

Almarai Company

Strong growth in volume and cost control measures boosted the bottom line

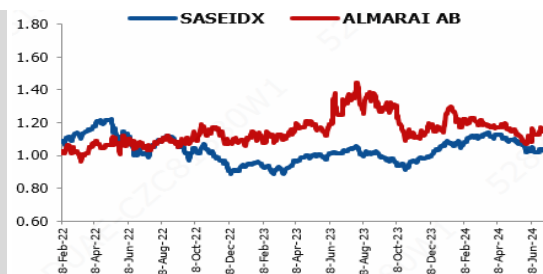
Current Price
SAR 60.00

Target Price
SAR 65.00

Upside/Downside (%)
+8%

Rating
HOLD

- EBITDA grew 24.9% YOY to SAR 1,384 Mn in 2Q24 with an increase in EBITDA margin from 23.1% in 2Q23 to 26.8% in 2Q24.
- Capex grew significantly from SAR 484 Mn in 2Q23 to SAR 817 Mn in 2Q24, aligning with its long-term capex deployment plan.
- Net debt rose 4.2% QOQ to SAR 9,512 Mn in 2Q24.
- The Company completed the acquisition of Etmam Logistics for SAR 182 during 2Q24, which is anticipated to help the company better servicing its customers through a diverse range of frozen products in KSA.



2Q24 Net Profit slightly lower than our estimate

Almarai Company ("Almarai, "the Company") recorded an 11.2% YOY increase in net profit to SAR 620 Mn in 2Q24, slightly lower than our estimate of SAR 640 Mn. The increase in net profit is mainly due to the rise in revenue, stability in commodity costs, and favourable product mix partially offset by increased operating expenses, finance costs, and impairments.

P&L Highlights

Almarai's revenue grew 7.6% YOY to SAR 5,155 Mn in 2Q24, driven by strong growth in volume due to solid contributions from all the product segments, particularly from the dairy and poultry segment. Revenue from the Poultry business grew 14.1% YOY to SAR 969 Mn in 2Q24, driven by production optimization, improvement in economies of scale and volume growth. Revenue from the Bakery business grew 4.0% YOY to SAR 646 Mn in 2Q24 due to seasonal adjustments in the consumption patterns and production efficiencies. Moreover, revenue from the Dairy and Juice segment increased 7.6% YOY to SAR 3,420 Mn in 2Q24 primarily due to improvement in sales mix, new product launches and Ramadan seasonality. On the other hand, revenue from other activities declined 16.3% YOY to SAR 120 Mn in 2Q24. Cost of sales rose 7.0% YOY to SAR 3,452 Mn in 2Q24. Thus, gross profit rose 8.6% YOY to SAR 1,702 Mn in 2Q24. Gross margins grew 33 bps YOY to 33.0% in 2Q24. Selling and distribution expenses rose 5.5% YOY to SAR 727 Mn in 2Q24 owing to investment in marketing activities to boost awareness and supporting new products. G&A expenses increased 5.9% YOY to SAR 124 Mn in 2Q24. As a result, operating profit grew 11.9% YOY to SAR 851 Mn during 2Q24. Operating profit margin improved 64 bps YOY to 16.5% in 2Q24 owing to growth in revenue and solid cost control measures. Almarai's investment and other income rose 3.2% YOY to SAR 40 Mn in 2Q24. Furthermore, finance cost rose 4.6% YOY to SAR 143 Mn in 2Q24,

Stock Information

Market Cap (SAR, Mn)	60,000.00
Paid Up Capital (Mn)	10,000.00
52 Week High	71.00
52 Week Low	51.60
3M Avg. daily value(SAR)	39,835,310

2Q24 Result Review (SAR, Mn)

Total Assets	35,166
Total Liabilities	17,208
Total Equity	17,959
EBITDA	1,384
Net Profit	620

Financial Ratios

Dividend Yield (12m)	1.67
Dividend Pay-out (%)	48.80
Price-Earnings Ratio(x)	27.31
Price-to-Book Ratio (x)	3.34
Book Value (SAR)	17.95
Return-on Equity (%)	12.48

Stock Performance

5 Days	3.81%
1 Months	9.29%
3 Months	3.81%
6 Months	-2.60%
1 Year	-8.12%
Month to Date (MTD%)	7.14%
Quarter to Date (QTD%)	7.14%
Year to Date (YTD%)	7.53%

owing to higher benchmark rates and increased outstanding debt. In addition, impairments significantly increased from SAR 3 Mn in 2Q23 to SAR 18 Mn in 2Q24. Zakat charges declined marginally 0.7% YOY to SAR 23 Mn in 2Q24, while income tax charges increased from SAR 2 Mn in 2Q23 to SAR 6 Mn in 2Q24.

Balance Sheet Highlights

Almarai's net cash flow from operations rose to SAR 1,937 Mn in 2Q24 from SAR 1,435 Mn in 1Q24, mainly due to an improvement in working capital activities. Almarai's free cash flow declined to SAR 748 Mn in 2Q24 compared to SAR 861 Mn in 2Q23. The Company's capex rose significantly from SAR 484 Mn in 2Q23 to SAR 817 Mn in 2Q24, aligning with its long-term capex deployment plan. Almarai's net debt rose 4.2% QOQ to SAR 9,512 Mn in 2Q24.

Target Price and Rating

We revised our rating to HOLD on Almarai with a target price of SAR 65.00. Almarai reported a strong rise in profitability despite higher input costs owing to inflationary pressures in 2Q24. The Company's revenue from the other GCC and other countries grew strongly in 2Q24, attributable to solid growth in KSA, Egypt and the UAE. Almarai aims to expand its poultry business by boosting processing capacity, investing in new facilities and increasing production. The company has ventured into seafood and red meat production as part of its strategy to diversify its product offerings, which is expected to positively impact its revenue. Moreover, Almarai has invested over SAR 2.5 Bn to expand the capabilities and scale of its business through new manufacturing plants across KSA in 2023. The Company's revenue streams are well diversified as it focuses on exporting its products to other countries in the GCC region. Almarai also operates as a vertically integrated dairy company that serves more than 100,000 customers in KSA and other GCC countries, Egypt and Jordan. The Company expects its dairy business to grow in the GCC, particularly in the UAE and Kuwait, as it plans to expand its distribution and promote its products among young consumers in 2024. It launched new products in the dairy and juice segment, including an ice cream portfolio, which positively contributed to the revenue growth in 2Q24. In the bakery segment, Almarai recently added a new manufacturing plant, which is anticipated to expand production and allow the company to launch new products like frozen and artisanal products. Recently, the Company announced the acquisition of Etmam Logistics for SAR 182 Mn. The acquisition is anticipated to support the Company's ability to offer a wider range of frozen products across the KSA, while it is also expected to support growth in the poultry segment and expand offerings in ice cream, bakery, and other frozen categories. The Company's organic and inorganic growth is expected to drive revenue. Moreover, it is also likely to benefit owing to the rising tourism industry and population growth in KSA, which will generate robust demand for its products and boost revenue. Thus, based on our analysis, we revised our rating to HOLD on the stock.

Almarai - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	31.8	29.1	36.9	32.8	28.2	24.5
PB	3.9	3.7	3.6	3.5	3.2	3.0
EV/EBITDA	16.4	16.1	17.8	17.0	15.5	13.6
Dividend yield	1.5%	1.7%	1.7%	1.7%	1.7%	1.7%

FABS Estimates & Co Data

Almarai – P&L

SAR Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	4,792	5,459	5,155	5,062	1.8%	7.6%	-5.6%	19,576	21,291	8.8%
Cost of Sales	-3,225	-3,750	-3,452	-3,391	1.8%	7.0%	-7.9%	-13,524	-14,625	8.1%
Gross profit	1,567	1,708	1,702	1,670	1.9%	8.6%	-0.4%	6,051	6,667	10.2%
S&D Expenses	-689	-696	-727	-714	1.8%	5.5%	4.5%	-2,790	-3,013	8.0%
G&A expenses	-117	-122	-124	-127	-1.8%	5.9%	2.2%	-469	-510	8.8%
EBITDA	1,108	1,412	1,384	1,279	8.2%	24.9%	-2.0%	4,446	4,961	11.6%
Operating profit	761	891	851	830	2.5%	11.9%	-4.5%	2,793	3,144	12.6%
Investment & other income	-39	-1	-40	-14	NM	3.2%	NM	-66	-64	-2.5%
Financial costs (net)	-136	-142	-143	-142	0.3%	4.6%	0.8%	-527	-567	7.7%
Impairment	-3	-22	-18	-5	NM	NM	-14.9%	-34	-43	24.6%
Profit before zakat	582	726	650	669	-2.8%	11.7%	-10.5%	2,166	2,470	14.0%
Zakat	-23	-25	-23	-20	14.4%	-0.7%	-7.7%	-85	-89	4.5%
Income Tax	-2	-8	-6	-7	-16.7%	NM	-24.3%	-29	-17	-40.7%
Profit before NCI	557	693	621	641	-3.1%	11.5%	-10.4%	2,052	2,364	15.2%
Non-controlling interests	0	1	1	1	10.5%	NM	22.8%	2	7	NM
Profit attributable	557	692	620	640	-3.2%	11.2%	-10.5%	2,049	2,357	15.0%

FABS estimate & Co Data

Almarai - Margins

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	32.7%	31.3%	33.0%	33	173	30.9%	31.3%	40
EBITDA	23.1%	25.9%	26.8%	372	98	22.7%	23.3%	59
Operating Profit	15.9%	16.3%	16.5%	64	19	14.3%	14.8%	50
Net Profit	11.6%	12.7%	12.0%	40	-66	10.5%	11.1%	60

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 DCF, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF Method	64.16	70.0%	44.91
Relative Valuation (RV)	66.95	30.0%	20.09
Weighted Average Valuation (SAR)			65.00
Current market price (SAR)			60.00
Upside/Downside (%)			+8%

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 7.8%. It is arrived after using cost of equity of 8.2% and after-tax cost of debt of 5.6% with debt-to-equity ratio of 17.8%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.75 and equity risk premium of 3.9%. 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 the cost of debt of 5.6% after adjusting a tax rate of 3.9%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	11,074
Terminal value (SAR, Mn)	63,027
FV to Common shareholders (SAR, Mn)	64,158
No. of share (Mn)	1,000
Current Market Price (SAR)	60.00
Fair Value per share (SAR)	64.16

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash Flow from Operations	5,717	5,884	6,586	6,899	7,230
CAPEX	-3,911	-4,069	-4,270	-2,494	-2,660
Free Cash Flow to Firm (FCFF)	1,806	1,815	2,317	4,406	4,570
Discounting Factor	0.96	0.89	0.83	0.77	0.71
Discounted FCFF	871¹	1,624	1,923	3,392	3,264

Source: FAB Securities, ¹ FCFF adjusted for partial year

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 15.5x 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)	
		2024F	2025F	2024F	2025F
Savola	6,490	10.4	10.3	26.7	21.7
SADAFCO	2,988	17.1	15.1	23.6	22.1
Agthia	1,350	7.8	7.0	14.6	12.8
Mezzan Holdings	772	7.6	7.0	19.0	15.2
Halwani Brothers	451	43.9	17.1	NM	34.5
National Agricultural Development Co.	2,510	14.4	12.5	21.5	20.8
Average		16.9x	11.5x	21.1x	21.2x
Median		12.4x	11.4x	21.5x	21.3x
Max		16.4x	14.5x	23.6x	22.0x
Min		8.4x	7.8x	19.0x	16.6x

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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