

Almarai Company

Food Diversified – Industrial
ALMARAI AB: Saudi Arabia
11 April 2023



US\$15.5bn Market Cap
36% Free Float
US\$4.7mn Avg. Daily Volume

Target price 60.00 **3.4% above current**
Current price 58.00 **as at 11/04/2023**

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Existing rating

Underweight **Neutral** **Overweight**

Performance (Rebased to 100)



Earnings

Period (SARmn)	FY22	FY23E	FY24E
Revenue	18,722	19,691	20,226
Revenue growth	18%	5%	3%
EBITDA (Mn)	4,656	5,297	5,378
EBITDA growth	12%	14%	2%
Net Profit	1,760	2,136	2,278
Net Profit margin	9.4%	10.8%	11.3%
EPS	1.8	2.2	2.3
EPS growth	15%	21%	6%
DPS	1.0	1.0	1.0
Payout Ratio	56%	46%	43%
ROE	10%	12%	12%
ROA	6%	6%	7%
P/E	32.5	26.8	25.4

Source: Company data, Al Rajhi Capital.

Almarai

Margin improvements resulted in higher earnings, we revise our target price to SAR60/sh and maintain neutral.

In 1Q23, Almarai reported noticeable margin recovery, faster than what we expected. The top line growth amounted to 13% as a result of improved prices and volume, while we were expecting a growth of 9%. The strong growth resulted to higher gross profit of SAR1,618mn with a growth of 21.5% y-o-y vs our estimate of SAR1463mn with estimated gross margin at 30% vs the actual 31.9%. Operating expense were under control in 1Q23, as they came in at SAR815mn vs our estimate of SAR855mn which contributed to the deviation in the operating income. Net income for the period came in around SAR636mn vs our estimated net income of SAR443mn, the deviation was largely attributed to a one-time expense of (SAR114mn). As such we revise our target price to SAR60/sh while the current market price is SAR58.0/sh (3.4% upside).

Figure1: Summary of 4Q22 Results

	1Q 2023	1Q 2022	Y-o-Y	4Q 2022	Q-o-Q	ARC Estimate	vs ARC
Revenue	5,067	4,503	12.5%	4,839	4.7%	4,909	3.2%
Gross Profit	1,618	1,332	21.5%	1,334	21.3%	1,463	10.6%
Gross Margin	31.9%	29.6%		27.6%		29.8%	
Operating profit	803	547	46.7%	504	59.2%	605	32.7%
Operating margin	15.8%	12.1%		10.4%		12.3%	
Net Profit	636	423	50.5%	354	79.8%	443	43.5%
Net Margin	12.6%	9.4%		7.3%		9.0%	

Source: Company data, Al Rajhi Capital

Segment analysis: The largest segment contributing to the sales of the company Dairy & Juices grew by 6% y-o-y supported by the recent increase in prices at the beginning of the year for some SKUs and the start of Ramadan season, translating to net income growth of 40%, reaching SAR430mn in the 1Q. The Bakery segment was also up by 9% y-o-y; however, the growth rate is lower than the previous quarter which was 33% and that's due to the higher base. The bakery's net income rose by 29% driven by higher volume in 1Q and better pricing. The poultry segment delivered a positive growth in volume and sales in the 1Q. The profitability of the poultry segment jumped by 121% y-o-y to reach SAR133.5mn. The first quarter adjusted earnings came at SAR522mn vs the reported SAR636mn.

Dividend Policy: In 2022, Almarai maintained its dividend policy from the previous year by paying SAR1 per share in dividends. Nonetheless, due to the significant capex needs for forthcoming projects, especially the poultry project and the company's sizable debt level, profitability may be slightly impacted in 2023. Consequently, we anticipate that the DPS will either remain steady or undergo a slight increase to approximately SAR1.15 per share.

Valuations: We arrived at our target price for the company using equal mix of DCF and P/E. The DCF target price is SAR62/share, based on a 2.5% terminal growth rate and 8.6% WACC. The EV/EBITDA target price is SAR58/share, derived from 14x multiple of FY 2023 EBITDA. Overall, we change our target price to SAR60/sh and maintain a neutral rating. Upside risks to our valuation are, better than expected improvement in gross margin, lower than expected capex spending. Downside risks are, lower earnings, greater competition leading to lower profitability, higher cost than expected.

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