

US\$3.2bn Market Cap. 59.8% Free Float US\$3.5mn Avg. Daily Value traded

Saudia Dairy and Foodstuff Co.

Fair Value Revised up to SAR375/sh

Neutral

Price Target (SAR): 375

Current: 374.0

Upside/Downside: 0.3% above current

Valuation Multiples 9M'23A 24E 25E

	9M'23A	24E	25E
P/E (x)	25.6	24.2	22.7
EV/EBITDA (x)	22.7	18.4	17.0

Major Shareholders % Ownership

Kuwait Projects Holding Company	40.1
Al Samah Trading Company Limited	11.7

Price Performance 1M 3M YTD

Absolute	3.7%	21.7%	11.8%
Relative to TASI	0.7%	8.7%	7.1%

Earnings

SARmn	9M'2023	2024E	2025E
Revenue	2,111	3,009	3,331
Revenue growth	6.7%	8.2%	10.7%
Gross profit	751	1,031	1,133
Gross margin	35.6%	34.3%	34.0%
EBITDA	430	590	630
EBITDA margin	20.3%	19.6%	18.9%
Net profit	328	494	526
Net margin	15.5%	16.4%	15.8%
EPS	10.2	15.4	16.4
DPS	6.0	9.0	11.0
Payout ratio	58.6%	58.3%	66.9%
P/E	25.6x	24.2x	22.7x
RoE	23.2%	24.5%	23.9%

Source: Company data, Al Rajhi Capital.

We revise our Fair Value for SADAFCO from SAR330/sh to SAR375/sh and upgrade the company's rating from underweight to neutral. We expect SADAFCO's topline to continue to grow at a CAGR of ~10% between 2023-2026 (largely in line with the last 3-year topline CAGR of ~10%) despite the company already being the market leader in all the major categories in which it operates. We opine that topline growth would be driven by both macro & company specific developments. On the macro front, projected growth in the country's population and increasing tourism should bode well for the company. Furthermore, the combined impact of 1) shifting consumer preference towards long-life milk, 2) the company trying to increase its market share in the flavoured milk segment, 3) the opportunity for an increase in per capita consumption of ice-cream in KSA, and 4) company's renewed focus on HORECA should help the company achieve lower double-digit growth in its topline in the medium term. However, we believe that the above positives are already incorporated in the existing stock price and hence have a neutral rating on the stock.

Growth across categories: We expect SADAFCO's topline to continue to grow at a CAGR of ~10% between 2023-2026 (largely in line with the last 3-year topline CAGR of ~10%) despite the company already being the market leader in all the major categories in which it operates. In our opinion, this largely volume driven growth in topline would be witnessed in all the major categories and would be driven by both macro & company specific developments.

In recent years SADAFCO has witnessed lower double-digit growth in its topline due to the combined impact of 1) overall growth in the size of the pie, 2) increasing market share, and 3) a few price actions. As per our understanding, the overall size of the market for UHT milk, Ice-cream, and Tomato products has increased over the years as a result of growing population and the influx of tourism (including religious tourism). Furthermore, the company has been able to successfully increase its market share by 2%/5%/6% in the long-life milk/ice-cream/tomato products segments between 2020-23.

Going forward, we expect growth in the company's topline would be driven by both macro and company specific factors. We opine that the projected growth in the country's population and increasing tourism would bode well for the entire food sector including SADAFCO. As against the last 8 years when KSA's population grew at a CAGR of 2%, the 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 of Vision 2030. Similarly, the number of international visitors is expected to grow at a CAGR of 20% between 2022-30 as the Kingdom aims to diversify its economy.

Apart from the above, we believe that the following segment specific/company specific factors should positively impact the company's topline.

- **Long-life milk segment:** As per our understanding, consumer preference in KSA is shifting towards long-life milk. Since SADAFCO has the largest market share in the long-life milk segment we believe that the ongoing change in consumer preference should bode well for the company. Furthermore, while SADAFCO is a market leader in the plain UHT milk segment, it is a distant No:2 in flavoured milk.

Hence, any incremental improvement in the market share for flavoured milk should help the company improve its topline.

- **Ice-cream segment:** SADAFCO is currently the market leader in the ice-cream segment, with a market share of 31%. However, per capita consumption of ice-cream in KSA is very low compared to other major economies. Hence while the entry of a new player in the ice-cream segment can be expected to elevate competition in the near term, the marketing activities that are likely to accompany can be expected to help increase the size of the market. This in-turn can be expected to positively benefit SADAFCO.
- **Focus on HORECA segment & potential for further exports:** The HORECA segment in KSA has grown at a 5-year CAGR of 30% amid consumer preference tilting toward eating out. The company's management aims to capitalize on this growing market, where it can provide a range of products. In this regard, SADAFCO has partnered with a company that specializes in supplying to catering companies and has introduced new products (such as barista milk). Furthermore, the management intends to increase its exports which currently stand at ~8%-9% of the topline by capitalizing on the company's strong brand.

Recommendation and Valuation:

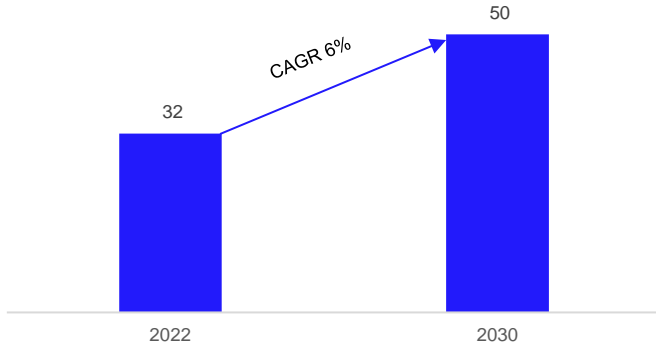
We have a neutral rating on the stock with a Fair Value of SAR375/sh. We value the stock using discounted cashflow and P/E method giving equal weight to each. In the DCF method, we use cost of equity of 8% and a terminal growth rate of 3%. For the P/E method, we take the target P/E multiple of 26.0x largely in-line with the company's history.

Figure 1 Valuation table

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	388	50.0%	194	3.7%
P/E	362	50.0%	181	-3.2%
Target price			375	
CMP			374.0	
Upside/(Downside)			0.3%	
Dividend yield			2.4%	
Total returns			2.7%	

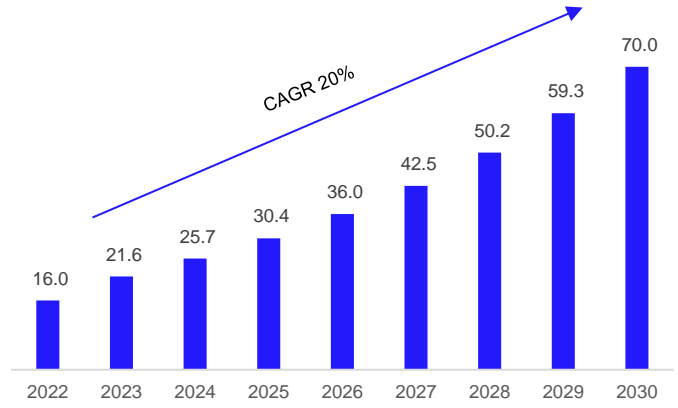
Source: Al Rajhi Capital estimates.

Figure 2 **KSA Population (Mn)**



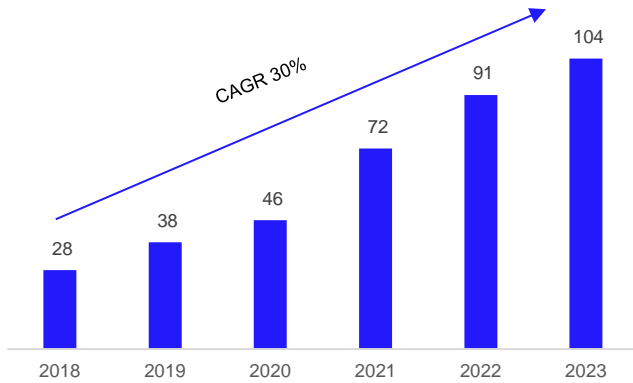
Source: GATSAT, Al Rajhi Capital

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



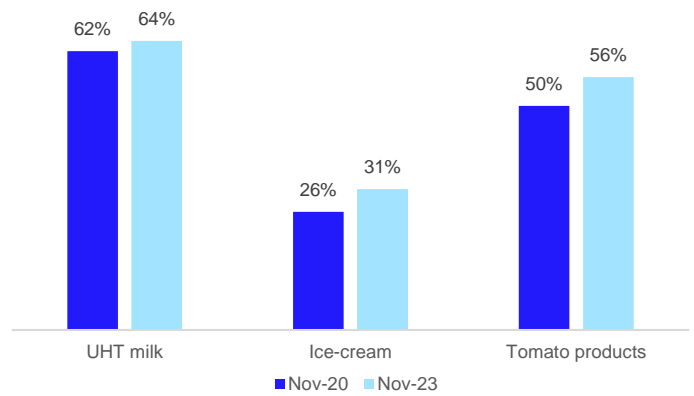
Source: GATSAT, Ministry of Tourism, Al Rajhi Capital

Figure 4 **HORECA (SAR bn)**



Source: SAMA, Al Rajhi Capital

Figure 5 **Market Share**



Source: Company Presentation, Al Rajhi Capital

Financials

Figure 6 Income Statement

SAR mn	9M'2023	2024E	2025E
Revenue	2,111	3,009	3,331
<i>y-o-y growth</i>	6.7%	8.2%	10.7%
Cost of Sales	1,361	1,977	2,199
Gross Profit	751	1,031	1,133
<i>y-o-y growth</i>	20.8%	8.4%	9.8%
<i>margins</i>	35.6%	34.3%	34.0%
Operating Profit	339	468	508
<i>y-o-y growth</i>	21.4%	8.6%	8.7%
<i>margins</i>	16.1%	15.6%	15.3%
Net Income	328	494	526
<i>y-o-y growth</i>	50.1%	18.2%	6.5%
<i>margins</i>	15.5%	16.4%	15.8%
EPS	10.2	15.4	16.4

Source: Company data, Al Rajhi Capital.

Figure 8 Ratios and Multiples

	9M'2023	2024E	2025E
RoE	23.2%	24.5%	23.9%
Debt/EBITDA (x)	0.1	0.1	0.1
P/E (x)	25.6	24.2	22.7
D/Y	1.8%	2.4%	2.9%
EV/EBITDA (x)	22.7	18.4	17.0

Source: Company data, Al Rajhi Capital.

Figure 7 Balance Sheet

SAR mn	9M'2023	2024E	2025E
Cash/Short-term investments	1,023	1,160	1,300
Account receivables	269	282	319
Inventories	430	486	542
Others	59	59	59
Current Assets	1,781	1,987	2,221
PPE & Intangible	902	874	846
RoU Assets	62	59	56
Long-term Investments	39	39	39
Others	7	7	7
Total Assets	2,791	2,966	3,168
Accounts payable	322	297	331
Current lease liabilities	13	12	12
Others	349	349	349
Current Liability	685	658	692
LT lease liability	51	49	47
Others	154	154	154
Total Liability	889	862	893
Share Capital	325	325	325
Retained earnings/Accum. deficit	1,110	1,313	1,484
Reserve	467	467	467
Total shareholders' equity	1,902	2,105	2,275

Source: Company data, Al Rajhi Capital.

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"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.

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Contact us

Mazen AlSudairi, CFA, CMT

Head of Research

Tel : +966 11 836 5468

Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital

Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: research@alrajhi-capital.com

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