

## ALMARAI

Company Update



Q1 24

## Bright outlook supported by major capex plan

We maintain our Neutral rating on Almarai with PT of SAR64.9. Almarai is a key player in Saudi food security plans and a beneficiary from the growing population. The announced capex plan of cSAR18bn is positive, as we believe it will prompt sustainable growth across core business segments as well as expand Almarai's geographical presence. We expect net income to grow to SAR2.30bn (+12.4% yoy) in 2024f and cross SAR3.0bn in 2026f (2023-2026f CAGR of 14.9%) driven by 1) strong revenue growth across core segments and 2) the positive impact of lower commodity prices and cost efficiency on margins. The stock trades at 2024f P/E and EV/EBITDA of 24.9x and 12.9x, inline with historical levels and compared to its peer group average of 17.8x and 10.9x, respectively.

- Capex focus: Poultry & Dairy**

Almarai announced its 5-yr strategic plan to invest cSAR18bn, across different business segments. We believe cSAR7bn (c40%) will be allocated to poultry expansion, with a target to more than double its market share from the current levels of c12% by increasing the annual capacity to c450-500mn birds by 2026f. Accordingly, the segment revenue contribution will increase from 18.0% in 2023 to 22.5% by 2026f. Moreover, SAR5bn (c30%) will be allocated to other core categories such as dairy, juices and bakery. Almarai is also planning to increase its market share in long-life dairy (altered the formula in Q3 23) to complement its leading position in the fresh dairy segment. Another cSAR1.0bn (c5.6%) will be spent on the development of new product categories like ice cream, meat, and fish, while the remaining 25% will be utilized to improve the supply-chain. We believe the new strategy will enable Almarai to maintain its leading position in the market and achieve a 2023-2026f CAGR of 6.9% to SAR24bn by 2026f.

- Gradual margin expansion**

In addition to the topline growth, profitability is expected to be supported by better margin profile driven by lower commodity prices and cost efficiency measures. To highlight, the impact of low commodity prices has not completely translated into gross margins given the higher inventory cover. As the impact of historical inventory phases out, we believe margins will improve gradually. We expect margins to expand from 30.9% in 2023 to 31.3% in 2024f and further increase to 32.0% by 2026f. However, we expect margins to remain significantly lower than the historical levels due to the change in the subsidy mechanism on Alfalfa and poultry.

- Net income to exceed SAR3.1bn by 2026f**

Overall, we expect net income to reach SAR2.3bn in 2024f (+12.0% yoy) and to reach SAR3.1bn by 2026f (2023-2026f CAGR of 14.8%). This is expected to be driven by 1) solid revenue growth on higher volumes from the poultry segments and 2) improved margins. Subsequently, we expect net margins to improve from 10.5% in 2023 to 11.1% and 13.0% in 2024f and 2026f, respectively.

- Remain Neutral with a revised PT of SAR64.9**

We remain Neutral on Almarai with a PT of SAR64.9. Almarai is a F&B national champion and is a key player in the Saudi food security initiatives. We believe the execution of the 5-year strategic plan and lower commodity prices are the key stock catalysts. The stock trades at 2024f P/E and EV/EBITDA of 24.9x and 12.9x, in line with historical levels and compared to its peer group average of 17.8x and 10.9x respectively.

## Summary Financials

SAR mn	2023	2024f	2025f	2026f	CAGR
Revenues	19,576	20,801	22,221	23,888	6.9%
Gross income	6,051	6,518	7,026	7,643	8.1%
Gross margin (%)	30.9%	31.3%	31.6%	32.0%	
EBIT	2,694	2,958	3,279	3,682	11.0%
EBIT Margin (%)	13.8%	14.2%	14.8%	15.4%	
Net income	2,049	2,296	2,664	3,103	14.8%
Net margin (%)	10.5%	11.0%	12.0%	13.0%	
EPS (SAR)	2.05	2.30	2.66	3.10	14.8%

Source: The company, SNB Capital Research

## NEUTRAL

Price target (SAR)	64.9
Current price (SAR)	57.2
Upside/Downside (%)	13.5

## VALUATION MULTIPLES

	23	24f	25f
P/E (x)	28.0	24.9	21.5
P/B (x)	3.2	3.0	2.8
EV/EBITDA (x)	13.5	12.9	11.6
Div Yield (%)	1.7	1.8	2.0

Source: SNB Capital Research estimates

## MAJOR SHAREHOLDERS

Investor	% Ownership
Savola Group	34.5%
SALIC	16.3%
Sultan Holding Co	23.7%
Foreign ownership	5.0%

Source: Saudi Exchange, SNB Capital. As of 27 March 2024.

## STOCK DETAILS

M52-week range H/L (SAR)	70/53
Market cap (\$mn)	15,307
Shares outstanding (mn)	1,000
Listed on exchanges	Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	(4.0)	1.8	2.7
Rel. to market	(4.0)	(4.3)	(17.4)

Avg daily turnover (mn)	SR	US\$
3m	65.4	17.4
12m	41.9	11.2

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

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