

## ALMARAI

COMPANY UPDATE



Q3 22

## Demand normalisation and poultry to drive growth

We remain Neutral on Almarai with a PT of SAR55.9. We believe the outlook for Almarai is positive driven by the various initiatives recently announced to improve food security and the company's leading position in Saudi. We expect the company to deliver a 3-year earnings CAGR (2021-2024f) of 15.6% on the back of 1) relative improvement in margins and 2) the announced poultry expansion. The stock trades at 2023f P/E and EV/EBITDA of 27.4x and 13.3x, higher than the peers average of 16.5x and 10.0x, respectively. We believe the premium valuation is justified given Almarai's leadership position across segments, diversified offering and strong cash generation ability.

- Volumes remain resilient despite price adjustments**

We believe improved trading conditions following to demand normalisation (return to school and improved tourism activity) in 2022 supported Almarai's sales across all categories and regions. In 9M 22, revenues increased by 20% yoy, with bakery (+39% yoy) and poultry (+31% yoy) being the main drivers of growth. Long life dairy also witnessed notable growth of 20% yoy in 9M 22. We highlight that of the total revenue growth of 20% in 9M 22, pricing adjustment accounted for 11% (>50% of total increase), while 4% came from volume and 3% was due to mix-change. We believe the growth in demand despite price adjustments is a key positive and reflects the company's ability to adapt to challenging market conditions.

- Ease in commodity prices to support margins and further improve cash flow**

After remaining at persistently high levels, commodity prices started to ease in July 2022. The FAO Food Price Index declined to 136.3 in September 2022, marking its 6th consecutive monthly decline. The decline was driven by reduction in prices of vegetable oil, sugar, meat, and dairy products. We believe the normalization of food commodity prices will positively impact the company's margins. We expect 2022f gross margins to decline to 31.0% (vs 31.9% in 2021), but gradually expand to reach 32.0% in 2024f. Also, Almarai continues to strategically manage its working capital especially in the current inflationary environment (20% of TTM Sales in Q3 22). Accordingly, we expect the ease in commodity prices to improve the company's cash flows.

- Poultry expansion, a value driver**

Almarai continues to work on its poultry expansion plan (announced in May 2021) in a phased manner. The company plans to invest SAR6.6bn to double its poultry capacity to c450mn birds by 2025f (vs 200mn in 2021). Almarai has also redesigned its existing infrastructure and increased the capacity to c225mn birds as of Q3 22 and plans to expand by 5-10% in 2022f. We believe this expansion will strengthen Almarai's number 1 position in terms of poultry market share (32% as of Aug-22). We expect poultry segment's topline contribution to increase from 14.5% in 2021 to 18.4% by 2026f.

- Remain Neutral on Almarai with a PT of SAR55.9**

We remain Neutral on Almarai with a PT of SAR55.9. Ease in commodity prices and poultry expansion are the key drivers. The stock trades at 2023f P/E and EV/EBITDA of 27.4x and 13.3x, higher than its peers average of 16.5x and 10.0x respectively. We believe a premium is justified but offers limited upside to the current levels.

## Summary Financials

SAR mn	2021	2022f	2023f	2024f	CAGR
Revenues	15,850	18,677	19,537	20,773	9.4
Gross income	5,059	5,797	6,163	6,642	9.5
Gross margin (%)	31.9	31.0	31.5	32.0	
EBIT	2,015	2,458	2,697	3,054	14.9
EBIT Margin (%)	12.7	13.2	13.8	14.7	
Net income	1,564	1,913	2,043	2,416	15.6
Net margin (%)	9.9	10.2	10.5	11.6	
EPS (SAR)	1.56	1.91	2.04	2.42	15.6

Source: The company, SNB Capital Research

## NEUTRAL

Price target (SAR)	55.9
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Current price (SAR)	56.0
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Upside/Downside (%)	(0.2)
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## VALUATION MULTIPLES

	21	22f	23f
P/E (x)	35.8	29.3	27.4
P/B (x)	3.5	3.3	3.1
EV/EBITDA (x)	15.4	14.1	13.3
Div Yield (%)	1.8	2.0	2.1

Source: SNB Capital Research estimates

## MAJOR SHERHOLDERS

Investor	% Ownership
Savola Group	34.5%
SALIC	16.3%
Sultan Holding Co	23.7%
Foreign ownership	5.1%

Source: Saudi Exchange, SNB Capital. As of 18-October 2022

## STOCK DETAILS

M52-week range H/L (SAR)	58/47
Market cap (\$mn)	14,933
Shares outstanding (mn)	1,000
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	3.7	8.3	5.7
Rel. to market	(1.1)	8.1	4.3

Avg daily turnover (mn)	SR	US\$
3m	18.6	5.0
12m	25.4	6.8

Reuters code	2280.SE
Bloomberg code	ALMARAI AB
	<a href="http://www.almarai.com/en">www.almarai.com/en</a>

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## Key risks

- Delay in the poultry expansion plans could lead to slower growth in revenue.
- An increase in commodity prices may pressure margins and lower profitability.

## Valuation

We remain neutral on Almarai with a revised PT of SAR55.9. We used a blended approach based on DCF, EV/EBITDA and P/E multiple to arrive at our Price target.

### Exhibit 1: Valuation summary

				PT	Weights
Risk free	US 10-year	4.0%	DCF	60.7	60%
Adj. Beta	3-year weekly	0.68	EV/EBITDA	53.8	20%
			P/E	43.7	20%
WACC		8.1%			
Terminal Growth rate		2.5%	<b>Price Target (SAR)</b>	<b>55.9</b>	

Source: SNB Capital Research estimates

### Exhibit 2: Changes to estimates

In SAR mn, unless otherwise stated

	Old 2022f	New 2022f	% Chg	Old 2023f	New 2023f	% Chg
Revenue	16,637	18,677	12.3	17,548	19,537	11.3
EBITDA	4,349	4,524	4.0	4,714	4,792	1.7
Net income	2,252	1,913	(15.1)	2,622	2,043	(22.1)
<b>Price target</b>	<b>SAR</b>			<b>59.6</b>	<b>55.9</b>	<b>(6.2)</b>

Source: SNB Capital Research estimates

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## Financials

### Exhibit 3: Income Statement

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
<b>Revenue</b>	<b>15,850</b>	<b>18,677</b>	<b>19,537</b>	<b>20,773</b>
Growth (%)	3.2	17.8	4.6	6.3
Cost of Service	(10,790)	(12,880)	(13,374)	(14,131)
<b>Gross income</b>	<b>5,059</b>	<b>5,797</b>	<b>6,163</b>	<b>6,642</b>
Growth (%)	(8.6)	14.6	6.3	7.8
Gross margin (%)	31.9	31.0	31.5	32.0
Operating expenses	3,044	3,339	3,466	3,588
% of Revenue	19.2	17.9	17.7	17.3
<b>EBITDA</b>	<b>4,153</b>	<b>4,524</b>	<b>4,792</b>	<b>5,227</b>
Growth (%)	(10.4)	8.9	5.9	9.1
EBITDA margin (%)	26.2	24.2	24.5	25.2
Dep. & Amortization	2,138	2,066	2,095	2,173
Interest Expense	346	435	536	498
<b>PBT</b>	<b>1,668</b>	<b>2,023</b>	<b>2,161</b>	<b>2,555</b>
Tax (Zakat)	88	81	86	102
Non-controlling interest	16	29	31	37
<b>Net income</b>	<b>1,564</b>	<b>1,913</b>	<b>2,043</b>	<b>2,416</b>
Growth (%)	(21.2)	22.3	6.8	18.3
Net margin (%)	9.9	10.2	10.5	11.6
<b>EPS (SAR)</b>	<b>1.56</b>	<b>1.91</b>	<b>2.04</b>	<b>2.42</b>
<b>DPS (SAR)</b>	<b>1.00</b>	<b>1.13</b>	<b>1.16</b>	<b>1.33</b>

Source: Company reports, SNB Capital Research estimates

### Exhibit 4: Balance Sheet

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Cash & Cash equivalents	581	1,913	1,756	1,436
Receivables & prepayments	1,991	2,069	2,502	2,598
Inventories	4,354	5,052	4,848	4,799
Other current assets	176	184	189	191
<b>Total current assets</b>	<b>7,102</b>	<b>9,218</b>	<b>9,294</b>	<b>9,024</b>
Property and equipment	20,873	20,761	21,313	22,172
Biological assets	1,469	1,567	1,620	1,651
Intangible assets	1,129	1,129	1,129	1,129
Others non-current assets	1,180	1,183	1,210	1,232
<b>Total non-current assets</b>	<b>24,652</b>	<b>24,641</b>	<b>25,273</b>	<b>26,184</b>
<b>Total assets</b>	<b>31,754</b>	<b>33,859</b>	<b>34,567</b>	<b>35,208</b>
Trade and other payables	3,339	3,986	4,139	4,373
ST loans and leases	2,791	2,790	1,884	1,794
Other current liabilities	494	456	475	543
<b>Total current liabilities</b>	<b>6,624</b>	<b>7,232</b>	<b>6,499</b>	<b>6,711</b>
Long term debt	7,433	7,969	8,416	7,535
Other non-current liabilities	1,079	1,099	1,147	1,168
Total non-current liabilities	8,512	9,067	9,562	8,703
<b>Total Liabilities</b>	<b>15,136</b>	<b>16,299</b>	<b>16,061</b>	<b>15,414</b>
Share capital	10,000	10,000	10,000	10,000
RE & Reserves	6,119	7,032	7,948	9,200
Non-controlling interest	499	528	558	594
<b>Total equity</b>	<b>16,618</b>	<b>17,560</b>	<b>18,506</b>	<b>19,795</b>
<b>Total liabilities &amp; equity</b>	<b>31,754</b>	<b>33,859</b>	<b>34,567</b>	<b>35,208</b>

Source: Company reports, SNB Capital Research estimates

### Exhibit 5: Cash flow Statement

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
Cash flow from op. (a)	4,915	4,330	4,732	5,439
Cash flow from inv. (b)	(1,814)	(2,097)	(2,767)	(3,126)
NOPLAT	1,908	2,359	2,589	2,932
WC	628	(129)	(76)	187
Capex	(1,100)	(1,494)	(2,149)	(2,493)
Depreciation	2,138	2,066	2,095	2,173
Free cash flow	3,574	2,803	2,459	2,799
Cash flow from fin. (c)	(3,024)	(901)	(2,123)	(2,634)
Debt	(1,470)	500	(500)	(1,000)
Net chg. in cash (a+b+c)	77	1,332	(157)	(320)
Cash at start of the year	504	581	1,913	1,756
<b>Cash at end of the year</b>	<b>581</b>	<b>1,913</b>	<b>1,756</b>	<b>1,436</b>

Source: Company reports, SNB Capital Research estimates

### Exhibit 6: Key Ratios

In SAR mn, unless otherwise stated

	2021	2022f	2023f	2024f
<b>Per Share Ratios</b>				
EPS	1.6	1.9	2.0	2.4
FCF per share	3.2	2.2	2.0	2.3
Cash EPS	3.7	4.0	4.1	4.6
Book value per share	16.1	17.0	17.9	19.2
DPS	1.0	1.1	1.2	1.3
<b>Operating ratios (x)</b>				
Gross margin (%)	31.9	31.0	31.5	32.0
Operating margin (%)	12.7	13.2	13.8	14.7
EBITDA margin (%)	26.2	24.2	24.5	25.2
Net margin (%)	9.9	10.2	10.5	11.6
Inventory Days (x)	147	143	132	124
Receivables Days (x)	34	33	32	31
Payables Days (x)	62	61	61	61
Cash Cycle	120	115	104	95
<b>Return ratios</b>				
ROE (%)	9.8	11.5	11.7	13.0
ROA (%)	4.9	5.8	6.0	6.9
ROCE (%)	4.8	5.9	6.2	6.9
Payout Ratio (%)	64.0	59.0	57.0	55.0
<b>Valuation ratios (x)</b>				
P/E	35.8	29.3	27.4	23.2
P/FCF	17.3	25.1	28.5	24.2
P/BV	3.5	3.3	3.1	2.9
EV/Sales	4.0	3.4	3.3	3.1
EV/EBITDA	15.4	14.1	13.3	12.2
Div. yield (%)	1.8	2.0	2.1	2.4
<b>Solvency ratios</b>				
Debt/Equity	0.6	0.6	0.6	0.5
Net Debt/Equity	0.6	0.5	0.5	0.4
Net Debt/ EBITDA	2.3	2.0	1.8	1.5
Interest Coverage ratio	5.8	5.7	5.0	6.1
Current ratio	1.1	1.3	1.4	1.3
Quick ratio	0.4	0.6	0.7	0.6

Source: Company reports, SNB Capital Research estimates

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