



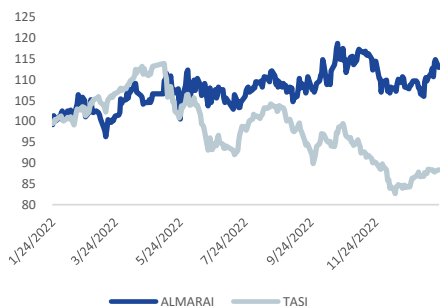
US\$14.6bn Market cap **25%** Free float **US\$3.5mn** Avg. daily volume

Target price **51.00** 8% below current
Current price **55.10** as at 22/01/2023

Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

Period (SARmn)	FY22	FY23E	FY23E
Revenue	18,722	19,279	20,142
Revenue growth	18%	3%	4%
EBITDA (Mn)	3,856	4,140	4,424
EBITDA growth	11%	7%	7%
Net Profit	1,742	1,775	1,888
Net Profit margin	9.3%	9.2%	9.4%
EPS	1.78	1.82	1.91
EPS growth	14%	2%	5%
DPS	1	1	1
Payout Ratio	56%	55%	52%
ROE	10%	10%	10%
P/E	30.87	30.29	28.78

Source: Company data, Al Rajhi Capital

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Almarai

Estimates miss on lower margins due to cost pressure. We revise our neutral rating TP to SAR51/sh

Almarai reported weak numbers in 4Q22 despite strong revenue numbers with a growth of 13.7% y-o-y. Gross margin for the 3Q22 fell to 31.2% compared to 32.4% last year and 31.9% for 2Q22. While, gross profit for the 4Q22 were SAR1,334mn compared to SAR1,193mn last year and SAR1489mn for 3Q22, the deviation in numbers might be due to seasonality effect and raw material prices. Profit for 4Q22 reached SAR356mn which was significantly lower than our estimates of SAR512mn on lower margins in 4Q (due to raw material prices and seasonality effect). We revise our TP from SAR53/sh to SAR51/sh while the current market price is SAR55.1/sh (8% below CMP).

Growth drivers.

Mainly, the growth is coming from the poultry segment as the government aims to reach to 80% self-sufficiency in 2025 from the current 65%. The main capacity expansion coming in 2024, however, the company in 2022 managed to increase capacity by 10%. There are also some segments the company is aiming to expand into but it is early to talk about and to quantify its effect.

Performance overview:

Fourth quarter revenue increased by 14% (Y-o-Y) and 1% (Q-o-Q). Revenue from Bakery and poultry continued delivering a strong growth of 29% and 31% y-o-y respectively. Dairy and Juice sales recorded 5.8% growth y-o-y. In terms of profitability, bakery recorded a growth in profits of 10% y-o-y, reaching SAR77mn in 4Q. Poultry segment grew by 14% to reach SAR64bn in 4Q, (8.5% NPM) down from 12.5% 3Q22 mainly due to higher cost inventory. While, Dairy & Juices were flat, recording SAR208mn profit. Total profit increased by 24% y-o-y and NPM stood at 7% for 4Q22 and 9.4% for the FY2022.

Figure1: Almarai 3Q 2022 Result Summary.

(SAR mn)	4Q 2022	4Q 2021	Y-o-Y	3Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	4,839	4,257	14%	4,769	1%	4,855	0%
Gross profit	1,334	1,193	12%	1,489	-10%	1,501	-11%
Gross margin	28%	28%		31%		31%	
Operating profit	504	392	29%	579	-13%	665	-24%
Operating margin	10%	9%		12%		14%	
Net profit	356	287	24%	463	-23%	512	-31%
Net margin	7%	7%		10%		11%	

Source: Company data, Al Rajhi Capital

Outlook and Valuation:

The increasing SAIBOR and raw material pressure is hitting Almarai's profitability. SAIBOR recently increased sharply which will impact the company's financing cost. The company has a small portion of total debt fixed, while the majority is floating and will add pressure to the company's earnings next year. In addition, the increase in raw material prices could also add burden on earnings. As such, we revise our valuation of Almarai to SAR50/sh (9% below current price) with an equal weightage given to DCF and EV/EBITDA. Our DCF target price is SAR52/sh (2.5% terminal growth, WACC 8%) and our EV/EBITDA target price is SAR50/sh (15X FY2023 EBITDA) based relative valuation. We remain Neutral on "Almarai" with a downside of 8% from the CMP.



Key downside risks to our valuation include:

1) If the commodity prices increase more than our expectations then it will dilute the gross margins and will have a negative impact on our valuations. 2) If we witness a significant expat exodus then the revenue and margins will be adversely impacted and will have a negative impact on our target price.



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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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