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US$1.4bn	30.7%	US$16.2mn
Market Cap.	Free Float	Avg. Daily Value traded

Almunajem Foods Co.

Overweight Rating with a fair value of SAR102/sh

We initiate coverage on Almunajem Foods Co. with an Overweight rating and fair value of SAR102/sh, offering an upside of 13.3%. Since the announcement of its 2023 result (in which the 4Q2023 earnings of the company grew by 3.8x YoY, primarily on account of the low base effect) stock has rallied 18.6%. However, amid the positives mentioned below (a healthy growth in topline coupled with stable gross margins) we opine that the current stock price warrants an Overweight rating. The stock currently trades at a forward P/E of 17.2x and offers a dividend yield of 3.6%.

Macro drivers and diversification to fuel revenue growth: In our opinion, Almunajem Foods Co. is expected to benefit from the massive growth in HORECA and the Food & beverages segment witnessed in the kingdom. As per SAMA, the combined POS sales of HORECA and the Food & beverages segment have grown at a 3-year CAGR of 23%. We believe this growth can largely be attributed to the combined impact of 1) population growth, 2) higher women participation in the workforce contributing towards higher disposable income, 3) influx of international tourists including Hajj and Umrah visitors as part of government's efforts to develop the industry as part of Vision 2030 and 4) higher growth in the HORECA segment amidst changing consumer preference.

Apart from the above-mentioned macro factors, diversification into new product categories (such as ice-cream) and the possibility of providing 3PL services to the non-food sector (thereby capitalizing on the company's supply chain infrastructure) can contribute to the revenue growth of the company.

Expansion of meat factory and greater reliance on own brands to support gross margins: Almunajem Foods Co. operates in a highly competitive industry with an increasing/expanding presence of different players. However, on account of 1) the planned expansion of the meat factor and 2) greater planned reliance on owned brands we believe the gross margins of the company can be expected to remain relatively stable.

It is our opinion that the company is able to earn a higher gross margin on the products produced at the company's meat factory and on those sold by the company under its owned brands (since the focus of both is higher margin value-added products). As per our understanding, the meat factory currently contributes ~6-7% of the revenue which can be expected to increase to ~18-20% of the top-line post expansion. Furthermore, owned brands account for ~20-25% of the revenue, which can be expected to increase to ~35-40% in the medium term.

Recommendation & Valuation: We have an Overweight rating on the stock with a Fair Value of SAR102/sh, offering an upside of 13.3%. The stock currently trades a forward P/E of 17.2x and offers a dividend yield of 3.6%. We value the company through the Discounted cashflow method and P/E multiple (details shared on next page).

Overweight

Price Target (SAR): 102.0

Current: 90.0
Upside/Downside: 13.3% above current

Valuation Multiples	22	23E	24E
P/E (x)	12.7	15.7	17.2
EV/EBITDA (x)	10.3	12.8	14.0

Major Shareholders	% Ownership
Abdullah Ali Almunajem Sons Company	69.3%

Price Performance	1M	3M	YTD
Absolute	20.5%	35.7%	22.1%
Relative to TASI	21.5%	25.8%	21.6%

Earnings

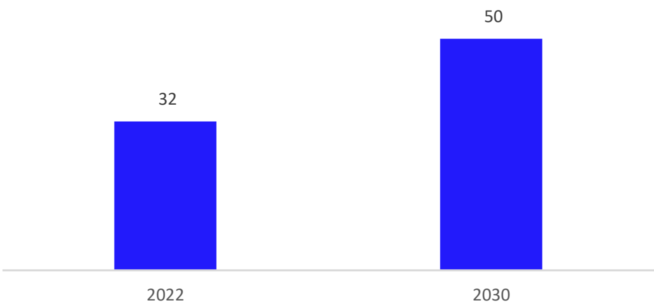
SAR mn	2022	2023 E	2024 E
Revenue	2,979	3,314	3,646
Revenue growth	15.6%	11.3%	10.0%
Gross profit	588	582	645
Gross margin	19.7%	17.6%	17.7%
EBITDA	350	338	373
EBITDA margin	11.8%	10.2%	10.2%
Net profit	290	282	313
Net margin	9.7%	8.5%	8.6%
EPS	4.84	4.70	5.22
DPS	2.25	3.25	3.25
Payout ratio	47%	69%	62%
P/E	12.7	15.7	17.2
RoE	34.0%	30.9%	31.7%

Source: Company data, Al Rajhi Capital

Macro drivers to fuel growth

As against the last 8 years when KSA's population grew at a CAGR of 2%, Kingdom's population is expected to grow at a CAGR of 6% between 2022 and 2030 as the country embarks on a series of mega projects as part the Vision 2030. 65% of the above growth is expected to be contributed by increase in foreign population, which in-turn is expected to grow at a CAGR of 8%. The growth in volumetric demand for consumer staples as a result of the above mentioned growing population can be expected to positively impact players such as Almunajem foods.

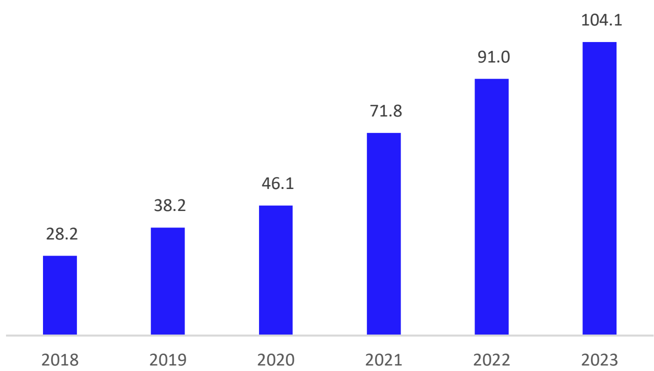
Figure 1 **Population (mn) to grow at CAGR of 6%**



Source: GATSAT, Al Rajhi Capital

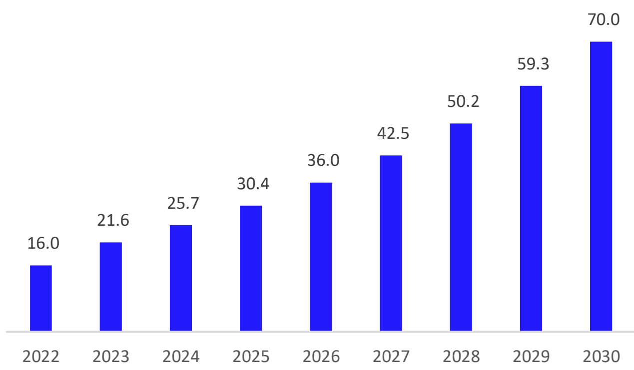
Other factor that can be expected to positively contribute towards the topline growth of Almunajem foods is 1) the growth in the HORECA sector and 2) the influx of international tourism. As a result of higher disposable income and changing consumer preference, POS sales of the HORECA sector has seen a 5-year CAGR of 30%. Going forwards, we opine that growth in HORECA sector can be expected to remain strong. Furthermore, growth in international tourism is also expected to contribute towards demand for consumer staples through its impact on the HORECA sector.

Figure 2 **PoS Sales of HORECA (SAR bn)**



Source: SAMA, Al Rajhi Capital

Figure 3 **Total International Visitor (mn) Expected in Saudi between 2023-2030**



Source: GATSAT, Ministry of Tourism, Al Rajhi Capital

Valuation

We value the company through the Discounted cashflow method and P/E multiple and assign a weightage of 50% to each method. Using the above-mentioned approach, we arrive at a weighted average Fair Value of SAR102/sh.

Figure 4 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/ downside
DCF Valuation	99	50.0%	49	9.7%
P/E	106	50.0%	53	17.8%
Target price			**102**	
CMP			90.0	
Upside/(Downside)			**13.3%**	
Dividend yield			3.6%	
Total returns			**16.9%**	

Source: Al Rajhi Capital estimates

We use the Discounted cashflow method to arrive at a value of SAR99/sh. We have used a cost of equity of 9.4% and a terminal growth rate of 3.5%.

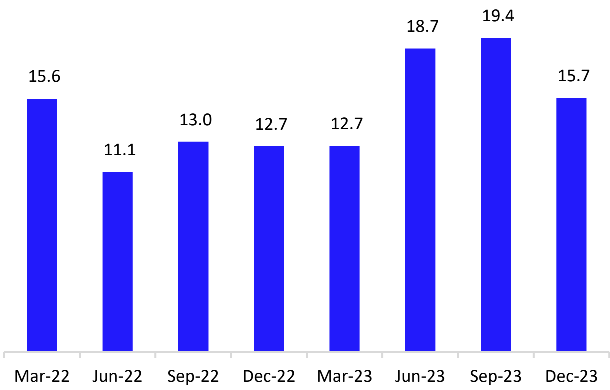
Figure 5 **DCF Sensitivity Analysis**

		Terminal growth rate				
		2.50%	3.00%	3.5%	4.00%	4.50%
Cost of Equity	8.5%	101	108	117	127	140
	9.0%	93	99	106	114	124
	9.4%	88	93	99	106	114
	10.0%	81	85	89	95	101
	10.5%	76	79	83	88	93

Source: Al Rajhi Capital estimates.

Furthermore, we have used a target P/E of 22x, keeping in consideration the risk/return trade-off of the company.

Figure 6 **P/E Trend**

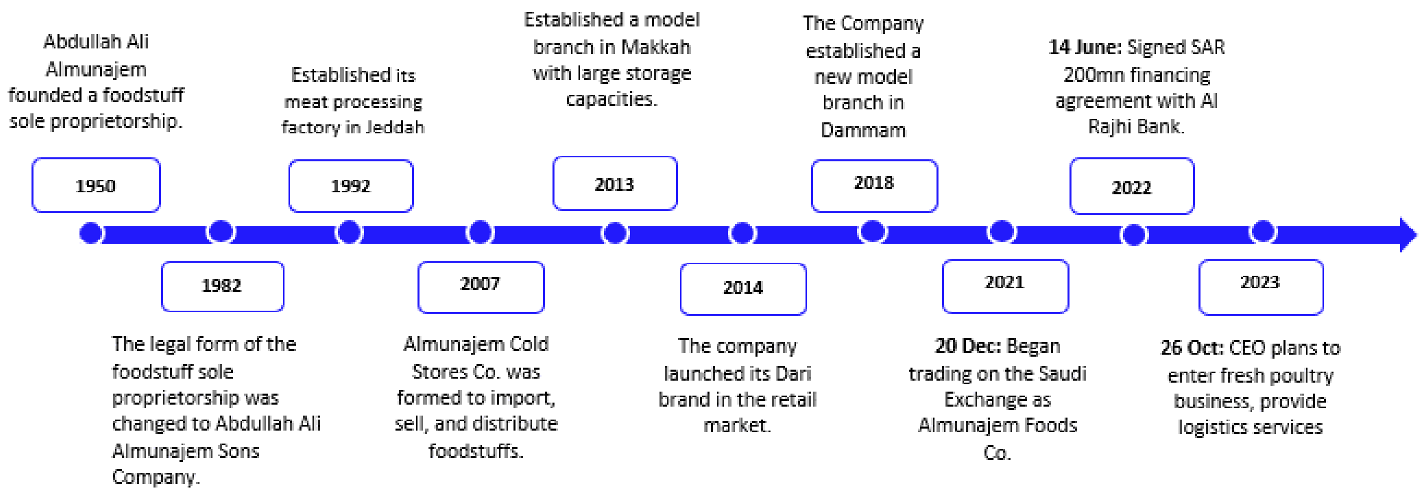


Source: Company data, Al Rajhi Capital.

Brief about the Company and its Business Model

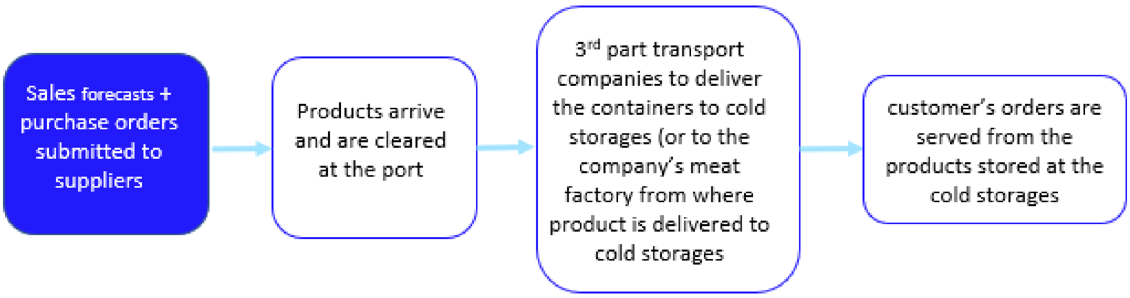
Almunajem Foods Company is involved in the importation, marketing, distribution, and production of frozen, chilled, and dry food items using its extensive supply chain infrastructure and cold storage. The value chain of the company starts with sales forecasts for respective product categories followed by purchase orders submitted to suppliers for the required quantities. Once the products arrive at the port and are cleared by Saudi customs, the company uses 3rd part transport companies to deliver the containers to cold storage (or to the company's meat factory from where the product is delivered to cold storage). In the final step, customer's orders are served from the products stored in the cold storage.

Figure 7 **Business Timeline**



Source: Company Data, Al Rajhi Capital,

Figure 8 **Value Chain Graph**



Source: Company Data, Al Rajhi Capital

The company sells more than 800 SKUs with the main product categories being 1) red & white meats (poultry, seafood & meat), 2) frozen fruits & vegetables, 3) dairy products (cheese, butter, and cream), 4) olives and olive oil, and 5) other products (such as spices and ketchup).

The key brands of the company include:
Own Brands: (These products are either produced at the company's meat factory or are produced, packaged, and labeled by suppliers in accordance with the company's requirements)

- **Dari:** The company sells poultry, chicken parts and processed products, dairy products, frozen meats, fruits & vegetables under this brand

- **Montana:** Frozen fruits & vegetables are sold under this brand

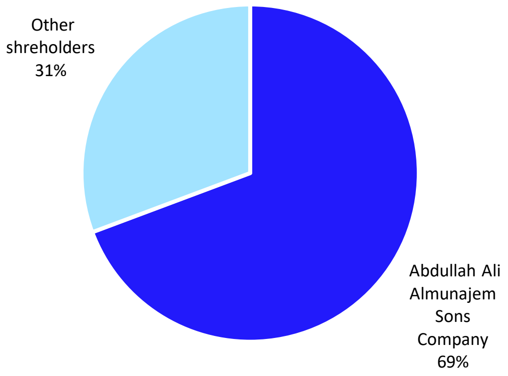
International Brands: (These products are either produced at the company's meat factory or are produced, packaged, and labeled by suppliers in accordance with the company's requirements)

- Doux: Doux poultry products include whole chicken, chicken cuts, and processed products such as chicken burgers are sold by the company. This brand is owned by France Poultry in France, a company wholly owned by Abdullah Ali Almunajem Sons Company (Substantial Shareholder).
- Coopoliva: The Company sells olives and olive oil under this brand.
- President: President's brand portfolio consists of a wide range of cheeses, butters, and creams
- LambWeston: Frozen potato is sold under this brand

Almunajem Foods purchases its products from 70+ suppliers out of which 80% are international and the rest (20%) are local. The company has 12 cold storages having a total capacity of over 58,000 tons. The cold storages are generally divided into separate rooms dedicated to frozen, chilled, and dry foods. Most of the cold store branches are equipped with the latest technology including automatic mobile racking systems that maximize storage capacity while reducing the time required to reach the desired product, and are supported by the Oracle real-time inventory management and tracking system. Additionally, the company has a meat factory in Jeddah which the management plans to expand by +20k MT per annum to +45k MT per annum capacity. The meat factory produces minced meat products, such as beef, mutton, or chicken, in addition to processed products (burger beef, chicken and nuggets) and chicken parts.

Furthermore, Almunajem Foods has a fleet of 1000+ vehicles to deliver products to customer locations all over the Kingdom. Some vehicles are equipped with a multi-zone temperature feature, which enables them to transport several different products at the same time. The movement of the Fleet is tracked through the Global Positioning System (GPS). The company's distribution channel allows it to reach ~22k outlets including large supermarket chains such as AlOthaim, Panda, Carrefour, Danube, Lulu, Tamimi, and Bindawood as well as prominent HORECA outlets such as Kudu, Dominos, and AlBaik.

Figure 9 **Shareholding**



Source: Company Data, Al Rajhi Capital

Asset light business model:

- The company has an asset-light business model with historical annual capex ranging from 0.5% to 1.3% of revenue. Furthermore, at the end of 9M2023, it had zero debt and a cash balance of SAR134mn.

- The biggest asset on the company's balance sheet is inventory (SAR 568mn at Sep-2023) followed by accounts receivables (SAR 300mn at Sep-2023). Similarly, the biggest liability is accounts payables (SAR 391mn at Sep-2023). In recent years, the cash conversion cycle of the company has ranged between 50 days to 70 days.

Seasonality & factors affecting profitability: The following factors affect the company's profitability

- The company's business is subject to seasonality, sales usually increase ahead of the month of Ramadan (as customers buy groceries for Ramadan) and during Eid al-Fitr and Eid al-Adha. On the other hand, demand declines during summer vacation.
- The prices of the company's products depend on their cost (which includes but is not limited to, suppliers' prices, shipping costs, and other product-related costs) and the market condition for each product. Hence, an increase in the purchase price of products from suppliers may negatively affect the company's margin if it is not able to raise the selling price.
- Frozen fruits & and vegetables and Olives & and olive oil are high-margin products, hence higher sales of these products can contribute towards a higher overall gross margin for the company. Furthermore, category-wise variation in gross margins affects the overall gross margins of the company. For instance, higher gross margins in the red & and white meat and dairy segment positively impacted the overall gross margins of the company in 4Q2023.
- The company receives supplier rebates, which are deducted from its COGS. Additionally, rebates are granted by the company to its customers on reaching certain sale targets or as part of promotional activity. The recognition of these rebates has an impact on the gross margins of the company.
- Selling and distribution expenses (which include employee costs, marketing expenses, depreciation, utility charges, sales commissions, and other expenses) account for ~8% to 9% of the company's topline. Additionally, administrative expenses (which include employee costs, BOD remunerations, professional fees, and other expenses) account for ~0.8% to 0.9% of revenue. Changes in selling & distribution and administrative expenses have had an impact on the bottom-line of the company.

Recent Results:

In its recently announced estimated results for 2023, Almunajem Foods reported a net income of SAR282mn for 2023, down 3% YoY primarily on account of a 201bps decline in gross margins. The management attributed the decline in gross margin to lower margins in fruits & vegetables and dairy products (Gross profit for 2022 reported with the recent result was SAR583mn Vs. SAR588mn gross profit reported previously, however, the operating profit and net profit were not changed)

In 4Q2023, the Company's net income grew by 3.8x YoY, primarily on account of the low base effect. Earnings and gross margins in 4Q2022 were the lowest in the company's known history.

Figure 10 **Recent Results**

SAR mn	2023	2022	YoY	4Q2023	4Q2022	YoY	4Q2023	3Q2023	QoQ
Revenue	3,314	2,979	11.3%	829	748	10.9%	829	810.9	2.3%
Gross Profit	582	583	-0.2%	157	91	72.0%	157	134.9	16.0%
Operating Profit	302	311	-3.1%	86	22	294.5%	86	66.3	29.7%
Net Profit	282	290	-2.8%	82	17	382.8%	82	61.1	33.6%
GP Margin	18%	20%	(201)	19%	12%	670	19%	17%	224
Operating Margin	9%	10%	(135)	10%	3%	746	10%	8%	220
Net Margin	9%	10%	(123)	10%	2%	758	10%	8%	231

Source: Company Data, Al Rajhi Capital

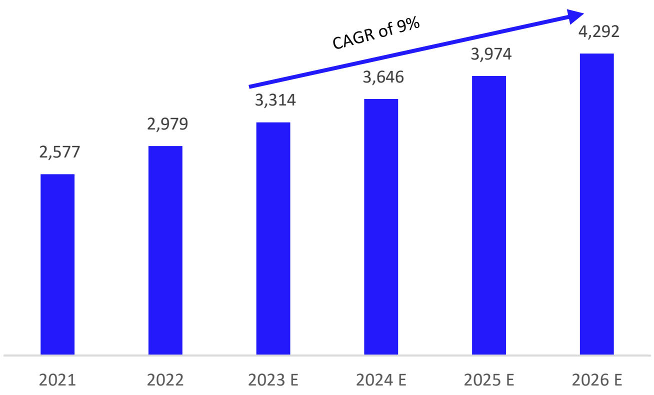
Financial Analysis & Forecasted Financial:

Largely in line with the historical 3-year topline CAGR of 9% we expect the company's topline CAGR in the next 3 years to be 9% reflective of the combined impact of 1) population growth, 2) higher women participation in the workforce contributing towards higher disposable income, 3) influx of international tourists including Hajj and Umrah visitors as part of government's efforts to develop the industry as part of Vision 2030, 4) higher growth in the HORECA segment amidst changing consumer preference, and 5) diversification into new product categories and possibility of providing 3PL services to non-food sector.

The gross margins of the company have varied between 13% to 28% on account of a variety of factors mentioned above (in the section "Seasonality & factors affecting profitability"). Going forward, we expect a gross margin of ~17.5%, taking into consideration the company's greater reliance on owned brands and expansion of meat factory. As a result, we expect the company's bottom-line to grow at a CAGR of 8% between 2023 to 2026 (vs. the historical 3-year CAGR of 7%).

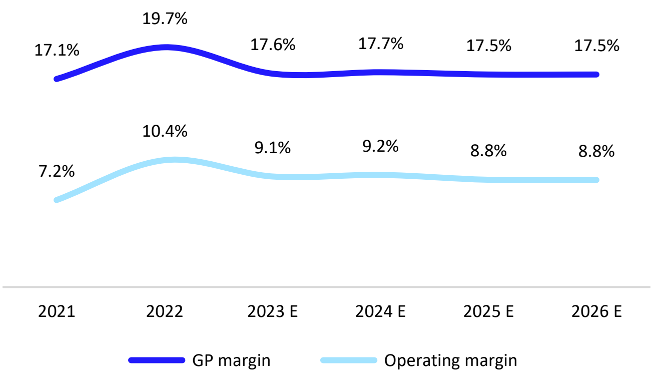
As mentioned above, the cash conversion cycle of the company has ranged between 50 days to 70 days with recent numbers hovering around 50 days. Going forward, we expect the company's cash conversion cycle to be 50 days.

Figure 11 **Revenue CAGR of 9%**



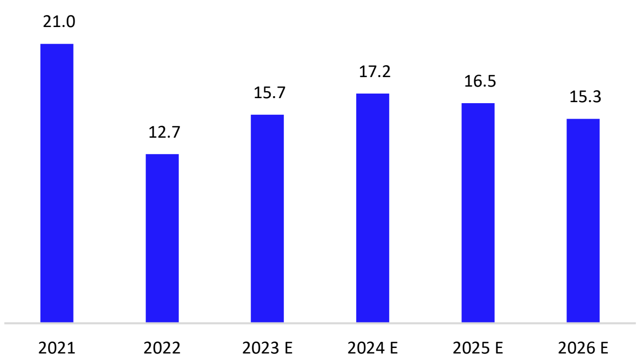
Source: Company Data, Al Rajhi Capital

Figure 12 **Margins expected to remain resilient**



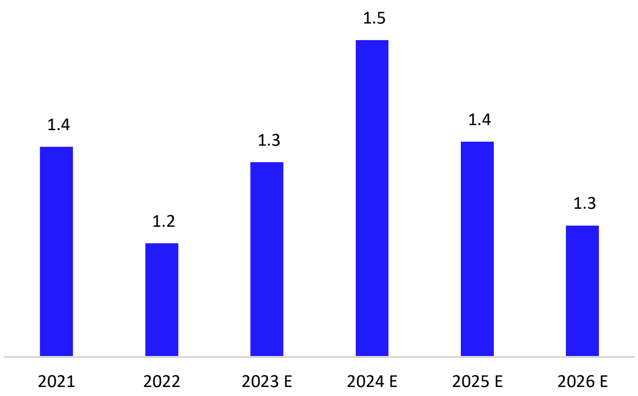
Source: Company Data, Al Rajhi Capital

Figure 13 **P/E multiples**



Source: Company Data, Al Rajhi Capital

Figure 14 **P/S multiples**



Source: Company Data, Al Rajhi Capital

Figure 15 **Income Statement**

SAR mn	2021	2022	2023 E	2024 E	2025 E	2026 E
Revenue	2,577	2,979	3,314	3,646	3,974	4,292
Cost of Revenue	2,136	2,390	2,732	3,001	3,279	3,541
Gross profit	**441**	**588**	**582**	**645**	**695**	**751**
Selling expense	235	258	263	284	318	343
Admin expense	23	25	26	29	32	34
Prov for expected credit losses	4	3	2	3	3	3
Other income	6	9	11	8	8	8
EBIT	**185**	**311**	**302**	**337**	**351**	**378**
Dep & Amor PPE & Intangible	28	30	28	28	28	28
Dep of RoU Assets	8	9	8	8	8	8
EBITDA	**221**	**350**	**338**	**373**	**387**	**414**
Net Finance cost	4	2	(1)	(0)	(0)	(0)
Net income before zakat	**181**	**309**	**303**	**337**	**351**	**379**
Zakat	15	19	21	24	25	26
Net income	**166**	**290**	**282**	**313**	**327**	**352**
EPS (SAR/sh)	2.77	4.84	4.70	5.22	5.44	5.87
DPS (SAR/sh)	2.00	2.25	3.25	3.25	3.75	4.00
Effective Zakat (%)	8%	6%	7%	7%	7%	7%
Payout (%)	72%	47%	69%	62%	70%	70%

Source: Al Rajhi Capital estimates

Figure 16 **Balance Sheet**

SAR mn	2021	2022	2023 E	2024 E	2025 E	2026 E
Cash	86	111	134	221	291	375
A/c receivables	220	246	315	347	381	412
Inventory	486	662	548	613	674	728
Others	168	145	212	212	212	212
Current Assets	**960**	**1,164**	**1,209**	**1,393**	**1,557**	**1,726**
PPE & Intangibles	290	274	263	249	235	221
RoU Assets	48	47	40	40	40	40
Total Assets	**1,298**	**1,484**	**1,513**	**1,683**	**1,833**	**1,988**
A/c payables	357	443	439	491	539	582
Lease liability	7	8	8	8	8	8
Others	41	43	52	52	52	52
Current Liability	**405**	**495**	**498**	**550**	**599**	**642**
Lease liability	43	41	35	35	35	35
Others	45	48	52	52	52	52
Total Liability	**493**	**584**	**585**	**637**	**685**	**728**
Share Capital	600	600	600	600	600	600
Retained Earnings	171	237	264	382	484	596
Reserves & others	34	64	64	64	64	64
Total Equity	**805**	**901**	**928**	**1,046**	**1,147**	**1,259**

Source: Al Rajhi Capital estimates

Figure 17 **Ratios and Multiples**

	2021	2022	2023 E	2024 E	2025 E	2026 E
Revenue Growth (%)	1.5%	15.6%	11.3%	10.0%	9.0%	8.0%
GP margin (%)	17.1%	19.7%	17.6%	17.7%	17.5%	17.5%
Operating margin (%)	7.2%	10.4%	9.1%	9.2%	8.8%	8.8%
Net margin (%)	6.4%	9.7%	8.5%	8.6%	8.2%	8.2%
ROE (%)	23.0%	34.0%	30.9%	31.7%	29.8%	29.3%
(Debt+Lease)/Asset (%)	3.9%	3.3%	2.8%	2.5%	2.3%	2.1%
Days Receivable (days)	31	30	35	35	35	35
Days Inventory (days)	83	101	73	75	75	75
Days Payables (days)	61	68	59	60	60	60
Cash Conversioin Cycle (days)	53	64	49	50	50	50
BVPS (SAR/sh)	13.4	15.0	15.5	17.4	19.1	21.0
P/E (multiple)	21.0	12.7	15.7	17.2	16.5	15.3
P/B (multiple)	4.3	4.1	4.8	5.2	4.7	4.3
P/S (multiple)	1.4	1.2	1.3	1.5	1.4	1.3
D/Y (%)	3.4%	3.7%	4.4%	3.6%	4.2%	4.4%
EV/EBITDA (multiple)	15.6	10.3	12.8	14.0	13.3	12.2

Source: Al Rajhi Capital estimates

Key Risks:

- Since the company is primarily a distributor, a key risk that the company faces are that its key suppliers terminate or do not renew their agreement with the company, or renew on less favorable terms. Furthermore, the company faces the risk that the demand for the brands sold by the company declines
- Since 80% of the company's purchases are from international suppliers, it faces the risk of higher sea freight costs or temporary disruption amid the current situation in the Red Sea. Furthermore, it faces the risk of losing its market share if custom tariffs are increased and the company tries to maintain its margin.
- Since Almunajem Foods operates in a highly competitive industry it faces the risk of erosion of operating margins if the intensity of competition within the industry increases
- Furthermore, the company's business model requires it to maintain an inventory of products, hence the company faces the risk of inventory loss due to changes in product prices during the turnover period.
- The company has a fleet of over 1,000 vehicles and has 12 cold storages, hence increase in diesel and electricity prices does not bode well for the company's bottom-line

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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.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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