

Almarai Company

Current Price
SAR 46.98

Target Price
SAR 60.00

Upside/Downside (%)
+27.7%

Rating
BUY

2Q26 Net Profit in line with our estimate

- Almarai's revenue increased 11.0% YOY to SAR 5,868 Mn in 2Q26, driven by sales volume growth across all markets, product categories, and sales channels, supported by higher poultry volumes following capacity expansion projects and an improved revenue mix in the Dairy segment.
- Cost of sales increased 13.1% YOY to SAR 4,044 Mn in 2Q26, due to higher dairy feed shipping cost.
- Gross profit increased 6.5% YOY to SAR 1,824 Mn in 2Q26. However, the gross profit margin contracted 131 bps YOY to 31.1% in 2Q26.
- Almarai's EBITDA increased 1.6% YOY to SAR 1,451 Mn in 2Q26, while the EBITDA margin declined 228 bps YOY to 24.7% in 2Q26.
- The Company's operating profit remained broadly flat at SAR 814 Mn in 2Q26, compared to SAR 813 Mn in 2Q25, while the operating profit margin declined by 151 bps YOY to 13.9% in 2Q26, amid elevated energy, logistics, and protein ramp-up costs, reflecting rigorous cost discipline. The prior year's operating profit included a one-off gain from the reversal of the Romania impairment.
- Net profit attributable to shareholders decreased 1.7% YOY to SAR 636 Mn in 2Q26, due to higher cost of sales, operating expenses, impairment losses, net finance costs, and income tax expenses, partially offset by higher revenue and lower zakat expenses.
- Total debt rose from SAR 13.6 Bn in 1Q26 to SAR 13.8 Bn in 2Q26, while net debt increased to SAR 13.3 Bn in 2Q26 from SAR 12.0 Bn in 1Q26.
- Total capex declined from SAR 1,001 Mn in 2Q25 to SAR 879 Mn in 2Q26.
- Almarai generated free cash flow of SAR 42 Mn in 2Q26, compared to SAR 383 Mn in 2Q25.

Earnings Call Summary

- Almarai's food category market share declined in 2Q26, due to strategic SKU and channel rationalization initiatives aimed at enhancing profitability, with management emphasizing that the decline reflected portfolio optimization rather than weaker underlying consumer demand.
- Almarai expanded its product portfolio in 2Q26, with new seafood and ice cream launches, while focusing innovation on high-protein, indulgence, and on-the-go products to meet evolving consumer preferences.
- Ice cream category grew nearly 60% in 2Q26, driven by robust summer demand, with future innovations expected to remain focused on higher-margin premium products.
- Working capital increased to SAR 4.8 Bn in 2Q26, primarily due to a precautionary inventory build-up, including an increase in feed inventory cover from four to six months and higher alfalfa inventory costs amid geopolitical uncertainty.
- Free cash flow remained positive at SAR 42 Mn in 2Q26, although it declined YOY due to higher working capital requirements from a strategic inventory build-up.
- Egypt was the strongest international market, recording 31% revenue growth (in USD terms) in 2Q26, driven by yogurt, long-life dairy and juice, while growth in Kuwait and Qatar was led by poultry, Jordan by dairy, and other Gulf countries remained subdued due to geopolitical disruptions.
- Almarai reported broad-based growth across all sales channels in 2Q26, with food service revenue increasing 13% YOY, primarily driven by higher poultry sales. Modern trade growth lagged the group average due to strategic food SKU rationalization, while export sales benefited from a favourable base effect compared to the prior year.

- Cost of goods sold increased by SAR 56 Mn in 2Q26, primarily due to higher corn, soya and packaging costs, while higher alfalfa cash costs incurred during the quarter are expected to be recognized in subsequent quarters due to inventory accounting.
- Almarai expects capex of around SAR 4.0 Bn in 2026, c. SAR 400 Mn lower than 2025, to support stronger free cash flow generation.
- Almarai strategically increased inventory levels to safeguard supply chain continuity amid ongoing geopolitical uncertainties.
- The Company has secured its funding requirements for the next 12 months, while maintaining a comfortable debt maturity profile with an average debt maturity of over six years.
- Almarai expects stronger 2H26 performance, driven by the full-quarter realization of fresh dairy price increases, continued resilient consumer demand and improving operating trends.
- Almarai expects higher alfalfa costs to weigh on earnings over the coming quarters due to its long inventory cycle (c. 18-19 months), while higher corn and soybean costs have already been reflected in 2Q26 results. Nevertheless, management expects the full-quarter realization of recent dairy price increases to more than offset commodity cost inflation, supporting margin improvement in 2H26.
- UAE volume growth remained broadly flat in 2Q26, with trading conditions improving progressively through the quarter and expected to normalize in the coming periods.
- Almarai highlighted that war-risk insurance premiums, additional shipping insurance, port congestion and longer shipping delays remain the primary logistics challenges, with insurance-related costs accounting for over 50-60% of the increase in logistics costs.
- The Company increased inventory coverage as a precautionary measure to mitigate supply chain disruptions arising from the ongoing geopolitical uncertainty.
- The Company is focusing on higher-value categories and product innovation, including natural cheese, while optimizing channel-specific offerings instead of competing aggressively in lower-margin processed cheese categories.
- Almarai indicated that consumer demand remained resilient despite price increases and geopolitical uncertainty, with fresh product consumption normalizing after an initial phase of pantry stocking and weaker food-service demand.
- Almarai attributed strong poultry volume growth to capacity expansion and import substitution rather than higher per-capita chicken consumption, supporting double-digit revenue growth despite the challenging operating environment.
- Almarai implemented fresh dairy price increases primarily on multi-serve SKUs (1L, 2L and 2.5L packs), while leaving smaller single-serve products unchanged.
- The Company continues to evaluate major capital investments based on IRR and ROIC, with c. SAR 5 Bn of assets currently under construction yet to contribute to earnings.
- Investments, including poultry expansion, red meat, seafood and frozen food projects, to be commissioned over the coming quarters, supporting revenue growth, margin expansion and improved returns on capital.
- Almarai expects to finalize its updated long-term strategy over the next one to two quarters, focusing on consumer trends, product innovation, investment priorities and maximizing returns from existing assets.
- Almarai indicated that long-life dairy growth continues to be driven primarily by Egypt and exports, while underlying GCC demand remains modest. The Company expects the long-life dairy market to grow at low- to mid-single-digit rates, with Almarai broadly growing in line with the market.
- The Company expects long-life dairy pricing to remain stable, with competition continuing to be driven primarily by promotional discounts rather than list-price increases.
- Almarai expects to capitalize SAR 250-300 Mn of borrowing costs during 2026, with finance-cost capitalization remaining elevated while major projects are under construction and gradually declining over the next three to four years as these projects become operational.

- The Company maintained its existing hedging strategy, with corn and soybean hedged on a rolling eight-quarter basis, while the recent inventory build-up reflected higher physical inventory rather than changes in hedging.

Almarai – P&L

SAR Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch
Sales	5,288	6,160	5,868	5,671	3.5%	11.0%	-4.7%
Cost of Sales	-3,575	-4,294	-4,044	-3,873	4.4%	13.1%	-5.8%
Gross profit	1,713	1,866	1,824	1,798	1.5%	6.5%	-2.3%
S&D Expenses	-766	-818	-820	-828	-1.0%	7.0%	0.2%
G&A expenses	-130	-138	-141	-141	0.2%	8.3%	2.1%
Other expense/income, net	12	-26	-30	-14	NM	NM	15.6%
Impairment	-16	-8	-19	-6	NM	22.1%	NM
EBITDA	1,428	1,494	1,451	1,247	16.4%	1.6%	-2.9%
Operating profit	813	875	814	809	0.5%	0.0%	-7.0%
Investment & other income	0	0	0	0	NM	NM	NM
Financial costs (net)	-125	-106	-137	-133	3.2%	9.6%	29.8%
Profit before zakat	688	770	677	677	0.0%	-1.7%	-12.1%
Zakat	-28	-27	-25	-27	-5.9%	-9.0%	-4.2%
Income Tax	-13	-11	-15	-9	NM	15.9%	41.0%
Profit before NCI	647	732	636	640	-0.6%	-1.7%	-13.1%
Non-controlling interests	0	0	1	0	NM	NM	NM
Profit attributable	647	732	636	640	-0.7%	-1.7%	-13.2%

FABS estimate & Co Data

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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