National Agricultural Development Co.

Food Diversified: Industrial
NADEC AB: Saudi Arabia
21 June 2023

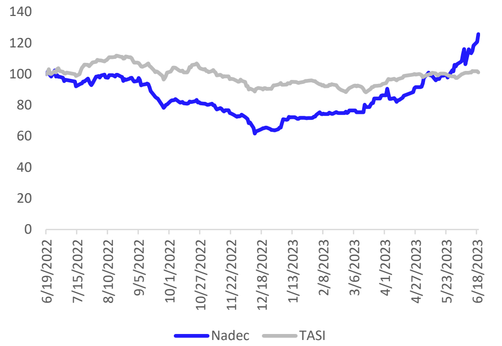
US$1.05bn	66.25%	US$4.27mn
Market Cap	Free Float	Avg. Daily Volume

Target price	48.00	20% above current
Current price	40.00	as at 20/06/2023

Existing rating

Underweight | Neutral | **Overweight**

Performance (Rebased to 100)



Earnings

SARmn	2022	2023E	2024E
Revenue	2,694	2,969	3,146
Y-o-Y %	19%	10%	6%
Gross Profit	808	1,036	1,099
Gross Margin	30%	35%	35%
EBIT	164	270	356
EBIT Margin %	6%	9%	11%
EBITDA*	458	540	597
EBITDA Margin	17%	18%	19%
Net Profit	95	167	264
Net Margin	4%	6%	8%
EPS (SAR)	0.94	1.64	2.60
P/E	42.7x	24.4x	15.4x
EV/EBITDA	12.1x	10.3x	9.3x

Source: Company data, Al Rajhi Capital.

Research Department
Sultan Alhudaif
Tel +966 11 836 5464, alhudaifs@alrajhi-capital.com

National Agricultural Development Co.

Initiating with an overweight rating, a target price of SAR48/sh

We initiate coverage on the National Agricultural Development Company (NADEC) with a target price of SAR48/sh (an upside of 20% from the current market price of SAR40/sh) and an overweight rating. A leading Saudi dairy and food Company, NADEC has successfully gained and maintained its market share in the Kingdom over the years with its brand presence and competitive pricing strategy. The Company holds a market share of 13.9% in the fresh milk category and the dairy segment contributes ~83% to sales (2022). The Company also operates in the Juice segment (9% of sales) and the Agriculture segment (6% of sales). NADEC went through difficult time over the past few years despite recording a revenue growth of 6.6% CAGR over 2019 - 22, the bottom-line was volatile. Many reasons contributed to the volatility such as commodity prices, provisions and impairments, changing consumer behaviour and agri segment losses. Going forward, we see relief in commodity prices, expect lower provisions and impairment, better performance in the agriculture segment and improved prices dynamics. Our current investment case reflects the ongoing improvement in the core business of the Company, while the use of proceeds from the right issue provides an upside to our investment case. We await further clarity before incorporating the upcoming line of businesses.

SALIC as a strategic investor: Saudi Agricultural and Livestock Investment Company (SALIC), a PIF-owned subsidiary, increased its stake in NADEC to 32.5% in April 2022, showcasing confidence in NADEC's future growth potential and instilling investor confidence. SALIC is a major enabler in achieving Saudi Arabia's Vision 2030 objective for food security strategy, with investments in the food-related sectors both locally and globally. With SALIC as the Company's largest shareholder, we believe NADEC could leverage its partnership with SALIC to improve its access to the commodities market and expand its presence in the food market.

Rights issue to provide cash for expansions: With the new management exploring growth opportunities focused on achieving growth in the food segment in-line with its recently announced five-year plan, the Company has proposed a SAR2bn rights issue in April 2023. The proceeds from the issue will be primarily utilised to become a vertically integrated food Company as part of its 2023 - 2027 strategy.

Agriculture to stop being a drag on profitability: The Company's agriculture segment performance has been weak over the last three years and recorded losses of SAR40mn, SAR154mn, and SAR56mn for the years 2020, 2021 and 2022, respectively. However, the Company is taking strategic initiatives to turn the Agri segment profitable by discontinuing loss-making SKUs, focusing on enhancing its product offerings and collaborating with global companies with expertise in the agriculture sector. With the Company's renewed focus on the segment, it is too early to assess the profitability of the segment however, management expects a single digit margin.

Margins to improve on lower commodity prices: NADEC was impacted by the global changes in commodity prices in 2020 - 2022 with the world food prices hitting a record high in 2022. With the commodity prices easing in 2023, it has been positive for most of the food companies and resulted in an improved margin. Alfalfa, the main raw material, prices are down roughly 7% which resulted in better margins in 1Q23. We believe the Company's performance is likely to continue around the current level.

Sudan facility fully impaired no more burden on profitability: Nadec began operations in Sudan in 2010 to expand its Agribusiness beyond GCC, leasing a 60,000-acre land from the Sudan government and further investing in a 3.2k-hectare farm in Sudan in 2014 for feed farming and production. However, the Company continued to incur losses from the project due to low yields, operational difficulties, and the high cost of transportation to NADEC. Consequently, the Company impaired the development cost of around SAR80mn in 2019. Again in 2021, Nadec charged another impairment cost of SAR100mn related to the PPE of the Sudan facility, taking the Sudan investment value to zero. Consequently, the Sudan facility would have no impact on the Company's profitability in the future.

Valuations: To value NADEC, we used two valuation approaches. the discounted cashflow model (80% weight) the higher weight assigned to DCF is due to the expectation for substantial improvement in FCFs as the Company now is undergoing restructuring plans which the FCFs could materially differ from the current ones. As a result, we assigned 80% weight for the DCF approach. We also used the relative valuation approach, specifically, the EV/EBITDA approach with a weight of 20%. For the EV/EBITDA multiple, we were conservative as we used the historical average of 12x, which is below its competitors (Almarai 14.3x, SADAFCO 12.5x).

Concerns: While the Company is going under restructuring plans, there are multiple concerns that could impact our valuation. 1) the Company falls to turn the Agri segment back to profitability thus impacting the Company's earnings. 2) the Company fails to grow its sales within our expectations, thus that put downward pressure on our expected value. 3) profitability margins drop below our expectations, mainly due to competitions. 4) higher cost pressure affecting the Company's performance.

Table of Contents:

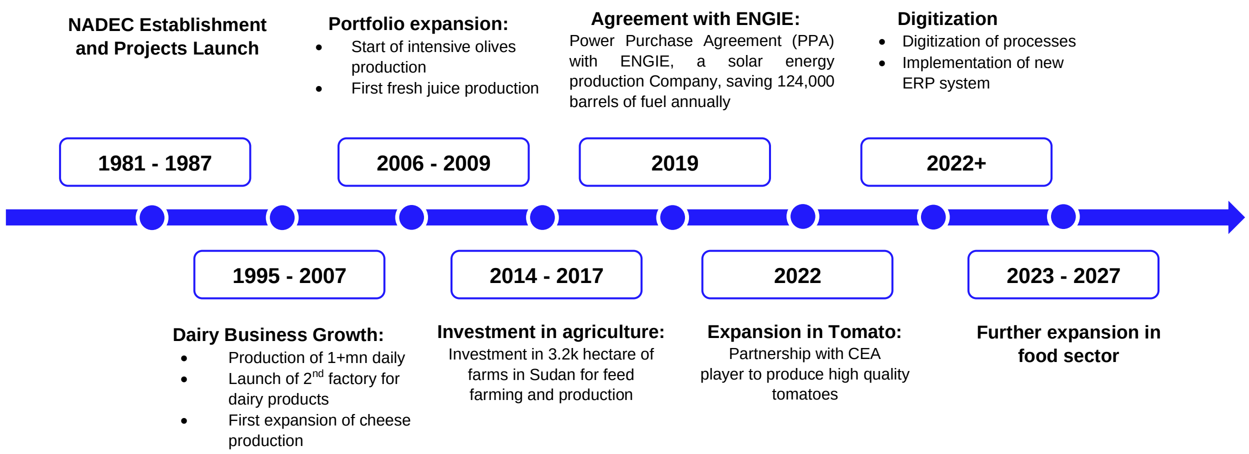
Company Overview:

National Agricultural and Development Company (referred to as Nadec, The Company) is the first and largest Saudi joint agricultural Company set up by a royal decree from the Saudi government in 1981. Listed on the Saudi stock exchange (Tadawul) in 1993, the Company is among the largest food and agricultural companies in the MENA region. The Company's Diary and Food segment contributes over 95% of total revenues as of 2022, mainly driven by Dairy products. The Company produces milk (fresh and long-life milk), fresh juices, laban, yoghurt, cheese and olive oil through its dairy and food segment and with a dairy and juice production capacity of +1.4mn litres per day and a herd headcount of over 92,000. It is currently one of the leading vertically integrated dairy producers with a 13.9% (2022) share in the Saudi Fresh Milk dairy market in volume terms. Through its agricultural arm, the Company produces fruits and vegetables in its four cultivating projects in Saudi Arabia, Wadi Al-Dawasir, Haradh, Hail and Al-Jouf. NADEC sells over 180 SKUs in over 35,000 outlets spread throughout the Kingdom, GCC states, the Middle East and North Africa. The Company's revenues are mainly concentrated in the Kingdom (84% of revenue as of 2022). With over four decades of experience, the Company has been successful in establishing itself as one of the most prominent brands in the Kingdom.

The Company announced its 2023-2027 strategy in January 2023 under the slogan "A New Dawn". The new strategy aims to strengthen its leadership locally and regionally through expanding the current business operations, developing new markets, expanding product range and entering into new ventures, in line with the Kingdom's Vision 2030, especially in terms of food security in the Kingdom. Through effective implementation of the strategy, the Company aims to become a vertically integrated food business, with a target of more than double its revenue to SAR6bn by 2027. In line with the new strategy, the Company has signed 11 agreements, and MoUs since the beginning of 2023.

SALIC the major shareholder in NADEC, owns around 32.5% of the Company and its presence gives investors a higher credibility on the Company. SALIC has made multiple investments in the food sector to increase food security in the country. Its latest investment according to Bloomberg was an additional stake in the Brazilian biggest poultry producer BRF which comes in line with the food security strategy of Saudi.

Figure 1 **NADEC timeline**



Source: Company data, Al Rajhi Capital

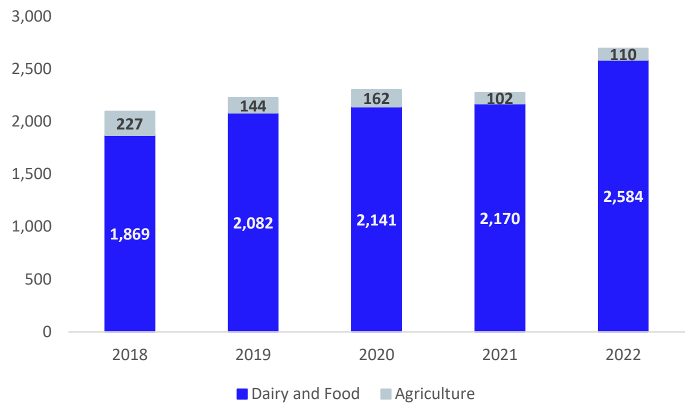
Segments:

Dairy Segment: The main and largest contributor to the Company's sales consists of different products and SKUs. 1) is the Fresh milk and its derivative such as yogurt, Labneh and fresh cream and represent 44% of sales 2) is the Long-life dairy products with contribution to sales of 25% 3) finally the Cheese and butter segment (14% contribution to sales). That mentioned, the segment total sales come to around SAR2,226mn with 83% contribution to sales.

Juice segment: The juice segment is the second largest segment with contributor to top-line of around 8.8% as of 2022. However, the Company witnessed structural changes due to the implementation of Sugar Taxation in the Kingdom and relatively lower margins from this segment. Thus, Nadec has been losing market share in the juice segment since 2015 where sales peaked at SAR465mn, while last year (2022) they made only SAR237mn in sales, a decline of 49% since 2015.

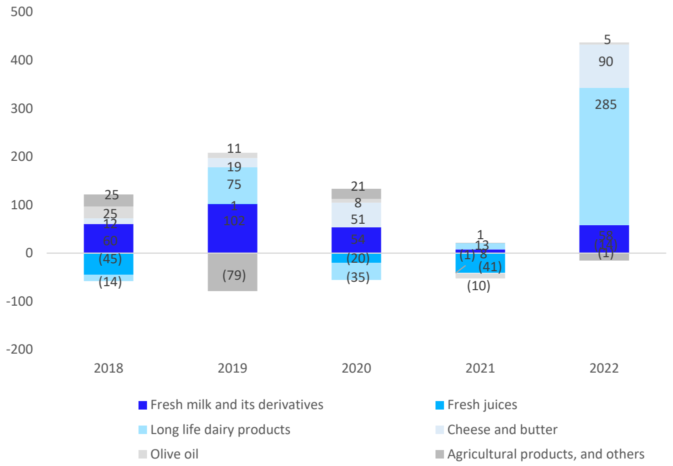
Agriculture segment: Nadec agriculture business comprise of mainly three different products and they are olive oil, tomato, and wheat. The segment was loss making for the last 5 years and was mainly due to the Company engagement in loss making SKUs which the Company discontinued. The Company used to produce onions and potatoes which were not benefiting the Company, thus, the management decided to stop these two products and focus on profitable ones. The remaining SKUs are in general profit making.

Figure 2 **Revenue Breakdown by Segment (SAR mn)**



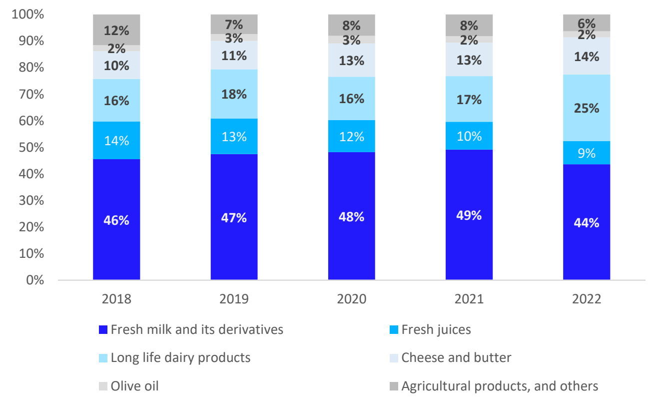
Source: Company data, Al Rajhi Capital

Figure 3 **Incremental Revenue by Product (SAR mn)**



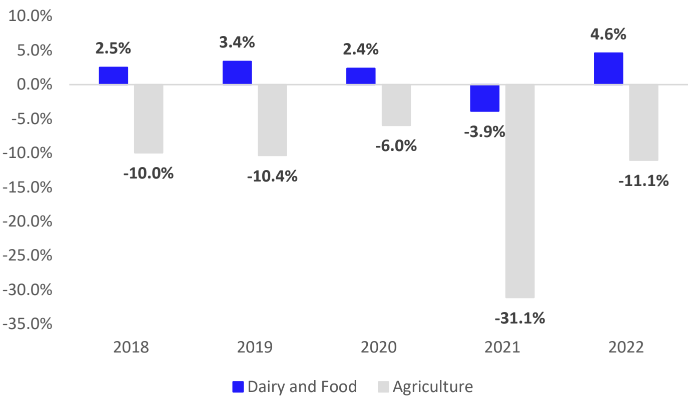
Source: Company data, Al Rajhi Capital

Figure 4 **Revenue Breakdown by Products**



Source: Company data, Al Rajhi Capital

Figure 5 **Return on Assets by Segments**



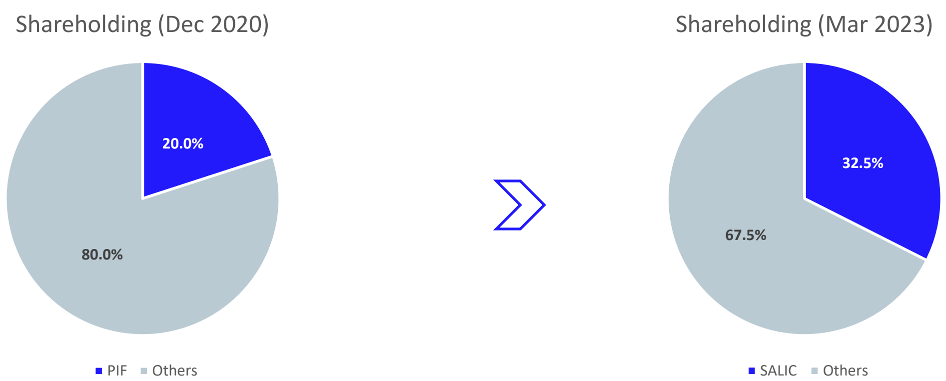
Source: Company data, Al Rajhi Capital

Investment thesis:

Restructuring led by SALIC expected to yield positively: We believe the presence of a major shareholder who is focused on improving the food sector will increase confidence in the Company as it is working on making the Company more transparent and efficient than before. In an effort to achieve the 2030 vision of food security, SALIC increased its stake in the Company to 32.5% in April 2022. In December 2022, the Company announced its five years strategic plan of which include the following:

- Expanding presence in core business lines as well as launching new products.
- Provide high quality products to consumers by working with local farmers.
- Expand in the red meat segment and provide a range of different products.

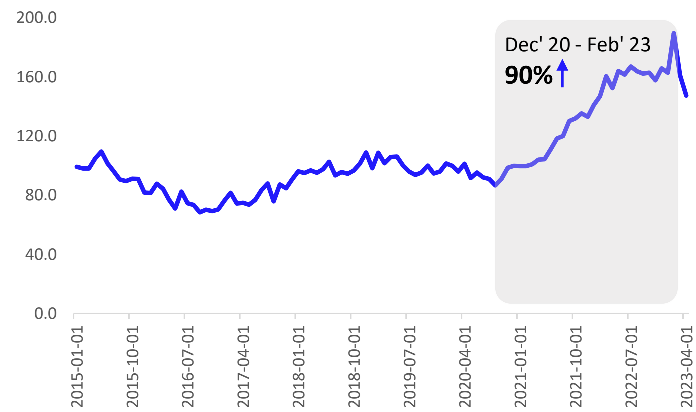
Figure 6 **Shareholding Structure**



Source: Bloomberg, Al Rajhi Capital

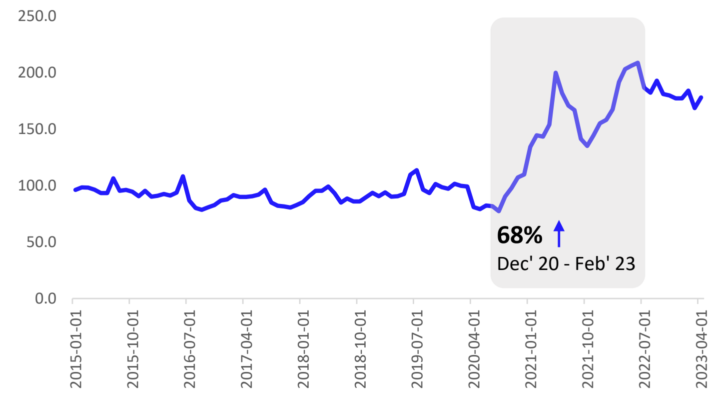
Cooling commodity prices to improve performance: After the past two difficult years where commodity prices surged and impacted many sectors and companies, today we see a relief from the commodity inflation as global prices for main raw material started to fall since the beginning of 2023 and some in 2022. NADEC benefited from the easing commodity prices as it uses Alfalfa as a main source of feed, translating to improved margins (1Q23 at 37.1%). However, we expect margins for the Company to be around 35% in our forecast horizon (2023-2027e), mainly due to competition as many companies are expanding which we believe will result in a price war as each player will be looking to expand their share.

Figure 7 **Alfalfa Hay Prices (Indexed – Feb 2020 = 100)**



Source: Company data, Al Rajhi Capital

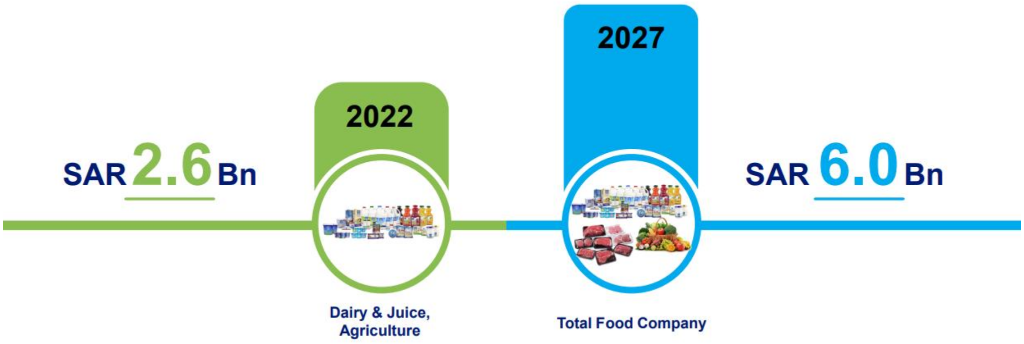
Figure 8 **Corn Prices (Indexed – Feb 2020 = 100)**



Source: Company data, Al Rajhi Capital

Five years strategic plan funded by rights issue: The Company is planning of increasing its capacity and expanding its fleets as well as entering the red meat segment which will help the Company reach the targeted revenue in 2027 of around SAR6bn. The Company recently announced the SAR2bn rights issue. Of the amount raised, the Company intends to make a capex of SAR1.5bn in the red meat, agriculture and core business segments, while using majority of the remaining SAR500mn to deleverage and part of it to build a new headquarters.

Figure 9 **Revenue Growth Plan (2022 – 2027E)**



Source: Company data, Al Rajhi Capital

The five-year strategic plan will focus on increasing its presence in the Agriculture segment by expanding its portfolio from only having tomato and wheat to having a wider range of products by capitalizing on its relationship with local farmers and its scale. Entering the red meat market which the size of the market is significant (roughly SAR30bn). We believe majority of the growth will come from the red meat segment as the Company is aiming to start its operation after the rights issues is done. Also, strengthening its core business should contribute to the growth as we believe the Company will focus on improving its product shelf availability as well as other important aspects.

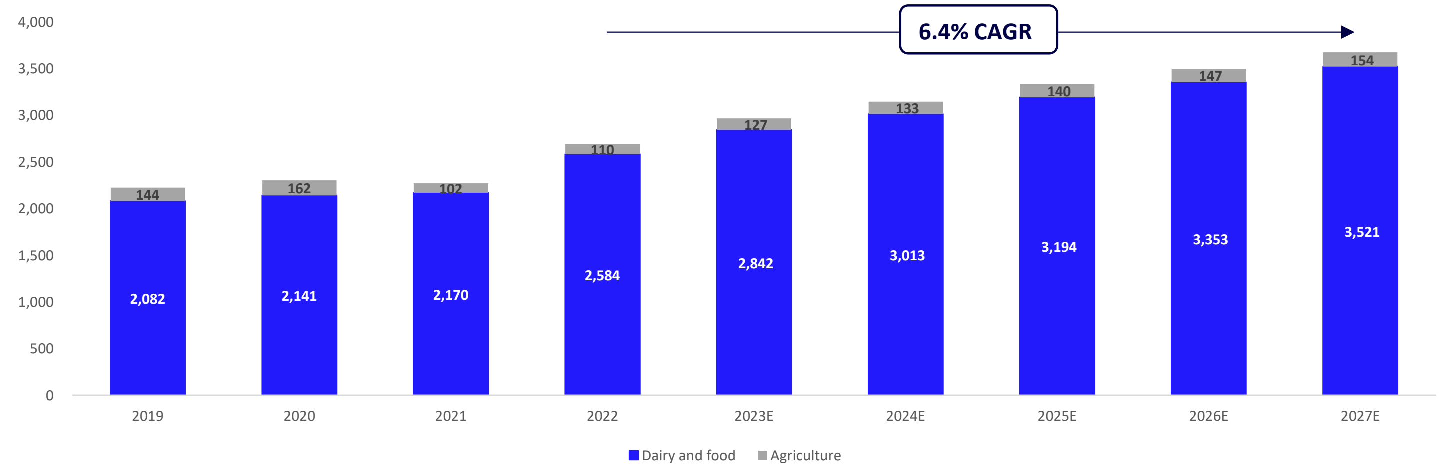
Agriculture sector performance to improve: The agriculture business was not going well over the last years for NADEC as we believe the Company's struggle was due to lack of know how in the sector and its operation and sales of products that were not making profits. That issue is no longer applicable, as SALIC has increased ownership in NADEC to 32.5% and hired new management which we believe will result in a better performance in the segment. That will be achieved by discontinuing loss making SKUs, bring global expertise to run part of the agriculture business (Pure Harvest partnership who is now taking care of tomato for NADEC), and other initiatives the Company is undertaking to optimize the performance. Currently, NADEC is employing the hydroponic farming for its tomato products with positive feedback so far. Another issue NADEC faces is the losses from natural events such as sand storm which results in crops write off but now there are rumors that government will provide insurance for all companies in the agriculture to maintain sustainability in the sector. Also, in its efforts of improving the performance, NADEC is now planning of buying some of the agriculture products from local farmers under the initiative name (contract farming).

Provision and impairment to slow down going forward: The Company have made multiple provisions and impairments over the last years which made the profitability look volatile. Most of the impairment was due to its investment in Sudan, which now has a value of zero. Provisions mostly were related to government receivable (our calculation is around SAR74mn as of 1Q23) where the Company was conservative in its provisions and we believe these provisions will be reversed in some point in time. Going forward, we do not think the trend will continue as we see last two years as a period of cleaning the books which resulted in an abnormal level of provisions.

Financial analysis:

Sales analysis: With the ongoing restructuring plans coupled with the presence of a strategic shareholder (SALIC) and new management, we believe that the Company showcases substantial growth potential. The Company announced an aggressive guidance of doubling its revenue to SAR6bn by 2027, a top-line growth of 17.4% CAGR. To achieve its aggressive growth plan, the Company intends to become a vertically integrated food Company while expanding its core business, introducing new products and entering new markets. The successful implementation of the Company's plans should see a huge improvement in profitability. However, we have assumed a lower growth vis-s-vis the management guidance. For the red meat segment, as per our estimate, the market size could be around SAR30bn and presents a huge growth potential for the Company. Overall, we believe the Company's revenue would grow by 6.4% CAGR (2022-2027e), led by growth in the Dairy and Food segment (6.4% CAGR) and Agriculture segment (6.9% CAGR).

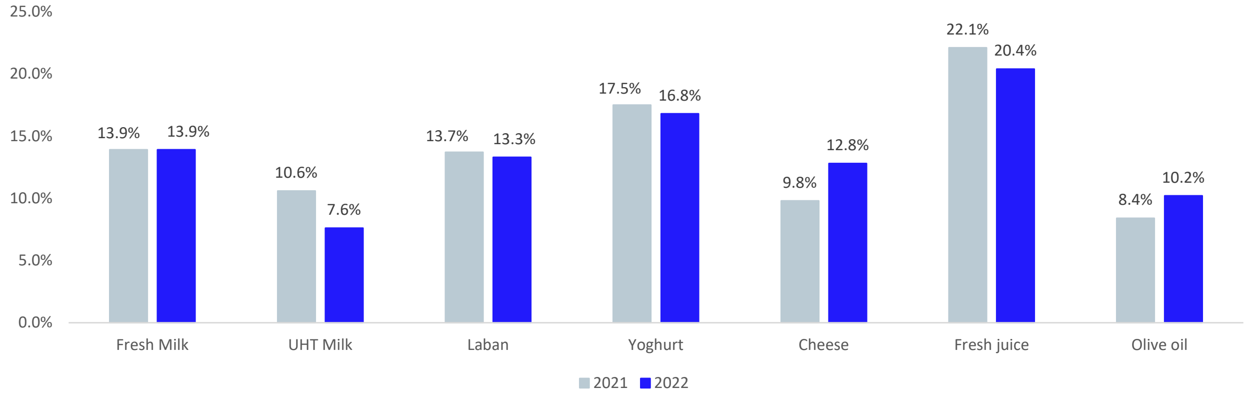
Figure 10 **Revenue by Segments (SAR mn) - 2019 – 2027E**



Source: Company data, Al Rajhi Capital

Market share: in 2022 compared to 2021, NADEC lost market share in different sub-segments while it gained market share in some other products. The two major decline in market share were seen in the UHT milk and the Juice sub-segments. These two sub-segments lost 300bps and 170bps, respectively, while the Company managed to increase its market share in the Cheese and Olive Oil by 300bps and 180bps respectively.

Figure 11 **Market Share by Segment (SAR mn) – Q1 2023**

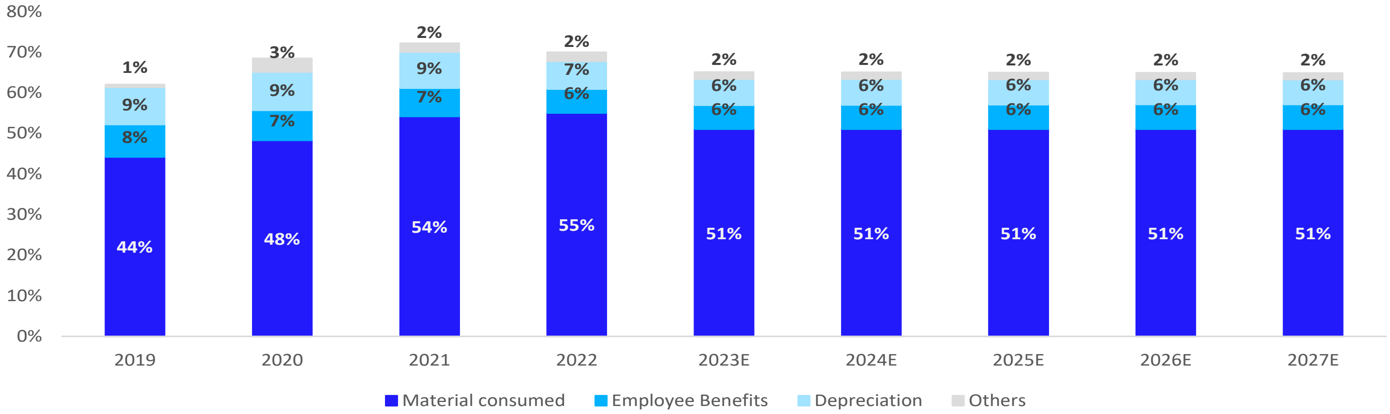


Source: Company data, Al Rajhi Capital

Cost trends: Since the beginning of 2021, food companies started feeling the heat of increasing commodities prices globally which impacted the cost structure of such players. NADEC was not an exception as the cost of materials consumed went from 44% in 2019 to 55% in 2022. That resulted in gross margin contraction, falling from 38% to 30%. However, the Company did some repricing which we believe will help lower the cost of material consumed to a level around 51% in our forecast period (2023-2027e).

Material consumed: The material consumed comprises of alfalfa, corn, packaging and other items. Due to the nature of the dairy business, the Company relies heavily on Alfalfa which is the main feed cost used. As per our estimate, Alfalfa contributed around 33% of total cost of goods sold in 2022. Following the decline in commodity prices globally, the Alfalfa prices started to ease in March 2023. We expect material costs to remain in the range of 51% of the total cost of goods sold going forward. Other materials represent the rest of the costs such as packaging and co-packaging (150-200mn), transportation (100mn) other raw material (200mn), lastly the labor costs and others represent the rest as per our analysis.

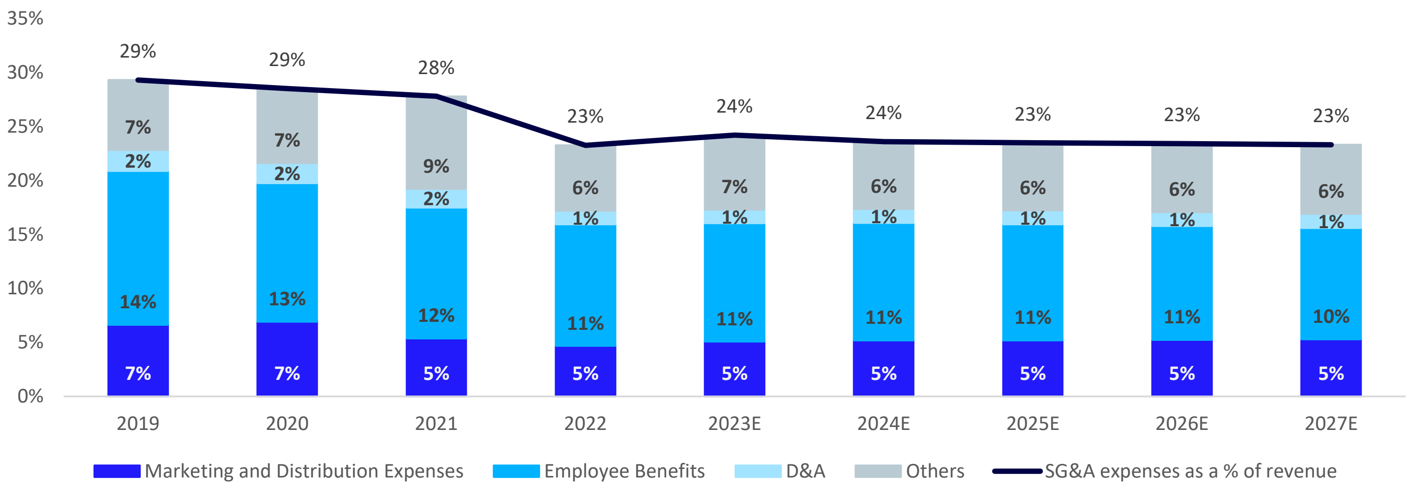
Figure 12 **Cost of Goods Sold as a % of Revenue – 2019 - 2027E**



Source: Company data, Al Rajhi Capital

Moreover, the Company were able to cut operating cost by around 26 million in the same period which mainly came from lower marketing spending and depreciation expense. In 2022, operating cost as a percent of sales dropped to 23.9% from 29.3% in 2019, we believe that was because the sales growth over the same period was driven more by prices than volume, thus, not requiring more OPEX.

Figure 13 **SG&A Expenses as a % of Revenue – 2019 - 2027E**

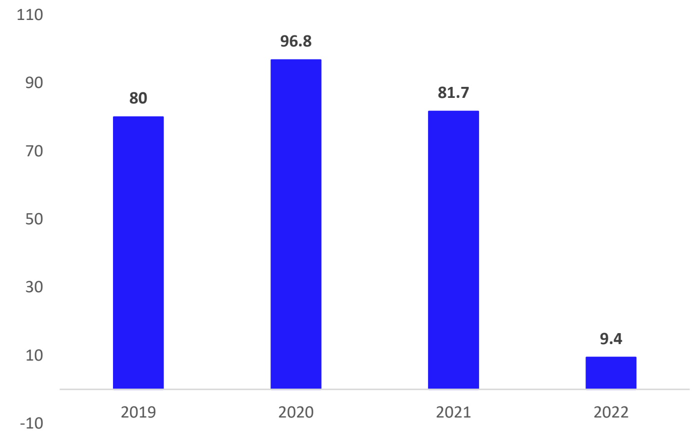


Source: Company data, Al Rajhi Capital

Provision and impairment: The Company have witnessed multiple provisions and impairment in the past five years, resulting from different triggers. The Company investment in Sudan cost them over SAR200mn in impairment and provisions with the Company recording SAR80mn in 2019 and SAR99mn in 2020, reducing the Sudan operations value to zero. Further in 2021, the Company performed physical verification of its assets and identified idle assets worth SAR40mn and impaired these assets.

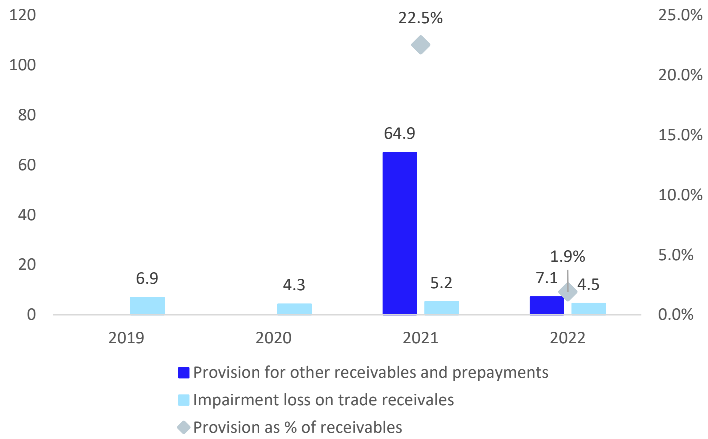
The Company has been reporting impairment on trade receivables and prepayments (1-2% of total receivables). The Company reported provision for other receivables and prepayments of SAR65mn in 2021 (SAR47mn of Government subsidies due and SAR18mn of prepayments for which recoverability is not assessable). The provisions of SAR4.5mn in 2022 are related to the Government subsidies due. The Company is certain that the subsidies will be received.

Figure 14 **Impairments related to PPE (SAR mn)**



Source: Company data, Al Rajhi Capital

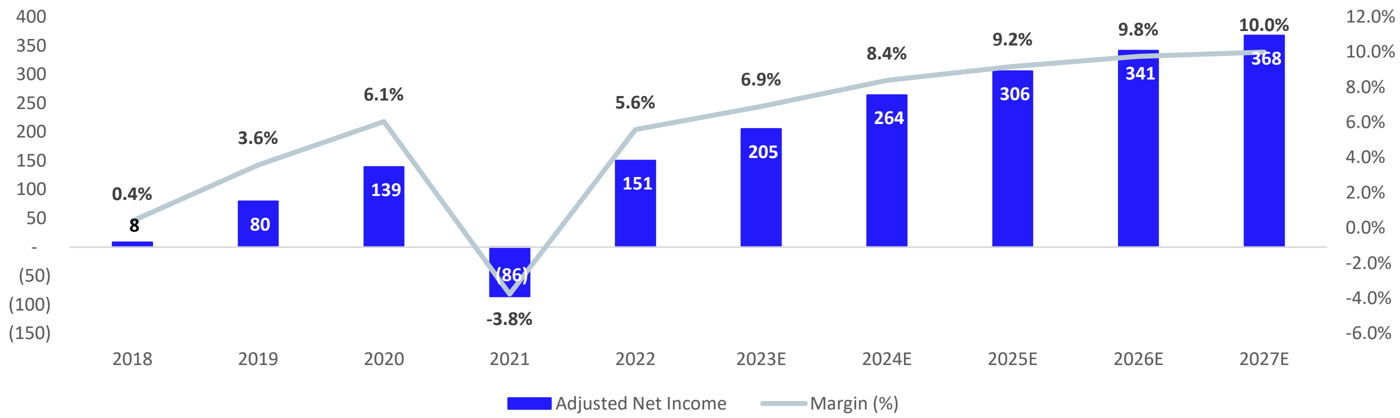
Figure 15 **Provisions (SAR mn)**



Source: Company data, Al Rajhi Capital

In 2022, the Company's net income, adjusted for the impairment and provisions, stood at SAR151nm, reflecting a margin of 5.6%. We believe going forward, the Company margins would likely remain largely unaffected by provisions and impairments.

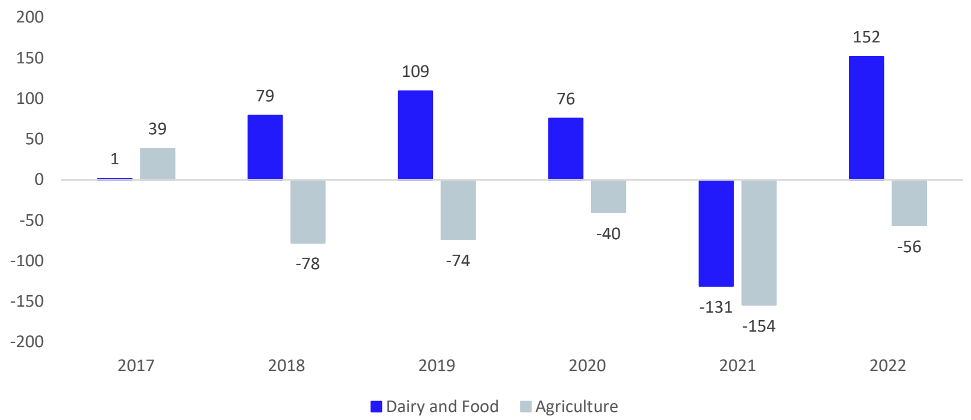
Figure 16 **Adjusted Net Income (SAR mn) - 2018 – 2027E**



Source: Company data, Al Rajhi Capital

Profitability by segment: The Company generates its earnings mainly from two broad segments the Dairy and the Agri segments. Dairy segment represented the majority of the earnings over the last five years and that was due to the weak performance the Agri was delivering. The Company was engaged in the selling of some products which they were not making money from. These products the Company stopped selling and is focused on profit making ones. Also, we do not expect to see the high levels of provisions/impairment the Company saw in the last few years, which also was impacting the level of profitability.

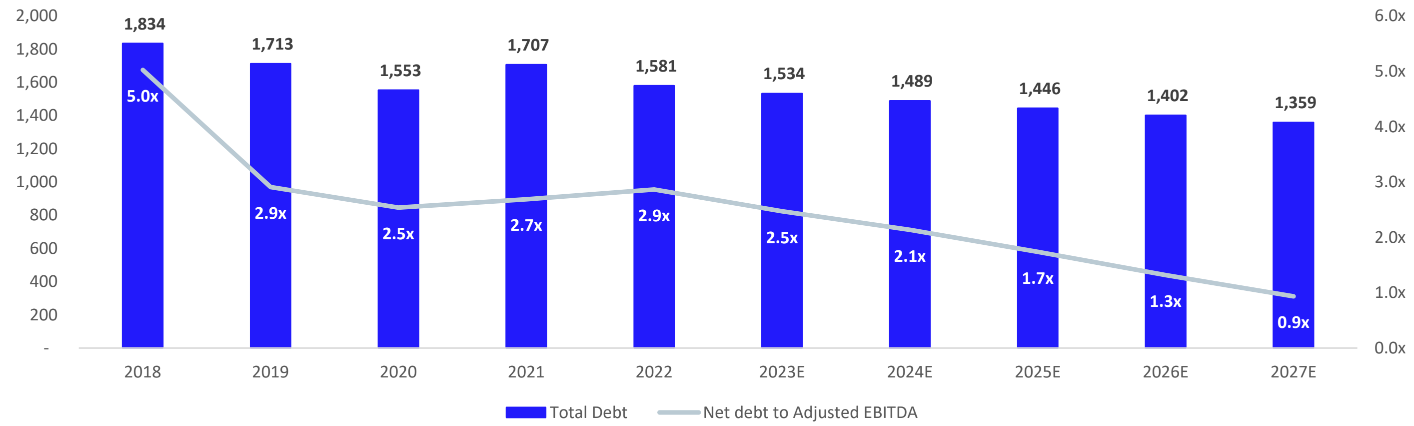
Figure 17 **Profitability by Segment (SAR mn)**



Source: Company data, Al Rajhi Capital

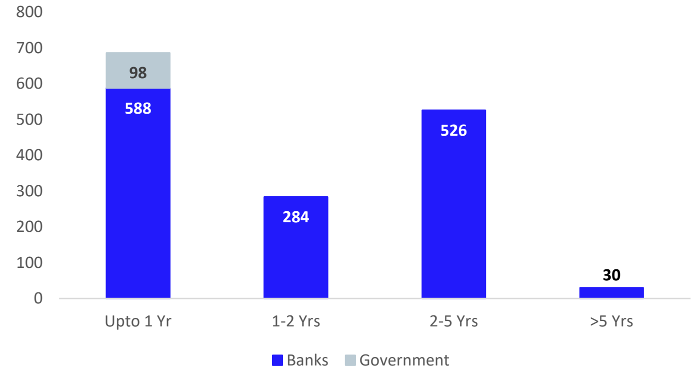
Debt: In 1Q23, the Company reported a total debt balance of SAR1,437mn with an average interest rate on bank loans of 4.65%, and net debt to equity ratio of 105% (including lease liabilities). The Company has had a high proportion of current portion of borrowing (~43% between 2018 – 2022) with an average debt tenure of 2.5 years. In 2022, ~60% of its loan book were due within 1-2 years. However, the Company has been taking measures to increase long-term borrowings. Additionally, the Company was once again granted a loan from the Agricultural Development Fund (ADF) in 2022 to finance and expand the olive trees and olive pressing plant and reported an increase in total ADF loan balance to SAR98mn, vs SAR5.5mn in 2021. ADF is a government credit institution providing funding for various agricultural activities across the Kingdom. The Company is expected to continue to receive support from the ADF as the Company's five-year growth plan to expand in the agriculture segment is in-line with the ADF's strategy to boost food security in the Kingdom. The loans from ADF are at a fixed interest rate, thus also helping the Company in the current interest rate environment. Additionally, we believe the Company would partly deleverage using the funds raised through the rights issue.

Figure 18 **Total Debt (SAR mn) and Net debt/ Adjusted EBITDA (x)**



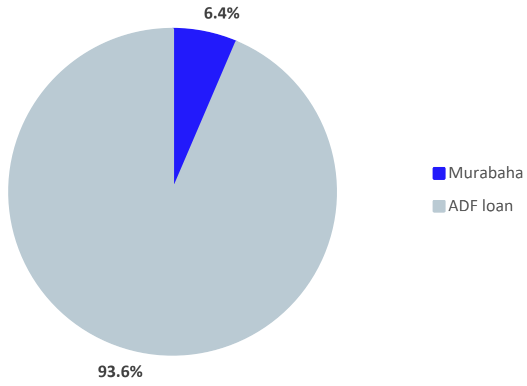
Source: Company data, Al Rajhi Capital

Figure 19 **Debt Maturity Profile – 2022 (SAR mn)**



Source: Company data, Al Rajhi Capital

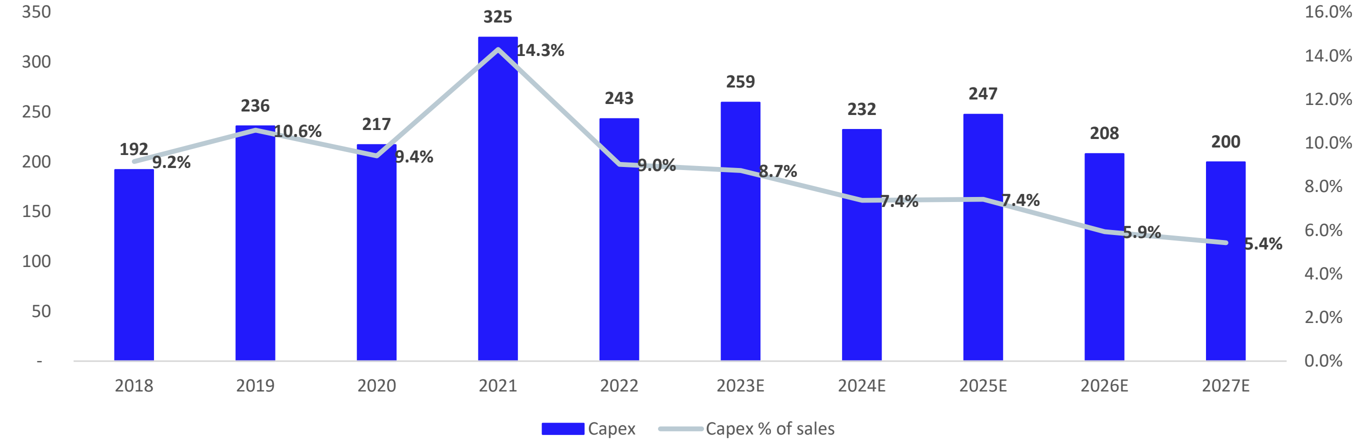
Figure 20 **Loan Book Breakdown (SAR1,526 mn) – 2022**



Source: Company data, Al Rajhi Capital

Capex: We believe the Company will continue to make capital expenditures between SAR200 – 260mn.

Figure 21 **Capex (SAR mn)**



Source: Company data, Al Rajhi Capital

Valuations:

Our valuation of NADEC was based on the expectation of a slight improvement in the sales going forward, declining provisions and impairments and stable business performance. We did not build our expectations based on the scenario of what will happen post the rights issue which we believe is difficult and too early to anticipate. However, we believe that would be more of an upside risk to our valuation.

Valuation: To value NADEC, we used two valuation approaches. 1) the discounted cashflow model (80% weight) the higher weight assigned to DCF is due to the expectation for substantial improvement in FCFs as the Company now is undergoing restructuring plans which the FCFs could materially differ from the current ones. As a result, we assigned 80% weight for the DCF approach. We also used the relative valuation approach, the EV/EBITDA approach with a weight of 20%. For the EV/EBITDA multiple, we were conservative and used the historical average of 12x, which is below its competitors (Almarai 14.3x, SADAFCO 12.5x).

Figure 22 **Future Free Cash Flow (SAR mn)**

(SAR mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	Terminal
EBIT	**85**	**(65)**	**164**	**270**	**356**	**384**	**406**	**433**	
Tax Incurred	(44)	(32)	(49)	(11)	(17)	(20)	(22)	(23)	
Effective Tax rate	51.5%	-49.5%	29.8%	3.9%	4.7%	5.1%	5.4%	5.4%	
NOPAT	**41**	**(97)**	**115**	**259**	**339**	**364**	**385**	**410**	
Depreciation and amortization	260	238	210	202	213	230	243	250	
Working Capital	39	(41)	(1)	(33)	(12)	(13)	(11)	(12)	
Capex	(217)	(325)	(243)	(259)	(232)	(247)	(208)	(200)	
FCF	**124**	**(224)**	**81**	**169**	**308**	**334**	**409**	**447**	**7,882**
Discount factor				0.28	1.28	2.28	3.28	4.28	
Pv				165	257	257	291	293	5,169

DCF	
Pv of Terminal Value	5,169
Pv of FCF	1,263
Enterprise Value	**6,432**
Investment	54
Other Liabilites	(157)
Net Debt	(1,468)
Equity Value	**4,861**
Number of share	102
Value Per Share	**48**

EV/EBITDA Approach	
EBITDA (2023)	540
Pv of EBITDA	528
EV/EBITDA Multiple	12.0x
Enterprise Value	**6,332**
Investment	54
Other Liabilites	(157)
Net Debt	(1,468)
Equity Value	**4,760**
Value Per Share	**47**

Cost of capital Build Up	
Cost of Debt	6.0%
Tax rate	5.0%
After tax rate	5.7%
Risk free rate	4.0%
Beta	0.90
Market risk premium	6.0%
Terminal Growth	2.5%
Cost of Equity	9.4%
WACC	**8.3%**

Valuation	
Weight:	
DCF	80%
P/E	20%
Value:	
DCF value	38
EV/ EBITDA	9
Overall valuation	**48**

Source: Al Rajhi Capital

For our WACC calculation, we used the following:

1) Cost of Debt:

- A cost of debt of 6% which is the SAIBOR + some basis points
- A tax rate of around 5%, thus the After-tax rate is 5.7%
- A weight of 30% for debt

2) Cost of equity:

- Market risk premium of 6% (the historical average of TASI)
- Beta of 0.9 which is the 5-year monthly Beta.
- A risk-free rate of 4% which is the rate on Saudi Sukuk.
- A weight of 70% for equity

Thus, our overall cost of capital is 8.3%

Key Financials:

Figure 23 **P&L Statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Revenue	**2,694**	**2,969**	**3,146**	**3,333**	**3,500**
Cost of sales	(1,886)	(1,933)	(2,047)	(2,166)	(2,274)
Gross Profit	**808**	**1,036**	**1,099**	**1,167**	**1,226**
Selling and Marketing Exp	(488)	(534)	(566)	(593)	(617)
General and Administrative Exp	(139)	(185)	(177)	(190)	(202)
Impairment losses on receivables	(5)	(6)	0	0	0
Others	21	(9)	0	0	0
Non recurring (provisions)	(33)	(33)	0	0	0
Total operating expenses	**(644)**	**(766)**	**(743)**	**(783)**	**(820)**
Operating income	**164**	**270**	**356**	**384**	**406**
EBITDA	**458**	**540**	**597**	**640**	**676**
Provisions for other rece	(7)	0	0	0	0
PPE Write off	(10)	0	0	0	0
Operating income (Post non recurring)	**147**	**270**	**356**	**384**	**406**
Finance cost	(49)	(92)	(75)	(59)	(43)
Others	3	0	0	0	0
Income before tax	**101**	**178**	**281**	**325**	**363**
Zakat	(6)	(11)	(17)	(20)	(22)
Net Income	**95**	**167**	**264**	**306**	**341**
Growth YoY (%)					
Revenue	*18.6%*	*10.2%*	*6.0%*	*6.0%*	*5.0%*
Cost of sales	*14.9%*	*2.5%*	*5.9%*	*5.8%*	*5.0%*
Gross profit	*28.1%*	*28.2%*	*6.1%*	*6.2%*	*5.1%*
Selling and Marketing Exp	*0.9%*	*9.4%*	*5.9%*	*4.9%*	*4.1%*
General and Administrative Exp	*-6.1%*	*32.9%*	*-4.1%*	*7.2%*	*6.6%*
Total operating expenses	*-7.4%*	*18.9%*	*-3.0%*	*5.4%*	*4.7%*
Operating income	*NA*	*64.5%*	*31.8%*	*7.9%*	*5.9%*
Income before tax	*NA*	*83.7%*	*31.8%*	*7.9%*	*5.9%*
Net Income	*NA*	*75.0%*	*58.1%*	*15.8%*	*11.7%*
Margins					
Gross Margin	*30.0%*	*34.9%*	*34.9%*	*35.0%*	*35.0%*
Selling and Marketing Exp	*18.1%*	*18.0%*	*18.0%*	*17.8%*	*17.6%*
General and Administrative Exp	*5.2%*	*6.2%*	*5.6%*	*5.7%*	*5.8%*
Total operating expenses	*23.9%*	*25.8%*	*23.6%*	*23.5%*	*23.4%*
Operating income	*6.1%*	*9.1%*	*11.3%*	*11.5%*	*11.6%*
EBITDA	*17.0%*	*18.2%*	*19.0%*	*19.2%*	*19.3%*
Operating income (Post non recurring)	*5.5%*	*9.1%*	*11.3%*	*11.5%*	*11.6%*
Income before tax	*-3.8%*	*-6.0%*	*-8.9%*	*-9.8%*	*-10.4%*
Net Income	*3.5%*	*5.6%*	*8.4%*	*9.2%*	*9.8%*

Source: Al Rajhi Capital

Figure 24 **Cashflow Statement**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash flow from Operations	452	457	568	607	643
Cash flow from Investing	(243)	(259)	(232)	(247)	(208)
Cash flow from Financing	(178)	(204)	(228)	(241)	(258)
Change in cash	113	106	215	333	510

Source: Al Rajhi Capital

Figure 25 **Balance Sheet**

SAR mn	2022	2023E	2024E	2025E	2026E
Cash and cash equivalents	113	106	215	333	510
Prepayments	56	56	56	56	56
Accounts receivable, net	371	409	434	459	482
Inventories	516	515	531	548	561
Others	58	61	62	62	62
Total current assets	**1,115**	**1,148**	**1,297**	**1,459**	**1,671**
Capital Work in progress	110	110	110	110	110
Investment in Joint Venture	54	54	54	54	54
Property, plant and equipment, net	1,713	1,686	1,629	1,566	1,464
Right of Use Assets	56	54	53	53	53
Biological assets	735	801	871	945	1,005
Intangible Assets	30	36	32	29	27
Others	8	8	8	8	8
Total non-current assets	**2,707**	**2,750**	**2,757**	**2,765**	**2,721**
Total assets	**3,822**	**3,898**	**4,054**	**4,224**	**4,392**
Current liabilities					
Accounts payable	678	685	714	744	768
Borrowings	633	613	593	573	553
Lease Liability	16	16	16	16	16
Dividend payables	33	33	33	33	33
Zakat	77	77	77	77	77
Total current liabilities	**1,437**	**1,423**	**1,432**	**1,442**	**1,447**
Non-current liabilities					
Term debt	893	868	843	818	793
Lease Liability	39	38	38	39	40
Employee BO	157	157	157	157	157
Total non-current liabilities	1,090	1,063	1,038	1,014	990
Total Liabilities	**2,526**	**2,486**	**2,470**	**2,456**	**2,437**
Shareholders' equity					
Share Capital	1,016	1,016	1,016	1,016	1,016
Retained earnings/(Accumulated deficit)	56	173	345	528	716
Statutory reserve	194	194	194	194	194
Others	29	29	29	29	29
Total shareholders' equity	**1,295**	**1,412**	**1,584**	**1,767**	**1,955**
Total liabilities and shareholders' equ	**3,822**	**3,898**	**4,054**	**4,224**	**4,392**

Source: Al Rajhi Capital

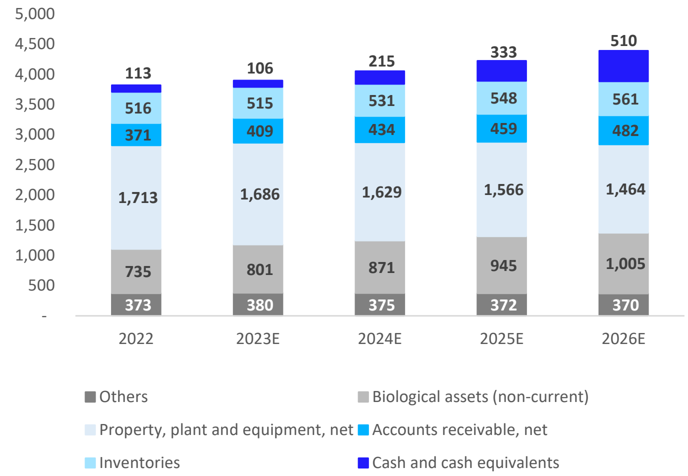
Figure 26 **Key Ratios**

SAR mn	2022	2023E	2024E	2025E	2026E
Return ratios					
ROE	7.4%	11.8%	16.7%	17.3%	17.5%
ROA	2.5%	4.3%	6.5%	7.2%	7.8%
ROCE	3.3%	5.7%	8.6%	9.5%	10.2%
Working Capital and other ratios					
Days Inventory Outstanding	99.9	97.2	94.7	92.3	90.0
Days receivables Outstanding	50.3	50.3	50.3	50.3	50.3
Days Payable Outstanding	131	129	127	125	123
Cash conversion Cycle	18.9	18.2	17.7	17.3	17.0
Asset turnover ratio (x)	0.7x	0.8x	0.8x	0.8x	0.8x
Leverage ratios					
Debt-Equity Ratio (x)	1.2x	1.1x	0.9x	0.8x	0.7x
Net Debt/EBITDA (x)	3.2x	2.6x	2.1x	1.7x	1.3x
Liquidity ratios	0.0x	0.0x	0.0x	0.0x	0.0x
Current ratio	0.8x	0.8x	0.9x	1.0x	1.2x
Quick ratios	0.3x	0.4x	0.5x	0.5x	0.7x
Valuation					
P/E	38.3	21.9	13.9	12.0	10.7
EV/EBITDA	11.0	9.3	8.4	7.9	7.5
FCF/sh	0.8	1.7	3.0	3.3	4.0
FCF Yield	2.2%	4.6%	8.4%	9.1%	11.1%

Source: Al Rajhi Capital

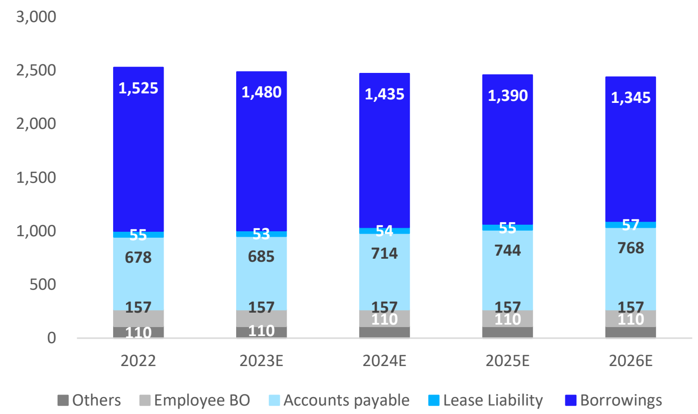
Appendix:

Figure 27 **Asset Breakdown (SAR mn)**



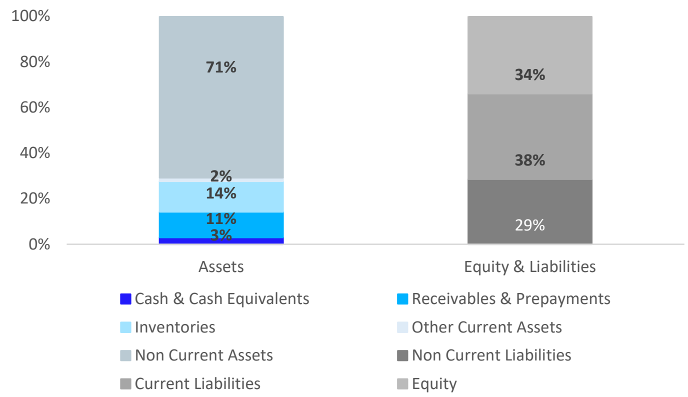
Source: Company data, Al Rajhi Capital

Figure 28 **Liabilities Breakdown (SAR mn)**



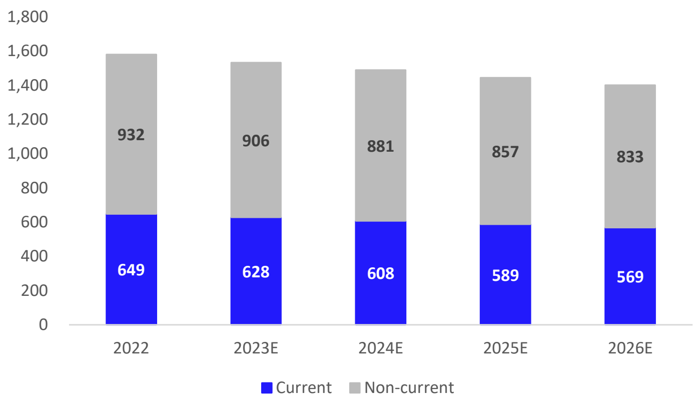
Source: Company data, Al Rajhi Capital

Figure 29 **Balance Sheet – 2022 (SAR mn)**



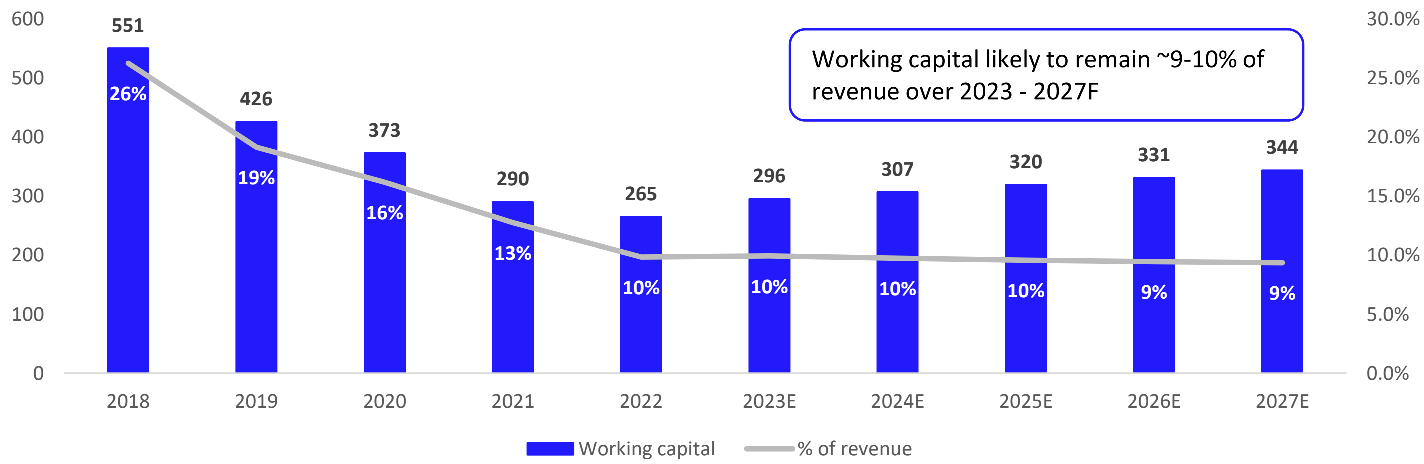
Source: Company data, Al Rajhi Capital

Figure 30 **Debt Breakdown, incl. Lease Liabilities (SAR mn)**



Source: Company data, Al Rajhi Capital

Figure 31 **Working Capital as a % of revenue – 2018 – 2027E**



Source: Company data, Al Rajhi Capital

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a Company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject Company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not ‘beneficially own,’ as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject Company in the past 12 months, nor received compensation for investment banking services from the subject Company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject Company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

 The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to

Disclaimer and additional disclosures for Equity Research

Disclaimer

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"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.

Contact us

Mazen AlSudairi, CFA
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
Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37