

Almarai Company

Strong revenue growth and a favourable product mix supported profitability

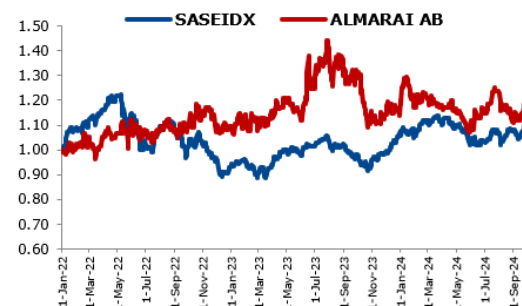
Current Price
SAR 56.10

Target Price
SAR 65.00

Upside/Downside (%)
+16%

Rating
BUY

- Almarai announced the acquisition of Hammoudeh Food Industries for SAR 263 Mn, which is likely to solidify its position in Jordan, in line with its goal to sustain growth momentum in its key markets and geographies.
- EBITDA grew 16.7% YOY to SAR 1,239 Mn, while EBITDA margins grew 165 bps YOY to 23.8% in 3Q24.
- Capex grew from SAR 680 Mn in 3Q23 to SAR 914 Mn in 3Q24, aligned with the Company's long-term capex deployment plan.
- Free Cash Flow grew significantly from negative SAR 507 Mn in 3Q23 to positive SAR 316 Mn in 3Q24.



3Q24 Net Profit lower than our estimate

Almarai Company ("Almarai, "the Company") recorded a 17.3% YOY increase in net profit to SAR 570 Mn in 3Q24, lower than our estimate of SAR 622 Mn. The increase in net profit is mainly due to revenue growth driven by higher volume coupled with stability in finance costs, partially offset by increased direct costs, operating expenses, and higher impairment charges.

P&L Highlights

Almarai's revenue grew 8.6% YOY to SAR 5,209 Mn in 3Q24, driven by strong volume growth owing to solid contributions from all the product segments, particularly from the food and dairy segment. Revenue from the Poultry business grew 6.0% YOY to SAR 929 Mn in 3Q24, driven by channel optimization and volume growth. Revenue from the Bakery business rose 3.3% YOY to SAR 662 Mn in 3Q24. Moreover, revenue from the Dairy and Juice segment increased 10.8% YOY to SAR 3,484 Mn in 3Q24 primarily due to robust performance of Fresh and long life Dairy. Furthermore, revenue from other activities declined 1.0% YOY to SAR 134 Mn in 3Q24. Cost of sales rose 6.4% YOY to SAR 3,539 Mn in 3Q24. Thus, gross profit rose 13.6% YOY to SAR 1,670 Mn in 3Q24. Gross margins grew 143 bps YOY to 32.1% in 3Q24. Selling and distribution expenses rose 7.3% YOY to SAR 778 Mn in 3Q24 owing to investment in marketing activities to boost awareness and support new products. G&A expenses increased 7.8% YOY to SAR 103 Mn in 3Q24. In addition, impairments significantly increased from SAR 2 Mn in 3Q23 to SAR 16 Mn in 3Q24. Other expenses rose significantly from SAR 3 Mn in 3Q23 to SAR 30 Mn in 3Q24. As a result, operating profit grew 15.3% YOY to SAR 742 Mn during 3Q24. Operating profit margin improved 83 bps YOY to 14.3% in 3Q24 owing to increase in revenue and stable commodity costs & favorable product mix. Furthermore, finance cost

Stock Information

Market Cap (SAR, Mn)	56,100.00
Paid Up Capital (Mn)	10,000.00
52 Week High	64.10
52 Week Low	51.60
3M Avg. daily value(SAR)	34,369,100

3Q24 Result Review (SAR, Mn)

Total Assets	35,422
Total Liabilities	16,866
Total Equity	18,555
EBITDA	1,239
Net Profit	570

Financial Ratios

Dividend Yield (12m)	1.78
Dividend Pay-out (%)	48.80
Price-Earnings Ratio(x)	24.59
Price-to-Book Ratio (x)	3.02
Book Value (SAR)	18.56
Return-on Equity (%)	12.50

Stock Performance

5 Days	2.19%
1 Months	2.94%
3 Months	-2.94%
6 Months	-1.75%
1 Year	-6.50%
Month to Date (MTD%)	1.63%
Quarter to Date (QTD%)	1.63%
Year to Date (YTD%)	0.54%

fell slightly by 0.2% YOY to SAR 128 Mn in 3Q24, owing to a decline in total debt partially offset by higher benchmark rates. Zakat charges increased significantly from SAR 16 Mn in 3Q23 to SAR 23 Mn in 3Q24, owing to higher profitability. Income tax charges increased from SAR 14 Mn in 3Q23 to SAR 22 Mn in 3Q24. The share of non-controlling interest fell from SAR 1 Mn in 3Q23 to negative SAR 2 Mn in 3Q24.

Balance Sheet Highlights

Almarai's net cash flow from operations fell from SAR 1,937 Mn in 2Q24 to SAR 1,361 Mn in 3Q24, mainly due to investment in working capital activities. The Company's free cash flow rose significantly from negative SAR 507 Mn in 3Q23 to positive SAR 316 Mn in 3Q24. Almarai's net debt fell marginally by 0.5% QOQ to SAR 9,466 Mn in 3Q24, while the net debt to EBITDA ratio stood at 2.06x in 3Q24. The Company's capex rose from SAR 680 Mn in 3Q23 to SAR 914 Mn in 3Q24, which aligned with its long-term capex deployment plan.

Target Price and Rating

We revise our rating on Almarai from Hold to Buy with a target price of SAR 65.00. Almarai reported robust financial performance in 3Q24, driven by positive growth across all the GCC markets, particularly in the UAE and KSA. The Company plans to expand its market share in the GCC region. In line with this plan, Almarai has developed a long-term capex deployment plan, which involves increasing its capex annually. Furthermore, Almarai has implemented advanced technologies in its manufacturing facilities, enabling mass production to meet growing demand while keeping costs low, which has helped to boost its margins. The Company 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. As of FY2023, Almarai has over 75 projects in the pipeline to capitalize on consumer trends and enhance operational efficiencies. Recently, the Company announced the acquisition of Hammoudeh Food Industries for SAR 263 Mn. The acquisition is expected to strengthen Almarai's position in Jordan and support its goal of maintaining growth momentum in key markets and regions. 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. Moreover, it is also likely to benefit owing to the rising tourism industry and population growth in KSA, which will generate robust demand. Thus, based on our analysis, we revised our rating to Buy on the stock.

Almarai - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	30.9	28.2	35.8	31.8	27.3	24.1
PB	3.8	3.6	3.5	3.4	3.1	2.9
EV/EBITDA	15.9	15.7	17.3	16.5	15.1	12.4
Dividend yield	1.5%	1.8%	1.8%	1.8%	1.8%	1.8%

FABS Estimates & Co Data

Almarai – P&L

SAR Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	4,797	5,155	5,209	5,242	-0.6%	8.6%	1.1%	19,576	21,222	8.4%
Cost of Sales	-3,327	-3,452	-3,539	-3,564	-0.7%	6.4%	2.5%	-13,524	-14,535	7.5%
Gross profit	1,469	1,702	1,670	1,677	-0.4%	13.6%	-1.9%	6,051	6,688	10.5%
S&D Expenses	-725	-727	-778	-734	6.1%	7.3%	7.1%	-2,790	-2,940	5.4%
G&A expenses	-96	-124	-103	-126	-18.2%	7.8%	-17.1%	-469	-488	4.1%
Other expense/income	-3	-40	-30	-12	NM	NM	-25.6%	-64	-85	31.7%
Impairment	-2	-18	-16	0	NM	NM	-11.5%	-34	-85	148.4%
EBITDA	1,062	1,325	1,239	1,367	-9.3%	16.7%	-6.5%	4,446	5,177	16.4%
Operating profit	644	793	742	805	-7.8%	15.3%	-6.4%	2,694	3,090	14.7%
Investment & other income	1	0	0	0	NM	NM	NM	-1	-1	-0.4%
Financial costs (net)	-129	-143	-128	-152	-15.5%	-0.2%	-10.0%	-527	-568	7.7%
Profit before zakat	517	650	614	653	-6.0%	18.8%	-5.6%	2,166	2,522	16.4%
Zakat	-16	-23	-23	-23	0.1%	47.6%	-0.2%	-85	-91	6.7%
Income Tax	-14	-6	-22	-7	NM	52.7%	NM	-29	-25	-13.6%
Profit before NCI	487	621	569	624	-8.8%	16.9%	-8.4%	2,052	2,406	17.3%
Non-controlling interests	1	1	-2	2	NM	NM	NM	2	5	NM
Profit attributable	486	620	570	622	-8.3%	17.3%	-7.9%	2,049	2,401	17.2%

FABS estimate & Co Data

Almarai - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	30.6%	33.0%	32.1%	143	-97	30.9%	31.5%	60
EBITDA	22.1%	25.7%	23.8%	165	-192	22.7%	24.4%	168
Operating Profit	13.4%	15.4%	14.3%	83	-113	13.8%	14.6%	80
Net Profit	10.1%	12.0%	11.0%	81	-107	10.5%	11.3%	84

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	68.54	70.0%	47.98
Relative Valuation (RV)	56.76	30.0%	17.03
Weighted Average Valuation (SAR)			65.00
Current market price (SAR)			56.10
Upside/Downside (%)			+16%

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 7.9%. It is arrived after using cost of equity of 8.2% and after-tax cost of debt of 5.8% with debt-to-equity ratio of 17.6%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.80 and equity risk premium of 4.7%. 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 5.8% after adjusting a tax rate of 3.9%. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (SAR, Mn)	11,861
Terminal value (SAR, Mn)	66,588
FV to Common shareholders (SAR, Mn)	68,536
No. of share (Mn)	1,000
Current Market Price (SAR)	56.10
Fair Value per share (SAR)	68.54

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash Flow from Operations	6,118	6,256	6,891	7,082	7,449
CAPEX	-3,898	-4,056	-4,257	-2,486	-2,652
Free Cash Flow to Firm (FCFF)	2,220	2,200	2,635	4,596	4,797
Discounting Factor	0.98	0.91	0.85	0.78	0.73
Discounted FCFF	546¹	2,005	2,226	3,600	3,484

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 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)	
		2024F	2025F	2024F	2025F
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 Development 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

