

Saudi Arabia

Saudi Research & Marketing Group

November 2009

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Saudi Research & Marketing Group

Tickers:

Research AB (Bloomberg)
4210.SE (Reuters)

Listing:

Saudi Stock Exchange (Tadawul)

November 2009

Hold

Current Price:

SR28.4 (1st November, 2009)

Fair Price:

SR27.2

Investment Summary

- **Saudi Research and Marketing Group (SRMG)** is the largest integrated publishing business in the Middle East. The group is vertically integrated over publishing, advertising, printing and distribution, specialized publishing and multimedia businesses enabling it to capture the synergies down the value chain. The company mainly operates in the Middle East, Europe and North Africa.
- SRMG has a total of 15 publications and is looking to add more publications to its profile. SRMG publications have a strong brand name and are circulated throughout the Middle East. These publications can be categorized into dailies, weeklies and monthlies. The publications also include English, Urdu and Malayalam language publications which target the specified group.
- The media industry is largely affected by the changes in the economic and demographic factors. The sustained surge in oil price since the year 2000, which saw oil prices reach record highs in 2008 led to rapid economic development in the oil-rich GCC countries. Property, financial services and telecom sector witnessed massive growth leading to sharp increase in spending on advertising.
- Population growth rates in the Middle East have historically been high. During the past 50 years the population has grown around an average of 2.6%. Though the population growth rate is likely to come down, it is likely to stay high compared to other regions. With over 300.0mn inhabitants in the Middle East, the region is home to a large market for media and advertising.
- The contraction in economies in 2009 is likely to lead a decrease in advertising expenditures by major corporations as they look to consolidate their positions by deferring projects and expansion plans. However, in the long run we expect advertising revenues to pick up as these countries continue to diversify their economies by investing in non-oil sectors.
- SRMG consolidated revenues have grown at a 2005-2008 CAGR of 8.1% to SR1.34bn. The increase in revenues has been driven by an increase in printing revenue at a 2005-2008 CAGR of 21.3% to 468.2mn and the introduction of specialized publishing services through Saudi Specialized Publishing Company. Specialized Publishing division managed to generate revenue of SR115.8mn in 2008 after generating SR28.6mn in 2007.
- Net income from continuing operations have grown steadily for SRMG at a 2005-2008 CAGR of 10.9% to SR277.2mn. The growth in income from continuing operations was

driven by growth in publishing, printing and advertising income in the backdrop of increase in number of publications along with high economic growth rate in the region.

- Net income has been relatively erratic with large one-off gains being realized. In 2007 Net profit increased by 40.1% largely due to a gain of SR161.2mn realized on IPO of Saudi Printing and Packaging Company.
- We expect total revenue to decline by 20.5% in 2009 to SR1.07bn as the global financial crisis and the ensuing global recession takes its toll on the media industry. We expect revenue from advertising division to be hit particularly hard as companies cut on their advertising budgets to counter the recession. Going forward, we expect total revenue to grow at a 2009-2012 CAGR of 10.3%. The revenue growth will be driven by Specialized Publications and Printing divisions.
- We expect income from core operations to decline by 74.7% in 2009 as revenues and margins fall. Going forward we expect the income from core operations to grow at a 2009-2012 CAGR of 47.7% partly due to low base and expected recovery in global economy.
- We initiate our coverage of SRMG with a '**HOLD**' recommendation. We have used the Discounted Cash Flow Methodology (DCF) to arrive at a value of SR27.2 per share. The share at its current market price of SR28.4 (as on 1st November 2009) is trading at a premium of 4.4% to its fair value.

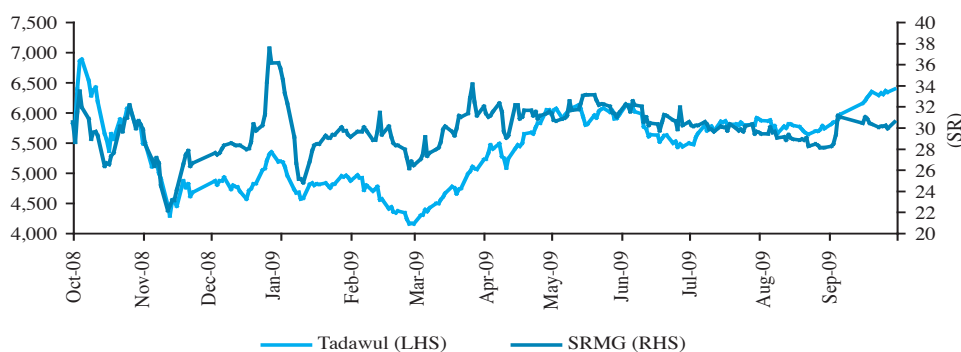
Table 01: Investment Indicators

	Price as on 1 st November 2009 (SR)	Shares in issue (mn)	Market Cap (SR mn)	52-Week High/ Low			
	28.4	80.0	2,272	37.4 / 22.0			
Year	Revenues (SR Mn)	Net Profit (SR Mn)	EPS (SR)	BVPS (SR)	ROAE (%)	P/E (x)	P/BV (x)
2011E	1,326	139.4	1.74	20.9	8.5%	16.3	1.36
2010E	1,208	119.3	1.49	20.0	7.7%	19.1	1.42
2009 E	1,068	50.3	0.63	18.7	3.2%	45.2	1.52
2008 A	1,342	224.4	2.81	20.4	13.8%	10.7	1.47

Source: Annual Reports and **Global Research**

Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on closing prices on the Tadawul as of 1st November 2009

Chart 01: Share Price Performance



Source: Zawya and **Global Research**

Company Overview

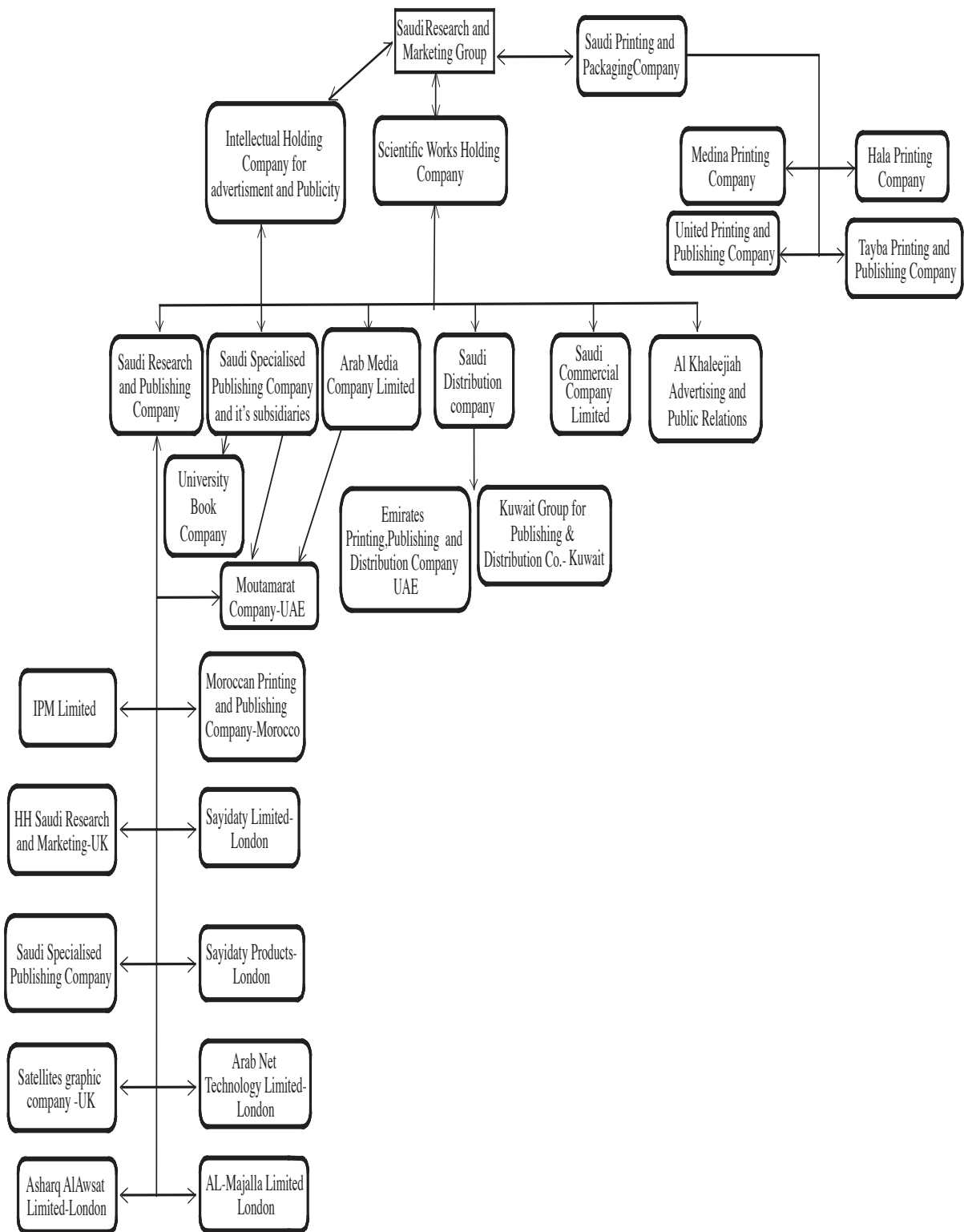
Saudi Research and Marketing Group (SRMG) is a Joint Stock Company registered in Riyadh, Saudi Arabia. The company offered 30.0% of its share capital to the public on 8 April 2006. SRMG is the largest integrated publishing business in the Middle East. The group is vertically integrated over publishing, advertising, printing and distribution, specialized and multimedia businesses enabling it to capture the synergies down the value chain. The company mainly operates in the Middle East, Europe and North Africa.

Group History

- 1963 > Madina Printing & Publishing Company
- 1973 > Saudi Research & Publishing Company
- 1975 > Launch of Arab News
- 1978 > Launch of Asharq Al-Awsat
- 1980 > Launch of Al-Majalla Magazine - political weekly
- 1981 > Sayyidati- Women weekly
- 1983 > Saudi Distribution company
- 1987 > Al- Riyadiah - sports daily Basim - children weekly
- 1990 > Al-Khalijiah advertising
- 1992 > Al- Eqtissadiah- Business daily Al - Rajul - men high - life style monthly
- 1994 > Al- Jamila- women beauty & health monthly mag.
> Urdu News - daily Urdu newspaper.
> Malialam daily newspaper
- 1998 > Arab Media Company
- 1999 > Urdu Magazine
- 2004 > World Issues Magazine
> Group acquires Hala Printing Press
> Specialized Publishing unit established
- 2006 > Group launches IPO

Source :SRMG website

Chart 02: SRMG Group Structure



Source: SRMG and Global Research

Group Evolution

The journey of SRMG can be traced back to 1963 when the first company of the group, Al-Madina Printing and Publication Company was established. The company focused on printing of educational and government related material. Subsequently, the group moved into the publishing business by establishing Saudi Research and Publishing Company (SRPC). SRPC launched the first English newspaper in Saudi Arabia with the title 'Arab News' in 1975. Thereafter, it launched and acquired more publications. In 1983 the group stretched its reach into the distributing business by establishing Saudi Distribution Company. In 1990 the group ventured into advertising and media sales by creating Al-Khalijiah Company.

In October 2008 SRMG entered into an agreement with Saudi Telecom and the Malaysian company Astro to provide content services. This is a strategy to gain market advantage in a place where communication mediums are increasingly moving towards convergence. According to the agreement Saudi Telecom will contribute 51.0% of the SR280mn capital while SRMG will contribute 20.0%.

Main divisions

Saudi Research and Publishing Company (SRPC) - The Company was established in 1972. SRPC is the publisher and copyright owner of 14 publications which include six newspapers, four weekly magazines and other bi-monthly, monthly and quarterly magazines. In addition, around 20 supplement publications are issued.

AL-Khaleejiah - This Company was established in 1990 and is based in Jeddah. It has branch offices in Riyadh, Dhahran, London, Paris and Dubai. It is the group's advertising and media sales arm. It is primarily involved in promoting the SRPC publications portfolio. However, it acts as a media agent for third-party publications as well.

Saudi Distribution Company - (SDC) SDC was established in 1983 and is the distribution arm of the group with a reach extending to 563 cities and towns. It has 45,000 newspaper and magazine outlets and has a fleet of more than 750 vehicles. The company plans to increase its fleet to 1,000 vehicles in the near future. SDC owns two distribution companies based in Kuwait and UAE. The company is also involved in distribution of audio/video cassettes, catalogues, leaflets, educational materials and provision of postal and express delivery services.

Saudi Printing and Packaging Company - (SPPC). This company, formerly known as Madina Printing and Publishing Company, was established in 1963. It is one of the oldest companies of the group. SPPC now specializes in the production of daily newsprints, magazines, perfect bound books and journals, commercial and packaging printing in different languages and styles. The company has five print houses of its own. SPPC has a capacity to print 150,000 copies of newspapers (32 pages) per hour, 5,000 copies of magazines (144 pages) per hour, 6,500 copies of books per hour and 10,000 sheets of carton per hour.

Recent acquisitions and changes in group structure

During 2008 the group established Moutamarat Company for Exhibitions and Conferences with a capital of SR1.0mn. During the same period the Saudi Research and Publishing Company (SRPC) also transferred 5.0% of its share in Hala Printing Company and 50.0% share in Teabah Printing and Publishing Company to Saudi Printing and Packaging Company.

In addition, during 2008 Saudi Printing and Packaging Company acquired 100% of Al-Aoun Factory Commercial Labels & Flexible Packaging Company Ltd.

In the meeting held on 29 December 2008 the SRMG board approved of changing its subsidiary company Saudi Specialized Publishing Company (SPPC) from a Limited Liability company to Closed Joint stock Holding Company. The board also approved to set up Arab Multimedia Company, which will be a 100% subsidiary of SPPC. This is part of a larger plan which envisages restructuring the flagship entities and selling the loss making entities.

Shareholding and Liquidity

SRMG went public in 2Q2006 through an IPO on the Saudi Stock Exchange (Tadawul) and increased its paid up capital to SR 800mn. 24.0mn shares were offered at a price of SR46/share. Kingdom Holding Company is currently a major shareholder in SRMG with a stake of 29.9% followed by HRH Prince Faisal Ahmad Bin Salman Bin Abdulaziz Al Saud with a stake of 6.8%. The free float is around 52.5%.

Table 02: SRMG Shareholders

Shareholder	Holding
Kingdom Holding Company	29.9%
HRH Prince Faisal Ahmad Bin Salman Bin Abdulaziz Al Saud	6.8%
Mohammed Hussein Ali Al Amoudi	5.6%
General Organization for Social Insurance	5.2%
Pubic	52.5%

Source: Zawya

SRMG share turnover reached 301.1mn shares in 2006 which was in-line with a rise in total market turnover which reached 73.4bn shares. The large turnover in 2006 was also due to a substantial investor interest in the stock after it got listed in 2006.

Table 03: Stock Liquidity

Year	Volume Traded (mn)	Market Price (Year End)	Market Cap (SR mn)
2006	308.1	74.5	5,960
2007	123.7	58.7	4,700
2008	37.7	29.6	2,368
2009*	20.5	30.2	2,416

Source: TADAWUL, Global Research

* The figures for 2009 are as of nine month till September 2009. The closing price is as of at the end of september 2009

However, the company's market capitalization decreased to SR4.7bn in 2007. The market capitalization further fell by 49.6% to SR 2.4bn in 2008 as the financial crisis in 2H08 had an adverse affect on the media and advertising business.

Management

Table 04: Board of Directors

<i>Names</i>	Position in SRMG
HRH Prince Faysal Bin Salman Bin Abdulaziz Al Saud	Chairman
Mohammed Bin Omar Al Eisayee	Director
Mohammed Bin Abdullah Al Kharashi	Director
Suleiman Bin Ibrahim Al Hodaithi	Director
Abdulrahman Al Rowaite	Director
Abdullah Salim Bahamdan	Director
Suleiman Bin Saed Al Humayed	Director
Mohammed Hussein Ali Al Amoudi	Director
Azzam Mohammed Al Dakhil	Director
Mohammed Bin Abdulallah Abu Nayan	Director
Abdullah Bin Saleh Kamel	Director
Saleh Bin Nasir Al Jasir	Director
Mohammed Abdullah Mohammed Al Seif	Board Secretary

Source: Zawya

Table 05: Senior Management

<i>Names</i>	Position in SRMG
Dr Azzam Bin Mohammed Al Dakhil	Chief Executive Officer
Tarek Bin Abdulkarim Al Kain	Deputy Chief Executive Officer
Amin Ghorayeb	Chief Financial Officer

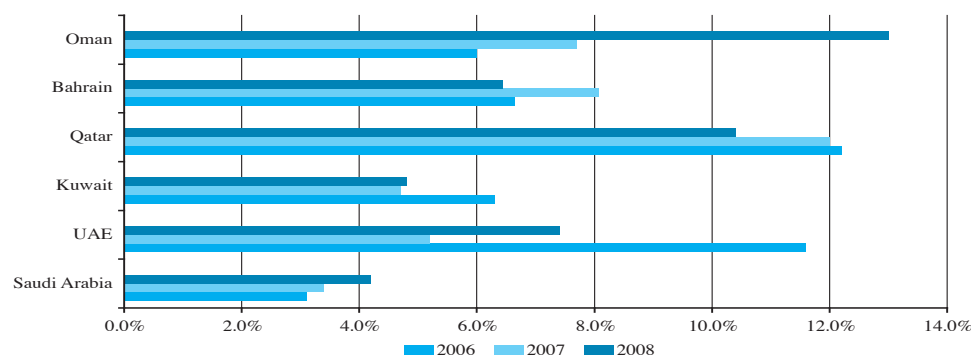
Source: Zawya

Media and Advertising Industry in the Middle East

Implications of Economic and Demographic Factors

The media industry is largely affected by the changes in the economic and demographic factors. The sustained surge in oil price since the year 2000 which saw oil prices reach record highs in 2008 led to rapid economic development in the oil-rich GCC countries. Compared to the last boom, there was more focus on diversification of economic base this time around. Property, financial services and telecom sector witnessed massive growth leading to sharp increase in spending on advertising.

Chart 03: Real GDP Growth Rates



Source: Respective Central banks, Statistics bureaus & International organizations

Note: Data of some countries is provisional and may change

During 2H-2008 oil prices fell sharply to around US\$35 per barrel reflecting the financial downturn which engulfed the whole world. OPEC basket price averaged approximately US\$94.0 per barrel for 2008 largely due to high prices in 1H-2008. Oil prices are forecasted to average US\$60.0 per barrel in 2009, 36.1% lower than 2008 levels while world oil demand is expected to fall by 1.6mn barrels per day in 2009. Such a sharp fall in oil prices along with production cuts by OPEC is likely to have a significant impact on economic growth in the GCC countries in the year 2009. The cumulative cuts imposed by OPEC in 2008 were 4.2mn barrels a day.

Oil revenues, capital investments and current account surpluses in the GCC region are likely to witness a sharp deceleration in 2009, which will have a significant impact on the real economic growth of these countries. 2009 will be a year of contraction in nominal GDP.

The contraction in economies in 2009 is likely to lead a decrease in advertising expenditures by major corporations as they look to consolidate their positions by deferring projects and expansion plans. However, in the long run we expect advertising revenues to pick up as these countries continue to diversify their economies by investing in non-oil sectors.

Population growth rates in the Middle East have historically been high. During the past 50 years the population has grown around an average of 2.6%. Though the population growth rate is likely to come down, it is likely to stay high compared to other regions. With over 300.0mn inhabitants in the Middle East, the region is home to a large market for media and advertising. Increase in disposable incomes and literacy rate is likely to lead to an increase in consumption of all types of media.

Table 06: Demographic Profile

<i>% of total population</i>	0-14	15-24	25-34	35-44	45 and above
Bahrain	27	17	14	16	26
Egypt	32	19	16	12	20
Jordan	33	20	18	14	15
Kuwait	27	20	27	12	14
Lebanon	27	18	18	16	21
Morocco	31	20	17	13	19
Oman	43	17	13	11	17
Qatar	23	17	15	15	31
Saudi Arabia	38	19	21	13	10
Tunisia	24	20	18	15	23
UAE	21	15	30	22	13
Yemen	46	21	14	7	12

Source: Arab Media Outlook 2008-2012

Population in the Middle Eastern countries is heavily tilted towards the younger age group. As can be seen in the table the young population between the ages of 0-25 make up for a large proportion of the overall population. In Saudi Arabia, Yemen, Oman, Morocco, Jordan and Egypt the amount of population lying in this age group exceeds 50.0%. Young people tend to spend more on media and communication particularly with the advent of new technologies and communication mediums.

Newspaper Circulation

Factors affecting newspaper circulation include literacy rate, number of dailies, demographic profile, distribution network and extent of media liberalization. Though, newspaper readership has been on the decline in the developed countries with the advent of online and other media, we are likely to see growth in the newspaper circulation in the Middle East region due to a strong reading culture in some countries and preference for the traditional media.

High literacy rate leads to more consumption of the print media. However for countries with high young population and low levels of literacy rate such as Yemen, growth in newspaper circulation is likely to be limited as consumers rely more on television and other media for news and entertainment. The literacy rate in the MENA region is estimated to be around 77.0% and is likely to increase as the governments in the region put more focus on education.

Media liberalization also plays a part in determining the size of readership. Economic boom coupled with more focus on the Middle East region since 2001 has forced newspapers to raise their standards by reporting on a wide array of topics. Advances in information technology, particularly the internet has also increased the appetite for new and uncensored information. The newspapers in this region are constantly upgrading their reporting format to cater for the changing needs.

Table 07: Total Circulation Projections by Country

<i>Figure in (000)</i>	2006	2007	2008	2009	2010	2011	2012	CAGR 2009-12
Bahrain	175	178	182	186	191	196	202	2.8%
Egypt	3,274	3,406	3,543	3,684	3,830	3,981	4,136	3.9%
Jordan	296	302	308	313	318	322	325	1.3%
Kuwait	463	472	481	490	499	507	514	1.6%
Lebanon	382	386	390	393	397	400	403	0.8%
Morocco	575	580	587	594	602	611	623	1.6%
Oman	233	234	235	236	237	238	239	0.4%
Qatar	163	167	170	174	179	183	189	2.8%
Saudi Arabia	1,722	1,756	1,800	1,838	1,868	1,890	1,913	1.3%
Tunisia	351	355	358	361	363	364	365	0.4%
UAE	1,874	1,907	1,938	1,965	1,990	2,015	2,037	1.2%
Yemen	164	165	165	165	166	166	166	0.2%

Source: Arab Media Outlook 2008-2012 and **Global Research**

The level of competition is high with more than 100 newspaper publications in the Middle East region including 4 Pan-Arab dailies. Egypt, Saudi Arabia and UAE have the highest circulation numbers in the region of 3.5mn, 1.8mn and 1.9mn respectively making up for approximately 71.0% of the overall circulation in the region. The region is projected to witness modest growth in circulation at a 2009-2012 CAGR of 2.2%.

Advertising

MENA region, particularly the GCC region witnessed high economic growth rates since the year 2000 which coincided with the oil boom. Advertising revenues surged as companies looked to target increasingly affluent and informed consumers. Launching of new projects and products also entailed massive advertising campaigns. The growth in advertising revenues was particularly high in 2008 when advertising revenues of all the countries in the Middle East and North African region increased by double digits. Saudi Arabia and Egypt which are by-far the largest countries in terms of population witnessed an increase in advertising revenues by 38.3% and 23.6% respectively.

The advertising budgets of companies are likely to be the first items to be cut in a recession. According to the report “Arab Media Outlook 2008-2012” the growth in advertising revenue is likely to slow down to 9.0% in the region in 2009 compared to growth of 35.0% witnessed in 2008. The forecast figures are subject to downward revision as the current global financial crisis has pushed major economies into recession which is having a spillover impact on other emerging economies.

Table 08: Total Advertising Revenue Projections by Country

(US\$ mn)	2006	2007	2008	2009	2010	2011	2012	CAGR 2009-2012
Bahrain	69	74	83	85	89	92	96	4.1%
Egypt	366	437	540	682	793	879	977	12.7%
Jordan	77	86	104	116	129	143	157	10.6%
Kuwait	312	359	514	515	552	599	647	7.9%
Lebanon	171	186	212	230	246	270	298	9.0%
Morocco	200	231	278	295	322	354	389	9.7%
Oman	64	73	102	107	116	125	136	8.3%
Qatar	123	161	257	312	395	442	486	15.9%
Saudi Arabia	650	710	982	1,037	1,162	1,315	1,484	12.7%
Tunisia	24	27	33	34	36	39	43	8.1%
UAE	755	892	1,263	1,348	1,513	1,705	1,913	12.4%
Yemen	7	8	10	13	15	17	19	13.5%

Source: Arab Media Outlook 2008-2012 and Global Research

Saudi Arabia and UAE are the most important markets with estimated advertising revenues of US\$982mn and US\$1,263mn respectively in 2008. Saudi Arabia with its large size both in terms of its economy and population and UAE as a media hub are likely to continue attracting bulk of the advertising revenue in the region.

Newspapers remain the main recipients of advertising revenue in the Middle East accounting for approximately 40-50% of the overall advertising revenue with the exception of Morocco and Lebanon where television attracts more advertising revenue due to the fragmented nature of the newspaper industry and liberalized nature of the television industry.

Saudi Print Media

Saudi newspapers are privately owned. However, the publishers and editors are appointed or approved by the government. Though, there are no legal restrictions on media freedom, self-censorship is heavily practiced.

GCC countries including Saudi Arabia have witnessed high economic growth rates which coincided with the oil boom. Diversification has led to increase in share of services sector in the Saudi economy, particularly the real estate, telecommunications and financial services sector, leading to an increase in advertising expenditure. Saudi Arabia with a huge population of around 26.0mn holds the largest potential. With a large young population and focus on lifting the literacy rate, these factors play in favor of the media industry. In addition, inflow of foreign workers in the Kingdom of Saudi Arabia is giving a boost to non-oil sectors including the media.

The circulation figures for newspapers are hard to find and verify due to unavailability of audited figures. The circulation figures can vary depending on the source. We have taken out the following figures from the BBC website.

Table 09: Circulation of major newspapers in Saudi Arabia

<i>Newspaper</i>	<i>Owner</i>	<i>Founded</i>	<i>Based</i>	<i>Circulation</i>
Al Sharq Al Awsat	SRMG	1978	London	235,000
Arab News	SRMG	1975	Jeddah, Riyadh, Dharan	110,000
Al-Hayat	Prince Khalid Bin Sultan Bin Abdul Aziz Al-Saud	1946	London	166,650
Al-Jazirah	Al-Jazirah Press	1972	Riyadh	110,000
Al-Watan	Assir Establishment for Press and Publishing	2000	Abha	-
Okaz	Okaz Organisation For Press and Publication	1960	Jeddah	110,000
Saudi Gazette	Okaz Organisation For Press and Publication	1976	Riyadh	14,400
Al-Riyadh	Al-Yamama Press Establishment	1964	Riyadh	150,000
Al-Yaum	Al-Yaum Organisation for printing and publishing	1965	Dammam	-

Source: BBC

Note: Due to non-availability of official circulation numbers, we have taken the figures from BBC news edition of December 2006 as the best estimate for current circulation.

Al Sharq Al Awsat, the flagship publication for SRMG, has the highest number of circulation of 235,000 copies per day. It competes with the other three Pan Arab dailies Al-Arab, Al-Hayat and Al-Quds al Arabi. Al-Hayat newspaper which is owned by Prince Khalid Bin Sultan Bin Abdul Aziz Al-Saud has a circulation of 166,650 copies per day. Al Qudus al Arab which is also based in London has a circulation of around 50,000 copies per day according to the newspaper itself. Arab news which is owned by SRMG is the largest circulating English newspaper in Saudi Arabia with a circulation of 110,000 copies. This newspaper competes with Saudi Gazette which is owned by Okaz and has a circulation of 14,400.

SRMG Publications

SRMG has a total of 15 publications and is looking to add more publications to its kitty. These publications can be categorized into dailies, weeklies and monthlies. The publications also include English, Urdu and Malayalam language publications which target the specified group.

Daily Publications

Al sharq Al Awsat - This newspaper was launched in London in 1978. It has come a long

way since then and has established itself as one of the leading Arabic newspapers reporting on Pan-Arab and International affairs. It now has 20 correspondence offices around the globe.

Al-Eqtisadiah - This newspaper provides information on economic, financial and consumer affairs. It targets individuals in the financial services industry and individuals with large amounts of wealth to invest.

Arriyadiyah - This newspaper was the first sports newspaper in Saudi Arabia. It keeps the subscribers up-to-date with the happenings in the local and international sports arena.

Arab News - Arab News, which was launched in 1975, was the first English newspaper in Saudi Arabia. It covers local, international, financial and sports news and is targeted towards the affluent English speaking –expatriate community and English-educated Saudis.

Urdu News - This newspaper is targeted towards the Urdu-speaking expatriates from India and Pakistan.

Malayalam News - This newspaper is circulated in the Malayalam language to cater for the large South Indian Community in Saudi Arabia.

Weekly Publications

Sayidaty - This magazine is women-specific focusing on beauty, fashion and social issues. The magazine is published in Dubai and Beirut and distributed throughout the Middle-East, North Africa, Europe and America.

Al-Majalla - This magazine is published every Sunday. It brings the subscribers an overview of the main weekly news, analysis and exclusive reports with a focus on political affairs. The magazine also has news service arrangements with USA today, Time Magazine, World monitor and MEED.

Basim - This magazine is for the children between the ages of 8-15 years. It contains educational material, educational games, comic strips and other children related material.

Urdu Magazine - This magazine is for the Urdu-speaking community from India and Pakistan and covers a wide variety of topics.

Monthly Publications

Arrajol - This is an international lifestyle magazine targeting the elite section of the Arab society. It focuses on luxury items such as cars and yachts and investment opportunities.

Al-Jamila - Al-Jamila is a women specific magazine focusing on beauty and fitness. It contains well researched articles on beauty and fitness tips and other articles of interest to women.

Hia - This magazine is also meant for women. It contains interviews with celebrities, fashion articles, travel, jewelers and other articles of interest to women.

Azia Sayadati - This magazine is published every three months. It contains news on fashion industry trends, fashion shows and designer wear.

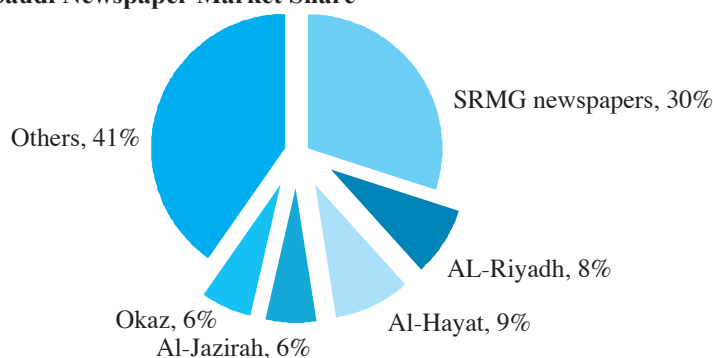
Global Issues - This is a bi-monthly magazine focusing on world and regional affairs.

Table 10: SRMG Publications

<i>Newspaper</i>	Circulation
Al-Eqtisadiah	81,888
Al-Majalla	86,961
Arrajol	36,566
Sayidaty	143,351
Basim	31,833
Al-Jamila	69,393
Arriyadiyah	111,093
Al Sharq Al Awsat	235,000
Arab News	110,000
Urdu News	-
Hia	-
Malayalem News	-
Azia Sayadati	-
Global issues	-
Urdu Magazine	-

Source: INSEAD, BBC, ABC and **Global Research**

Al Sharq Al Awsat is the premier publication for SRMG with a circulation of 235,000. The beauty weekly magazine Sayidaty has also proved very popular amongst the Arab women with an estimated circulation of 143,351.

Chart 04: Saudi Newspaper Market Share

Source: INSEAD, BBC, ABC, Arab Media Outlook 2008-20012 and **Global Research**

SRMG newspapers which include Al-Eqtisadiah, Arriyadiyah, Arab News and Al Sharq Al Awsat lead the newspaper market with a share of approximately 29.3%.

Al-Hayat follows next with a market share of approximately 9.3%. Al-Hayat is a Pan Arab daily based in London. It launched its Saudi edition in 2005 which has enabled it to penetrate the Saudi market. It has three different editions for Riyadh, Damman and Jeddah.

Al-Riyadh, which is based in Riyadh, is identified as the newspaper of the Capital city. It has an estimated market share of 8.3%. It is one of the most respected newspapers for local and regional affairs.

Al-Jazirah, which is owned by the Al-Jazirah press, has a market share of around 6.0%. The newspaper is an Arabic daily known for its daily supplements sports, economy, etc. Okaz also has a share of around 6.0%. It is owned by Okaz organization for Press and Publication. The newspaper is named after the famous Okaz market, one of the largest open markets in the pre-Islamic era.

The other newspapers include newspapers such as Al-Watan, Al-Madina and Al-Yaum among others. The market share figures are based on circulation figures which are not audited figures.

Advertising revenue by medium in Saudi Arabia

The newspaper medium remains by far the largest recipient of advertising revenue in Saudi Arabia. The newspapers have well established brands and are distributed in almost all parts of the country. There are currently 9 Arabic newspaper dailies circulating in Saudi Arabia.

Advertising revenue through the internet has remained negligible at below US\$1.0mn in 2008. Saudi Arabia is a huge country with a large and scattered population. Thus it is not cost-effective to lay down broad band infrastructure. Thus the broadband penetration has stayed low around 15.0%. Pay-TV penetration has also stayed low at around 7.0%. Restrictions on the internet have also rendered it as an unpopular medium for advertising.

Limited radio stations have also resulted in limited advertising revenue stream for this segment.

Table 11: Advertising Revenue by Segment in Saudi Arabia

(US\$ mn)	2006	2007	2008	2009	2010	2011	2012	CAGR 2009-12
TV	44	45	59	58	60	63	65	3.9%
Newspaper	504	550	763	808	905	1,025	1,158	12.7%
Magazine	45	47	65	67	75	82	92	11.1%
Radio	12	13	19	21	23	26	30	12.6%
Out of home	46	54	75	84	97	117	137	17.7%
Internet	0	0	0	0	1	1	2	-
Total	651	709	981	1,038	1,161	1,314	1,484	12.7%

Source: Arab Media Outlook 2008-2012

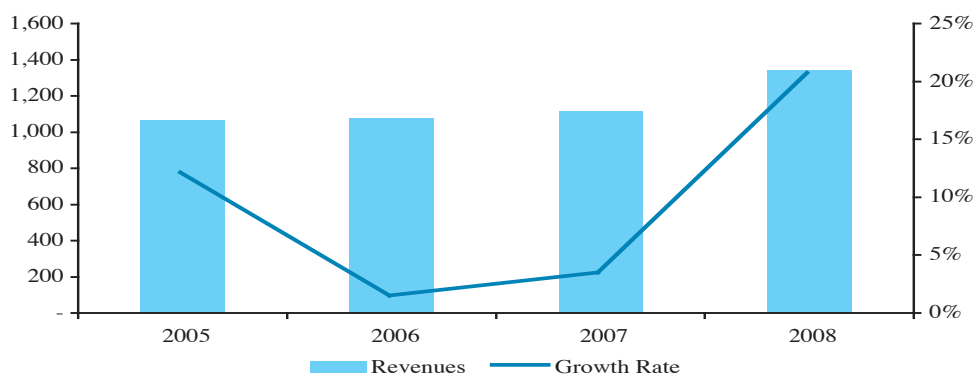
The advertising revenue is likely to suffer in 2009 due to the ongoing financial crisis but we believe that the potential for growth remains strong as Saudi Arabia carries on with its massive development projects aimed at infrastructure development and diversification of its economy. The creation of six more cities will entail a large number of projects carried out by several companies leading to large advertising campaigns to attract customers. Strong growth in construction, telecommunications and financial services industry is also likely to boost advertising revenues.

The recent surge in oil prices has brought a windfall of petro-dollars for the world's largest oil exporter. Though it has not been immune to the global financial crisis, the massive reserve it accumulated during the past five years are likely to be used to stimulate demand in the economy. Saudi Arabia has come up with a deficit budget 2009.

SRMG Financial Overview

SRMG is a vertically integrated business connected through a network of subsidiaries. Inter-company sales contributed 30.7% to the overall revenue of the group in 2008. Inter-company sales are excluded from the analysis of the consolidated revenue since we are measuring the performance of the group as a whole.

Chart 05: SRMG Revenue (SR mn)

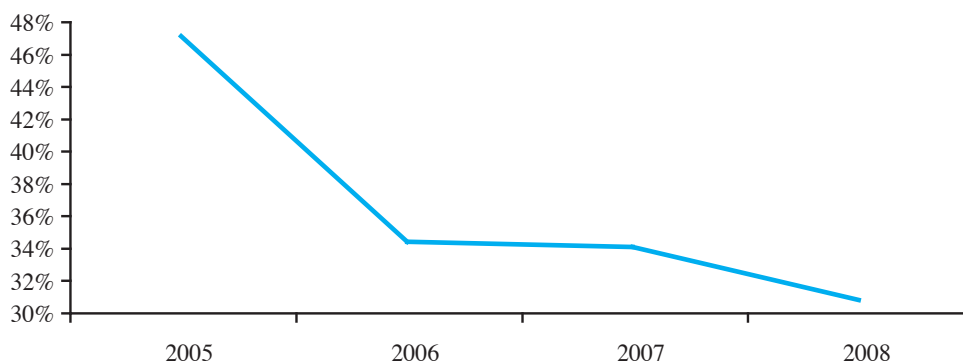


Source: SRMG and **Global Research**

Consolidated revenues have grown at a 2005-2008 CAGR of 8.09% to SR1.34bn. The increase in revenues has been driven by an increase in printing revenue at a 2005-2008 CAGR of 21.3% to 468.2mn and the introduction of specialized publishing services through Saudi Specialized Publishing Company. Specialized Publishing division managed to generate a revenue SR115.8mn in 2008 after generating SR28.6mn in 2007, which was the first year of its operations.

Inter-company sales have come down to 30.7% in 2008 from 47.0% in 2005. This has largely been due to a decline in inter-company sales from SR941.8mn in 2005 to SR594.2mn in 2008.

Chart 06: Inter-Company Sales as a % of Total Sales



Source: SRMG and **Global Research**

Publishing revenue which is the largest component of overall sales (48.6% of total revenue as at the end of 2008) grew at a 2005-2008 CAGR of 3.4%. Publishing revenue comprises of sales and subscriptions of SRMG publications and other publications. Revenue growth from this source has suffered recently due to increasing competition from other publications and wider availability of digital media such as the internet.

Printing revenue has grown steadily at a 2005-2008 CAGR of 21.3% and has been the main growth driver in recent years. Third party lucrative printing contracts such as contracts for printing of education and government related materials have driven growth in this segment.

Advertising revenues took a steep drop of 63.1% in 2006 to SR191mn. Increase in number of publications competing for advertisements had a negative impact on revenue from this source. In addition SRMG discontinued some of its exclusive rights agreements with non-print media in the previous years.

The contribution of distribution revenue to the overall sales revenue has come down in recent years. From a share of 18.6% in 2005 to 10.1% in 2008. Distribution revenues include distribution of third-party publications.

Table 12: SRMG Revenue by Segment

<i>(SR mn)</i>	2005	2006	2007	2008
Publishing	851	931	918	942
Growth rate	-	9.3%	-1.4%	2.7%
Contribution to total sales	42.5%	56.7%	54.4%	48.6%
Specialized Publishing	-	-	29	116
Growth rate	-	-	-	304.0%
Contribution to total sales	-	-	1.7%	6.0%
Distribution	373	193	165	196
Growth rate	-	-48.2%	-14.3%	18.3%
Contribution to total sales	18.6%	11.8%	9.8%	10.1%
Advertising	518	191	203	214
Growth rate	-	-63.1%	6.4%	5.1%
Contribution to total sales	25.8%	11.6%	12.1%	11.0%
Printing	262	325	370	468
Growth rate	-	23.9%	13.9%	26.5%
Contribution to total sales	13.1%	19.8%	22.0%	24.2%

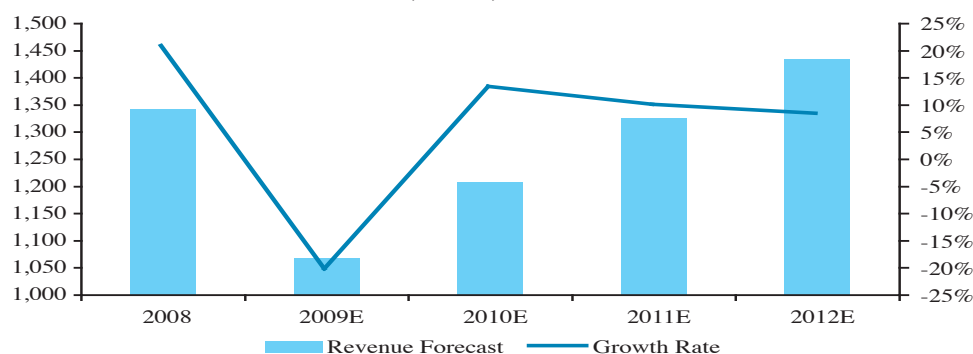
Source: SRMG Annual reports and *Global Research*

Specialized publication revenues increased three-fold in 2008 largely due to the low-base effect. Specialized publications include technical and profession specific publications and are published in soft, hard, mobile, TV and other mediums. Specialized publications make it easier for advertisers to promote their products to targeted audiences.

Revenue Forecast

We expect total revenue to decline by 20.5% in 2009 to SR1.07bn as the global financial crisis and the ensuing global recession takes its toll on the media industry. We expect revenue from advertising division to be hit particularly hard as companies cut on their advertising budgets to counter the recession. Going forward, we expect total revenue to grow at a 2009-2012 CAGR of 10.2%. The revenue growth will be driven by Specialized Publications and Printing divisions.

Chart 7: SRMG Revenue Forecast (SR mn)



Source: SRMG Annual reports and *Global Research*

Publishing division

We estimate publishing revenue to decline by 20.0% to SR753.5mn in 2009 as companies and households try to cut down on their costs. Usually there is a trend in large and medium corporate to subscribe to several newspapers simultaneously which we believe will change as part of the cost-cutting measures. Going forward we expect revenue from publishing division to stagnate and grow at a 2009-2012 CAGR of 4.0%. Intensifying of competition from launch of new publications is likely to suck up any room for growth.

In addition, media such as the internet and television channels will draw people away from the traditional media. Increase in mobile penetration along with increase in investment by telecom companies in broadband technologies is likely to boost broadband penetration levels which are below 15.0% in the Middle East with the exception of UAE, Bahrain, Qatar and Lebanon. The trend of distributing free publications is also increasing which will put pressure on publishing revenues. This involves distributing the publications free while the money is earned through advertising in these publications.

Distribution division

We expect distribution revenue to decline by 15.0% in 2009 to SR166.3mn due to lower subscriptions in the ongoing recessionary environment. However, with a large distribution network spreading across the Middle East, the revenue from distribution is likely to grow modestly as third-parties are likely to rely on SRMG network to distribute their publications. We expect revenue from the distribution division to grow at a 2009-2012 CAGR of 11.5%.

Advertising division

In 2009 we expect advertising revenue to decline by 30.0% due to the ongoing recession. However, we believe that once the world economy gets back on track and oil prices start

recovering the delayed projects will resume leading to more spending on advertising. Furthermore, reforms and liberalization in different sectors will bring in competition and investment leading to further expenditure on advertising.

Table 13: SRMG Revenue Forecast by Segment

<i>SR (mn)</i>	2009E	2010E	2011E	2012E
Publishing	754	791	823	848
Growth rate	-20.0%	5.0%	4.0%	3.0%
Contribution to total sales	45.9%	42.6%	40.3%	38.4%
Specialised Publishing	151	188	226	260
Growth rate	30%	25%	20%	15%
Contribution to total sales	9.2%	10.1%	11.1%	11.8%
Distribution	166	200	220	231
Growth rate	-15.0%	20.0%	10.0%	5.0%
Contribution to total sales	10.1%	10.7%	10.8%	10.4%
Advertising	150	172	189	199
Growth rate	-30.0%	15.0%	10.0%	5.0%
Contribution to total sales	9.1%	9.3%	9.3%	9.0%
Printing	421	506	582	669
Growth rate	-10.0%	20.0%	15.0%	15.0%
Contribution to total sales	25.7%	27.2%	28.5%	30.3%

Source: SRMG Annual reports and *Global Research*

Revenue Growth Drivers - Specialized publishing and Printing Division

The revenue growth drivers will be the specialized publishing and the printing division. Specialized Publishing will give advertisers an avenue for cost-effective advertising. The launch of specialized magazines will also allow SRMG to capture niche markets increasing revenues from subscriptions. We expect revenue from specialized publishing to grow at a 2009-2012 CAGR of 19.9% to SR260mn in 2012.

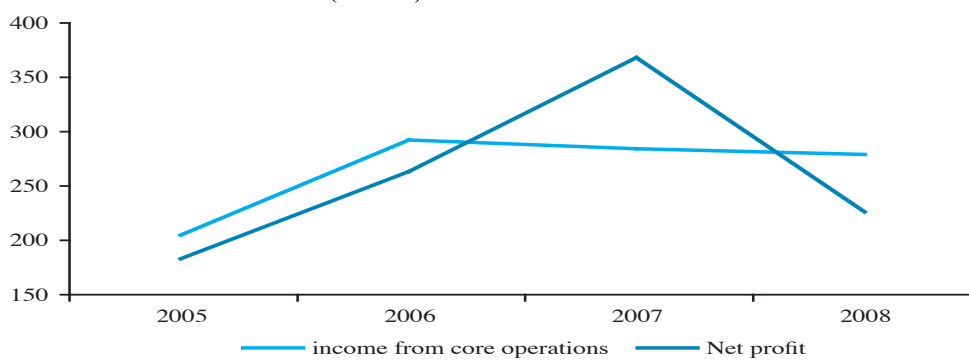
The other growth driver will be the printing business. Regular launch of newspaper publications by SRMG and other publishers is likely to feed growth in this division. Launch of major projects such as launching of new cities and products will increase the demand for printing services as companies will look to get brochures and pamphlets printed for their marketing campaigns. We expect revenue from printing to grow at a 2009-2012 CAGR of 16.6% to SR669mn in 2012.

Profitability and Margins

The net incomes from continuing operations have grown steadily for SRMG at a 2005-2008 CAGR of 10.5% to SR 277.2mn. The growth in income from continuing operations was driven by growth in publishing, printing and advertising income in the backdrop of increase in number of publications along with high economic growth rate in the region. The introduction of specialized publications also supported the increase in income from continuing operations.

Net income has been relatively erratic with large one-off gains being realized. In 2007 Net profit increased by 40.1% largely due to a gain of SR161.2mn realized on IPO of Saudi Printing and Packaging Company.

Chart 08: SRMG Net Profit (SR mn)



Source: SRMG Annual accounts and *Global Research*

Publishing margins have remained stable at around 16.0%. They did spike up-to 20.13% in 2006. However they have come down to 16.75% in 2008 in view of the increase in competition. Printing division with an overall contribution of 24.2% to sales has been one the main contributors to gross profit growth with a 2005-2008 CAGR of 14.5%. Printing revenues have received a boost due to a rise in number of publications and lucrative printing contracts.

Advertising margins suddenly jumped to 57.62% in 2006 from 21.56% in 2005. This was largely due to increase in focus towards high-margin advertising avenues. Specialized Publications is the other high margin division. The gross profit margin of specialized publications increased to 37.24% in 2008 from 30.28% in 2007.

Table 14: SRMG Gross Margins by Segment

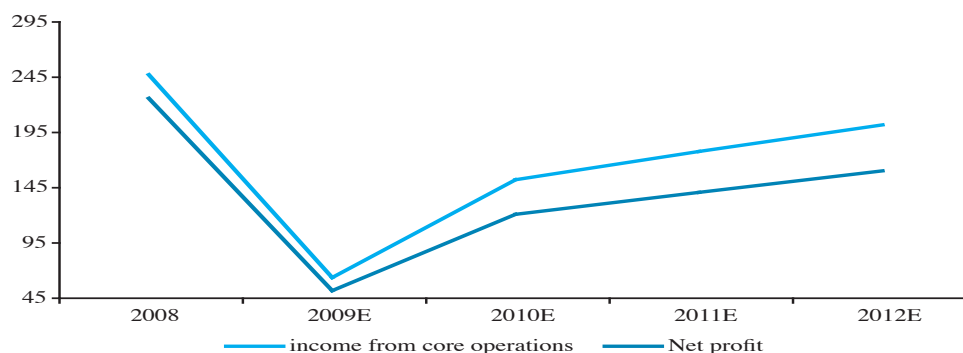
	2005	2006	2007	2008
Publishing	16.29%	20.13%	17.64%	16.75%
Specialized Publishing	-	-	30.28%	37.24%
Distribution	14.98%	27.64%	26.55%	22.73%
Advertising	21.56%	57.62%	58.55%	60.66%
Printing	35.78%	39.31%	36.23%	30.07%
Overall Gross margins	37.5%	44.2%	41.3%	38.0%

Source: SRMG Annual Accounts and *Global Research*

Net profit and margin forecast

We expect income from core operations to decline by 74.7% to SR62.2mn in 2009 as revenues and margins fall. Going forward we expect income from core operations to grow at a 2009-2012 CAGR of 47.7% partly due to low base and expected recovery in global economy. According to the latest IMF forecast, the global economy will grow at 3.1% in 2010. In addition, various investments made by the group will start maturing which will prop up the bottom line.

Chart 09: SRMG Net Profit Forecast (SR mn)



Source: SRMG Annual Accounts and *Global Research*

We believe that Specialized Publishing division will continue to enjoy the benefit of high margins as it will enable target-specific advertising. In addition it will be able to capitalize on the benefit of niche markets. We have assumed gross margins of 35.0% from this division going forward. Advertising is also expected to continue to enjoying high margins of around 35.0% as SRMG is focusing on high value avenues.

Printing division is expected to have healthy margins of 30.0% going forward due to strong growth in demand for printing services. We have kept the distribution margins at 20.0% for 2009 and 22.0% going forward. Publishing division will see a decline of gross profit margins to around 15.0% from 2009 onwards as SRMG is likely to face stiff competition in this segment with the rise in number of other publications.

Table 15: SRMG Gross Margins by Segment

	2009E	2010E	2011E	2012E
Publishing	15.0%	15.0%	15.0%	15.0%
Specialised Publishing	35.0%	35.0%	35.0%	35.0%
Distribution	20.0%	22.0%	22.0%	22.0%
Advertising	33.0%	35.0%	35.0%	35.0%
Printing	30.0%	30.0%	30.0%	30.0%
Overall Gross margins	34.5%	35.8%	36.4%	36.9%

Source: SRMG Annual Accounts and *Global Research*

9M-2009 Financial Results

SRMG reported a net profit of SR34.5mn in 9M-2009, a decline of 81.0% against the net profit of SR181.7mn in corresponding period last year. Revenue declined by 12.3% YoY as the financial crisis which precipitated the global recession had a negative impact on the media and publishing industry as a whole. Advertising revenues were hit hard particularly during the period as companies were forced to cut down their budgets to counter the recession. On the other hand selling, general and administrative expenses increased by 4.8% which squeezed the margins. SRMG announced a dividend of SR160.0mn or SR2.0 per share at the end of 1Q-2009.

Table 16: 9M-2009 Income Statement

<i>SR (000)</i>	9M-2008	9M-2009
Net Sales	859,207	753,426
CGS	(509,659)	(505,845)
Gross Profit	349,548	247,580
Selling, General & Administrative Expenses	(180,228)	(188,900)
Net Profit After Zakat	181,675	34,482

Source: Zawya

Total assets of the company declined by 2.1% to SR2,405mn in 3Q-2009 compared to 2Q-2009. Fixed assets witnessed a rise of 3.8%. This is due to the fact that SRMG is carrying on with the investment program. The returns from these investments will start to mature in a few years time.

Table 17: Balance Sheet

<i>SR (000)</i>	30-Jun-09	30-Sep-09
Assets		
Total Current Assets	952,518	843,081
Total Fixed Assets	1,504,122	1,561,524
Total Assets	2,456,640	2,404,605
Liabilities & Equity		
Total Current Liabilities	597,912	586,810
Total Non-Current Liabilities	388,624	341,778
Other Liabilities	218,176	223,424
Total Liabilities	1,204,712	1,152,012
Shareholders' Equity	1,251,928	1,252,593
Total Liabilities & Shareholders' Equity	2,456,640	2,404,605

Source: Tadawul

Valuation and Recommendation

We have used the Discounted Cash Flow Methodologies to value the company. Under this valuation we have used 4-year (FY2009-12) cash flow forecast for Saudi Research and Marketing Group. We have used constant growth Gordon Growth Model (GGM) to arrive at a terminal value for the company. The forecasted cash flow and the terminal value is then discounted at the Weighted Average Cost of Capital.

- 1-Risk free rate (RFR) of 5.5%
- 2-Equity risk premium of 5.75%
- 3-Beta of 1.0
- 4-Terminal growth rate of 3.0%
- 5-Cost of debt of 7.0%

Table 18: DCF Calculations

(SR 000)	2009 (E)	2010 (E)	2011 (E)	2012 (E)
FCF	214,847	92,438	122,040	144,723
Discounted Cash Flow	211,338	82,691	99,281	107,067
Terminal Value	2,141,112			
Primary Value (discounted)	612,256			
Terminal Value (discounted)	1,573,088			
Total DCF Value	2,222,573			
Debt	188,075	<i>As of 3Q-2009</i>		
Add: Investments & cash equivalents	138,223	<i>As of 3Q-2009</i>		
Total Equity Value	2,172,721			
Shares Outstanding (000)	80,000			
Fair Value Per Share	27.2			

Source: Global Research

Sensitivity Analysis

We have carried out a sensitivity analysis to show the impact of change in terminal growth rate and WACC on the company's fair value.

Table 19: Sensitivity Analysis

		Terminal Growth Rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	8.0%	28.2	31.9	37.1	45.0	58.3
	9.0%	24.9	27.7	31.3	36.5	44.2
	10.0%	22.4	24.5	27.2	30.8	35.8
	11.0%	20.3	22.0	24.0	26.7	30.2
	12.0%	18.7	20.0	21.6	23.6	26.2

Source: Global Research

Based on assumptions given above we have derived the cost of equity of 11.3% and WACC of 10.0% using the CAPM method. The current market price of SR28.4 (as on 1st November 2009) is at a premium of 4.4% to its fair value of SR27.2. Thus we recommend a **Hold** on the stock.

BALANCE SHEET

SR 000	2006A	2007A	2008A	SRMG 2009E	2010E	2011E	2012E
Current assets							
Cash and cash equivalents	178,561	460,551	140,705	171,338	233,750	287,519	350,427
Trade receivable	294,626	318,500	415,337	288,235	326,054	358,071	387,267
Prepaid expenses	76,646	65,488	84,390	64,052	72,456	79,571	86,059
Inventories	132,292	224,406	341,742	224,183	253,598	278,499	301,208
Subtotal	682,125	1,068,945	982,175	747,809	885,859	1,003,660	1,124,961
Non-current assets							
Investment in associated companies	83,156	89,388	-	-	-	-	-
Property, plant and equipment	654,915	666,398	832,521	939,210	930,399	921,088	911,277
Intangible assets	364,979	362,598	444,660	444,347	444,034	443,721	443,721
Subtotal	1,103,050	1,118,383	1,277,182	1,383,557	1,374,433	1,364,809	1,354,998
Total Assets	1,785,175	2,187,329	2,259,356	2,131,366	2,260,292	2,368,469	2,479,959
Current Liabilities							
Murabaha and loan	10,000	63,333	173,475	20,000	20,000	20,000	20,000
Current P of Murabaha and term loans	13,333	-	-	-	-	-	-
Deferred revenue	14,365	17,929	11,146	10,675	12,076	13,262	14,343
Obligations under capital lease- Current P	46,800	37,374	7,000	-	-	-	-
Deferred gains on leaseback tr- Current P	60,578	48,048	3,208	-	-	-	-
Trade payables	202,554	252,727	253,726	279,779	310,027	337,391	361,999
Zakat and income tax	14,118	27,054	24,790	24,790	24,790	24,790	24,790
Subtotal	361,749	446,466	473,345	335,244	366,892	395,443	421,132
Non-current liabilities							
Long-term murabaha	20,000	6,667	25,970	180,970	175,970	170,970	165,970
Customers deposit	26,089	26,392	26,778	16,787	18,602	20,243	21,720
Trade payables	12,961	6,232	11,150	10,492	11,626	12,652	13,575
Obligations under capital lease	44,374	7,000	-	-	-	-	-
Deferred gains on sale and leaseback	51,256	3,208	-	-	-	-	-
End of service indemnities	73,855	79,850	86,869	93,410	90,571	99,464	107,574
Subtotal	228,535	129,349	150,767	301,658	296,768	303,330	308,839
Shareholders equity and MI							
Share Capital	800,000	800,000	800,000	800,000	800,000	800,000	800,000
Statutory reserve	112,985	149,639	172,084	177,112	189,038	202,983	218,851
Contractual reserve	22,151	40,478	51,701	54,214	60,178	67,150	75,084
Unrealized gain on reval. Of AFS	-	-	-	-	-	-	-
Foreign currency translation adjustment	8,283	9,813	(6,056)	(6,056)	(6,056)	(6,056)	(6,056)
Restricted government grant	-	-	8,361	8,361	8,361	8,361	8,361
Retained earnings	251,420	401,176	350,163	232,863	301,556	342,560	386,801
Subtotal	1,194,839	1,401,106	1,376,252	1,266,495	1,353,077	1,414,997	1,483,041
Minority Interest	53	210,409	258,992	227,969	243,554	254,700	266,947
Total equity	1,194,892	1,611,514	1,635,245	1,494,464	1,596,631	1,669,697	1,749,988
Total Equity and Liabilities	1,785,175	2,187,329	2,259,356	2,131,366	2,260,292	2,368,469	2,479,959

Source: SRMG Annual Accounts and Global Research

INCOME STATEMENT

SR 000	SRMG						
	2006A	2007A	2008A	2009E	2010E	2011E	2012E
Revenues	1,077,209	1,113,298	1,342,225	1,067,538	1,207,608	1,326,188	1,434,323
Cost of revenues	601,555	653,050	832,704	699,448	775,066	843,477	904,998
Gross Profit	475,655	460,249	509,521	368,090	432,542	482,710	529,325
Equity income of associated companies	2,794	4,977	4,351	-	-	-	-
Selling and marketing expenses	(36,567)	(38,623)	(48,776)	(64,052)	(48,304)	(53,048)	(57,373)
General and administration expenses	(146,745)	(155,425)	(189,707)	(186,819)	(181,141)	(198,928)	(215,148)
Professional and consulting fees	(17,794)	(15,775)	(15,395)	(21,351)	(18,114)	(19,893)	(21,515)
Depreciation & Amortization	(22,980)	(24,646)	(25,498)	(33,624)	(34,124)	(34,624)	(34,811)
Recoverable value of assets impairment	-	-	11,292	-	-	-	-
Income from core operations	254,363	230,758	245,789	62,244	150,858	176,218	200,478
Financial charges, net	(11,479)	(885)	(4,935)	(10,049)	(9,799)	(9,549)	(9,299)
Other income, net	47,737	52,989	36,407	21,744	24,584	26,999	29,210
Income from continuing operations	290,621	282,862	277,261	73,939	165,644	193,669	220,389
Non-recurring income and expenses	(15,857)	134,778	16,590	-	-	-	-
Minority interest	169	(25,146)	(52,387)	(14,788)	(33,129)	(38,734)	(44,078)
Income before tax and Zakat	274,933	392,494	241,464	59,151	132,515	154,935	176,311
Zakat and Income Tax	(13,349)	(25,956)	(17,010)	(8,873)	(13,251)	(15,493)	(17,631)
Net Income	261,584	366,537	224,455	50,278	119,263	139,441	158,680
P&L Appropriation							
Opening Balance	29,073	251,420	401,176	350,163	232,863	301,556	342,560
Profit for current year	261,584	366,537	224,455	50,278	119,263	139,441	158,680
Profit available for appropriation	290,657	617,957	625,631	400,441	352,127	440,998	501,240
Transfer to statutory reserve	(26,158)	(36,654)	(22,445)	(5,028)	(11,926)	(13,944)	(15,868)
Transfer to contractual reserve	(13,079)	(18,327)	(11,223)	(2,514)	(5,963)	(6,972)	(7,934)
Final dividend	-	(161,800)	(241,800)	(160,036)	(32,681)	(77,521)	(90,637)
Ending Balance	251,420	401,176	350,163	232,863	301,556	342,560	386,801

Source: SRMG Annual Accounts and Global Research

CASH FLOW

SR 000	2006A	2007A	2008A	SRMG	2010E	2011E	2012E
Operating Activities							
Income before Z and IT	274,933	392,494	241,464	59,151	132,515	154,935	176,311
Adjustments:							
Depreciation and Amortisation	45,227	40,307	47,657	33,624	34,124	34,624	34,811
Income (loss) from equity investments	(2,794)	-	-	-	-	-	-
Gain from sales in AFS securities	(2,444)	-	-	-	-	-	-
Recoverable value of assets impairment	14,951	14,446	(11,292)	6,541	(2,839)	8,893	8,110
Employees end of service indemnities	-	96	(1,336)	-	-	-	-
Gain(Loss) from sale of fixed assets	-	(161,282)	-	-	-	-	-
Gain from sale of investment in subsd.	-	(4,977)	(19,786)	-	-	-	-
Gain from sale in associate	-	(4,351)	(4,351)	-	-	-	-
Equity income of associated company	-	25,146	52,387	-	-	-	-
Minority interest in income of subsidiaries	(169)	-	-	-	-	-	-
Subtotal	329,705	306,229	321,573	99,316	163,800	198,453	219,232
Changes in operating assets and liabilities:							
Receivables, PP and other balances	(38,181)	(12,716)	(53,681)	147,440	(46,223)	(39,131)	(35,685)
Inventories	(13,108)	(92,115)	(83,149)	117,559	(29,415)	(24,902)	(22,708)
Trade payables	27,947	38,806	(32,292)	25,395	31,382	28,390	25,531
Deferred revenue	962	3,564	(6,783)	(3,678)	1,401	1,186	1,081
Customer's deposits	922	303	386	(9,991)	1,815	1,642	1,476
End of service indemnities	(4,901)	(8,450)	(10,949)	-	-	-	-
Zakat and income tax paid	(13,431)	(13,021)	(19,274)	(8,873)	(13,251)	(15,493)	(17,631)
Subtotal	(39,790)	(83,629)	(205,743)	267,851	(54,292)	(48,308)	(47,935)
Net Cash flow from Operating activities	289,915	222,600	115,830	367,168	109,508	150,144	171,297
Investing activities							
Purchase of Property, Plant and equipment	(93,276)	(48,285)	(137,145)	(140,000)	(25,000)	(25,000)	(25,000)
Proceeds from sale of equipment	-	248	1,995	-	-	-	-
Leased assets	(130,000)	-	-	-	-	-	-
Foreign currency adj. on Property plant	(7,713)	(1,468)	13,897	-	-	-	-
Proceeds from sale of investment in subsd.	-	346,491	113,525	-	-	-	-
Investments in associated companies	-	(1,254)	-	-	-	-	-
Equity investments	(80,362)	-	-	-	-	-	-
Proceeds from sale of AFS securities	4,100	-	(175,475)	-	-	-	-
Investment in new subsidiaries	-	-	-	-	-	-	-
Intangible assets	(10,217)	-	(2,138)	-	-	-	-
Net Cash Flow from Investing activities	(317,467)	295,733	(185,341)	(140,000)	(25,000)	(25,000)	(25,000)
Financing Activities							
Murabaha and loans	(19,985)	26,667	100,147	1,525	(5,000)	(5,000)	(5,000)
Minority interests	(3,615)	-	(3,803)	(31,023)	15,585	11,146	12,248
Foreign currency translation adj. on investments	10,174	1,530	(15,869)	-	-	-	-
Deferred gains on sale and leaseback tr.	58,092	(60,579)	(48,048)	-	-	-	-
Obligations under capital lease	44,174	(46,800)	(37,374)	(7,000)	-	-	-
Board of director's remuneration	-	(1,800)	(1,800)	-	-	-	-
Dividends Paid	-	(155,361)	(243,588)	(160,036)	(32,681)	(77,521)	(90,637)
Net cashflow from financing activities	88,841	(236,344)	(250,335)	(196,534)	(22,096)	(71,376)	(83,389)
Net Change in Cash and Cash Equivalents	61,288	281,990	(319,846)	30,633	62,412	53,769	62,908
Cash and cash equivalents at the beginning	117,273	178,561	460,551	140,705	171,338	233,750	287,519
Cash and cash equivalents at the end	178,561	460,551	140,705	171,338	233,750	287,519	350,427

Source: SRMG Annual Accounts and Global Research

FACT SHEET

	SRMG						
	2006	2007	2008	2009E	2010E	2011E	2012E
Liquidity Ratios							
Current ratio	1.89	2.39	2.07	2.23	2.41	2.54	2.67
Quick ratio	1.31	1.74	1.17	1.37	1.53	1.63	1.75
Profitability Ratios							
Gross profit margin	44.2%	41.3%	38.0%	34.5%	35.8%	36.4%	36.9%
EBIT Margin	23.6%	20.7%	18.3%	5.8%	12.5%	13.3%	14.0%
EBITDA Margin	25.7%	22.9%	20.2%	9.0%	15.3%	15.9%	16.4%
Net profit margin	24.3%	32.9%	16.7%	4.7%	9.9%	10.5%	11.1%
ROAE	24.6%	26.1%	13.8%	3.2%	7.7%	8.5%	9.3%
ROAA	16.4%	18.5%	10.1%	2.3%	5.4%	6.0%	6.5%
Leverage Ratios							
Debt to Equity	12.7%	6.2%	7.6%	19.1%	17.4%	17.0%	16.4%
Debt to Asset	12.8%	5.9%	6.7%	14.2%	13.1%	12.8%	12.5%
Growth Rates							
Revenue Growth Rate	1.3%	3.4%	20.6%	-20.5%	13.1%	9.8%	8.2%
Net Income Growth Rate	42.3%	40.1%	-38.8%	-77.6%	137.2%	16.9%	13.8%
Equity Growth Rate	28.6%	34.9%	1.5%	-8.6%	6.8%	4.6%	4.8%
Total Asset Growth Rate	27.7%	22.5%	3.3%	-5.7%	6.0%	4.8%	4.7%
Ratios Use for Valuation							
Number of shares (mn)	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Par value per Share (SR)	10.0	10.0	10.0	10.0	10.0	10.0	10.0
BV per share (SR)	14.94	20.14	20.44	18.68	19.96	20.87	21.87
EPS (SR)	3.27	4.58	2.81	0.63	1.49	1.74	1.98
Market Price (SR)	74.5	58.8	30.0	28.4	28.4	28.4	28.4
Market Cap in (SR mn)	5,960	4,700	2,400	2,272	2,272	2,272	2,272
EV (SR mn)	5,846	4,253	2,285	2,282	2,214	2,155	2,088
EV/EBITDA	21.08	16.65	8.42	23.80	11.97	10.22	8.87
P/E Ratio	22.78	12.82	10.69	45.19	19.05	16.29	14.32
P/BV Ratio	4.99	2.92	1.47	1.52	1.42	1.36	1.30

Source: SRMG Annual Accounts and Global Research
 Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on closing prices on the Tadawul as of 1st November 2009

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Company	Recommendation	Tickers	Price (SR)	Disclosure
Saudi Research & Marketing Group - SRMG	Hold	Research AB (Bloomberg) 4210.SE (Reuters)	SR28.4	1,10

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