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US$14.9bn	40.9%	US$9.2mn
Market Cap.	Free Float	Avg. Daily Value traded

Almarai Co.

Maintaining a Neutral Rating

Neutral

Price Target (SAR): 60.0

Current: 55.90
Upside/Downside: 7.3% above current

Valuation Multiples	23	24E	25E
P/E (x)	27.3	24.2	21.7
EV/EBITDA (x)	12.8	12.6	11.7

Major Shareholders	% Ownership
Savola Group Co.	34.52
Sultan Holding Co.	23.70
Saudi Agricultural and Livestock Investment Co.	16.32

Price Performance	1M	3M	YTD
Absolute	1.5%	-3.1%	0.2%
Relative to TASI	1.7%	-4.4%	0.5%

Earnings

SARmn	2023	2024E	2025E
Revenue	19,576	21,097	22,773
Revenue growth	4.6%	7.8%	7.9%
Gross profit	6,051	6,610	7,173
Gross margin	30.9%	31.3%	31.5%
EBITDA	5,155	5,323	5,728
EBITDA margin	26.3%	25.2%	25.2%
Net profit	2,049	2,309	2,580
Net margin	10.5%	10.9%	11.3%
EPS (SAR/sh)	2.0	2.3	2.6
DPS (SAR/sh)	1.0	1.0	1.0
Payout ratio	48.8%	43.3%	38.8%
P/E	27.3x	24.2x	21.7x
RoE	11.8%	12.9%	13.7%

Source: Company data, Al Rajhi Capital.

We present our update on Almarai, increasing our Fair Value to SAR60/sh (from SAR58/sh previously), while maintaining our neutral rating on the stock. Our Neutral rating reflects our opinion that the risks and rewards associated with the company are incorporated in the stock price. The stock currently trades at 2025 forward P/E multiple of 21.7x and offers a dividend yield of 1.8%. As per the recently announced results, Almarai's revenue grew by 8.6% y-o-y in 3Q24 driven by robust growth in volume. This topline growth was accompanied by an expansion in gross margins resulting from a favorable product mix and stabilized commodity prices. Going forward, we expect the company's topline to grow by 7.9% in 2025 led by expansion in the poultry segment. Furthermore, between 2025-28, we expect the company's topline to grow at a CAGR of around 4.9% and the company to operate at an average EBIT margin of around 15%.

Recent Results & Key Takeaways from Earnings Call

Recent Results: Almarai's revenue grew by 8.6% y-o-y to SAR 5,209mn in 3Q24, driven by robust growth in volume. Furthermore, due to favorable product mix, and stabilized commodity prices gross margin increased by 143bps to 32.1%. As a result, the company's net profit grew by 17.3% y-o-y.

Revenue from the dairy and juice category grew by 10.8% y-o-y, amid the recovery in the long-life category and the introduction of new products in the juice category. Furthermore, revenue from the poultry segment grew by 6.0% y-o-y on account of a capacity-led increase in sales volume. It is worth noting that the net profit margin in the dairy and juice/poultry segments has improved from 9%/13% in 3Q23 to 10%/14% in 3Q24. Overall company was able to maintain its leadership position in KSA in all the major categories including dairy, food, juices, bakery, and poultry.

Key Points from the Meeting

- The management shared that its acquisition of Hammoudeh Food Industries (a Jordanian dairy and cheese company for SAR 263mn through internal cash flows) follows the company's overall strategy to grow its presence in dairy and cheese. This acquisition is expected to positively contribute towards revenue and cost synergies of the company.
- The recently launched ice-cream segment has received positive customer feedback, and the company plans to increase production to meet demand.
- While modern trade is more expensive, traditional trade offers a wider reach. The company is currently prioritizing traditional trade over modern trade by capitalizing on the reach of its distribution team.
- In the near-term, the company's management is concerned about rising costs, particularly for diesel, which is used in distribution, manufacturing, and farming operations. Additionally, the company imports butter to meet the demand for cream, and the price of butter has risen above historical levels, impacting the company's profit margins. Over the medium-term, the management aims at achieving 14-16% EBIT margins in-line with international benchmarks for FMCG companies.

- G&A expenses are expected to increase due to the company's anticipated volume and revenue growth. However, on account of operational efficiency, the growth in EBIT is expected to be higher than topline growth.

Our Estimates for 2025 and onwards

We expect the company topline to grow by 7.9% in 2025 led by expansion in the poultry segment as the company plans to gradually increase its poultry processing capacity to 450mn birds (from around 260mn birds last year). Furthermore, due to the combined impact of 1) stabilized commodity prices, and 2) operational efficiencies resulting from economies of scale we expect operating profit to grow by 9.1% during the same period. Finally, on account of lower interest expense (resulting from the decline in interest rates for a variable portion of the company's debt) net income is expected to grow by 11.8% y-o-y.

Between 2025-28, we expect the company's topline to grow at a CAGR of 4.9% while operating profit is expected to expand by 6.2% on account of economies of scale (Overall, we expect an average EBIT margin of around 15% between 2025-28).

Recommendation and Valuation

We maintain a neutral rating on the stock with a Fair Value of SAR60/sh, offering an upside of 7.3% to the last close. At our fair value (which incorporates the above-mentioned positives), the stock trades at an implied P/E multiple 23.3x. We value the company through the Discounted cashflow method and EV/EBITDA giving equal weight to both. For DCF valuation, we use a risk-free rate of 4.5%, a risk premium of 6%, and a terminal growth rate of 3.0%. For target EV/EBITDA, we use the last 5-year historical average EV/EBITDA of around 13.5x.

Figure 1 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/ downside
DCF Valuation	59	50.0%	29	5%
EV/EBITDA	61	50.0%	30	9%
Target price			**60**	
CMP			55.9	
Upside/(Downside)			**7.3%**	
Dividend yield			1.8%	
Total returns			**9.1%**	

Source: Al Rajhi Capital estimates.

Financials

Figure 2 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	**19,576**	**21,097**	**22,773**
y-o-y growth	*4.6%*	*7.8%*	*7.9%*
Cost of Sales	13,524	14,487	15,599
Gross Profit	**6,051**	**6,610**	**7,173**
y-o-y growth	*7.6%*	*9.2%*	*8.5%*
margins	*30.9%*	*31.3%*	*31.5%*
Operating Profit	**2,694**	**2,997**	**3,268**
y-o-y growth	*18.3%*	*11.2%*	*9.1%*
margins	*13.8%*	*14.2%*	*14.4%*
Net Income	**2,049**	**2,309**	**2,580**
y-o-y growth	*16.4%*	*12.7%*	*11.8%*
margins	*10.5%*	*10.9%*	*11.3%*
EPS (SAR/sh)	2.0	2.3	2.6

Source: Company data, Al Rajhi Capital.

Figure 4 **Ratios and Multiples**

	2023	2024E	2025E
RoE	11.8%	12.9%	13.7%
(Debt+Lease)/EBITDA (x)	2.4	2.2	2.1
P/E (x)	27.3	24.2	21.7
D/Y	1.8%	1.8%	1.8%
EV/EBITDA (x)	12.8	12.6	11.7

Source: Company data, Al Rajhi Capital.

Figure 3 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash	666	626	470
Short-term investment & deposit	1,926	-	-
A/c Receivables	2,565	2,867	3,120
Inventories	6,148	6,106	6,411
Biological Assets	135	156	154
Others	15	7	7
Current Assets	**11,455**	**9,761**	**10,161**
PPE & Intangible	21,932	23,687	25,153
Biological Assets	1,742	1,792	1,774
RoU asset	474	470	467
Long-Term Prepayments	525	525	498
Others	67	51	51
Total Assets	**36,194**	**36,287**	**38,103**
Short-Term Loans & Bank Overdrafts	3,530	1,382	1,382
Lease Liabilities	81	80	80
Trade and Other Payables	4,246	4,681	4,915
Others	330	424	424
Current Liabilities	**8,187**	**6,568**	**6,801**
Long-Term Loans	8,499	10,000	10,000
Lease Liabilities	369	366	364
Others	1,330	1,370	1,370
Total Liabilities	**18,385**	**18,305**	**18,535**
Share Capital	10,000	10,000	10,000
Retained Earnings	6,403	6,726	8,311
Others	1,406	1,257	1,257
Total Equity	**17,809**	**17,982**	**19,568**
Total Liabilities & Equity	**36,194**	**36,287**	**38,103**

Source: Company data, Al Rajhi Capital.

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"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.

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