Terephthalate (PET)
- Geopolitical instability in the Middle Eastern region

## Al Jouf Agricultural Development Company

### Company Description

Established in 1988, Al Jouf Agricultural Development Company (JADCO) is a Saudi Joint Stock Company engaged in the farming and production of wheat, potatoes, onions, fruits, olives, animal feed, olive oil and honey. The company employs around 1,500 people and caters to the MENA markets.

Al Jouf's project is located at Busaita-Wadi Alsarhan, Al Jouf district, in the northern region of Saudi Arabia. The project site (including 60,000 hectares of fertile soil, abundant underground water reservoirs and favorable climatic conditions) is ideal for the cultivation of almost all of the company's products. The favorable location offers the company significant competitive advantage in the domestic Saudi Arabia market.

### Business Segments and Product Portfolio

- Al Jouf's crops-based products and services include grains and oilseed farming, animal feed, and fresh fruit and vegetable farming. The company also offers alternate food products such as edible oils, sugar, pickles, honeys, gels and sweeteners.
- Al Jouf has a greenhouse (4,000 Sq meters) to cultivate vegetable crops such as tomatoes, pepper, squash, cucumber and eggplant.

### Key Strengths

- The company has a vast land of 60,000 hectares under cultivation.
- Al Jouf has the world's largest organic olive orchard with 600,000 trees.
- The company has installed an automated olive pressing mill with a daily capacity of 240 tons, unmatched by any peers in the MENA region.

### Recent Developments and Future plans

- Al Jouf issued a bonus share for every four held during March 2011, thus raising capital by 25% to USD66.7 million.
- The company added yellow corn to its product portfolio. The current corn cultivation area of 2,000 hectares has an expected average yield of 12 tons.
- Al Jouf has been continuously investing in capacity addition. The company established a cold storage facility of 5000 tons for potatoes, onion and fruits. It also installed 5 silos of 15 tons for the storage of wheat grains.
- A consortium of Saudi agricultural companies, including Al Jouf, planned to invest USD40 million for food production in Africa.

Current price (USD) 7.07

Price as on 26-06-2011

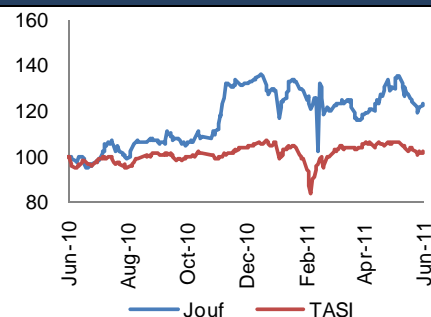
### Stock Details

Bloomberg ticker	JADCO AB
52 week high/ low	7.76/5.47
Market Cap (USD mn)	177
Enterprise value (USD mn)	168
Shares outstanding (mn)	25

### Average Daily Turnover (000's)

	SAR	USD
3 M	28,164	7,510
12 M	12,533	3,342

### Share Price Chart



### Segment Revenues Contribution

Valuation Multiples	NA		
	2010	Current	2011E
P/E (x)	11.6x	10.0x	NA
P/B (x)	1.4x	1.0x	NA
EV/S (x)	2.8x	2.8x	NA
Dividend Yield (%)	5.7	6.0	NA

Source: Bloomberg

### Shareholding Structure

Abdulrahman Bin Saeed Al Yamani	4.98%
Rashid Bin Rashed Oain	4.16%
Public	90.86%
<b>Total</b>	<b>100.00%</b>

Source: Zawya



#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	70.9	65.9	-7.1	
COGS	34.7	30.2	-13.1	• Revenues declined 7.1% to USD65.9 million during 2010 from USD70.9 million in 2009.
Operating Income	17.5	17.9	1.9	• Profitability improved as operating and net margins expanded 194 bps and 531 bps, respectively.
Operating Margin (%)	24.8	27.2		
Net Income	16.8	17.7	5.3	• ROE increased to 11.9% in 2010 from 11.8% in 2009.
Net Income Margin (%)	23.7	26.8		
ROE (%)	11.8	11.9		
ROA (%)	10.9	10.9		

Source: Company Data, Zawya

#### Key Risks/ Concerns:

- Climate and other natural risks could adversely impact Al Jouf's complete business operations.
- Increase in input costs could adversely affect the company's profitability.
- Al Jouf's products have a short shelf life as they are perishable in nature and are subject to seasonal demand.

## A'Saffa Foods

### Company Description

Oman-based A'Saffa Foods S.A.O.G is engaged in the production and distribution of poultry and grocery products. The company caters to restaurants, butcheries, catering companies and other institutions in Qatar as well as other countries.

Founded in 2001, A'Saffa has an extensive and well-established retail branch network in Oman; it has more than 1,600 outlets across the country. The company dominates the Omani poultry products market (27% share in the domestic market in 2010).

### Business Segments and Product Portfolio

- A'Saffa operates through a single segment (poultry meat). Revenues from Oman contributed 59% to total revenues in 2010, followed by other GCC nations (31%) and rest of world (10%).
- The company offers a variety of fresh meat and frozen meat products, including chicken breaded burgers, chicken fingers, chicken nuggets and beef burgers. It added chicken franks, beef franks, beef burgers and minced meat to its product portfolio in 2010.
- A'Saffa introduced the brand "Khayrat" in 2010 to the Oman market. Under the brand, it would sell beef, meat, seafood and vegetables.
- The company launched 'table eggs' as a new product line during 2011.

### Key Strengths

- The company's revenue expanded at a CAGR of 23.97% during 2006–10.
- Khayrat was rated third in Oman's Greatest 130 Brands in 2010 (as per Oman Daily Observer's Survey). It was rated as the fourth best brand in Oman by "Business Today" Magazine in December 2010.
- International body TUV certified A'Saffa with ISO 9001 Total Quality Management System, ISO 14001 Environmental Management System and HACCP for food quality and hygiene.
- A'Saffa's fully integrated poultry project and its size would lead to economies of scale.
- Direct distribution networks in Oman facilitate visibility and market penetration.
- The company has leading market positions across poultry product categories in Oman.
- A'Saffa's grid connectivity for power supply from October 15, 2010 (compared to diesel generator used earlier) is likely to reduce cost.

### Recent Developments and Future plans

- The company changed its name to A'Saffa Foods S.A.O.G. from A'Saffa Poultry Farms, S.A.O.G in 2010. The move was intended to better reflect its diverse new product basket, including seafood, vegetables and tabled eggs.
- In 2011, the company's board approved secondary expansion plans, enabling a 20% increase in production capacity.
- A'Saffa plans to invest in the value-added meat processing business. Feasibility tests for the same were carried out by M/s. Price Waterhouse Coopers (PWC) in 2010.
- During 2010, the company entered the Bahrain and Yemen markets. It also plans to enter the Kuwaiti market in the future.

Current price (USD) 1.08

Price as on 26-06-2011

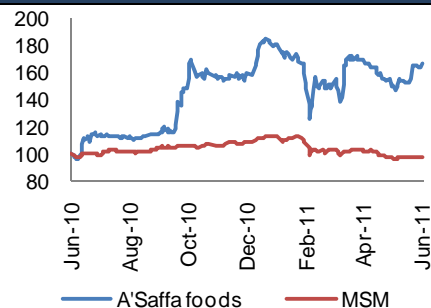
### Stock Details

Bloomberg ticker	SPFI OM
52 week high/ low	1.19/0.63
Market Cap (USD mn)	112
Enterprise value (USD mn)	133
Shares outstanding (mn)	105

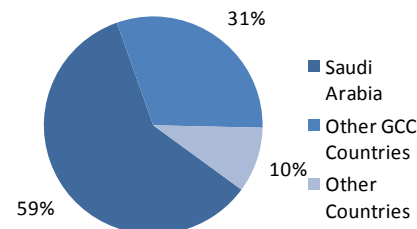
### Average Daily Turnover (000's)

	OMR	USD
3 M	26	67
12 M	73	189

### Share Price Chart



### Geographical Revenues Contribution



### Valuation Multiples

	2010	Current	2011E
P/E (x)	3.5x	15.1x	13.9x
P/B (x)	0.8x	3.6x	3.0x
EV/S (x)	1.3x	2.7x	2.4x
Dividend Yield (%)	9.9	9.9	NA

Source: Bloomberg

### Shareholding Structure

Arab Authority for agriculture	33.25%
Gulf Investment Corp	33.25%
National united company	10.00%
Others	15.47%
Public	8.03%
<b>Total</b>	<b>100.00%</b>

Source: Zawya



#### Financial Performance

(USD million)	2009	2010	% Change
Revenue	41.0	48.6	18.5
COGS	24.7	29.6	19.7
Operating Income	8.7	9.7	11.6
Operating Margin (%)	21.2	20.0	
Net Income	7.6	8.2	8.9
Net Income Margin (%)	18.3	16.9	
ROE (%)	22.1	23.9	
ROA (%)	11.6	10.5	

- Revenues rose 18.5% to USD48.6 million in 2010 as improved distribution networks enabled greater market penetration.
- Net income increased 8.9% yoy to USD8.2 million in 2010.
- Operating and net income margins during 2010 stood at 20.0% and 16.9%, respectively.

Source: Company Data, Zawya

#### Key Risks/ Concerns:

- High raw material proportion and its subjectivity to price volatility can impact profitability.
- Inexpensive and subsidized imported products threaten A'Saffa's market share.
- Outbreak of bird flu in European countries can negatively impact the company's breeder day old chick imports.

## Danah Al Safat Foodstuff Co KSC

### Company Description

Kuwait-based Danah Al Safat Foodstuff Company KSC is engaged in the fishing and food processing business. It undertakes import, export, processing, trading and distribution of seafood products. The company, founded in 1972, operates in Kuwait and other countries through various owned and external outlets. It also invests and actively participates in companies operating in foodstuffs, establishment and management of restaurants.

In March 2007, Danah Al Safat Foodstuff Company KSC (previously United Fisheries of Kuwait) changed its name to better reflect the company's assortment of new products.

### Business Segments and Product Portfolio

- Danah Al Safat Foodstuff has three business segments: Investment Activities, Fishing Operation, and Restaurant & Catering Services.
- The company undertakes all fishing-related activities and owns real estate properties and buildings related to the fishing business.
- The company's portfolio in the Investment Activities segment is managed by specialized companies and parties.
- The company offers various fresh and frozen seafood products (including fish, crabs and shrimps) and unique white fish products (including Nawaibi, Sheim, Hamoor and Zobaidi) in Kuwait.

### Key Strengths

- Complete vertical integration in fishing business (from fishing to marketing through outlets) enables complete control over the value chain.
- Danah Al Safat's wholly-owned subsidiary United Fisheries of Kuwait Company is a market leader in fishing products (fishing, processing and trading).
- Through its subsidiaries, the company is exposed to diversified activities in the food industry (including bakery and confectionery sector, restaurants and catering area, fishing and light food).
- The company's wholly-owned subsidiaries United Fisheries of Kuwait Company (Fishing segment) and Al Safat Dhiafa Company (Restaurant segment) are HACCP as well as ISO 9001:2000-certified.
- Blenz Café (under subsidiary Safat United Food Co) is a globally established brand and operates more than 100 coffee shops in Canada, Japan, Dubai and Kuwait.

### Recent Developments and Future plans

- Despite a drastic fall in net income over the past three years, Danah Al Safat Foodstuff Company declared a dividend of 5% for 2010.
- In November 2010, the company announced that its subsidiary United Fisheries of Kuwait KSC has been awarded a tender worth KWD1 million for supplying fish and shrimps to the Ministry of Defense for a period of two years.
- The company plans to expand branches of its Rose Bakery and Patisseries in Kuwait.

Current price (USD) 0.28

Price as on 26-06-2011

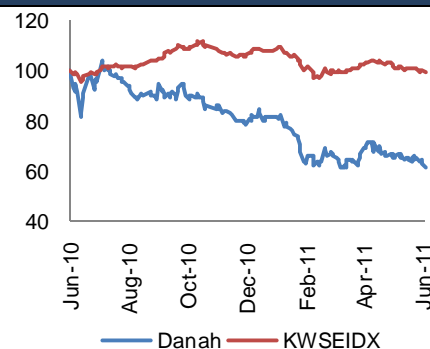
### Stock Details

Bloomberg ticker	DANAH KK
52 week high/ low	0.47/0.27
Market Cap (USD mn)	80
Enterprise value (USD mn)	71
Shares outstanding (mn)	289

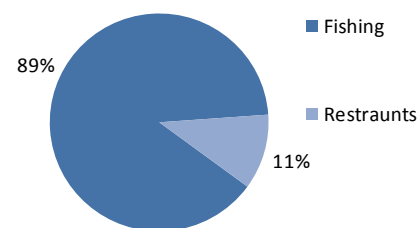
### Average Daily Turnover (000's)

	KWD	USD
3 M	126,498	459
12 M	151,469	537

### Share Price Chart



### Segment Revenues Contribution



### Valuation Multiples

	2010	Current	2011E
P/E (x)	13.7x	NA	NA
P/B (x)	0.7x	0.5x	NA
EV/S (x)	2.4x	2.4x	NA
Dividend Yield (%)	4.6	NA	NA

Source: Bloomberg

### Shareholding Structure

Al Safwa Group Holding Company	43.09%
Al Safat Investment Company	7.10%
Public	49.81%
<b>Total</b>	<b>100.00%</b>

Source: Zawya





#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	43.8	41.1	-6.1	
COGS	25.4	22.0	-13.1	• Revenues declined 6.1% yoy to USD41.1 million in 2010.
Operating Loss	-4.4	-3.7	-16.4	• The company's net income margin stood at 19.6% during 2010.
Operating Margin (%)	-10.1	-8.9		
Net Income	11.9	8.1	-32.4	• The ROA improved to 7.0% in 2010 compared to 4.8% in 2009.
Net Income Margin (%)	27.2	19.6		
ROE (%)	7.6	5.3		
ROA (%)	4.8	7.0		

Source: Company Data, Zawya

#### Key Risks/Concerns:

- Factors such as increasing industrial pollution, waste disposals and oil spills are deteriorating the quality of seafood.
- The company is exposed to market risk due to its investments in various companies.

## Jazan Development Company

### Company Description

Saudi Arabia-based Jazan Development Company (JAZADCO), established in 1993, is engaged in the cultivation, trading and distribution of agriculture and aquaculture products. JAZADCO acquires land for establishing agricultural, animal, agro-industrial and drilling projects. The company also focuses on real estate investments in Saudi Arabia.

JAZADCO's agricultural activities primarily include cultivation of tropical fruits and nursery management within the Jazan region. JAZADCO's aquaculture activities include fish and shrimp farming. JAZADCO sells fish, shrimps, vegetables, fruits (mangoes, bananas, figs and guava), ornamental plants, food materials, medicines and animal products under its own assortment of brand names in the Gulf, Europe and the Far East.

### Business Segments and Product Portfolio

- JAZADCO has varied business lines such as agriculture, aquaculture, real estate development and bottled water production.
- JAZADCO's business includes white shrimp farming, draft aquaculture knights, draft fruit balkbesih, banana farm, teen draft boukpt wedging and fruit nurseries.
- In 2009, JAZADCO entered the hotel and tourism sector by establishing a luxury hotel, Jazan Inn. The company also has several ongoing residential, commercial and public projects.
- JAZADCO entered into the bottled water manufacturing sector in 2009 by establishing a water plant (annual capacity of 46 million liters). Bottled water was introduced in the global market under the brand name of Mountain Faifa.

### Key Strengths

- Stable financial growth; revenues expanded at a CAGR of 32.25% during 2006–10.
- Varied and diversified business divisions: Agriculture (mango, banana, guava, etc.), Aquaculture (fish, shrimps), Real Estate, Bottled Water and Animal Products.
- Established access to global markets; the company sells its branded products to a diverse set of global consumers.
- JAZADCO owns the largest shrimp farm in southern Saudi Arabia.

### Recent Developments and Future plans

- In September 2010, JAZADCO announced plans to invest USD88 million in a real estate project (1,600 residential units on a 149,000 sq. mt. company-owned plot) in Jazan City.
- Al Khabeer Merchant Finance Corporation signed a MoU with JAZADCO, involving the allocation of SAR400 million for real estate investment in Jazan City.
- In November 2010, JAZADCO received a 10-year, USD5.6 million loan from the Saudi Arabia Agricultural Development Fund to finance its second shrimp farm project.

Current price (USD) 5.55

Price as on 26-06-2011

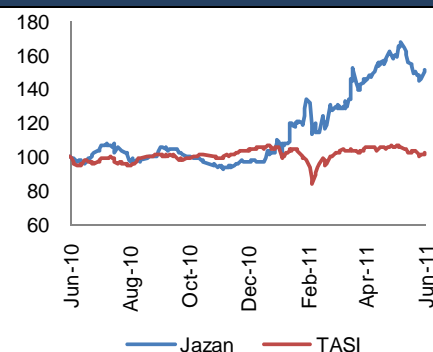
### Stock Details

Bloomberg ticker	GIZACO AB
52 week high/ low	6.10/3.39
Market Cap (USD mn)	277
Enterprise value (USD mn)	281
Shares outstanding (mn)	50

### Average Daily Turnover (000's)

	SAR	USD
3 M	20,347	5,426
12 M	10,843	2,891

### Share Price Chart



### Segment Revenues Contribution

NA

Valuation Multiples	2010	Current	2011E
P/E (x)	11.6x	NA	NA
P/B (x)	1.4x	1.8x	NA
EV/S (x)	2.8x	9.0x	NA
Dividend Yield (%)	NA	NA	NA

Source: Bloomberg

### Shareholding Structure

Suleiman Saleh Suleiman Al Omry	6.00%
Public	94.00%
<b>Total</b>	<b>100.00%</b>

Source: Zawya



#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	11.2	20.1	80.1	<ul style="list-style-type: none"><li>• Revenues rose 80.1% to USD20.1 million in 2010 from USD11.2 million in 2009.</li></ul>
COGS	7.2	16.1	124.1	
Operating Income	0.9	-3.1	-452.6	
Operating Margin (%)	7.8	-15.2		<ul style="list-style-type: none"><li>• The company incurred operating losses at 15.2% during 2010. This can be attributed to higher than proportionate rise in cost compared to revenue.</li></ul>
Net Income	-9.1	-5.8	36.2	
Net Income Margin (%)	-81.3	-28.8		<ul style="list-style-type: none"><li>• ROE and ROA during 2010 improved over the previous year but stood at negative 3.6% and 3.1%, respectively.</li></ul>
ROE (%)	-5.5	-3.6		
ROA (%)	-4.8	-3.1		

Source: Company Data, Zawya

#### Key Risks/Concerns:

- Saudi Arabia's extreme climate adversely impacts the holding period for JAZADCO's agricultural yield.
- Higher demand for low-cost housing in Saudi Arabia can adversely affect the company's existing luxurious residential projects.

## Qatar Meat And Livestock Co. (Mawashi)

### Company Description

Qatar Meat and Livestock Company (Mawashi), founded in 2003, manufactures, packages and trades (wholesale) fresh, frozen, canned and slaughtered meat to butcheries, restaurants, hotels and food malls across Qatar.

The company procures livestock from countries such as Australia, Syria, Sudan, Somalia, Jordan, Uruguay, India, Pakistan and Brazil to primarily serve the Qatari market. Mawashi's exclusive agreement with the Qatari government allows it to provide meat from Australia and Syria at subsidized rates.

### Business Segments and Product Portfolio

- Mawashi's primary activities include trading of livestock, meat, meat derivatives, animal feeds and organic fertilizers. The company also offers services for the management of slaughter houses.
- The company's secondary operations include animal farming, crop farming, chemical production, animal skin tannery and transportation of livestock.
- Mawashi's product portfolio consists of a wide variety of meat (including goat and sheep meat), chickens, eggs, fresh and frozen beef products and other livestock.
- In Q3 2009, Qatar Meat and Livestock Company introduced the Al-Baraka brand for its packaged meat products in the domestic market.

### Key Strengths

- The company has a strong market position in Qatar—it commands the largest share in the meat market and is the biggest distributor of meat to butcheries.
- Diversified sources to procure livestock insulate the company from supply bottlenecks and seasonality.
- Market leader in providing subsidized meat across Qatar.
- Mawashi is initiating measures to diversify geographically. It is currently carrying out a feasibility study through experts for the establishment of a meat manufacturing unit in order to initiate exports to the European market.

### Recent Developments and Future Plans

- The company signed a contract with Bahrain Mawashi Co to focus on meat and chicken in the Qatari and Bahraini markets. The deal also envisaged establishing Qatar Bahraini Company to enter into foodstuff trading and explore investment opportunities.
- In February 2011, Hassad Food and Co (a subsidiary of Qatar Investment Authority) offered to buy Qatar Meat and Livestock Company as per the regulations specified by the Qatari government.
- Mawashi plans to open three central market places and three abattoirs in the country by 2012 with an investment of QAR200 million.
- In May 2011, the company bagged three awards for quality by Australian Livestock Exporter's Association in a ceremony organized in Kuwait to accredit MENA companies.

Current price (USD) 5.27

Price as on 26-06-2011

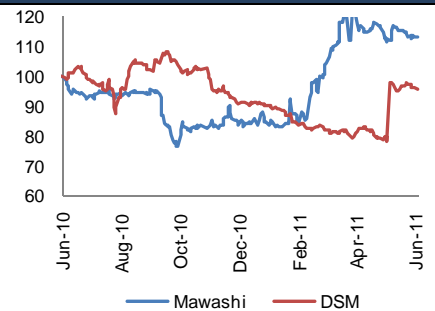
### Stock Details

Bloomberg ticker	QMLS QD
52 week high/ low	5.69/3.56
Market Cap (USD mn)	95
Enterprise value (USD mn)	91
Shares outstanding (mn)	18

### Average Daily Turnover (000's)

	QAR	USD
3 M	9,643	2,648
12 M	6,607	1,815

### Share Price Chart



### Segment Revenues Contribution

NA			
Valuation Multiples	2010	Current	2011E
P/E (x)	8.3x	8.8x	NA
P/B (x)	1.2x	1.5x	NA
EV/S (x)	1.6x	1.6x	NA
Dividend Yield (%)	9.8	7.8	NA

Source: Bloomberg

### Shareholding Structure

Hassad Food Co	6.60%
Public	93.40%
<b>Total</b>	<b>100.00%</b>

Source: Zawya



#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	45.2	52.6	16.2	<ul style="list-style-type: none"><li>• Revenue rose 16.2% to USD52.6 million in 2010 from USD45.2 million in 2009.</li><li>• Net income margin expanded to 17.3% in 2010 from 11.5% in 2009.</li><li>• During 2010, ROE improved to 14.5% from 9.1% and ROA increased to 10.5% from 6.7%.</li></ul>
COGS	67.0	87.7	31.0	
Operating Loss	-27.9	-40.5	-45.1	
Operating Margin (%)	-61.7	-77.0		
Net Income	5.2	9.1	74.6	
Net Income Margin (%)	11.5	17.3		
ROE (%)	9.1	14.5		
ROA (%)	6.7	10.5		

Source: Company Data, Zawya

#### Key Risks/Concerns

- Rising prices of cattle in Australia and Syria adversely affected margins
- Overdependence on government subsidy grants for the supply of meat
- Complete dependence on Qatar as a market for its products

## Zad Holding Co.

### Company Description

Zad Holding Co, a Qatar-based company, is primarily engaged in the manufacture and distribution of flour, wheat, cereals and fast-moving consumer foods. The company invests in financial instruments and held-for-sale assets as well as provides transportation and port services. The company (previously known as Qatar Flour Mills Co) was established as a traditional flour manufacturing company in 1969. Over the years, Zad Holding has diversified its business through organic and inorganic growth strategies to include grains, pasta, biscuits, bakery products, processed frozen meat products, port facilities and transportation services in its portfolio.

Zad Holding primarily generates revenues through a subsidized flour agreement with the Qatar government, which enables it to hold substantial flour stock reserves (12 months national consumption) at subsidized rates. The company is a market leader in commercialized flour & by-products as well as fast-moving food items in Qatar.

### Business Segments and Product Portfolio

- In 2009, Zad Holding diversified its business lines and assets into five wholly-owned subsidiaries: Umm Sad Bakery, Qatar Food Industries Co, Qatar Flour Mills Inc, Arzak Marketing Co and Zain Trading Co.
- The company operates through three reportable segments: Investment & management services; Manufacturing & distribution; and Trading, manufacturing, distribution & services.
- Zad and its subsidiaries own some of the leading fast-food and bakery brands (including Foodco, Qbake, QFM, Zain, Arzak and Al Arabia) in Qatar.

### Key Strengths

- The company's revenue expanded at a CAGR of 115.8% during 2004–10.
- Zad Holding is a leader in terms of subsidized flour supply across Qatar.
- The company has a vertically integrated business line, including wheat, flour, snacks, bakery products and transport services.
- It is a market leader in flour production and fast-moving food items in Qatar.
- Zad Holding boasts well-established brand names such as Foodco, Qbake and QFM.
- An internal port lowers carrying and transportation costs for all of its subsidiaries.

### Recent Developments and Future Plans

- In May 2011, Zad Holding announced its plans to enter the Qatari construction sector by acquiring Meda Projects Company for a purchase consideration offer of 1:7.7387 Meda shares.
- In April 2011, the company raised QR106 million through a rights issue to fund the acquisition of National Foods Company and align its plans to expand in the poultry and consumer food sectors.
- In March 2011, Zad Holding announced a 25% cash dividend for 2010.
- The company expanded its daily flour production capacity by 200 tons to 600 tons in 2010.

Current price (USD) 14.09

Price as on 26-06-2011

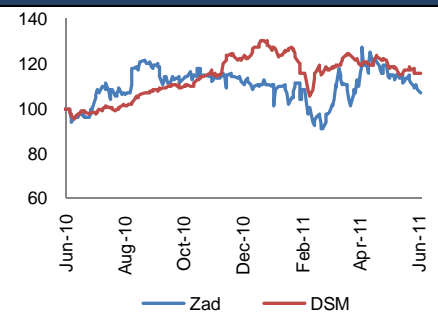
### Stock Details

Bloomberg ticker	ZHCD QD
52 week high/ low	15.71/11.99
Market Cap (USD mn)	184
Enterprise value (USD mn)	152
Shares outstanding (mn)	13

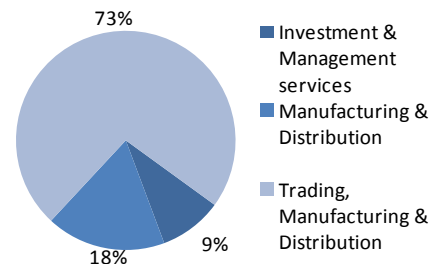
### Average Daily Turnover (000's)

	QAR	USD
3 M	936	257
12 M	552	152

### Share Price Chart



### Segment Revenues Contribution



### Valuation Multiples

	2010	Current	2011E
P/E (x)	9.7x	9.0x	NA
P/B (x)	1.0x	0.9x	NA
EV/S (x)	1.8x	1.8x	NA
Dividend Yield (%)	4.1	4.9	NA

Source: Bloomberg

### Shareholding Structure

Public	100%
<b>Total</b>	<b>100%</b>

Source: Zawya



#### Financial Performance

(USD million)	2009	2010	% Change	
Revenue	88.6	106.7	20.5	<ul style="list-style-type: none"><li>• Revenues grew 20.5% to USD106.7 million in 2010 from USD88.6 million in 2009 due to growth in volumes across segments.</li><li>• Operating margin improved from 11.6% in 2009 to 15.1% in 2010.</li><li>• ROE and ROA stood at 10.5% and 8.8%, respectively.</li></ul>
COGS	65.8	77.8	18.3	
Operating Income	10.3	16.1	56.9	
Operating Margin (%)	11.6	15.1		
Net Income	15.9	17.4	9.1	
Net Income Margin (%)	17.9	16.3		
ROE (%)	12.1	10.5		
ROA (%)	9.7	8.8		

Source: Company Data, Zawya

#### Key Risks/Concerns

- Raw materials in the form of soft commodities from Europe and the rest of the world are subject to price volatility.
- Zad Holding significantly depends on government contracts and grants for the flour business.

**For any query regarding this report, please contact:**

Sameena Ahmad

Managing Director

sameena.ahmad@alpencapital.com

+971 (0) 4 363 4345

Mahboob Murshed

Managing Director

m.murshed@alpencapital.com

+971 (0) 4 363 4305

**DISCLAIMER:**

Alpen Capital Corporation produced this material. This document is not to be used or considered as an offer to sell or a solicitation of an offer to buy any securities. Alpen Capital may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities, perform services for or solicit business from such issuer, and/or have a position or effect transactions in the securities or options thereof. Alpen Capital may, to the extent permitted by applicable UAE law or other applicable laws or regulations, effect transactions in the securities before this material is published to recipients. Information and opinions contained herein have been compiled or arrived at by Alpen Capital from sources believed to be reliable, but Alpen Capital has not independently verified the contents of this document. Accordingly, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Alpen Capital accepts no liability for any loss arising from the use of this document or its contents or otherwise arising in connection therewith. This document is not to be relied upon or used in substitution for the exercise of independent judgment. Alpen Capital shall have no responsibility or liability whatsoever in respect of any inaccuracy in or omission from this or any other document prepared by Alpen Capital for, or sent by Alpen Capital to, any person, and any such person shall be responsible for conducting his own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Opinions and estimates constitute our judgment and are subject to change without prior notice. Past performance is not indicative of future results. This document does not constitute an offer or invitation to subscribe for or purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment what so ever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the UAE where its distribution may be restricted by law. By accepting this report, you agree to be bound by the foregoing limitations.

**Distribution in UAE:**

This information has been distributed by Alpen Capital (ME) Limited, Dubai, UAE. Alpen Capital (ME) Limited is duly authorized and regulated by Dubai Financial Services Authority (DFSA).

**Distribution in Qatar:**

This information has been distributed by Alpen Capital Investment Bank (Qatar) LLC which is duly authorised and regulated by Qatar Financial Centre Regulatory Authority (QFCRA).

**Distribution in Oman:**

This information has been distributed by Alpen Capital LLC which is duly authorised and regulated by the Capital Market Authority (CMA), Sultanate of Oman.

**Distribution in Bahrain:**

This information has been distributed by Alpen Capital (Bahrain) BSC which is duly authorised and regulated by the Central Bank of Bahrain (CBB).





**Boubyan Petrochemicals Co.  
(K.S.C.)**

US\$ 100,000,000

Term Credit Facility

**Bukhatir Group**

**Bukhatir Investments Limited**

US\$ 245,000,000

Syndicated Term Loan Facility  
& Commodity Murabaha

**ETA**

Emirates Trading Agency LLC  
&



**ETA Star Holding Limited**

US\$ 200,000,000

Syndicated Term Loan Facility

**al khaliji**

**Al Khaliji Commercial Bank,  
QSC**

US\$ 100,000,000

Medium Term Credit Facility



**Oman Insurance Co. (P.S.C.)**

US\$ 100,000,000

Syndicated Working Capital  
Revolver Facility



**Berber Cement Company**

US\$ 130,000,000

Musharaka Sukuk



**Union Taxi LLC**

Strategic Joint Venture



**Axiom Telecom LLC**  
with



**Pantaloon Retail (India) Ltd**

Strategic Joint Venture



**Mohammed Jalal & Sons  
W.L.L.**

US\$ 65,000,000

Syndicated Secured Term  
Loan Facility

**مجموعة البنائي**  
**AL BANNAI GROUP**

**Al Bannai Group**

Acquisition of

**fono**

Acquisition

**ANC**

**ANC Group of Companies**

USD 21,000,000

Acquisition Financing

**SCHMIDLIN**

Participants  
Al Hilal Bank  
Commercial Bank International



جديد الجزيرة **Al Jazeera Steel Products**

**Company S.A.O.G.**

(Listed on Muscat Securities Market)

Acquisition of Strategic Equity Stake

by



**Global Buyout Fund LP**



Connecting you with the  
right opportunities.

Debt Advisory • Mergers & Acquisition Advisory • Equity Advisory



**ALPEN  
CAPITAL**  
Investment Banking

Bahrain | Doha | Dubai | Mumbai  
Muscat | New Delhi