

Q3 2023

## Lower margins impacted profitability

Almarai reported a weak set of Q3 23 results. Net income increased by 5.0% yoy (-12.7% qoq) to SAR486mn, but was lower than the SNB Capital and consensus estimates of SAR579mn and SAR608mn, respectively. Revenues increased by 0.6% yoy (+0.1% qoq) to SAR4.80bn and were broadly in-line with our estimates. The deviation primarily came from lower than expected gross margins, which declined by 58bps yoy (-207bps qoq) to 30.6%, lower than our estimates of 32.9%. This is the lowest Q3 gross margin on record.

- Revenues grew marginally by 0.6% yoy (+0.1% qoq) to SAR4.80bn and were broadly in-line with our estimates of SAR4.93bn. The growth was primarily driven by the poultry segment's expansion. Growth in Dairy and Bakery segments also supported the growth, driven by "back to school" season. However, the impact was partially diluted by lower sales of external alfalfa.
- Gross profit decreased by 1.3% yoy (-6.2% qoq) to SAR1.47bn and was lower than our estimates of SAR1.62bn. Accordingly, gross margins came in at 30.6%, lower than our estimates of 32.9% and 31.2% in Q3 22 and 32.7% in Q2 23. We believe the weakness in margins is a major surprise as the ease in international commodity prices was expected to support margins (similar to Q2 23). We note that this is lowest Q3 margins on record.
- As a read across, we believe the weakness in margins will be a common theme in the sector in Q3 23, as increased competition will impact the pricing power of the segment.
- Net operating expenses came in at SAR826mn, lower than our estimates of SAR889mn. Opex-to-sales stood at 17.2% vs our estimates of 18.0% and lower than 19.1% in Q3 22 and 17.7% in Q2 23. The decrease is due to the cost control measures.
- Net non-opex stood at SAR158mn, in-line with our estimate of SAR154mn. It is higher than SAR116mn in Q3 22, but marginally lower than SAR161mn in Q2 23. We believe the yoy increase is mainly due to higher interest expenses on higher SAIBOR rates.
- Segment wise, Dairy & Juice Category profit decreased yoy due to devaluation of Egyptian currency, higher marketing expense and delayed phasing of commodity cost inflation. Bakery segment profit increased yoy driven by higher volumes while poultry segment expansion supported the earnings growth of the segment.

### Outlook

Based on our latest update, we are Neutral on Almarai with a PT of SAR65.3. We believe the ongoing expansion in the poultry segment and improved debt profile are the key positives of the stock. However, the weakness in margins is a main concern. The stock trades at 2023f and 2024f P/E of 29.0x and 25.0x vs its 5-years historical average of 30.8x.

### Q3 23 Results Summary (SAR mn)

	Q3 23	Q3 22	% yoy	Q3 23f	% Var <sup>^</sup>	Q2 23	% qoq
Revenue	4,797	4,769	0.6%	4,930	(2.7)%	4,792	0.1%
Gross income	1,469	1,489	(1.3)%	1,622	(9.4)%	1,567	(6.2)%
Gross margin (%)	30.6%	31.2%	(0.6)%	32.9%	(6.9)%	32.7%	(2.1)%
EBIT	644	579	11.2%	733	(12.1)%	719	(10.3)%
EBIT margin (%)	13.42%	12.14%	1.3%	14.87%	(9.7)%	15.0%	(1.6)%
Net income	486	463	5.0%	579	(16.0)%	557	(12.7)%
Net margin (%)	10.1%	9.7%	0.4%	11.7%	(1.60)%	4.3%	5.84%
EPS (SAR)	0.49	0.46	5.0%	0.58	(16.0)%	0.56	(12.7)%

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

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