

## RESULT ANALYSIS

Q2 2024

## Strong Feed growth supported revenue and margins

First Mills reported an in-line set of Q2 2024 results with the net profit increasing by 30.4% yoy (-41.4% qoq) to SAR45.5mn. This compares to the SNB Capital and consensus estimates of SAR44.8mn and SAR50.9mn, respectively. Revenues grew by 13.3% yoy (-12.3% qoq) to SAR242mn and came in-line with our estimate of SAR233mn. The growth was mainly driven by a 36.3% yoy growth in the Feed segment due to higher demand. It was also supported by a 6.7% and 5.5% yoy growth in Flour and Bran segments, respectively.

- Revenues increased by 13.3% yoy (-12.3% qoq) to SAR242mn and came in-line with our estimate of SAR233mn. The yoy increase in revenues was mainly driven by a strong growth in Feed segment on the back of the expansion in the poultry sector in Saudi. The topline growth was also supported by a mid-single digit growth in Flour and Bran segments. On the other hand, the qoq decline is mainly attributed to the absence of the positive Ramadan seasonality.
- In Q2 24, Flour segment sales grew by 6.7% yoy (-18.5% qoq) to SAR132mn and accounted for 54.5% of total sales (vs 57.9% in Q2 23). Feed segment sales recorded a strong growth of 36.3% yoy (-14.0% qoq) to SAR67.2mn and accounted for 27.7% of the topline (vs 23.0% in Q2 23), while Bran segment sales increased by 5.5% yoy (+18.8% qoq) to SAR43.1mn and accounted for 17.8% of revenues (vs 19.1% in Q2 23).
- The company's wheat milling utilization improved to 88% in H1 24 vs 84% in H1 23 driven by the completion of the upgrade in Jeddah Mill C, which contributed to the improved output and operational efficiencies.
- Gross margin expanded by 30bps yoy to 41.4% and was higher than our estimates of 40.3%. We believe the variance is due to better margins on unsubsidized products. Accordingly, gross profit increased by 14.1% yoy (-20.0% qoq) to SAR100mn and came higher than our estimate of SAR93.8mn.
- Opex stood at SAR36.5mn in Q2 24 (-0.3% yoy) and came in higher than our estimate of SAR31.6mn which we believe is due to higher than expected costs associated with the new expansions.
- Net non-opex increased by 11.6% yoy to SAR18.3mn in Q2 24 and came broadly in-line with our estimate of SAR17.4mn. We believe the yoy increase in net non-opex is mainly due to higher finance/zakat costs.

### Outlook

Based on our last update, we are Overweight on First Mills with a PT of SAR84.9. Strong growth in the Feed segment and healthy gross margins are the key positives of the results. We believe the ongoing expansion of Jeddah facility and introduction of new products are the key stock drivers while the sensitivity to the potential subsidy removal remains the main concern. The stock is trading at 2024f P/E and EV/EBITDA of 18.2x and 13.9x vs the peer group average of 32.7x and 13.4x, respectively.

### Q2 24 Results Summary (SAR mn)

	Q2 24	Q2 23	% yoy	Q2 24f	Var <sup>^</sup>	Q1 24	% qoq
Revenue	242	214	13.3%	233	4.0%	276	(12.3)%
Gross income	100	88.0	14.1%	93.8	7.0%	126	(20.0)%
Gross margin (%)	41.4%	41.1%	0.3%	40.3%	1.2%	45.4%	(4.00)%
EBIT	63.8	51.3	24.4%	62.2	2.6%	94.4	(32.4)%
EBIT Margin (%)	26.3%	24.0%	2.3%	26.7%	(0.4)%	34.1%	(7.8)%
Net income	45.5	34.9	30.4%	44.8	1.5%	77.7	(41.4)%
net margin (%)	18.8%	16.3%	2.5%	19.2%	(0.5)%	28.1%	(9.3)%
EPS (SAR)	0.82	0.63	30.4%	0.81	1.5%	1.40	(41.4)%

Source: The Company, SNB Capital Research, <sup>^</sup> % Var indicates variance from SNB Capital forecasts

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