

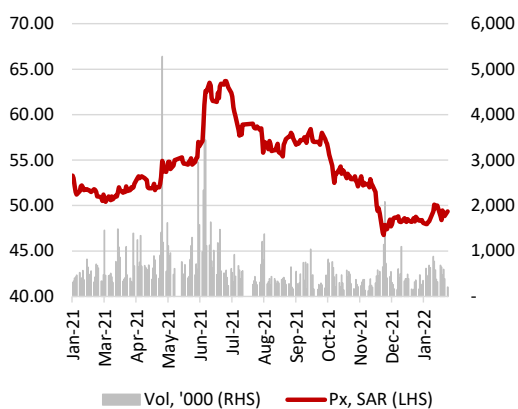
Almarai Company (Almarai)

Target Price: SAR 50.50
Upside/ (Downside): 2.3%
Recommendation

| | |
|---------------------------------|----------------|
| Bloomberg Ticker | ALMARAI AB |
| Current Market Price (SAR) | 49.35 |
| 52wk High / Low (SAR) | 64.900/46.250 |
| 12m Average Vol. (000) | 605.4 |
| Mkt. Cap. (USD/SAR Mn) | 128,310/49,350 |
| Shares Outstanding (mn) | 1,000.0 |
| Free Float (%) | 41% |
| 3m Avg Daily Turnover (OMR'000) | 21,398.6 |
| 6m Avg Daily Turnover (OMR'000) | 22,768.0 |
| P/E'22e (x) | 19.7 |
| EV/EBITDA'22e (x) | 16.8 |
| Dividend Yield '22e (%) | 4.8% |

Hold
Price Performance:

| | |
|--------------|-------|
| 1 month (%) | 1.2 |
| 3 month (%) | (6.7) |
| 12 month (%) | (7.4) |

Source: Bloomberg, valued as of 30 January 2022
Price-Volume Performance

Source: Bloomberg

- **Company benefits from improvement in operating conditions, partial school re-openings in 4Q21**
- **Pressure from elevated levels of commodity prices to delay forecasted improvement in margins**
- **Strong free cash generation to comfortably accommodate future investment needs**
- **Target price revised downwards in view of the deterioration in profitability**

Almarai Company's top-line in 4Q 2021 beat our expectation on the back of better-than-expected revenue generation in the core segments. However, as direct and indirect costs increased at a higher pace than expected, operating and net profit came-in well below than forecasted. The top-line performance during the quarter substantiates our premise that the company will benefit from a pickup in economic growth, opening of schools, and a rise in tourist activity with a good brand standing and leading customer base. However, we opine an improvement in margins might take more than estimated time as the supply chain disruptions caused by the new COVID waves could keep commodity costs at higher levels for a longer than expected duration. However, the company has increased product prices across categories in the GCC during the quarter, the full impact of which might be visible from this quarter onwards.

4Q 2021 earnings synopsis: Almarai's top-line in 4Q 2021 climbed 11.5% YoY to SAR 4.26bn (our estimate: SAR 3.96bn), on the back of higher than expected growth registered in Dairy & Juice (+10.4% YoY), Bakery (+21.5% YoY) and Poultry (+7.9% YoY) segments. However, gross margin shrank ~425 bps YoY to 28.0% in 4Q 2021, missing our estimate of 32.5%, as an anticipated easing in the commodity/feedstock prices and logistics costs didn't materialize. Further, S&D and G&A expenses rose at a higher rate vs. our estimates. The company also posted SAR 10.97mn as impairment loss on financial assets. As a result, operating profit fell 21.6% YoY to SAR 392.2mn, which was 25% below our estimate. Consequently, net profit came-in 29% below our expectations at SAR 286.5mn (-14.7% YoY), although net finance costs were slightly lower than our forecast with the debt/equity ratio as at 4Q 2021 standing at 0.6x (our estimate: 0.7x).

Valuation and risks: Post 4Q 2021 earnings, we revise up our top-line estimate on Almarai for FY22 by ~2%, on account of better-than-expected growth in core categories. We expect likely opening of primary and Kindergarten classes in the Kingdom starting January 2022 would provide further fillip to the bakery segment revenue. However, going by the management's latest guidance on direct costs, we have tapered our FY22 gross margin expectations by ~50 bps to 33.8%. Overall, FY22 EPS estimate is slightly lower at SAR 1.97 vs. SAR 1.98, earlier. We revise our target price downwards on Almarai Company to SAR 50.5 per share as compared to SAR 52.0 per share, previously, owing to the 4Q 2021 earnings missing our estimates by a wide margin. However, we stick to our **Hold** rating on the name. Our revised target price implies an upside of 2.3% over the current market price. Currently, the stock trades at 25.1x P/E and 12.7x EV/EBITDA, based on our FY22 estimates. The downside risks to our valuation include weaker than expected economic activities and consumer demand owing to the newly detected coronavirus Omicron, erosion in market shares, a decline in product prices, and higher than estimated raw material prices. Key upside risks to our valuation include unexpected rise in milk prices, gain in market shares, better efficiency improvement, and above-expected dividends.

Mixed fundamentals: i) Almarai is currently facing pressure in the local market due to stiff competition and continuous erosion of market share across all its key product categories. However, the company has been witnessing strong demand in overseas markets such as Egypt and Jordan. This, along with a gradual recovery in the local economy, and fading of the effect of VAT increase last year, would support the overall top-line growth in the coming periods. ii) On the profitability side, the margins are expected to decline this year, due to lower/no subsidies on some of the key raw materials and the company shifting to 100% import of important feedstock alfalfa. While we expect the raw materials prices to ease in the global markets next year, which would help the company recover its profitability, it could be less than expected since the unabated COVID pandemic is causing continued supply disruptions. iii) Cash generation is estimated to remain healthy and fulfill capex requirements and debt repayments. iv) Steady dividend pay-out.

Financials & valuation summary

| | FY19 | FY20 | FY21 | FY22e | FY23e | FY24e |
|---------------------|-------|-------|-------|-------|-------|-------|
| Revenues (SAR bn) | 14.4 | 15.4 | 15.8 | 16.5 | 17.1 | 17.6 |
| Net income (SAR bn) | 1.8 | 2.0 | 1.6 | 2.0 | 2.2 | 2.3 |
| Gross margin | 37.4% | 36.0% | 31.9% | 33.8% | 34.4% | 34.4% |
| Net profit margin | 12.6% | 12.9% | 9.9% | 11.9% | 13.0% | 13.1% |
| RoE | 12.7% | 13.1% | 9.8% | 11.9% | 12.6% | 12.4% |
| FCF (SAR/share) | 3.1 | 3.6 | 3.6 | 2.6 | 3.5 | 3.6 |
| DPS (SAR/share) | 0.9 | 1.0 | 1.0 | 1.1 | 1.2 | 1.3 |
| Dividend Yield | 1.7% | 1.8% | 2.1% | 2.1% | 2.3% | 2.5% |
| P/E (x) | 27.3x | 27.7x | 31.2x | 25.1x | 22.3x | 21.3x |
| EV/EBITDA (x) | 13.5x | 14.4x | 14.3x | 12.7x | 11.4x | 10.6x |

Source: Company Reports, U Capital Research

*P/E and P/B from 2022 onwards calculated on price of 30/01/2022

Key financials

| In SAR mn, except stated otherwise | FY19 | FY20 | FY21 | FY22e | FY23e | FY24e |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Income Statement | | | | | | |
| Revenues | 14,351 | 15,357 | 15,850 | 16,489 | 17,103 | 17,632 |
| Cost of sales | (8,985) | (9,821) | (10,790) | (10,921) | (11,211) | (11,574) |
| Gross profit | 5,367 | 5,536 | 5,059 | 5,568 | 5,891 | 6,058 |
| Selling and Distribution Expenses | (2,376) | (2,490) | (2,519) | (2,573) | (2,636) | (2,691) |
| General and Administration Expenses | (400) | (420) | (428) | (437) | (450) | (461) |
| Operating profit | 2,473 | 2,522 | 2,015 | 2,459 | 2,720 | 2,801 |
| Finance Cost, net | (551) | (496) | (346) | (305) | (294) | (268) |
| Income before zakat and income tax | 1,922 | 2,028 | 1,668 | 2,152 | 2,424 | 2,532 |
| Zakat | (71) | (72) | (77) | (127) | (143) | (149) |
| Income Tax | (49) | (20) | (11) | (43) | (48) | (51) |
| Net income for the period | 1,802 | 1,936 | 1,579 | 1,982 | 2,233 | 2,332 |
| Net income for equity shareholders | 1,812 | 1,984 | 1,564 | 1,967 | 2,216 | 2,315 |
| Balance Sheet | | | | | | |
| Inventories | 4,198 | 4,705 | 4,354 | 4,707 | 4,454 | 4,439 |
| Trade Receivables, Prepayments and Other Receivables | 1,869 | 1,936 | 1,991 | 2,287 | 2,343 | 2,415 |
| Cash and Bank Balances | 558 | 504 | 581 | 819 | 1,912 | 2,998 |
| Property, plant and equipment | 21,951 | 21,113 | 20,873 | 20,141 | 19,460 | 18,818 |
| Biological Assets | 1,381 | 1,392 | 1,469 | 1,720 | 1,816 | 1,857 |
| Total assets | 33,148 | 32,344 | 31,754 | 32,163 | 32,448 | 32,935 |
| Loans and Borrowings | 12,884 | 11,115 | 9,704 | 8,856 | 8,059 | 7,334 |
| Trade and Other Payables | 3,019 | 3,015 | 3,339 | 3,609 | 3,594 | 3,710 |
| Total liabilities | 17,889 | 16,111 | 15,136 | 14,617 | 13,825 | 13,236 |
| Share Capital | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Equity Attributable to Shareholders | 14,653 | 15,687 | 16,119 | 17,032 | 18,092 | 19,152 |
| Total liabilities and equity | 33,148 | 32,344 | 31,754 | 32,163 | 32,448 | 32,935 |
| Cash Flow Statement | | | | | | |
| Net cash generated from operating activities | 4,732 | 4,203 | 4,915 | 4,154 | 5,001 | 5,076 |
| Net cash generated from investing activities | (2,944) | (788) | (1,814) | (1,692) | (1,662) | (1,741) |
| Net cash (used in) provided by financing activities | (2,460) | (3,250) | (3,024) | (2,223) | (2,247) | (2,249) |
| Cash and cash equivalents at the end of the period | 558 | 504 | 581 | 819 | 1,912 | 2,998 |
| Key Ratios | | | | | | |
| Gross margin (%) | 37.4% | 36.0% | 31.9% | 33.8% | 34.4% | 34.4% |
| Operating margin (%) | 17.2% | 16.4% | 12.7% | 14.9% | 15.9% | 15.9% |
| Net margin (%) | 12.6% | 12.9% | 9.9% | 11.9% | 13.0% | 13.1% |
| ROA | 5.5% | 6.1% | 4.9% | 6.2% | 6.9% | 7.1% |
| ROE | 12.7% | 13.1% | 9.8% | 11.9% | 12.6% | 12.4% |
| Capex/Sales | 9.2% | 2.3% | 7.0% | 9.0% | 8.7% | 8.4% |
| Debt-Equity Ratio | 0.9x | 0.7x | 0.6x | 0.5x | 0.5x | 0.4x |
| EPS | 1.8 | 2.0 | 1.6 | 2.0 | 2.2 | 2.3 |
| DPS | 0.9 | 1.0 | 1.0 | 1.1 | 1.2 | 1.3 |
| Dividend Payout Ratio | 46.9% | 50.4% | 64.0% | 53.4% | 51.9% | 54.0% |
| Dividend Yield (%) | 1.7% | 1.8% | 2.1% | 2.1% | 2.3% | 2.5% |
| P/E (x) | 27.3x | 27.7x | 31.2x | 25.1x | 22.3x | 21.3x |
| EV/EBITDA (x) | 13.5x | 14.4x | 14.3x | 12.7x | 11.4x | 10.6x |
| Price as at period end* | 49.5 | 54.9 | 48.8 | 49.4 | 49.4 | 49.4 |

Source: Company Reports, U Capital Research

*Current market price is used for forecast periods

Disclaimer

Recommendation

| | |
|------------|-----------------------|
| BUY | Greater than 20% |
| ACCUMULATE | Between +10% and +20% |
| HOLD | Between +10% and -10% |
| REDUCE | Between -10% and -20% |
| SELL | Lower than -20% |

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