

SADAFCO

Food Diversified – Industrial
SADAFCO AB: Saudi Arabia
12 July 2023

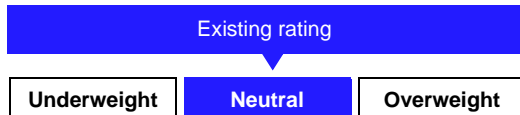


US\$3.07bn Market Cap	48.08% Free Float	US\$4.14mn Avg. Daily Volume
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Target price 330.00 **7.0% below current**
Current price 354.80 **as at 11/07/2023**

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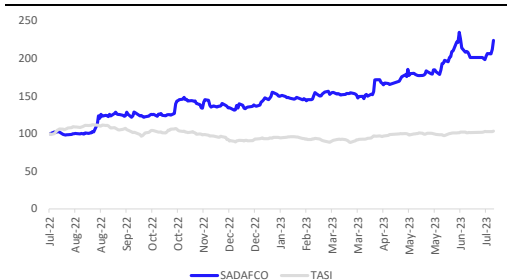


SADAFCO

Margin improvements expected as raw material prices continue decline, we revise our target price to SAR330/sh and maintain neutral.

SADAFCO continued to post good revenue growth in the fourth quarter of FY2023 thanks to more favorable market conditions. The topline increase of 6.4% was lower than the previous quarter growth of 26% as the base has increased for this quarter. Since their peak in April 2022, raw material prices have dropped dramatically. In the meantime, the company's selling prices and volume of sales have improved which could boost short term profits. In 4Q23, Gross profit were up 9.1% y-o-y, reaching SAR201mn, reflecting a gross margin of 30.1% vs our estimate of SAR211mn with an estimated gross margin of 30.5%. Operating expenses were under control and came in at SAR122.7mn vs our estimate of SAR122.3mn. Net income for the period came in around SAR90mn vs our estimate of SAR86mn. That said, we maintain a neutral rating on SADAFCO as believe the market is already reflecting that on the valuation. Our target price is SAR330/sh, while the current market price is SAR354.8/sh (7.0% lower).

Performance (Rebased to 100)



Earnings

Period End (SAR mn)	2023	2024E	2025E
Revenue	2,648	2,776	2,936
Revenue growth	22%	5%	6%
Gross profit	823	931	990
Gross margin	31%	34%	34%
EBITDA	477	567	616
EBITDA Margin	18%	20%	21%
Net Profit	311	437	482
Net Profit Margin	12%	16%	16%
EPS	10	14	15
P/E	34.6	24.6	22.3
EV/EBITDA	22.6	19.0	17.4

Source: Company data, Al Rajhi Capital.

Figure 1: Summary of 4Q23 Results

(SAR mn)	4Q FY2023	4Q FY2022	Y-o-Y	3Q FY2023	Q-o-Q	ARC est	vs ARC
Revenue	668	628	6.4%	654	2.2%	693	-3.6%
Gross profit	201	185	9.1%	196	2.7%		
Gross margin	30.1%	29.4%		30.0%			
Operating profit	92	71	28.6%	75	22.0%		
Operating margin	13.7%	11.3%		11.5%			
Net profit (incl. NCI)	90	63	42.9%	78	14.5%	86	4.3%
Net margin	13.4%	10.0%		12.0%		12.4%	

Source: Company data, Al Rajhi Capital

Sadafco's outlook: SADAFCO is likely to witness improvement in gross margin in reporting year FY2024 (period ending March 2024), mainly led by the decline in skimmed milk powder prices (down 40% y-o-y as of July) as well as favourable selling prices for its products. We expect the company's margin to be ~33.5% in FY2024, up 246bps y-o-y from 31%. Consequently, we expect significant growth in bottom line, reaching SAR437mn in 2024.

Dividend Policy: SADAFCO has raised dividends from SAR4/sh in 2018 to SAR6/sh in 2023, clearly demonstrating the management's strategy of gradually increasing dividends. As of March 2023, the company reported a cash balance of SAR685mn. We believe with a strong cash balance and the anticipated growth in profits, a higher dividend payment for the current financial year is possible. FY2024 dividend could be increased to SAR8/sh up from SAR6/sh

Valuations: We reviewed our coverage on SADAFCO and maintain our neutral rating at SAR330, 7.0% downside from the current levels. We have valued SADAFCO using a blended approach of DCF and P/E relative valuation (assigned equal weights). While we believe the company is well positioned to benefit from the declining raw material price, it is likely already factored at the current stock price level. We arrived at the DCF approach-based target price of SAR320/sh based on a 2.5% terminal growth and a WACC of 8.7%, while the P/E valuation based TP of SAR340/sh is based on 25x multiple and 2024E EPS. Key upside risks to our valuation include better-than-expected gross margin improvement, lower-than-expected capex spending, and higher sales growth than anticipated.

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