

Almarai Company

Strong volume growth and a favorable product mix supported topline

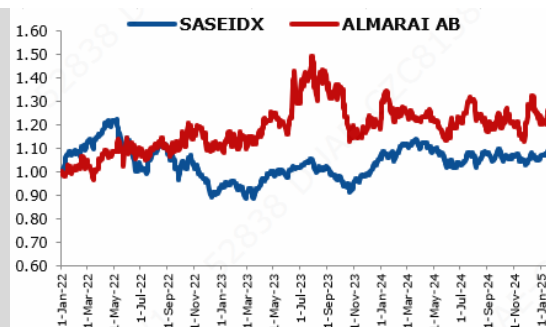
Current Price
SAR 58.70

Target Price
SAR 65.00

Upside/Downside (%)
+11%

Rating
ACCUMULATE

- Revenue from the Dairy and Juice segment increased 5.8% YOY to SAR 3,311 Mn in 4Q24 driven by food & fresh dairy despite lower contribution from Egypt due to impact of devaluation.
- Gross profit rose 13.3% YOY to SAR 1,583 Mn in 4Q24 while Gross margins grew 231 bps YOY to 30.7% in 4Q24 owing to lower growth in direct costs in proportion to the revenue coupled with stable commodity prices.
- The capex rose from SAR 2,530 Mn in FY2023 to SAR 3,634 Mn in FY2024. Moreover, the capex intensity also increased from 13.0% in FY2023 to 17.0% in FY2024.
- Almarai's net debt rose 2.0% QOQ to SAR 9,655 Mn in 4Q24, while the net debt to EBITDA ratio stood at 2.07x in FY2024 compared to 2.12x in FY2023.



4Q24 Net Profit lower than our estimate

Almarai Company ("Almarai, "the Company") recorded a 16.2% YOY increase in net profit to SAR 431 Mn in 4Q24, lower than our estimate of SAR 451 Mn. The increase in net profit is mainly due to revenue growth driven by higher volume, lower commodity cost coupled with decline in finance costs, partially offset by higher operating expenses, and impairment charges.

P&L Highlights

Almarai's revenue grew 4.8% YOY to SAR 5,157 Mn in 4Q24, driven by solid contributions from Dairy & Juice, Bakery, and Poultry product segments. Revenue from the Poultry business grew 3.2% YOY to SAR 975 Mn in 4Q24, driven by favorable mix and volume growth. Revenue from the Bakery business rose 4.1% YOY to SAR 729 Mn in 4Q24 owing to strong performance of single-serve and bread categories. Moreover, revenue from the Dairy and Juice segment increased 5.8% YOY to SAR 3,311 Mn in 4Q24 driven by food & fresh dairy despite lower contribution from Egypt due to impact of devaluation. However, revenue from other activities declined 1.6% YOY to SAR 142 Mn in 4Q24. Cost of sales rose 1.5% YOY to SAR 3,574 Mn in 4Q24, owing to lower growth in proportion to the revenue due to stable commodity prices. Thus, gross profit rose 13.3% YOY to SAR 1,583 Mn in 4Q24. Gross margins grew 231 bps YOY to 30.7% in 4Q24. Selling and distribution expenses rose 13.8% YOY to SAR 793 Mn in 4Q24 owing to investment in marketing activities. G&A expenses increased 11.5% YOY to SAR 159 Mn in 4Q24. In addition, impairments significantly increased from SAR 19 Mn in 4Q23 to SAR 47 Mn in 4Q24. Almarai reported other income of SAR 7 Mn in 4Q24, compared to other expenses of SAR 10 Mn in 4Q23. As a result, operating profit grew 11.8% YOY to SAR 591 Mn during 4Q24. Operating profit margin improved 71 bps YOY to 11.5% in 4Q24 owing to increase in revenue

Stock Information

Market Cap (SAR, Mn)	58,700.00
Paid Up Capital (Mn)	10,000.00
52 Week High	61.50
52 Week Low	51.60
3M Avg. daily value(SAR)	64,024,380

4Q24 Result Review (SAR, Mn)

Total Assets	35,568
Total Liabilities	16,777
Total Equity	18,791
EBITDA	1,145
Net Profit	431

Financial Ratios

Dividend Yield (12m)	1.70
Dividend Pay-out (%)	43.23
Price-Earnings Ratio(x)	25.07
Price-to-Book Ratio (x)	3.12
Book Value (SAR)	18.79
Return-on Equity (%)	12.64

Stock Performance

5 Days	4.82%
1 Months	5.77%
3 Months	4.82%
6 Months	-2.65%
1 Year	-1.18%
Month to Date (MTD%)	2.62%
Quarter to Date (QTD%)	2.62%
Year to Date (YTD%)	2.62%

attributable to volume growth, favorable mix and stable commodity prices. Furthermore, finance cost fell by 16.9% YOY to SAR 118 Mn in 4Q24, owing to a YOY decline in total debt partially offset by higher benchmark rates. Zakat charges increased significantly from SAR 20 Mn in 4Q23 to SAR 35 Mn in 4Q24, owing to higher profitability. The Company incurred an Income tax charge of SAR 8 Mn in 4Q24, compared to a tax credit of SAR 5 Mn in 4Q23. The share of non-controlling interest stood nil in 4Q24, compared to SAR 1 Mn in 4Q23.

Balance Sheet Highlights

Almarai's net cash flow from operations fell 24.3% YOY to SAR 1,315 Mn in 4Q24, mainly due to higher investment in working capital activities, partially offset by rise in net profit. Almarai's net debt rose 2.0% QOQ to SAR 9,655 Mn in 4Q24, while the net debt to EBITDA ratio stood at 2.07x in FY2024 compared to 2.12x in FY2023. The Company's capex rose from SAR 845 Mn in 4Q23 to SAR 1,113 Mn in 4Q24, which aligned with its long-term capex deployment plan.

Target Price and Rating

We revised our rating to ACCUMULATE on Almarai with a target price of SAR 65.00. Almarai reported robust financial performance in 4Q24, driven by volume growth and a favorable mix, particularly in the UAE and KSA. Free cash flow grew from SAR 1,179 Mn in FY2023 to SAR 1,531 Mn in FY2024. The Company is the market leader in KSA and it further plans to expand its market share in the GCC region. In line with this aim, Almarai developed a long-term capex deployment plan, which involves increasing its capex annually. Hence, the capex rose from SAR 2,530 Mn in FY2023 to SAR 3,634 Mn in FY2024. Moreover, the capex intensity also increased from 13.0% in FY2023 to 17.0% in FY2024. The working capital improved from SAR 4,322 Mn in FY2023 to SAR 3,812 Mn in FY 2024, indicating an optimization in working capital activities. Furthermore, Almarai has implemented advanced technologies in its manufacturing facilities, enabling mass production to meet growing demand while maintaining cost, which helped to boost margins. The Company's operational efficiency programs have been effective in managing the overhead costs and mitigating diesel price inflation. Almarai also focuses on digitalizing and automating production and business processes, which is likely to benefit its margins by streamlining operations going forward. Moreover, Almarai is committed to innovation through new product development and process optimization. Additionally, it is anticipated to expand both its operations and product range in Jordan, thereby driving sales growth in the region. The Company further aims to expand into new growth areas organically and through acquisitions, which is likely to increase new product offerings and expand its operation. Almarai is likely to incur costs worth SAR 200 Mn in FY2025 owing to the impact of diesel price inflation. Almarai announced a dividend payment of SAR 1.0 per share to its shareholders for FY2024. Thus, based on our analysis, we revised our ACCUMULATE rating on the stock.

Almarai - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	28.2	35.8	31.8	27.3	24.2	21.5
PB	3.6	3.5	3.4	3.1	3.0	2.7
EV/EBITDA	16.1	17.8	16.5	15.2	14.4	12.7
Dividend yield	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%

FABS Estimates & Co Data

Almarai – P&L

SAR Mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Sales	4,920	5,209	5,157	5,207	-1.0%	4.8%	-1.0%	19,576	20,980	7.2%
Cost of Sales	-3,523	-3,539	-3,574	-3,661	-2.4%	1.5%	1.0%	-13,524	-14,315	5.8%
Gross profit	1,397	1,670	1,583	1,546	2.4%	13.3%	-5.2%	6,051	6,664	10.1%
S&D Expenses	-697	-778	-793	-754	5.2%	13.8%	1.9%	-2,790	-2,994	7.3%
G&A expenses	-143	-103	-159	-156	2.0%	11.5%	54.5%	-469	-508	8.3%
Other expense/income	-10	-30	7	-14	NM	NM	NM	-64	-63	-2.0%
Impairment	-19	-16	-47	-28	67.5%	NM	NM	-34	-103	NM
Operating profit	529	742	591	595	-0.7%	11.8%	-20.4%	2,694	2,995	11.2%
Investment & other income	-1	0	0	0	NM	-68.0%	NM	-1	-2	66.7%
Financial costs (net)	-142	-128	-118	-135	-12.8%	-16.9%	-8.3%	-527	-530	0.6%
Profit before zakat	386	614	473	460	2.8%	22.6%	-23.0%	2,166	2,463	13.7%
Zakat	-20	-23	-35	-17	NM	77.4%	51.0%	-85	-105	23.8%
Income Tax	5	-22	-8	12	NM	NM	-63.8%	-29	-44	52.0%
Profit before NCI	372	569	430	454	-5.2%	15.8%	-24.3%	2,052	2,314	12.8%
Non-controlling interests	1	-2	0	4	NM	NM	-76.9%	2	1	NM
Profit attributable	371	570	431	451	-4.5%	16.2%	-24.5%	2,049	2,313	12.9%

FABS estimate & Co Data

Almarai - Margins

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Gross Profit	28.4%	32.1%	30.7%	231	-136	30.9%	31.8%	85
Operating Profit	10.8%	14.3%	11.5%	71	-279	13.8%	14.3%	52
Net Profit	7.5%	11.0%	8.4%	82	-260	10.5%	11.0%	56

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	68.78	70.0%	48.14
Relative Valuation (RV)	56.20	30.0%	16.86
Weighted Average Valuation (SAR)			65.00
Current market price (SAR)			58.70
Upside/Downside (%)			+11%

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 8.0%. It has arrived after using cost of equity of 8.3% and after-tax cost of debt of 6.0% with debt-to-equity ratio of 18.3%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 0.80 and equity risk premium of 4.2%. 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 the cost of debt of 6.0% after adjusting a tax rate of 3.9%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	11,620
Terminal value (SAR, Mn)	67,298
FV to Common shareholders (SAR, Mn)	68,778
No. of share (Mn)	1,000
Current Market Price (SAR)	58.70
Fair Value per share (SAR)	68.78

DCF Method

(All Figures in SAR Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Cash Flow from Operations	5,377	6,466	6,763	7,229	8,091
CAPEX	-5,100	-5,384	-2,427	-2,667	-2,830
Free Cash Flow to Firm (FCFF)	278	1,082	4,336	4,562	5,260
Discounting Factor	0.93	0.86	0.80	0.74	0.68
Discounted FCFF	258	932	3,459	3,371	3,599

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 12.9x 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)	
		2025F	2026F	2025F	2026F
Savola	7,985	12.8	12.2	20.8	18.1
SADAFCO	3,169	16.7	15.6	23.5	22.0
Agthia	1,774	10.3	9.2	18.2	15.4
Mezzan Holdings	912	11.2	10.6	19.2	16.8
Halwani Brothers	574	NA	18.0	NA	30.0
National Agricultural Developmt Co.	2,168	10.6	9.6	18.9	17.4
Average		12.3x	12.5x	20.1x	20.0x
Median		11.2x	11.4x	19.2x	17.8x
Max		12.8x	14.8x	20.8x	21.0x
Min		10.6x	9.9x	18.9x	17.0x

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
----------------	----------------	--

Sales & Execution

Abu Dhabi Head Office

Trading Desk	+971-2-6161700/1	Online Trading Link
	+971-2-6161777	
Institutional Desk	+971-4-4245765	

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.