

Neutral

Price Target (SAR): 60.0

Current: 58

Upside/Downside: 3.4% above current

| Valuation Multiples | 23E | 24E | 25E |
|---------------------|------|------|------|
| P/E (x) | 28.6 | 26.1 | 24.0 |
| EV/EBITDA (x) | 15.8 | 14.6 | 13.7 |

Major Shareholders % Ownership

| | |
|------------------------|-------|
| Savola Group Company | 34.52 |
| SALIC | 16.32 |
| Sultan Holding Company | 23.70 |

| Price Performance | 1M | 3M | YTD |
|-------------------|-------|-------|-------|
| Absolute | -0.6% | 18.0% | 19.3% |
| Relative to TASI | 1.2% | 19.5% | 20.5% |

Earnings

| (SAR mn) | 2023e | 2024e | 2025e |
|---------------------|---------------|---------------|---------------|
| Revenue | 19,662 | 20,388 | 21,791 |
| Y-o-Y % | 5.0% | 3.7% | 6.9% |
| Gross Profit | 6,076 | 6,502 | 6,971 |
| Gross Margin | 30.9% | 31.9% | 32.0% |
| EBITDA | 4,464 | 4,992 | 5,361 |
| Operating Margin | 22.7% | 24.5% | 24.6% |
| Net Profit | 2,082 | 2,289 | 2,551 |
| Net Margin | 10.6% | 11.2% | 11.7% |
| EPS (SAR) | 2.08 | 2.29 | 2.55 |
| P/E | 28.3x | 25.8x | 23.1x |
| EV/EBITDA | 15.8x | 14.1x | 13.1x |
| DPS | 1.00 | 1.00 | 1.25 |
| Payout ratio | 48.0% | 43.7% | 49.0% |

Source: Company data, Al Rajhi Capital

Almarai Company

Almarai reports weak quarter.

Almarai reported weak numbers in 3Q, mainly impacted by lower Alfalfa sales, Egypt devaluation and margin pressure. Other activities, which include the sale of Alfalfa, saw a decline of SAR103mn on a y-o-y basis, and we believe it had the biggest impact on having lower growth in 3Q. Overall sales grew by 0.6% vs our expectations of -2.6%. We anticipate that high-cost inventory drove gross margins lower, reaching 30.6% (worth mentioning it also included one time, SAR61mn subsidy which makes the adjusted margins at 29.4%), vs last year margins of 31.2%. That being said gross profit declined by 1.3% (decline of 5.4% adjusted for one off), reaching SAR1,469.5mn vs SAR1488.7mn 3Q22. Moreover, operating expense also increased by SAR15mn or 1.9% y-o-y. When it comes to operating profits, the company reported a growth of 11.2%; however, last year, the company had an impairment of SAR83mn which, if adjusted for, will result in a decline of 2.7% in operating profits. Net income came significantly below our estimate which was mainly due to margins pressure as we believe the company carry high cost inventory. The reported net income came at SAR486mn, while we were expecting SAR616mn. Despite significant miss in the actual result, we maintain our target price of SAR60/sh implying a 3.4% upside from the current market price of SAR58/sh, as we believe that the deviation was largely due to higher cost inventory. Moreover, the company has huge poultry expansions coming that is likely to support growth in 2025 onwards.

Figure 1 Earnings Summary Q3 2023

| (SAR mn) | 3Q 2023 | 3Q 2022 | Yo-Y | 2Q 2023 | Q-o-Q | ARC est | vs ARC |
|------------------|---------|---------|------|---------|-------|---------|--------|
| Revenue | 4,797 | 4,769 | 1% | 4,792 | 0% | 4,923 | -3% |
| Gross profit | 1,469 | 1,489 | -1% | 1,567 | -6% | 1,615 | -9% |
| Gross margin | 31% | 31% | | 33% | | 33% | |
| Operating profit | 644 | 579 | 11% | 719 | -10% | 786 | -18% |
| Operating margin | 13% | 12% | | 15% | | 16% | |
| Net profit | 486 | 463 | 5% | 557 | -13% | 616 | -21% |
| Net margin | 10% | 10% | | 12% | | 13% | |

Source: Al Rajhi Capital

Segment overview:

Almarai's have witnessed decent growth in its core business lines. Poultry sales grew by 13% y-o-y, Fresh dairy sales grew by 9.6% y-o-y, while bakery increased by 4%. However, long-life dairy saw a significant decline, as the company stopped its production for UHT during the quarter, registering a 20% decline in sales y-o-y. The company is working on improving its recipe. In the juice segment, the company's sales fell by 14.7% on y-o-y basis. What added further pressure on top-line growth was the lower sales of alfalfa and Egypt's devaluation of currency.

When it comes to profits, Poultry saw improved in both the volume and margins, resulting in a growth of 16.6% y-o-y. Also, the bakery segment supported bottom line as it saw a growth of 4%. However, the dairy & juice (53% of sales) segment recorded a decline of 21% y-o-y, mainly due to the weak performance in UHT and juice.

Valuation:

We arrived at our target price for Almarai using an equal mix of DCF and P/E. The DCF target price is SAR61/sh, based on a 2.5% terminal growth rate and 8.4% weighted average cost of capital. The EV/EBITDA target price is SAR59/sh derived from 16x multiple of FY 2024E EBITDA. Overall, we maintain our target price of SAR60/sh and rating of neutral.

Key risks:

- Higher competition in the electronics can pressure margins (Electronics represents a large portion of Jarir's sales)
- Continuous Increase in advertisement spending to maintain customers.

Financials

Figure 2 Key Ratios

| (SAR mn) | 2023e | 2024e | 2025e |
|--------------------------|-------|-------|-------|
| ROA (%) | 6.5% | 6.3% | 7.2% |
| ROE (%) | 11.7% | 12.1% | 12.6% |
| D/E (x) | 0.69 | 0.54 | 0.49 |
| Net debt/EBITDA (x) | 2.1 | 1.9 | 1.8 |
| Current ratio | 1.8 | 1.4 | 1.4 |
| Asset turnover ratio (x) | 0.5 | 0.6 | 0.6 |
| Receivables days | 44 | 44 | 44 |
| Inventory days | 160 | 153 | 146 |
| Payables days | 120 | 112 | 110 |

Source: Company Data, Al Rajhi Capital

Figure 4 Income statement

| (SAR mn) | 2023e | 2024e | 2025e |
|---|---------------|---------------|---------------|
| Revenue | 19,662 | 20,388 | 21,791 |
| Cost of revenue | (13,586) | (13,886) | (14,820) |
| Gross profit | 6,076 | 6,502 | 6,971 |
| Selling and Distribution Expenses | (2,784) | (2,887) | (3,129) |
| General and Administration Expenses | (475) | (489) | (501) |
| Other Expenses, net | (80) | (102) | (109) |
| Impairment Reversal / (Loss) on Financial A | (20) | (20) | (20) |
| Operating profit | 2,717 | 3,004 | 3,212 |
| Interest income | 113 | 51 | 18 |
| Interest expense | (678) | (594) | (527) |
| Profit before zakat | 2,151 | 2,461 | 2,703 |
| Zakat | (117) | (120) | (134) |
| Net income | 2,034 | 2,340 | 2,569 |
| Dividend | 1,000 | 1,150 | 1,150 |
| Payout | 49.2% | 49.1% | 44.8% |
| EBITDA | 4,464 | 4,992 | 5,361 |
| EBITDA Margin | 22.7% | 24.5% | 24.6% |

Source: Company Data, Al Rajhi Capital

Figure 5 Cashflow statement

| (SAR mn) | 2023e | 2024e | 2025e |
|--------------------------------|---------|---------|---------|
| Cash from operating activities | 4,724 | 4,953 | 5,363 |
| Cash from investing activities | (3,314) | (3,526) | (3,660) |
| Cash from financing activities | 865 | (3,793) | (1,827) |
| Net change in cash | 2,275 | (2,366) | (1,23) |
| Beginning cash | 547 | 2,822 | 456 |
| Ending Cash | 2,822 | 456 | 333 |

Source: Company Data, Al Rajhi Capital

Figure 3 Balance Sheet

| (SAR mn) | 2023e | 2024e | 2025e |
|--|---------------|---------------|---------------|
| Inventories | 5,955 | 5,821 | 5,928 |
| Biological Assets | 151 | 164 | 180 |
| Trade Receivables, Prepayments and Other R | 2,370 | 2,458 | 2,627 |
| Derivative Financial Instruments | 48 | 48 | 48 |
| Investment in Time deposit/Equity | 16 | 16 | 16 |
| Cash and Bank Balances | 2,822 | 456 | 333 |
| Total current assets | 11,363 | 8,962 | 9,132 |
| Property, Plant and Equipment | 20,770 | 21,762 | 22,746 |
| Intangible Assets and Goodwill | 1,283 | 1,412 | 1,537 |
| Biological Assets | 1,881 | 2,037 | 2,242 |
| Right of use asset | 556 | 608 | 661 |
| Prepayments | 552 | 552 | 552 |
| Derivative Financial Instruments | 71 | 71 | 71 |
| Total non-current assets | 25,114 | 26,441 | 27,809 |
| Total Assets | 36,476 | 35,403 | 36,941 |
| Bank Overdrafts | 87 | 87 | 87 |
| Short-Term Loans | 1,659 | 1,633 | 1,633 |
| Lease Liabilities | 75 | 75 | 75 |
| Zakat and Income Tax Payable | 186 | 186 | 186 |
| Trade and Other Payables | 4,467 | 4,261 | 4,466 |
| Derivative Financial Instruments | 14 | 14 | 14 |
| Total current liabilities | 6,489 | 6,257 | 6,462 |
| Long-Term Loans | 10,578 | 8,555 | 8,405 |
| Lease Liabilities | 392 | 392 | 392 |
| Employee Retirement Benefits | 1,140 | 1,183 | 1,264 |
| Derivative Financial Instruments | 20 | 20 | 20 |
| Deferred Tax Liabilities | 90 | 90 | 90 |
| Total non-current liabilities | 12,221 | 10,240 | 10,171 |
| Total liabilities | 18,709 | 16,497 | 16,634 |
| Share Capital | 10,000 | 10,000 | 10,000 |
| Statutory Reserve | 2,761 | 2,761 | 2,761 |
| Treasury Shares | (1,676) | (1,676) | (1,676) |
| Retained Earnings | 6,668 | 7,807 | 9,208 |
| Non-controlling equity | 14 | 14 | 14 |
| Total Equity | 17,767 | 18,906 | 20,307 |
| Total equity and liabilities | 36,476 | 35,403 | 36,941 |

Source: Company Data, Al Rajhi Capital

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report.

Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with or be subject to the regulations of the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance, and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may, from time to time, perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise directly or indirectly from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may, from time to time, perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise directly or indirectly from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

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

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi, CFA

Head of Research

Tel : +966 11 836 5468

Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37