

Almarai Company

Growth in volume, mix and pricing supported top-line and bottom-line expansion

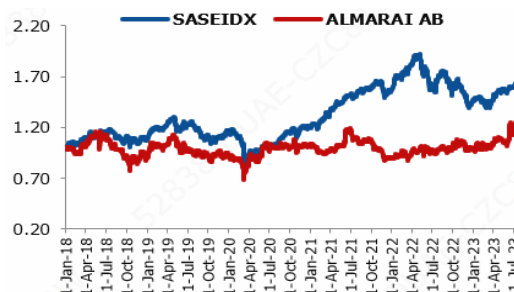
Current Price
SAR 66.80

Target Price
SAR 61.00

Upside/Downside (%)
-8.7%

Rating
REDUCE

- Revenue growth is owing to a growth in volume, mix and pricing partially offset by the advancement of Ramadan
- Poultry segment registered the fastest followed by bakery and dairy
- Tight control of operating costs along with efficiency measures boosted margins to the highest level in eight quarters
- The Company plans to issue USD-denominated trust certificates under the USD200 Mn Trust Certificate Issuance Programme for general corporate purposes



Stock Information

Market Cap (SAR, mm)	66,800.00
Paid Up Capital (mm)	10,000.00
52 Week High	69.20
52 Week Low	50.20
3M Avg. daily value(SAR)	32,888,360

2Q23 Net Profit in line with our estimate

Almarai Company ("Almarai, "the Company") recorded 7.1% YOY growth in net profit to SAR 557 Mn in 2Q23, in line with our estimate of SAR 561 Mn. The increase in profit is mainly attributable to strong growth in the poultry segment driven by capacity additions, stabilized commodity costs and positive volume growth in Bakery and Poultry segment partially offset by higher funding costs in line with the increase in SAIBOR interest rates.

P&L Highlights

Almarai's revenue grew 3.9% YOY to SAR 4,792 Mn in 2Q23 mainly due to strong growth in KSA and Oman, offset by a decline in revenue from Egypt owing to EGP devaluation. Revenue from the Dairy and Juice Segment grew 1.4% YOY to SAR 3,179 despite the phasing of Ramadan by 10 days in 1Q23 and the devaluation of the Egyptian Pound. Similarly, revenue from the Bakery business rose 9.4% YOY to SAR 621 Mn in 2Q23 mainly driven by the continued growth of both bread and single-serve product sales. Revenue from the Poultry business increased 15.4% YOY to SAR 849 Mn owing to volume growth due to capacity addition. Revenue from the Other Activities segment declined 16.1% YOY to SAR 143 Mn. Cost of sales rose marginally 2.7% YOY to SAR 3,225 Mn owing to stabilization in the commodity costs and cost optimization efforts by the company. Hence, gross profit grew 6.6% YOY to SAR 1,567 Mn, with an expansion in gross margin by 82 bps YOY to 32.7%. Selling and Distribution expenses increased marginally 3.4% YOY to SAR 689 Mn in 2Q23 while G&A expenses rose 6.0% YOY to SAR 117 Mn. The strong overhead cost control measures contributed significantly towards higher operating profit growth. As a result, Almarai's operating profit rose 9.8% YOY to SAR 761 Mn in 2Q23. Finance Cost grew 41.1% YOY to SAR 136 Mn owing to an increase in SAIBOR

2Q23 Result Review (SAR, mm)

Total Assets	33,609.02
Total Liabilities	16,778.21
Total Equity	16,830.81
EBITDA	1,285.59
Net Profit	557.08

Financial Ratios

Dividend Yield (12m)	1.50
Dividend Pay-out (%)	56.82
Price-Earnings Ratio(x)	32.55
Price-to-Book Ratio (x)	3.97
Book Value (SAR)	16.82
Return-on Equity (%)	12.32

Stock Performance

5 Days	0.15%
1 Months	6.03%
3 Months	16.78%
6 Months	19.29%
1 Year	30.72%
Month to Date (MTD%)	10.05%
Quarter to Date (QTD%)	10.05%
Year to Date (YTD%)	24.86%

interest rates offset partly by the existing fixed debt portfolio. In addition, impairments expenses declined from SAR 13 Mn in 2Q22 to SAR 3 Mn in 2Q23. Zakat expenses rose marginally from SAR 24 Mn in 1Q22 to SAR 25 Mn in 1Q23.

Balance Sheet Highlights

Almarai's working capital rose 8.7% YOY to SAR 4.0 Bn in 2Q23 due to higher inventory cover. The Company's free cash flow increased 36.0% YOY to SAR 2.6 Bn despite the company's CAPEX growing 51.3% YOY to SAR 484 Mn. Almarai's net debt declined from SAR 10.3 Bn in 2Q22 to SAR 9.4 Bn in 2Q23 with a net debt to EBITDA ratio of 2.1x in 2Q23 as compared to 2.9x in 2Q22.

Target Price and Rating

We revise our rating on Almarai from HOLD to REDUCE with a revised target price of SAR 61.00. We revise the target price considering the brand loyalty of the Company's product as it managed to increase the price in quick succession. This helped Almarai ward off inflationary pressure. Almarai's top line grew 3.9% YOY to SAR 4.8 Bn and 8% YOY excluding the impact of the Egyptian pound devaluation. A major portion of the top-line growth is attributed to a price hike of 7.0% from 2Q22 to 2Q23. Almarai maintained strong cost control measures across its segments but higher inventory cover led to higher cost of sales in 2Q23. The company is carrying out hedging activities and leveraging inventory stock cover to mitigate commodity price inflation. The risks related to dairy and feed commodities prices started to show signs of stability in recent quarters as this will help the margin going forward once high-cost inventory phases out. The stock is trading at a 2023 forward PE multiple of 30.1x compared to the long-term forward average of 27.7x which renders it expensive. Thus, based on our analysis, we assign a REDUCE rating on the stock.

Almarai - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	32.56	36.15	33.01	41.89	37.22	30.10
PB	4.72	4.47	4.18	4.06	3.93	3.67
EV/EBITDA	16.01	16.34	16.10	17.56	15.36	14.27
Dividend yield	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%

FABS Estimates & Co Data

Almarai - P&L

SAR mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Sales	4,610	5,067	4,792	5,098	-6.0%	3.9%	-5.4%	18,722	19,946	6.5%
Cost of Sales	-3,141	-3,449	-3,225	-3,502	-7.9%	2.7%	-6.5%	-13,098	-13,755	5.0%
Gross profit	1,470	1,618	1,567	1,596	-1.8%	6.6%	-3.1%	5,624	6,191	10.1%
S&D Expenses	-666	-679	-689	-714	-3.5%	3.4%	1.5%	-2,710	-2,867	5.8%
G&A expenses	-111	-113	-117	-138	-14.7%	6.0%	3.7%	-459	-479	4.4%
EBITDA	994	1,435	1,328	1,341	-1.0%	33.6%	-7.5%	4,869	5,245	7.7%
Operating profit	693	826	761	744	2.2%	9.8%	-7.9%	2,456	2,846	15.9%
Investment & other income	-33	-14	-39	-15	NM	17.1%	NM	-153	-75	-50.9%
Financial costs (net)	-97	-120	-136	-127	7.0%	41.1%	13.2%	-428	-474	10.7%
Impairment	-13	-10	-3	0	NM	-73.8%	-67.0%	-26	0	NA
Profit before zakat	550	681	582	602	-3.3%	5.8%	-14.5%	1,849	2,297	24.2%
Zakat	-22	-27	-23	-24	-4.0%	4.2%	-14.3%	-63	-83	32.1%
Income Tax	-2	-18	-2	-12	-82.9%	-0.2%	-88.6%	-8	-16	96.3%
Profit before NCI	526	636	557	566	-1.5%	5.9%	-12.4%	1,778	2,198	23.6%
Non-controlling interests	6	-1	0	-5	NM	NM	NM	-18	-22	20.0%
Profit attributable	532	635	557	561	-0.6%	4.7%	-12.3%	1,760	2,176	23.7%

FABS estimate & Co Data

Almarai - Margins

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
SAR mm								
Gross margin	31.9%	31.9%	32.7%	82	77	30.0%	31.0%	100
EBITDA margin	21.6%	28.3%	27.7%	615	-62	26.0%	26.3%	29
Operating margin	15.0%	16.3%	15.9%	85	-43	13.1%	14.3%	115

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Discounted Free Cash Flow (DCF)	59.09	70.0%	41.36
Relative Valuation (RV)	65.49	30.0%	19.65
Weighted Average Valuation (SAR)			61.00
Current market price (SAR)			66.80
Upside/Downside (%)			-8.7%

1) DCF Method:

Almarai is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 7.6%. It is arrived after using cost of equity of 8.0% and after-tax cost of debt of 4.7% with debt-to-equity ratio of 15.3%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.64 and equity risk premium of 5.2%. Government bond yield is calculated after adding KSA 10-year CDS spread over 10-year US risk free rate. Cost of debt is calculated using cost of debt of 4.7% after adjusting a tax rate of 3.5%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	13,350
Terminal value (SAR, Mn)	55,570
FV to Common shareholders (SAR, Mn)	59,086
No. of share (Mn)	1,000
Current Market Price (SAR)	66.80
Fair Value per share (SAR)	59.09

(All Figures in SAR Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Cash Flow from Operations	5,089	5,239	5,519	5,803	6,147
CAPEX	-2,328	-2,350	-2,350	-2,348	-2,344
Free Cash Flow to Firm (FCFF)	2,762	2,889	3,169	3,455	3,803
Discounting Factor	0.97	0.90	0.84	0.78	0.72
Discounted FCFF	2,671	2,598	2,649	2,685	2,747

Source: FAB Securities

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 EV/EBITDA multiple of 16.2x and valued in line with SADAFCO. We have applied a premium to the median valuation multiple.

Company	Market (USD Mn)	P/B(x)		P/E (x)		EV/EBITDA(x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Savola GRP Co.	5,526	2.3	2.1	20.4	17.2	10.7	10.3
SADAFCO	2,889	6.1	5.4	24.3	22.3	17.0	15.4
Agthia	1,108	1.3	1.2	13.7	12.7	8.0	7.3
Arabian Food Ind	76	2.2	1.9	16.6	8.8	5.2	4.2
Mezzan Holdings	540	1.4	1.4	NM	47.9	27.5	12.7
Halwani Brothers	669	5.6	3.1	NM	25.6	38.3	18.0
National Agricultural Development Co.	1,285	3.3	3.0	28.4	18.9	11.6	10.3
Average		3.2x	2.6x	20.7x	21.9x	16.9x	11.2x
Median		2.3x	2.1x	20.4x	18.9x	11.6x	10.3x
Max		4.4x	3.0x	24.3x	24.0x	22.3x	14.1x
Min		1.8x	1.7x	16.6x	15.0x	9.4x	8.8x

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%

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