



**US\$13.08bn** Market cap  
**36%** Free float  
**US\$5.78mn** Avg. daily volume

Target price **50.00** 1.9% over current  
 Current price **49.05** as at 26/1/2022

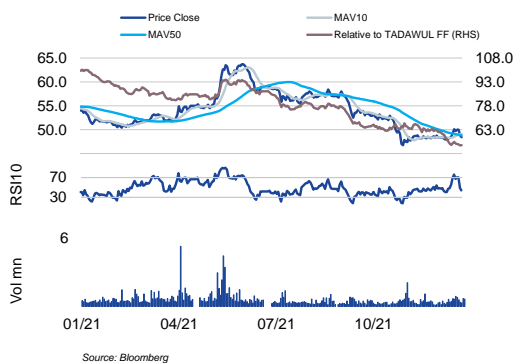
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**Existing rating**

**Underweight** **Neutral** **Overweight**

**Performance**



**Earnings**

Period (SARmn)	12/21A	12/22E	12/23E
Revenue	15,850	16,306	16,882
Revenue growth	3%	3%	4%
EBITDA(Mn)	4,273	4,182	4,692
EBITDA growth	9%	-2%	12%
Net Profit	1,564	1,766	2,216
Net Profit margin	9.9%	10.8%	13.1%
EPS	1.60	1.81	2.27
EPS growth	-19%	13%	26%
DPS	1.00	0.82	1.04
Payout Ratio	62%	46%	46%
ROE	9%	10%	12%
P/E	30.60	27.10	21.59

Source: Company data, Al Rajhi Capital

# Almarai

## Earnings miss estimates; TP at SAR50/sh

Almarai's Q4 2021 earnings missed our (SAR309mn) estimate by ~7%. The key reason for this miss was gross margin dilution by 425bps (28.0% in Q4 2021 V/s 32.3% in Q4 2020). The reason for gross margin erosion was at the back of increase in farming and dairy commodity prices and due to increase in international freight and packaging charges. Operating expenses increased by 9% y-o-y, at the back of higher volume and revenue. Revenue growth was positively aided by growth across all channels and countries, except Bahrain, which reported flat revenue due to VAT roll out earlier in the year. Oman on the other hand reported positive growth in revenue, after two years of decline due to higher competition. Deleveraging and lower interest environment aided in lower interest expense, thereby supporting the net margins to a certain extent.

**Summary of Q4 2021:** Top-line increased 11% y-o-y to SAR4.257bn driven mainly due to 10%/8%/21% increase in revenue from KSA/GCC/other countries. In terms of revenue breakdown by key categories; the bakery segment reported the strongest growth, 22% y-o-y, followed by dairy and juice (10% y-o-y). Agri and poultry segment on the other hand grew by 8% y-o-y and other segments grew 17% y-o-y. Operating profit declined 22% y-o-y to SAR392mn led by gross margin dilution. The company reduced its debt during the period, which led to a reduction in overall interest expense, supporting net income to a certain extent. Overall net income declined 15% y-o-y to SAR287mn in Q4 2021.

**Figure 1 Almarai Q4 2021 earnings summary**

(SAR mn)	4Q 2021	4Q 2020	Y-o-Y	3Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	4,257	3,820	11%	3,942	8%	3,861	10%
Gross profit	1,193	1,232	-3%	1,276	-7%	1,158	3%
Gross margin	28%	32%		32%		30%	
Operating profit	392	500	-22%	519	-24%	420	-7%
Operating margin	9%	13%		13%		11%	
Net profit	287	336	-15%	409	-30%	309	-7%
Net margin	7%	9%		10%		8%	

Source: Company data, Al Rajhi Capital

**Valuation and Key Risks:** Going forward, we expect higher cost levels to continue to impact margins. We expect, revenue growth will be supported to a certain extent by steady performance from poultry and bakery segments. We value Almarai with equal weightage given to DCF and PE based relative valuation. Our DCF TP based on 2% terminal growth and 7.83% WACC is SAR56/sh, while relative valuation TP based on 26x FY 2022e EPS stands at SAR44/sh. Thus, equal weighted TP stands at SAR50/sh (a reduction from our earlier TP of SAR55/sh) which implies a 2% upside. We maintain "Neutral" rating on Almarai.

**Key downside risks to our valuation:** Increase in the prices of agro-commodity could have an adverse impact on the gross margins. If the input prices continue to move adversely, it could have a negative impact on the margins.

**Key upside risks to our valuation:** Improvement in the market share of Almarai, despite tough market conditions, could result in improvement in overall revenue and profitability, posing an upside risk to our valuation.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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