

Quarterly Result Update:

- **Revenue growth:** Urea and ammonia prices have increased by more than 40.0% until October this year directly impacting SAFCO's revenues which stood at SAR 1.4 billion for Q3 2011, increasing 54.8% YoY.
- **Operating profits:** As the primary cost of production (cost of natural gas) is fixed, any increase in selling price directly adds to bottom line. The operating profits were up 98.0% YoY to SAR 1.0 billion. The operating profit margin was at 77.0% compared to 60.2% in Q3 2010. SAFCO reported net income of SAR 1.2 billion, at a margin of 87.8%.
- **Balance sheet:** The company continued on its debt repayment schedule and paid another SAR 74.5 million in Q3 2011. At the same time it paid its dividends for H2 2010 (SAR 1.5 billion). Company cash was used in both instances.
- **Change in Outlook:** Due to the recent fluctuation in global prices we revise our outlook on SAFCO. Based on our DCF analysis, we change our rating to 'BUY' with a price target of **SAR 214.31**, a 16.6% premium on the current price.

Sector – Fertilizer and Chemicals
 Ticker – SAFCO AB

Company Data

Equity Value	SAR 45,937.5 m
Enterprise Value	SAR 43,891.0 m
LTM Revenue	SAR 4,848.5 m
LTM Net Income	SAR 3,858.5 m

Per Share Data (November 2, 2011)

Current Price	SAR 183.75
52 Week High	SAR 194.25
52 Week Low	SAR 142.25
% of 52 Week High	94.6%
Number of Shares	250.000 m

SAR Millions	2010A	2011E	2012E	2013E	2014E	2015E
Sales	3,789.5	5,021.0	5,644.8	5,870.6	7,519.5	9,172.0
<i>Growth YoY</i>		32.5%	12.4%	4.0%	28.1%	22.0%
EBITDA	2,920.6	3,818.1	4,315.6	4,487.5	5,733.7	6,954.5
EBITDA Margin	77.1%	76.0%	76.5%	76.4%	76.3%	75.8%
Net Profit	2,932.6	3,942.1	4,411.3	4,596.1	5,437.1	6,669.3
<i>Net Profit Margin</i>	77.4%	78.5%	78.1%	78.3%	72.3%	72.7%
Adjusted EPS (SAR)	11.73	15.77	17.65	18.38	21.75	26.68
<i>Growth YoY</i>		34.4%	11.9%	4.2%	18.3%	22.7%

Multiples:

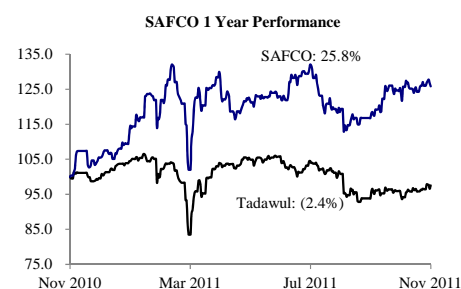
PE	
LTM	11.9x
2011E	11.7x
2012E	10.4x
EV/EBITDA	
LTM	11.4x
2011E	11.5x
2012E	10.2x

Changes from Previous Estimates:

- Recent trend suggests that prices of urea are falling from the peak levels attained in September. Also, most of the contracts are fixed and will not have a 1-on-1 impact on the company's selling price. We expect the price growth for ammonia and urea to slow down to 20.0% in 2011 and thereafter stabilize at 1.0% a year post 2015 due to increase in global capacity.
- SAFCO's current market price of SAR 183.75 per share assumes a growth of 20.0% in commodity prices in 2011 and then stabilizing immediately and growing at 1.0% annually starting 2012.

Income Statement	2011 Forecasts		% Change vs. 2010	
	Previous	Revised	Previous	Revised
Revenue	4,393.3	5,021.0	15.9%	32.5%
EBITDA	3,198.4	3,818.1	9.5%	30.7%
<i>EBITDA Margin</i>	72.8%	76.0%		
Net Income	3,384.7	3,942.1	15.4%	34.4%
<i>Net Income Margin</i>	77.0%	78.5%		

Source: TresVista Research

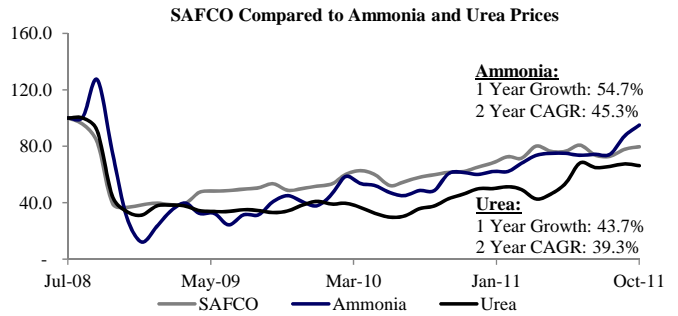


Source: Bloomberg

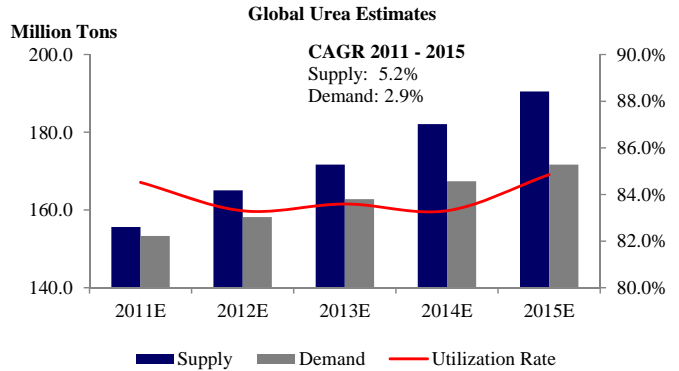
TresVista Financial Services: All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Bloomberg and other vendors. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES ARE LOCATED IN DISCLOSURE APPENDIX

SAFCO – A Commodity Play:

- SAFCO’s performance is in direct correlation to the movement in prices of urea and ammonia.
- Prices for urea peaked in June 2011, crossing over USD 520.00 per ton while ammonia reached a new high in October crossing USD 660.0 per ton. However, urea has shown signs of correction and is already below USD 500.0 per ton.
- Severe droughts in Russia and Ukraine in late 2009 and early 2010 had led to a fall in agricultural activities, effectively dropping the demand for fertilizers. As agricultural activities revive themselves, consumption of urea is expected to grow at a CAGR of 2.9%* between 2011 and 2015.
- On the other hand supply of fertilizers is expected to grow faster. Capacity for urea is projected to grow at 5.1%* annually between 2011 and 2015, mostly from China. With global utilization levels over 80.0% currently, supply will outstrip demand considerably by 2015.



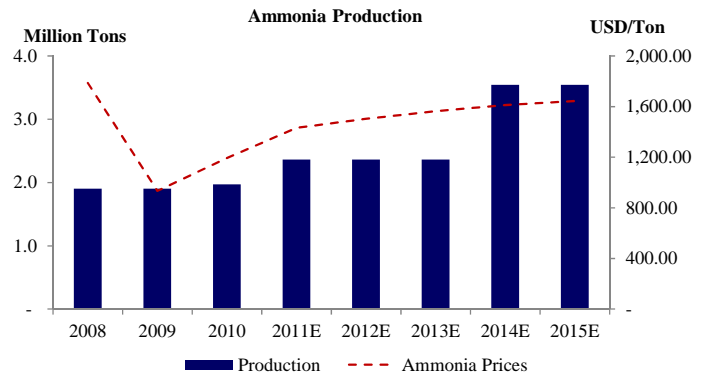
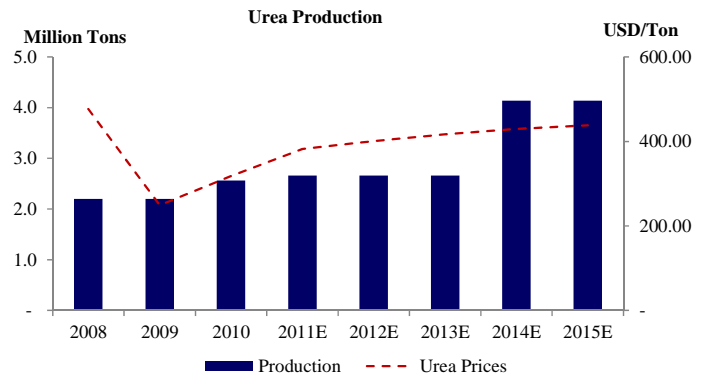
Source: TresVista Research



Source: Fertilizer Outlook 2011 – 2015

Assumptions:

- ‘SAFCO V’ will expand the company’s urea and ammonia capacity by 1.5 mtpa and 1.2 mtpa respectively. Although we expect delays in execution, we are still confident on the capacity going online in 2014 (as opposed to late 2013 as suggested by the company).
- On steady capacity prices and with added capacity, SAFCO is predicted to show strong future revenues. We continue to assume the utilization rate to be maintained at over 98.0% going forward.
- We see minimal threat to the subsidized supply of natural gas to SAFCO and maintain the feed stock at USD 0.75 per mmbtu.
- We estimate that SAFCO will repay all its long term debt as they mature. The company is expected to go debt free by 2013.

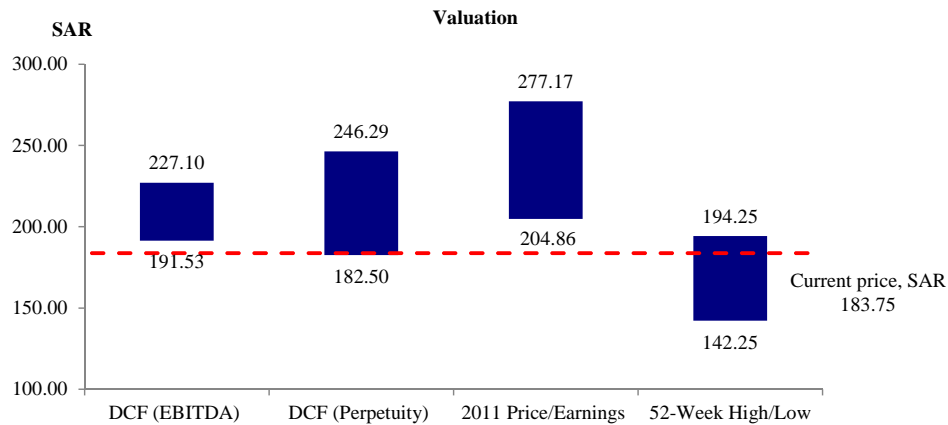


Source: TresVista Research

Source: Fertilizer Outlook 2011 – 2015, International Fertilizer Industry Association, June 2011

Valuation Thesis – Discounted Cash Flow Analysis:

- SAFCO is highly dependent on commodity prices. Ammonia and urea account for about 94.0% of the company’s sales. After the recent upward run, we assume the prices of these products to consolidate and stabilize in the long run. We forecast average prices to rise by 20.0% for 2011 owing to global supply constraints. Going forward we forecast the growth rate to consolidate to 1.0% per year post 2015.
- We maintain WACC at 12.1% and have assumed a perpetuity growth rate of 3.3% based on the performance of the company once SAFCO V goes online in 2014. SAFCO’s shares stand to be valued at SAR 214.31, a 16.6% premium to the current market price of SAR 183.75. We recommend a “BUY”, on the belief that the volatility in product prices has resulted in a lag effect which is yet to be captured by the market in SAFCO’s pricing.
- We have included the value of investments in associates and other investments at book and excluded the cash flows from them in our valuation exercise. Major catalysts to valuation would be growth in prices of urea and ammonia, and successful execution of SAFCO V.



Model Summary:

Financial Summary (SAR Millions)	2010	2011E	2012E	2013E	2014E	2015E
Consolidated Income Statement						
Revenue	3,789.5	5,021.0	5,644.8	5,870.6	7,519.5	9,172.0
Cost of Sales	1,099.5	1,356.3	1,457.5	1,493.9	2,258.3	2,625.3
Gross Profit	2,690.0	3,664.7	4,187.3	4,376.7	5,261.1	6,546.7
G&A	68.0	86.1	96.8	100.7	129.0	157.3
EBITDA	2,920.6	3,818.1	4,315.6	4,487.5	5,733.7	6,954.5
D&A	298.7	239.5	225.1	211.5	601.5	565.1
EBIT	2,621.9	3,578.6	4,090.5	4,276.0	5,132.2	6,389.4
Interest Expense / (Income)	(8.4)	(10.0)	(13.3)	(16.5)	(18.7)	(19.1)
Other Expense / (Income)	(363.5)	(434.9)	(398.5)	(398.5)	(398.5)	(398.5)
Net Income	2,932.6	3,942.1	4,411.3	4,596.1	5,437.1	6,669.3
Balance Sheet						
Total Current Assets	3,637.3	4,330.7	4,841.3	5,362.4	6,127.1	6,763.2
Property, Plant and Equipment	3,243.0	4,921.7	6,612.3	8,314.1	7,809.8	7,336.2
Investment in Associate	786.0	786.0	786.0	786.0	786.0	786.0
Other Assets	712.5	705.1	698.1	691.4	685.1	679.1
Total Assets	8,378.7	10,743.5	12,937.6	15,153.8	15,408.0	15,564.4
Current Liabilities	437.1	552.6	601.1	619.2	873.5	1,029.9
Other Long Term Liabilities	454.6	454.6	454.6	454.6	454.6	454.6
Long Term Debt	352.9	160.0	100.0	-	-	-
Share Capital	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0
Reserves & Retained Earnings	4,634.2	7,076.2	9,281.9	11,580.0	11,580.0	11,580.0
Total Equity and Liabilities	8,378.7	10,743.5	12,937.6	15,153.8	15,408.0	15,564.4
Cash Flow						
CFO		3,888.8	4,487.1	4,754.3	5,614.0	6,835.9
CFI		(1,910.8)	(1,908.7)	(1,906.7)	(91.0)	(85.5)
Free Cash Flow		1,978.0	2,578.4	2,847.6	5,523.0	6,750.4
Net Cash From Financing Activities		(1,692.9)	(2,265.6)	(2,398.1)	(5,437.1)	(6,669.3)
Performance Ratios						
Growth Rates						
Revenues	38.3%	32.5%	12.4%	4.0%	28.1%	22.0%
Gross Profit	57.3%	36.2%	14.3%	4.5%	20.2%	24.4%
EBITDA	54.6%	30.7%	13.0%	4.0%	27.8%	21.3%
EBIT	58.2%	36.5%	14.3%	4.5%	20.0%	24.5%
Net Income	69.2%	34.4%	11.9%	4.2%	18.3%	22.7%
EPS	69.2%	34.4%	11.9%	4.2%	18.3%	22.7%
Liquidity						
Current ratio	8.3x	7.8x	8.1x	8.7x	7.0x	6.6x
Quick Ratio	7.5x	7.1x	7.3x	7.9x	6.2x	5.8x
Cash to Total Assets	26.9%	23.7%	22.1%	21.8%	22.0%	22.3%
Profitability						
Return on Equity	27.7%	33.1%	28.5%	24.4%	25.7%	31.6%
Return on Total Assets	34.1%	41.2%	37.3%	32.7%	35.6%	43.1%
Margins						
Gross Profit	71.0%	73.0%	74.2%	74.6%	70.0%	71.4%
EBITDA	77.1%	76.0%	76.5%	76.4%	76.3%	75.8%
EBIT	69.2%	71.3%	72.5%	72.8%	68.3%	69.7%
Net Income	77.4%	78.5%	78.1%	78.3%	72.3%	72.7%
Leverage Ratios						
Debt to Assets	4.2%	1.5%	0.8%	-	-	-
Debt to Equity	4.9%	1.7%	0.8%	-	-	-
Turnover Ratios						
Asset Turnover Ratios	0.5x	0.5x	0.4x	0.4x	0.5x	0.6x
Inventory Turnover Ratios	3.2x	3.2x	3.2x	3.2x	3.2x	3.2x
Debtors Turnover Ratios	3.8x	3.8x	3.8x	3.8x	3.8x	3.8x
Capital Market Ratios						
Price Earnings	15.7x	11.7x	10.4x	10.0x	8.4x	6.9x
Market to Book	6.44x	4.80x	3.90x	3.26x	3.26x	3.26x

Disclosure Appendix

Stock Rating Key:

★★★★★	5-STARS (Strong Buy): Total shareholder return, is expected to outperform the broad market benchmark by a wide margin and we highly recommend that investors buy the stock.
★★★★☆	4-STARS (Buy): Total shareholder return, is expected to outperform the broad market benchmark and we recommend that investors buy the stock.
★★★☆☆	3-STARS (Hold): Total return is expected to be in line with the overall expected market return in the short and long term and we do not recommend a Buy or Sell.
★★☆☆☆	2-STARS (Sell): Total shareholder return is expected to underperform the broad market benchmark and the stock is not anticipated to show a gain.
★☆☆☆☆	1-STAR (Strong Sell): Total shareholder return is expected to underperform the broad market benchmark by a wide margin and the stock is anticipated to fall in price on an absolute basis.

Other important disclosures:

This material is based upon information that we consider to be reliable, but TresVista does not warrant its completeness, accuracy or adequacy and it should not be relied upon as such. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. TresVista is not responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results. With the exception of information regarding TresVista, reports prepared by TresVista personnel are based on public information. TresVista makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, other professionals in TresVista.

Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

About TresVista Financial Services:

TresVista Financial Services Pvt. Ltd. is a Mumbai-based firm that provides research, analytics, M&A advisory, and other customized services. TresVista partners with financial institutions globally to enable them to rise above the competition in today's crowded marketplace. Through our team of highly trained associates, our clients are able to increase and manage their operational capacity in a cost-effective manner. TresVista's role is to be decided upon by the clients' needs and the tasks at hand, be it exploring an arbitrage opportunity, analyzing prospective investments, or conducting due-diligence on a cross-border acquisition. TresVista's flexibility is instrumental to its goal of helping clients reach higher heights. Our clientele include investment banks, private equity firms, hedge funds, debt lenders, and other financial services institutions.

www.tresvista.com