

Almarai Company

Strong revenue growth amid continued cost pressures

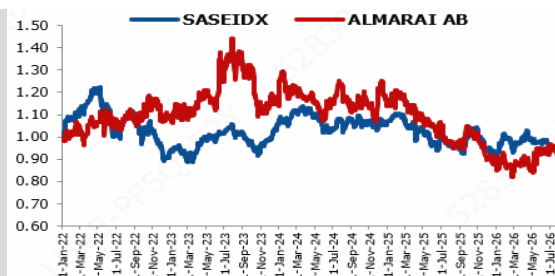
Current Price
SAR 44.44

Target Price
SAR 60.00

Upside/Downside (%)
+35.0%

Rating
BUY

- Almarai launched new products in 3Q26 as the Company continued to reshape its portfolio towards higher-margin products.
- Added Protein capacity was fully utilized in 3Q26, expecting further capacity utilization to support improved poultry profitability.
- Net debt increased to SAR 13.5 Bn in 3Q26 from SAR 13.3 Bn in 2Q26.
- The Company remains confident of returning to its long-term EBIT margin target of 14–15% within one to two years once the regional conflict unwinds.



Stock Information

Market Cap (SAR, Mn)	44,440.00
Paid Up Capital (Mn)	10,000.00
52 Week High	50.30
52 Week Low	38.18
3M Avg. daily value(SAR)	27,005,740

3Q26 Result Review (SAR, Mn)

Total Assets	43,538
Total Liabilities	22,210
Total Equity	21,328
EBITDA	1,445
Net Profit	618

Financial Ratios

Dividend Yield (12m)	2.59
Dividend Pay-out (%)	46.82
Price-Earnings Ratio(x)	18.84
Price-to-Book Ratio (x)	2.08
Book Value (SAR)	21.33
Return-on Equity (%)	11.29

Stock Performance

5 Days	5.81%
1 Months	-6.91%
3 Months	-4.96%
6 Months	3.83%
1 Year	-10.66%
Month to Date (MTD%)	2.16%
Quarter to Date (QTD%)	2.16%
Year to Date (YTD%)	2.73%

3Q26 Net Profit in line with our estimate

Almarai Company ("Almarai", "the Company") net profit increased marginally by 0.7% YOY to SAR 618 Mn in 3Q26, in line with our estimate of SAR 609 Mn. The increase in net profit was primarily driven by revenue growth, supported by strong performance in KSA, Egypt and Kuwait and volume growth in Fresh Dairy and Protein, along with lower impairment losses and zakat expenses, partially offset by higher cost of sales, S&D and G&A expenses, other expenses, net finance costs and income tax expenses.

P&L Highlights

Almarai's revenue increased 11.4% YOY to SAR 6,187 Mn in 3Q26, driven by strong performance in KSA, Egypt and Kuwait, supported by volume growth in Fresh Dairy and Protein. Dairy & Juice segment revenue increased 9.7% YOY to SAR 4,010 Mn in 3Q26, driven by healthy consumer demand and sustained market leadership. Bakery segment revenue rose 12.8% YOY to SAR 792 Mn in 3Q26, supported by volume growth and price adjustments. Protein segment revenue increased 11.5% YOY to SAR 1,115 Mn in 3Q26, driven by capacity expansion, although profitability remained under pressure due to challenging market conditions, higher distribution costs and ramp-up costs. On the other hand, cost of sales increased 14.3% YOY to SAR 4,350 Mn in 3Q26, reflecting higher feed and shipping costs. Thus, gross profit increased 5.1% YOY to SAR 1,837 Mn in 3Q26. However, gross profit margin contracted 178 bps YOY to 29.7% in 3Q26. S&D expenses rose 7.2% YOY to SAR 896 Mn in 3Q26. G&A expenses grew 7.5% YOY to SAR 131 Mn in 3Q26, while other expenses increased 1.5% YOY to SAR 31 Mn in 3Q26. Almarai's EBITDA increased 6.5% YOY to SAR 1,445 Mn in 3Q26. However, EBITDA margin declined 108 bps YOY to 23.4% in 3Q26. The Company's operating profit increased 2.8% YOY to SAR 779 Mn in 3Q26, despite elevated energy, logistics

and Protein ramp-up costs, with disciplined cost management partially mitigating these pressures. Operating profit margin declined 105 bps YOY to 12.6% in 3Q26. The Company's net finance costs increased 15.3% YOY to SAR 137 Mn in 3Q26, reflecting higher debt levels, partially offset by favourable funding rates. Zakat expenses declined 15.7% YOY to SAR 17 Mn in 3Q26, while income tax expenses increased 42.9% YOY to SAR 7 Mn in 3Q26.

Balance Sheet Highlights

Almarai's net cash flow from operations decreased 15.0% YOY to SAR 1,109 Mn in 3Q26. Total capex declined from SAR 1,002 Mn in 3Q25 to SAR 859 Mn in 3Q26. Thus, free cash flow improved substantially to SAR 89 Mn in 3Q26, compared to negative SAR 967 Mn in 3Q25. The Company indicated that capex reductions helped maintain positive free cash flow despite the higher working capital requirements. Net debt increased to SAR 13.5 Bn in 3Q26 compared to SAR 13.3 Bn in 2Q26, while the net debt-to-EBITDA ratio declined marginally to 2.72x on a TTM 3Q26 basis from 2.73x on a TTM 2Q26 basis.

Target Price and Rating

We maintain our BUY rating on Almarai with a target price of SAR 60.00. Almarai's net profit increased marginally 0.7% YOY to SAR 618 Mn in 3Q26, supported by strong revenue growth across markets, products and sales channels, although profitability remained subdued due to higher feed, shipping, energy and logistics costs, protein ramp-up costs and higher funding costs due to increased debt levels. The Company indicated that consumer demand remained strong despite the regional situation, while Fresh Dairy trading conditions remained positive following the May price adjustment. Almarai also continued to reshape its portfolio towards higher-margin products, launching iced tea, Muscle Milk, new chicken breast fillet products and new poultry flavours during the quarter, with the Company indicating that these launches are positive for margins and pricing. Protein capacity added during the expansion is fully utilized, while Almarai expects full capacity utilization to support a 2–3 percentage point improvement in poultry EBIT margin. The Company expects at least five to six major asset announcements over the next six quarters, with these investments and new growth streams expected to support an improvement in ROIC. The Company indicated that the SAR 132 Mn cost-of-goods headwind in 3Q26 included only part of the higher Alfalfa cost, with the impact expected to increase further in 4Q26 as higher Alfalfa costs continue to flow through the P&L. Almarai also indicated that conflict-related costs are running at more than SAR 500–600 Mn on an annualized basis, with part of the impact yet to be recognized. Internal cost management remains the Company's first response to these pressures, while further pricing remains an option if elevated costs persist. The Company expects margins to remain under pressure in the short term but remains confident of returning to its long-term EBIT margin target of 14–15% within one to two years once the conflict unwinds. Almarai has also passed the peak of its investment cycle, with 2026 capex expected to remain below SAR 4 Bn and TTM capex declining to 17% of revenue in 3Q26 from 19% in 2025. The Company expects the capex-to-revenue ratio to continue declining towards single digits over the next two to three years, while free cash flow is expected to grow over the next three to four quarters. Net debt and leverage have also peaked, with the Company expecting EBITDA and operating cash flow to increase by c. SAR 300–400 Mn annually while debt remains stable or declines. Furthermore, funding requirements for the next 12 months are fully secured, with the Company targeting coverage for the next 24 months by year-end. The Company also approved its 2026–2031 strategy, focused on accelerating growth across core businesses, selectively expanding into attractive food categories and high-potential channels, improving profitability and increasing cash flow generation. In addition, Almarai approved its dividend policy for 2026–2030, targeting a cash dividend payout of 40–60% of annual net profit, with the policy taking effect in 2027 and first applying to dividends relating to FY2026. Thus, based on above mentioned factors we maintain our BUY rating on the stock.

Almarai - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	28.96	25.73	22.10	19.58	18.44	18.15
PB	2.81	2.72	2.54	2.41	2.21	2.07
EV/EBITDA	14.88	13.85	12.74	12.06	12.09	11.80
BVPS	16.119	16.671	17.798	18.791	20.527	21.872
EPS	1.564	1.760	2.049	2.313	2.456	2.495
DPS	1.000	1.000	1.000	1.000	1.150	1.200
Dividend yield	2.3%	2.3%	2.3%	2.3%	2.6%	2.7%

FABS Estimates & Co Data

Almarai - P&L

SAR Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Sales	5,553	5,868	6,187	6,092	1.6%	11.4%	5.4%	22,065	24,396	10.6%
Cost of Sales	-3,805	-4,044	-4,350	-4,259	2.2%	14.3%	7.6%	-15,177	-17,004	12.0%
Gross profit	1,747	1,824	1,837	1,834	0.2%	5.1%	0.7%	6,888	7,392	7.3%
S&D Expenses	-836	-820	-896	-871	2.9%	7.2%	9.3%	-3,231	-3,476	7.6%
G&A expenses	-122	-141	-131	-146	-10.5%	7.5%	-7.1%	-561	-610	8.6%
Other expense/income	-30	-30	-31	-15	NM	1.5%	1.9%	-15	-85	NM
Impairment	-2	-19	0	-12	NM	NM	NM	-20	-49	NM
EBITDA	1,357	1,451	1,445	1,221	18.3%	6.5%	-0.4%	4,735	4,979	5.2%
Operating profit	757	814	779	789	-1.3%	2.8%	-4.3%	3,060	3,172	3.6%
Investment & other income	0	0	0	0	NM	NM	NM	-1	0	NM
Financial costs (net)	-119	-137	-137	-140	-2.2%	15.3%	-0.1%	-463	-522	12.8%
Profit before zakat	639	677	642	649	-1.1%	0.5%	-5.1%	2,596	2,649	2.1%
Zakat	-20	-25	-17	-27	-36.7%	-15.7%	-32.2%	-87	-106	22.0%
Income Tax	-5	-15	-7	-13	-48.6%	42.9%	NM	-52	-48	-8.6%
Profit before NCI	614	636	618	609	1.5%	0.7%	-2.9%	2,457	2,495	1.6%
Non-controlling interests	0	1	0	0	NM	NM	NM	1	1	1.6%
Profit attributable	613	636	618	609	1.5%	0.7%	-2.8%	2,456	2,495	1.6%

FABS estimate & Co Data

Almarai - Margins

	3Q25	2Q26	3Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross Profit	31.5%	31.1%	29.7%	-178	-139	31.2%	30.3%	-92
EBITDA	24.4%	24.7%	23.4%	-108	-137	21.5%	20.4%	-105
Operating Profit	13.6%	13.9%	12.6%	-105	-128	13.9%	13.0%	-87
Net Profit	11.0%	10.8%	10.0%	-106	-85	11.1%	10.2%	-90

FABS estimate & Co Data

Valuation:

We use the Discounted Free Cash Flow (DCF) and Relative Valuation (RV) method to value Almarai. We have assigned 70% weight to DCF, and 30% to the RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	64.66	70.0%	45.26
Relative Valuation (RV)	49.12	30.0%	14.74
Weighted Average Valuation (SAR)			60.00
Current market price (SAR)			44.44
Upside/Downside (%)			+35.0%

1) DCF Method:

Almarai is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 7.9%. It arrived after using a cost of equity of 8.8%, and after-tax cost of debt of 5.2% with a debt-to-equity ratio of 23.6%. Cost of equity is calculated by using the 10-year government bond yield of 5.7%, beta of 0.80 and equity risk premium of 3.9%. Government bond yield is calculated after adding the KSA 10-year CDS spread over the 10-year US risk-free rate. The pre-tax cost of debt of 5.4%, adjusted for a tax rate of 4.0%, resulting into an after-tax cost of debt of 5.2%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	15,451
Terminal value (SAR, Mn)	63,290
FV to Common shareholders (SAR, Mn)	78,741
No. of share (Mn)	1,000
Current Market Price (SAR)	44.44
Fair Value per share (SAR)	64.66

DCF Method

(All Figures in SAR Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Cash Flow from Operations	6,239	6,212	7,001	8,020	8,696	9,210
CAPEX	-4,806	-3,609	-3,833	-3,944	-3,832	-4,202
Free Cash Flow to Firm (FCFF)	1,433	2,603	3,168	4,076	4,865	5,008
Discounting Factor	0.98	0.91	0.84	0.78	0.72	0.67
Discounted FCFF	352	2,368	2,671	3,183	3,520	3,357

2) Relative Valuation:

We have used local as well as international peers to value Almarai, and it is valued using the EV/EBITDA multiple. It is valued at a 2027 EV/EBITDA multiple of 10.7x and valued in line with SADAFCO. We have applied a premium to the median valuation multiple.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2027F	2028F	2027F	2028F
Savola	1,964	5.4	5.2	10.5	9.4
SADAFCO	1,602	10.5	9.6	15.5	14.1
Agthia	733	5.9	5.4	10.7	9.3
Mezzan Holdings	1,209	8.5	8.2	17.0	15.5
Halwani Brothers	269	9.4	6.5	20.3	16.8
National Agricultural Dev Co.	1,106	5.1	4.5	14.2	12.2
Average		7.4x	6.6x	14.7x	12.9x
Median		7.2x	5.9x	14.9x	13.2x
Max		9.1x	7.7x	16.6x	15.1x
Min		5.5x	5.3x	11.6x	10.1x

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani	+971-2-6161629	Ahmad.Banihani@Bankfab.com
Shahrukh Nawaz	+971-2-6161612	Shahrukh.Nawaz@Bankfab.com

Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	Online Trading Link
Institutional Desk	+971-4-4245765	

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