

SADAFCO

Target Price: SAR 180.0
Upside/ (Downside): 10.4%

Recommendation

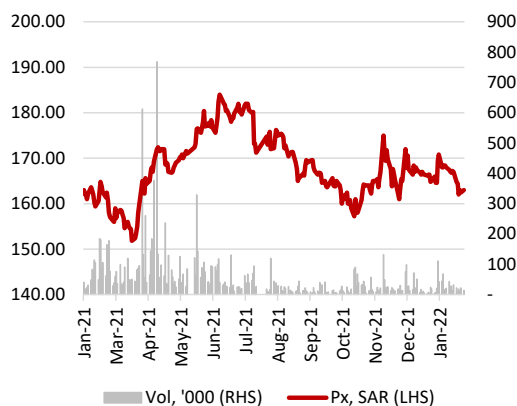
	Accumulate
Bloomberg Ticker	SADAFCO AB
Current Market Price (SAR)	163.00
52wk High / Low (SAR)	184.800/151.800
12m Average Vol. ('000)	51.6
Mkt. Cap. (USD/SAR Mn)	13,774/5,298
Shares Outstanding (mn)	32.5
Free Float (%)	48%
3m Avg Daily Turnover (OMR'000)	4,283.0
6m Avg Daily Turnover (OMR'000)	3,870.9
P/E'22e (x)	19.7
EV/EBITDA'22e (x)	16.8
Dividend Yield '22e (%)	4.8%

Price Performance:

1 month (%)	(1.2)
3 month (%)	(0.6)
12 month (%)	-

Source: Bloomberg, valued as of 30 January 2022

Price-Volume Performance



Source: Bloomberg

- **Steady performance in the core market of Saudi Arabia.**
- **Gain in the Ice-cream market share, and a stable market share in Tomato Paste offset some weakness in Milk segment**
- **Ice-cream factory undergoing trials, is expected to start commercial production shortly**
- **Share repurchase plan approved in November 2021 to be carried out within 12 months**

Saudia Dairy & Foodstuff Company's (SADAFCO) net profit in 3QFY22 (ended Dec 2021) beat our estimates, primarily due to the top-line coming-in better than our expectations as the company effected price increases of some of its major products. In terms of geography, revenue from Saudi Arabia remained largely stable, providing the company with majority of its revenue. Revenue from Poland, though, registered sharp growth on YoY basis. Going forward, we believe milk to remain the primary product category, where stable revenue growth is expected in tandem with population expansion. The other two main product categories (Ice Cream and Tomato Paste) stand to benefit from further opening of schools and a pick-up in tourist arrivals. Margins during the quarter came in-line or better-than-expected, and accordingly we expect pressure on them to ease post FY22e. Moreover, future capex requirements would be minimal as the work on a new ice cream factory and upgrade of the milk factory is almost complete, and the ice-cream factory is undergoing trials.

3Q FY2022 earnings synopsis: SADAFCO's net profit attributable to shareholders in 3QFY22 beat our estimate by 8% to reach SAR 53.7mn, nearly flat QoQ but down 16% YoY. Revenue, however, grew 8% YoY to SAR 519.9mn, coming-in slightly more than expected (+6%). Saudi Arabia remained the primary market for SADAFCO, as it contributed ~80% of its total revenue during the quarter. The company gained market share in the Ice-cream segment in KSA by ~100 bps QoQ to 28.1%; maintained it at over 50% in the Tomato Paste segment, but faced pressure in the major revenue provider Milk segment. SADAFCO's UHT milk market share in 3QFY22 fell to 58.2% from 61.1% in 2QFY22. Revenue growth trend in the GCC roughly matched our expectations. However, revenue from Poland surged 70.1% YoY to SAR 71.7mn (our estimate: ~SAR 43.0mn). As a result, its contribution in total revenue jumped to 13.8% during 3QFY22, vs. 8.7% during 3QFY21. Gross margin of 30.8% was within the ballpark of our estimate. However, operating margin came-in ~100 bps above our estimate at 11.9% owing to an efficient handling of S&D expenses.

Valuation and risks: We continue to value the company based on blended valuation methodologies – (i) Discounted Cash Flow (DCF) and (ii) Relative Valuation (using P/E and EV/EBITDA multiples) with equal weights assigned to each of them. Post 3QFY22 earnings beat, we revise up our FY21-22 and FY22-23 EPS estimate slightly to SAR 6.20 and SAR 7.23 from SAR 6.13 and SAR 7.20, respectively, as per our earlier report. In view of the continued pressure in the company's core milk segment, but a better-than-expected operating efficiency, we maintain our target price of SAR 180 per share with **Accumulate** rating (**Hold**, previously). The stock price is down ~2% from our previous report in December 2021 and at the current market price, this implies an upside of 10.4%. Currently, the stock trades at 22.6x P/E and 12.4x EV/EBITDA, based on our FY22-23 estimates. Downside risks to our valuation include lower economic activities and consumer demand owing to the newly detected coronavirus Omicron, a decrease in market shares, a decline in product prices, delay in ramp-up at the new Ice Cream factory, and lower-than-expected dividends. Key upside risks to our valuation include higher-than-expected milk consumption, a faster-than-expected decline in raw material prices and logistics costs, better-than-expected dividends.

Stable performance: (i) The company is the market leader in most of its product categories and has largely maintained its market share despite the pandemic-caused market turbulence; (ii) Mostly held on to its market share of over 60% in long-life milk category, which provides the company with the bulk of its revenue, and we expect the trend to continue; (iii) Company's market share in ice-creams has grown by 5pp since FY17 to ~27% in FY21 (ended-March) and further to ~28% by 3QFY22. Likely commencement of production from new ice cream factory, which is in testing phase currently, to help in further augmenting market share; (iv) Company caters to ~50% to tomato paste demand, deriving ~10% of its revenue (v) Upgrade of milk factory to boost capacity and efficiency; (vi) Recently announced share repurchase will support the stock price, in our view.

Financials & Valuation Summary

	FY19	FY20	FY21	FY22e	FY23e	FY24e
Revenues (SAR bn)	1.8	2.1	2.1	2.1	2.1	2.2
Net income (SAR bn)	0.2	0.3	0.3	0.2	0.2	0.2
Gross margin	32.0%	33.5%	33.0%	30.6%	31.5%	32.1%
Net profit margin	12.0%	12.9%	12.4%	9.6%	10.9%	11.5%
RoE	16.4%	19.1%	17.4%	12.9%	14.8%	15.7%
FCF (SAR/share)	8.1	6.6	8.3	4.4	6.3	7.0
DPS (SAR/share)	4.0	5.0	6.0	6.0	6.0	7.0
Dividend Yield	3.9%	3.6%	3.6%	3.7%	3.7%	4.3%
P/E (x)	15.4x	16.5x	20.3x	26.3x	22.6x	20.9x
EV/EBITDA (x)	9.7x	10.4x	12.2x	14.4x	12.4x	11.5x

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						
Revenue – net	1,813	2,056	2,105	2,065	2,117	2,168
Cost of revenue	(1,233)	(1,367)	(1,412)	(1,432)	(1,450)	(1,472)
Gross profit	580	689	694	632	666	696
Selling and distribution expenses	(266)	(301)	(307)	(303)	(312)	(320)
General and administrative expenses	(92)	(101)	(109)	(111)	(110)	(112)
Operating profit	222	276	285	223	252	272
Finance income	12	11	6	4	5	6
Finance costs	-	-4	-8	-7	-6	-8
Income before zakat and income tax	233	284	284	220	252	271
Zakat expense	(17)	(19)	(23)	(21)	(20)	(22)
Net income for the period	216	265	261	199	232	250
Non-controlling interests	2	1	(0)	(0)	(0)	(0)
Net income for equity shareholders	218	266	261	199	231	249
Balance Sheet						
Inventories	277	358	302	345	342	343
Trade and other receivables	193	216	227	189	196	208
Cash and cash equivalents	582	646	713	671	722	759
Property, plant and equipment	787	798	861	918	915	902
Right-of-use assets	-	72	63	76	111	142
Total Assets	1,916	2,174	2,229	2,267	2,351	2,416
Trade and other payables	198	221	169	198	201	203
Employee benefit obligations	110	113	120	128	134	141
Total liabilities	558	698	675	707	752	791
Issued share and paid up capital	325	325	325	325	325	325
Statutory reserve	163	163	163	163	163	163
Treasury shares	(52)	(52)	(52)	(52)	(52)	(52)
Retained earnings	673	767	822	814	853	878
Non-controlling interests	19	20	21	21	21	21
Total liabilities and equity	1,916	2,174	2,229	2,267	2,351	2,416
Cash Flow Statement						
Net cash generated from operating activities	422	318	415	320	371	391
Net cash generated from investing activities	(219)	(91)	(151)	(162)	(158)	(154)
Net cash (used in) provided by financing activities	(182)	(163)	(194)	(198)	(162)	(201)
Cash and cash equivalents at the end of the period	582	646	713	671	722	759
Key Ratios						
Gross margin (%)	32.0%	33.5%	33.0%	30.6%	31.5%	32.1%
EBITDA margin (%)	16.1%	18.3%	18.5%	16.0%	18.0%	19.0%
Operating margin (%)	12.2%	13.4%	13.6%	10.8%	11.9%	12.6%
Net margin (%)	12.0%	12.9%	12.4%	9.6%	10.9%	11.5%
ROA	11.9%	13.0%	11.8%	8.8%	10.0%	10.5%
ROE	16.4%	19.1%	17.4%	12.9%	14.8%	15.7%
Current Ratio (x)	2.6x	2.6x	2.7x	2.6x	2.6x	2.7x
Capex/Sales	8.5%	3.8%	6.5%	8.5%	7.5%	7.1%
EPS	6.7	8.3	8.1	6.2	7.2	7.8
DPS	4.0	5.0	6.0	6.0	6.0	7.0
Dividend Payout Ratio	58.6%	60.1%	73.7%	96.7%	83.0%	89.9%
Dividend Yield (%)	3.9%	3.6%	3.6%	3.7%	3.7%	4.3%
P/E (x)	15.4x	16.5x	20.3x	26.3x	22.6x	20.9x
EV/EBITDA (x)	9.7x	10.4x	12.2x	14.4x	12.4x	11.5x
Price as at period end*	103.4	137.0	165.6	163.0	163.0	163.0

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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