

Almarai Company

Strong volume growth and pricing with a healthy product mix drove profitability

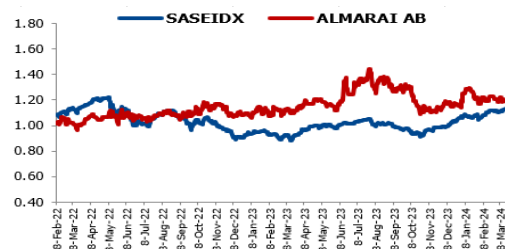
Current Price
SAR 56.4

Target Price
SAR 65.00

Upside/Downside (%)
+15%

Rating
BUY

- Almarai launched a SAR 18 Bn investment program from 2024-2028 which will be financed through the Company's internal cashflows.
- Almarai added ice creams, milkshakes, and juices to its product portfolio in 1Q24
- Almarai generated an FCF of SAR 501 Mn in 1Q24 compared to SAR 269 Mn in 1Q23 owing to a decline in working capital.
- Almarai is going through an expansionary capex cycle and incurred a total capex of SAR 778 Mn in 1Q24 compared to SAR 513 Mn in 1Q23.



1Q24 Net Profit higher than our estimate

Almarai Company ("Almarai, "the Company") recorded a 9.0% YOY increase in net profit to SAR 692 Mn in 1Q24, higher than our estimate of SAR 612 Mn. The increase in net profit is mainly due to the rise in revenue partially offset by an increase in the cost of sales, operating expenses, finance costs, and impairments.

P&L Highlights

Almarai's revenue grew 7.7% YOY to SAR 5,459 Mn in 1Q24 driven by strong growth in volume driven by solid contribution from the poultry & dairy segment coupled with a favorable product mix. Revenue from the Poultry business increased 8.6% YOY to SAR 921 Mn in 1Q24 driven by improvements in pricing and channel optimization. Revenue from the Bakery business marginally rose 0.4% YOY to SAR 624 Mn in 1Q24. Moreover, revenue from the Dairy and Juice segment increased 10.0% YOY to SAR 3,792 Mn in 1Q24 primarily due to solid growth in the fresh dairy segment supported by preponement of Ramadan. On the other hand, revenue from other activities declined 18.2% YOY to SAR 121 Mn in 1Q24. Cost of sales rose 8.7% YOY to SAR 3,750 Mn in 1Q24, owing to higher volumes. Thus, gross profit rose 5.6% YOY to SAR 1,708 Mn in 1Q24. Selling and distribution expenses rose 2.5% YOY to SAR 696 Mn in 1Q24 while G&A expenses increased 7.4% YOY to SAR 122 Mn in 1Q24 due to the Company's effective management of overhead costs. As a result, operating profit grew 7.9% YOY to SAR 891 Mn during 1Q24. Operating profit margin improved 3 bps YOY to 16.3% in 1Q24 despite receiving a one-off subsidy in the previous year. Almarai's investment and other loss narrowed from SAR 14 Mn in 1Q23 to SAR 1 Mn in 1Q24. Furthermore, finance cost rose 17.5% YOY to SAR 142 Mn in 1Q24 owing to higher benchmark rates. In addition, more than doubled to SAR 22 Mn in 1Q24 compared to SAR 10 Mn in 1Q23. Zakat charges declined 7.8% YOY to SAR 25 Mn in 1Q24 while income tax charges fell from SAR 18 Mn in 1Q23 to SAR 8 Mn in 1Q24.

Stock Information

Market Cap (SAR, Mn)	56,400.00
Paid Up Capital (Mn)	10,000.00
52 Week High	71.00
52 Week Low	53.20
3M Avg. daily value(SAR)	61,711,030

1Q24 Result Review (SAR, Mn)

Total Assets	34,853
Total Liabilities	16,503
Total Equity	18,349
EBITDA	1,412
Net Profit	692

Financial Ratios

Dividend Yield (12m)	1.77
Dividend Pay-out (%)	48.80
Price-Earnings Ratio(x)	26.36
Price-to-Book Ratio (x)	3.08
Book Value (SAR)	18.34
Return-on Equity (%)	11.84

Stock Performance

5 Days	-2.42%
1 Months	-1.74%
3 Months	-5.53%
6 Months	2.17%
1 Year	-4.41%
Month to Date (MTD%)	-2.08%
Quarter to Date (QTD%)	-2.08%
Year to Date (YTD%)	1.08%

Balance Sheet Highlights

Almarai's net cash flow from operations rose to SAR 1,435 Mn in 1Q24 from SAR 909 Mn in 1Q23 mainly due to an improvement in working capital. Almarai's investment in working capital stood at negative SAR 572 Mn in 1Q23 compared to negative SAR 64 Mn in 1Q24. Almarai's free cash flow increased from SAR 269 Mn in 1Q23 to SAR 501 Mn in 1Q24. The Company's capex rose 51.3% YOY to SAR 790 Mn in 1Q24. Almarai's net debt marginally declined 0.5% YOY to SAR 9,125 Mn in 1Q24.

Target Price and Rating

We revise our rating on Almarai from HOLD to BUY with an unchanged target price of SAR 65.00. The company witnessed strong growth in volumes in KSA and GCC countries. Almarai's bottom line positively benefitted from a favorable product mix, higher sale volumes, better cost control, and stable commodity costs especially in the dairy and farming commodities during 1Q24. The Company is also carrying out hedging activities and leveraging inventory stock cover to mitigate commodity price inflation. The Company continued the launch of innovative products and added ice creams, milkshakes, and juices to its product portfolio in 1Q24. Almarai launched a capital investment program of more than SAR 18 Bn for the next five years financed through the Company's internal cashflows. Almarai aims to become the world's largest vertically integrated dairy company and the largest food and beverages production company in the Middle East during the next five years. The strategic plan is aimed at improving supply chain capabilities, technology development, brand strengthening, operating efficiency, and sustainability to maximize sales and bottom line. The investment program allocates c. SAR 7 Bn for the poultry expansion, SAR 5 Bn for strengthening the Dairy, Juice, and Bakery segment, SAR 1 Bn to enter new food segments, and SAR 4 Bn to enhance the supply chain and sales capabilities to fuel the Company's local and international expansion plans. In addition, the Company also allocated SAR 1 Bn for technology development. Furthermore, Almarai paid an annual dividend of SAR 1.00 per share for 2023 resulting in a dividend yield of 1.8%. Thus, based on our analysis, we assign an BUY rating on the stock.

Almarai - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	31.52	28.78	36.52	32.45	27.87	24.92
PB	3.90	3.64	3.54	3.43	3.21	2.99
EV/EBITDA	16.23	15.94	17.62	16.83	15.40	13.76
Dividend yield	1.5%	1.8%	1.8%	1.8%	1.8%	1.8%

FABS Estimates & Co Data

Almarai – P&L

SAR Mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Sales	5,067	4,920	5,459	5,279	3.4%	7.7%	11.0%	19,576	20,780	6.2%
Cost of Sales	-3,449	-3,523	-3,750	-3,632	3.2%	8.7%	6.5%	-13,524	-14,273	5.5%
Gross profit	1,618	1,397	1,708	1,647	3.7%	5.6%	22.3%	6,051	6,507	7.5%
S&D Expenses	-679	-697	-696	-713	-2.4%	2.5%	-0.1%	-2,790	-2,941	5.4%
G&A expenses	-113	-143	-122	-127	-4.1%	7.4%	-14.8%	-469	-498	6.2%
EBITDA	1,243	1,033	1,412	1,243	13.6%	13.6%	36.7%	4,446	4,815	8.3%
Operating profit	826	558	891	808	10.3%	7.9%	59.8%	2,793	3,068	9.9%
Investment & other income	-14	-11	-1	-24	-93.8%	-89.8%	-86.8%	-66	-94	42.7%
Financial costs (net)	-120	-142	-142	-137	3.5%	17.5%	0.0%	-527	-546	3.6%
Impairment	-10	-19	-22	-8	174.2%	118.1%	14.1%	-34	-31	-8.8%
Profit before zakat	681	386	726	639	13.6%	6.7%	88.3%	2,166	2,397	10.7%
Zakat	-27	-20	-25	-23	8.1%	-7.8%	27.5%	-85	-86	1.4%
Income Tax	-18	5	-8	-4	80.9%	NM	-248.3%	-29	-17	-42.5%
Profit before NCI	636	372	693	612	13.4%	9.0%	86.5%	2,052	2,294	11.8%
Non-controlling interests	1	1	1	-1	NM	28.4%	13.2%	2	3	NM
Profit attributable	635	371	692	612	13.1%	9.0%	86.7%	2,049	2,292	11.8%

FABS estimate & Co Data

Almarai - Margins

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	31.9%	28.4%	31.3%	-63	290	30.9%	31.3%	40
EBITDA	24.5%	21.0%	25.9%	133	487	22.7%	23.2%	46
Operating Profit	16.3%	11.3%	16.3%	3	499	14.3%	14.8%	50
Net Profit	12.5%	7.5%	12.7%	15	515	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	63.98	70.0%	44.78
Relative Valuation (RV)	67.40	30.0%	20.22
Weighted Average Valuation (SAR)			65.00
Current market price (SAR)			56.40
Upside/Downside (%)			+15%

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 8.1% and after-tax cost of debt of 5.6% with debt-to-equity ratio of 16.9%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.73 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 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)	11,648
Terminal value (SAR, Mn)	61,903
FV to Common shareholders (SAR, Mn)	63,978
No. of share (Mn)	1,000
Current Market Price (SAR)	56.40
Fair Value per share (SAR)	63.98

DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash Flow from Operations	5,669	5,746	6,447	6,762	7,102
CAPEX	-3,817	-3,972	-4,167	-2,434	-2,597
Free Cash Flow to Equity (FCFE)	1,852	1,774	2,280	4,328	4,505
Discounting Factor	0.95	0.88	0.82	0.76	0.70
Discounted FCFE	1,759	1,564	1,865	3,285	3,174

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 16.0x 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	7,289	12.5	11.7	24.3	22.8
SADAFCO	3,079	17.6	15.9	24.4	22.4
Agthia	1,201	6.9	6.5	14.3	12.1
Mezzan Holdings	479	31.5	22.7	21.7	18.3
Halwani Brothers	2,703	15.3	13.2	27.8	24.8
National Agricultural Development Co.	7,289	12.5	11.7	24.3	22.8
Average		15.2x	12.8x	23.0x	20.3x
Median		13.9x	12.5x	24.4x	22.0x
Max		17.0x	15.2x	25.2x	22.7x
Min		8.7x	8.0x	22.4x	19.1x

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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