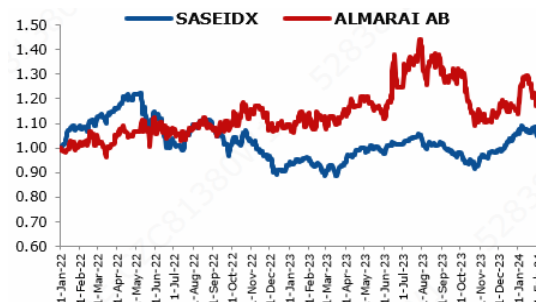


## Almarai Company

Lower commodity sales and EGP devaluation impacted the bottom line

Current Price	Target Price	Upside/Downside (%)	Rating
SAR 57.70	SAR 61.00	+6%	HOLD

- Almarai launched innovative products throughout the year and aims to enter the Seafood and frozen bakery business in the near term, further boosting the revenue.
- Almarai's marginal rise in revenue is mainly attributable to lower commodity sales in North America and lower contributions from Egypt due to EGP devaluation.
- Solid cost control measures resulted in healthy operating profit growth despite a marginal revenue rise.
- Generated a negative FCF of SAR 1.2 Bn in 2023 compared to SAR 1.8 Bn in 2022 due to investment in working capital
- Almarai is going through an expansionary capex cycle and incurred a total capex of SAR 2.5 Bn in 2023 compared to SAR 1.3 Bn in 2022.



### 4Q23 Net Profit lower than our estimate

Almarai Company ("Almarai, "the Company") recorded a 4.2% YOY increase in net profit to SAR 371 Mn in 4Q23, lower than our estimate of SAR 437 Mn. The increase in net profit is mainly driven marginal rise in revenue and a decline in G&A and zakat expenses partially offset by an increase in finance cost, negative investment and other income, and higher impairments.

### P&L Highlights

Almarai's revenue grew marginally 1.7% YOY to SAR 4,920 Mn in 4Q23 driven by strong growth in core markets of KSA and GCC countries, partially offset by lower commodity sales in North America and contributions from Egypt owing to currency devaluation. Revenue from the Poultry business increased 12.2% YOY to SAR 945 Mn in 4Q23 mainly driven by strong growth in volume owing to capacity expansion. Revenue from the Bakery business rose 2.3% YOY to SAR 701 Mn in 4Q23, mainly due to solid growth in bread and single-serve product sales. Revenue from the Dairy and Juice segment marginally increased 0.6% YOY to SAR 3,130 Mn in 4Q23, primarily due to solid growth in the fresh dairy segment partially offset by lower revenues from the sale of juice and long-life dairy products. On the other hand, revenue from other activities declined 27.9% YOY to SAR 144 Mn in 4Q23. Cost of sales rose marginally 0.5% YOY to SAR 3,523 Mn in 4Q23 owing to stabilization in the commodity costs. Thus, gross profit rose 4.7% YOY to SAR 1,397 Mn in 4Q23. Selling and distribution expenses rose 1.5% YOY to SAR 697 Mn in 4Q23 on the back of additional investments towards marketing to improve customer awareness. However, G&A expenses declined 3.1% YOY to SAR 143 Mn in 4Q23 due to the Company's effective management of overhead costs. As a result, operating profit grew 11.4% YOY to SAR 558 Mn during 4Q23. Almarai's investment and other income turned negative

### Stock Information

Market Cap (SAR, Mn)	57,700.00
Paid Up Capital (Mn)	10,000.00
52 Week High	71.00
52 Week Low	52.40
3M Avg. daily value(SAR)	49,373,190

### 4Q23 Result Review (SAR, Mn)

Total Assets	36,194
Total Liabilities	18,385
Total Equity	17,809
EBITDA	1,033
Net Profit	371

### Financial Ratios

Dividend Yield (12m)	1.72
Dividend Pay-out (%)	48.80
Price-Earnings Ratio(x)	27.77
Price-to-Book Ratio (x)	3.26
Book Value (SAR)	17.80
Return-on Equity (%)	11.89

### Stock Performance

5 Days	-2.36%
1 Months	-4.92%
3 Months	5.84%
6 Months	-9.38%
1 Year	7.01%
Month to Date (MTD%)	1.58%
Quarter to Date (QTD%)	3.94%
Year to Date (YTD%)	3.94%

to SAR 11 Mn in 4Q23 to SAR 4 Mn in 4Q22. Furthermore, finance cost rose 8.2% YOY to SAR 142 Mn in 4Q23 owing to higher benchmark rates. In addition, impairments stood at SAR 19 Mn in 4Q23 as compared to a reversal of SAR 1 Mn in 4Q22. Zakat charges declined 36.2% YOY to SAR 20 Mn in 4Q23 while income tax reversals fell from SAR 11 Mn in 4Q22 to SAR 5 Mn in 4Q23. The share of profit attributable to non-controlling interest holders stood at SAR 1 Mn in 4Q23.

### Balance Sheet Highlights

Almarai's cash flow from operations rose to SAR 4.5 Bn in 2023 from SAR 3.8 Bn in 2022 despite higher working capital. Almarai's working capital rose 17.8% to SAR 4.2 Bn in 2023 mainly due to an early start for Ramadan preparation. Almarai's free cash flow adjusted for term deposit declined from SAR 1.8 Bn in 2022 to SAR 1.2 Bn in 2023. The Company's capex rose to SAR 2.5 Bn in 2023 compared to SAR 1.3 Bn in 2022 due to the expansionary capex cycle. Almarai's net debt rose to SAR 9.4 Bn in 2023 against 9.1 Bn in 2022. The Company's Sukuk repayment of 1.9 Bn is due in the next 12 months and is matched by a term deposit of SAR 1.9 Bn maturing in March 2024. The term deposit is financed by SAR 2.8 Bn sukuk issued in July 2023, which will mature in the next 10 years.

### Target Price and Rating

We maintain our HOLD rating on Almarai with an unchanged target price of SAR 61.00. The company witnessed strong growth in volumes in KSA and GCC countries driven by capacity expansion and the rollout of new innovative products. Almarai's bottom line positively benefitted from strong growth in pricing during 4Q23. Almarai continued to maintain its market-leading position across all product categories in 4Q23. The company launched innovative products throughout the year and aims to enter the seafood and frozen bakery business in the near term, which will further boost the revenue. Almarai witnessed healthy synergies from the acquisition of Egypt's and Jordan's businesses. However, Almarai's bottom line was mainly impacted due to lower commodity exports and EGP devaluation. Nevertheless, the Company's solid cost control measures resulted in a healthy growth in operating profit despite a marginal rise in revenue. Almarai's operating profit margin improved 99 bps YOY to 11.3% in 4Q23 on the back of strict cost control measures. The Company is also carrying out hedging activities and leveraging inventory stock cover to mitigate commodity price inflation. Almarai is going under an expansionary capex cycle and incurred a total capex of SAR 2.5 Bn in 2023 compared to SAR 1.3 Bn in 2022. Strategic investments towards capacity expansion and product innovation will further drive the Company's top line. Almarai performed strongly in modern and traditional trade channels during 2023 but faced difficulties in the export channel. However, improving global economic outlook and limited room for further devaluation in EGP will support the Company's exports in the forthcoming period. Almarai also maintained a strong balance sheet with cash and cash equivalents and deposits of SAR 2.6 Bn in 2023. It also incurred a capex of SAR 845 Mn in 4Q23 in line with its long-term capex plans. In addition, the board proposed a cash dividend of SAR 1 Bn for FY2023, subject to shareholder's approval. Thus, based on our analysis, we maintain our HOLD rating on the stock.

### Almarai - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024F
PE	28.38	31.52	28.78	36.52	32.45	27.87	25.49
PB	4.11	3.90	3.64	3.54	3.43	3.21	3.00
EV/EBITDA	15.60	16.23	15.94	17.62	16.83	15.50	14.38
Dividend yield	1.5%	1.5%	1.8%	1.8%	1.8%	1.8%	1.8%

FABS Estimates & Co Data

#### Almarai – P&L

SAR Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Sales	4,839	4,797	4,920	5,091	-3.4%	1.7%	2.6%	18,722	19,576	4.6%
Cost of Sales	-3,505	-3,327	-3,523	-3,616	-2.6%	0.5%	5.9%	-13,098	-13,524	3.3%
<b>Gross profit</b>	<b>1,334</b>	<b>1,469</b>	<b>1,397</b>	<b>1,475</b>	<b>-5.3%</b>	<b>4.7%</b>	<b>-4.9%</b>	<b>5,624</b>	<b>6,051</b>	<b>7.6%</b>
S&D Expenses	-686	-725	-697	-745	-6.5%	1.5%	-3.9%	-2,710	-2,790	3.0%
G&A expenses	-147	-96	-143	-148	-3.3%	-3.1%	49.3%	-459	-469	2.3%
<b>EBITDA</b>	<b>1,078</b>	<b>1,062</b>	<b>1,033</b>	<b>1,190</b>	<b>-13.2%</b>	<b>-4.2%</b>	<b>-2.8%</b>	<b>3,945</b>	<b>4,446</b>	<b>12.7%</b>
<b>Operating profit</b>	<b>501</b>	<b>649</b>	<b>558</b>	<b>583</b>	<b>-4.3%</b>	<b>11.4%</b>	<b>-14.0%</b>	<b>2,456</b>	<b>2,793</b>	<b>13.7%</b>
Investment & other income	4	-1	-11	-21	-46.1%	NM	NM	-153	-66	-57.1%
Financial costs (net)	-131	-129	-142	-138	2.4%	8.2%	10.2%	-428	-527	23.1%
Impairment	1	-2	-19	0	NM	NM	NM	-26	-34	29.9%
<b>Profit before zakat</b>	<b>374</b>	<b>517</b>	<b>386</b>	<b>424</b>	<b>-9.0%</b>	<b>3.1%</b>	<b>-25.3%</b>	<b>1,849</b>	<b>2,166</b>	<b>17.1%</b>
Zakat	-31	-16	-20	-16	22.3%	-36.2%	25.7%	-63	-85	35.9%
Income Tax	11	-14	5	15	-63.1%	-51.1%	NM	-8	-29	NM
<b>Profit before NCI</b>	<b>355</b>	<b>487</b>	<b>372</b>	<b>423</b>	<b>-12.0%</b>	<b>4.8%</b>	<b>-23.6%</b>	<b>1,778</b>	<b>2,052</b>	<b>15.4%</b>
Non-controlling interests	-1	1	1	-14	NM	NM	NM	18	2	-86.9%
<b>Profit attributable</b>	<b>356</b>	<b>486</b>	<b>371</b>	<b>437</b>	<b>-15.1%</b>	<b>4.2%</b>	<b>-23.8%</b>	<b>1,760</b>	<b>2,049</b>	<b>16.4%</b>

FABS estimate & Co Data

#### Almarai - Margins

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	27.6%	30.6%	28.4%	83	-224	30.0%	30.9%	87
EBITDA	22.3%	22.1%	21.0%	-129	-115	21.1%	22.7%	164
Operating Profit	10.3%	13.5%	11.3%	99	-219	13.1%	14.3%	115
Net Profit	7.4%	10.1%	7.5%	18	-260	9.4%	10.5%	107

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	61.51	70.0%	43.05
Relative Valuation (RV)	59.81	30.0%	17.94
<b>Weighted Average Valuation (SAR)</b>			<b>61.00</b>
Current market price (SAR)			57.70
Upside/Downside (%)			<b>+6%</b>

### 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 7.6%. 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 20.1%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 0.73 and equity risk premium of 4.6%. 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)	11,526
Terminal value (SAR, Mn)	59,866
<b>FV to Common shareholders (SAR, Mn)</b>	<b>61,505</b>
No. of share (Mn)	1,000
Current Market Price (SAR)	57.70
<b>Fair Value per share (SAR)</b>	<b>61.51</b>

### DCF Method

(All Figures in SAR Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash Flow from Operations	5,685	5,696	6,269	6,406	6,622
CAPEX	-3,748	-3,804	-3,862	-2,211	-2,310
<b>Free Cash Flow to Equity (FCFE)</b>	<b>1,936</b>	<b>1,892</b>	<b>2,407</b>	<b>4,194</b>	<b>4,312</b>
Discounting Factor	0.93	0.87	0.81	0.75	0.70
<b>Discounted FCFE</b>	<b>1,808</b>	<b>1,641</b>	<b>1,939</b>	<b>3,140</b>	<b>2,999</b>

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 14.6x 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	6,440	11.8	11.3	24.2	19.0
SADAFCO	3,090	16.0	14.4	22.9	20.5
Agthia	1,090	7.3	6.5	13.0	11.8
Arabian Food Ind	106	3.2	3.0	NM	NM
Mezzan Holdings	615	6.1	5.6	20.9	17.6
Halwani Brothers	484	31.8	22.9	21.9	18.5
National Agricultural Development Co.	785	4.5	3.6	24.3	20.5
<b>Average</b>		<b>11.5x</b>	<b>9.6x</b>	<b>21.2x</b>	<b>18.0x</b>
<b>Median</b>		<b>7.3x</b>	<b>6.5x</b>	<b>22.4x</b>	<b>18.8x</b>
<b>Max</b>		<b>13.9x</b>	<b>12.9x</b>	<b>23.9x</b>	<b>20.1x</b>
<b>Min</b>		<b>5.3x</b>	<b>4.6x</b>	<b>21.2x</b>	<b>17.8x</b>

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](mailto: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

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