

Saudia Dairy and Foodstuff Co. (SADAFCO) - 1QFY23 Result Review

Analyst: Ayisha Zia

Previous Recommendation: Hold

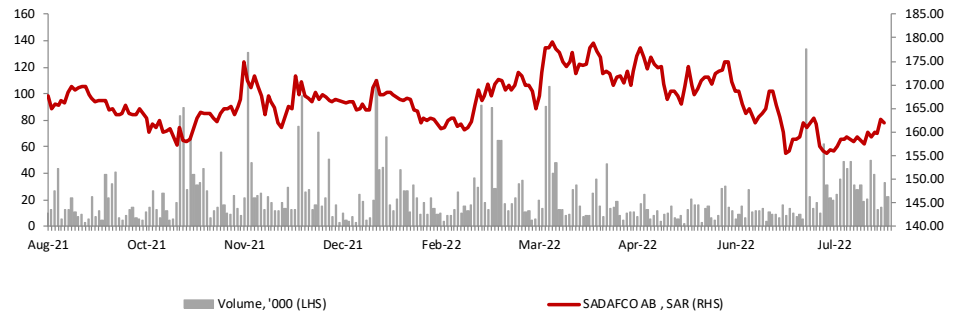
Target Price (SAR): 180.00

Previous Reco. & Date: TP: SAR 180 per share; Hold on 17-May-2022

Upside / (Downside): 11.1%

Date: 8/21/2022

Bloomberg Ticker	SADAFCO AB
Current Market Price (SAR)	162.00
52wk High / Low (SAR)	182/155
12m Average Vol. (000)	22.1
Mkt. Cap. (USD/SAR mn)	1,402/5,265
Shares Outstanding (mn)	32.5
Free Float (%)	48%
3m Avg Daily Turnover (000)	3,272.6
6m Avg Daily Turnover (000)	3,533.2
P/E'23e (x)	23.0
P/Bv'23e (x)	3.5
Dividend Yield '22e (%)	3.5%
Price Perf. (1m/3m) (%)	0.2/-3.5



Revenue climbs 28% YoY on higher volume and prices, 24% above our estimate

SADAFCO's revenue climbed 28% YoY to SAR 631.3mn in 1Q FY23 (ended June 2022), exceeding our estimate by 24%. The revenue growth was led by an increase in volumes across the categories i.e., milk, ice cream, and tomato paste, supported by market share gains. Normalizing market conditions and focusing on overseas geographies aided volume growth. In addition, the company also resorted to a nominal price hike, which, together with higher volumes lifted the top line.

Operating profit more than doubles YoY, handsomely beating our forecast

Strategies adopted by the company like increasing prices of selected SKUs, focusing on high-margin products, and enhancing production and logistics efficiencies paid off well in managing costs. SADAFCO succeeded in keeping the increase in its expenses below revenue growth, and as a result, operating profit surged to SAR 89.9mn (+104% YoY; our estimate: SAR 51.9mn).

A sharp rise in finance costs restricts net profit growth

Finance costs increased manifold to SAR 26.3mn vs. about SAR 1.8mn in 1Q FY22. This resulted from a change in the accounting fair value of a put option that is to be exercised by the minority shareholders of its Polish subsidiary, to sell their remaining 24% stake to SADAFCO. As a result, net profit rose at a relatively lower pace of 48% YoY to SAR 56.3mn (18% beat).

Maintain target price

We maintain our SAR 180.00 target price on SADAFCO post strong June 2022 quarter results. We believe a leading market position in its product categories and focus on efficiency will help the company to tide over the inflationary pressures on raw material and logistics costs going forward as well.

Income Statement												
(SAR mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	1QFY23e	YoY (%)	QoQ (%)	Var (%)	FY21	FY22	YoY (%)
Sales/Revenue	492.4	530.1	519.9	627.9	631.3	508.9	28%	1%	24%	2,105.4	2,170.3	3.1%
Gross Profit (Loss)	150.5	161.5	160.1	184.5	202.2	153.0	34%	10%	32%	693.8	656.6	-5.4%
Operating Profit (Loss)	44.1	59.2	61.8	72.1	89.9	51.9	104%	25%	73%	285.5	237.2	-16.9%
Net Profit (Loss) after Zakat and tax	38.1	54.1	53.7	61.4	56.3	47.6	48%	-8%	18%	260.6	209.1	-19.8%
Balance Sheet												
(SAR mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	1QFY23e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	1,578.0	1,532.4	1,582.6	1,540.2	1,498.4	1,587.8	-5%	-3%	-6%			
Key Ratios												
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	1QFY23e						
Gross Profit Margin	30.6%	30.5%	30.8%	29.4%	32.0%	30.1%						
Operating Profit Margin	9.0%	11.2%	11.9%	11.5%	14.2%	10.2%						
Net Profit Margin	7.7%	10.2%	10.3%	9.8%	8.9%	9.4%						
Return on Equity (RoE)	9.7%	14.1%	13.6%	16.0%	15.0%	12.0%						
Annualized EPS (SAR)	4.77	6.76	6.71	7.68	6.93	5.95						
BVPS (SAR)					46.10	48.86						
TTM P/E (x)					23.4							
Current P/BV (x)					3.5							

Source: Financials, Tadawul Disclosure, Bloomberg, U Capital Research

For our earlier report on the sector, please [click here](#).

Recommendation

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

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net

PO Box 1137

PC 111, Sultanate of Oman

Tel: +968 2494 9000

Fax: +968 2494 9099

Email: research@u-capital.net

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