

National Agricultural Development Co.

Upgrade to Overweight

Overweight

Price Target (SAR): 35

Current: 28.7
Upside/Downside: 22.0% above current

Valuation Multiples	23A	24E	25E
P/E (x)	28.7	18.4	17.0
EV/EBITDA (x)	13.4	10.7	9.8

Major Shareholders % Ownership

Saudi Agricultural and Livestock Investment Co.	38.65
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Price Performance	1M	3M	YTD
Absolute	-11.4%	-9.3%	3.1%
Relative to TASI	-5.0%	-1.2%	6.5%

Earnings

SARmn	2023	2024E	2025E
Revenue	3,197	3,651	3,998
Revenue growth	18.7%	14.2%	9.5%
Gross profit	1,184	1,354	1,439
Gross margin	37.0%	37.1%	36.0%
EBITDA	579	686	702
EBITDA margin	18.1%	18.8%	17.6%
Net profit	302	472	509
Net margin	9.4%	12.9%	12.7%
EPS	1.0	1.6	1.7
P/E	28.7x	18.4x	17.0x
RoE	12.4%	12.3%	11.8%

Source: Company data, Al Rajhi Capital.

We revise our Fair Value of NADEC to SAR35/sh, (offering an upside of 22% to the last close) and upgrade our stance on the stock to Overweight. After reporting a topline CAGR of 12% between 2020 and 2023 (largely on account of improvement in market share in the dairy segment and higher selling price of dairy products) we expect NADEC's topline to grow at a CAGR of ~11% in the next three years. Our expectation is premised on the company successfully increasing its presence in the Dairy, Agri, and Protein segments. Furthermore, since NADEC already has significant cash balance and it plans on utilizing low-cost financing from SIDF and ADF for its upcoming projects, the company would have a substantial cash balance going forward to fuel further growth projects.

Double-digit topline CAGR: After reporting a topline CAGR of 12% between 2020 and 2023 (largely on account of improvement in market share in the dairy segment and higher selling price of dairy products) we expect NADEC's topline to grow at a CAGR of ~11% in the next three years. Our expectation is premised on the company successfully increasing its presence in the Dairy, Agri, and Protein segments.

- Within the dairy segment, we expect the company to capitalize on growing local demand and increase its presence in the HORECA segment. This in-turn is expected to result in a topline CAGR of ~6% in the next three years (Vs. ~13% in the last three years since we don't expect any major increase in prices of dairy products).
- In the agriculture segment, we expect a higher quantum of contract farming for industrial potatoes and wheat to positively contribute towards the company's profitability. To recall, the company recently re-entered the potato segment through contract farming for industrial potatoes. Furthermore, NADEC increased its wheat farming capacity in 2024 through both own farms and contract farming. Going forward, the combined impact of 1) the low base effect and 2) the management aggressively increasing its presence in the agriculture segment is expected to result in a 3-year revenue CAGR of ~22%.
- Finally in the protein segment, the commercial operation of the company's own slaughterhouse (by the end of 2024) and JV with United Feed (in 2025) can be expected to positively contribute towards the company's bottom-line growth.

However, as the company's topline gradually tilts towards relatively lower margin segments of Agriculture and Protein the overall gross margin for the company can be expected to adjust downward. Hence, we expect gross margins in 2025 to decline to 36% (Vs. 37.1% in 2024E). Additionally, since the company's main raw materials (skimmed milk powder and Alfalfa) are commodities whose prices can fluctuate over the longer-term we expect the long-term gross margins of NADEC to be ~34.

Increasing presence in the Protein Segment: In the highly fragmented market for red meat, NADEC plans to primarily target modern trade and food services. The company is planning to start commercial operation of its own slaughterhouse (for cows) by the end of 2024 at an approximate Capex of SAR100mn. Having its own slaughterhouse (Vs. using a 3rd part slaughterhouse) is expected to result in lower transportation costs and improve process efficiencies. Furthermore, the company has entered into a JV with United Feed Co. (UFC) to establish a SAR900mn vertically integrated (breeding, fattening, slaughterhouse, and packaging/processing) red meat (sheep & goats) facility. This vertically integrated facility is expected to achieve commercial operations in 2025 and is expected to positively contribute towards both the topline and bottom-line of NADEC

Recommendation and Valuation:

We revise our Fair Value of NADEC to SAR35/sh, (offering an upside of 22% to the last close) and upgrade our stance on the stock to Overweight. We value the company using the discounted cashflow method and P/E method, applying equal weight to both methods. For discounted cash flow we use a terminal growth rate of 3.5% (given NADEC's significant cash balance that can be utilized to fuel further growth opportunities). Furthermore, we use a target P/E multiple of 23x (largely in-line with company's recent history and comparable companies in the listed space).

Figure 1 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	35	50.0%	17	21.8%
P/E	34	50.0%	17	19.3%
Target price			35	
CMP			28.7	
Upside/(Downside)			22.0%	

Source: Al Rajhi Capital estimates.

Figure 2 **P/E Valuation method**

P/E Valuation method		
Target P/E	Multiple	23.0
Discounting factor	Factor	0.95
2024 EPS	SAR/sh	1.56
P/E based Fair Value	SAR/sh	34.2

Source: Al Rajhi Capital estimates.

Financials

Figure 3 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	3,197	3,651	3,998
<i>y-o-y growth</i>	18.7%	14.2%	9.5%
Cost of Sales	2,013	2,297	2,559
Gross Profit	1,184	1,354	1,439
<i>y-o-y growth</i>	46.4%	14.4%	6.3%
<i>margins</i>	37.0%	37.1%	36.0%
Operating Profit	345	444	460
<i>y-o-y growth</i>	134.3%	28.8%	3.6%
<i>margins</i>	10.8%	12.2%	11.5%
Net Income	302	472	509
<i>y-o-y growth</i>	216.3%	56.1%	7.9%
<i>margins</i>	9.4%	12.9%	12.7%
EPS	1.0	1.6	1.7

Source: Company data, Al Rajhi Capital.

Figure 5 **Ratios and Multiples**

	2023	2024E	2025E
RoE	12.4%	12.3%	11.8%
(Debt+Lease)/EBITDA (x)	0.7	0.9	1.2
P/E (x)	28.7	18.4	17.0
EV/EBITDA (x)	13.4	10.7	9.8

Source: Company data, Al Rajhi Capital.

Figure 4 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and cash equivalents	1,335	1,907	2,565
Inventories	560	644	701
Biological assets	57	94	94
Trade and other receivables	464	549	548
Current Assets	2,415	3,194	3,908
PPE & Biological assets	2,488	2,516	2,615
Intangible assets	24	26	24
Right-of-use assets	58	54	51
Investments	125	134	134
Total Assets	5,110	5,923	6,733
Trade and other payables	775	933	1,016
Loans	279	506	730
Current - Lease liabilities	18	16	14
Others	161	177	177
Current Liabilities	1,232	1,633	1,938
Non-Current - Lease liabilities	35	30	26
Loans and borrowings	98	50	50
Others	152	146	146
Total liabilities	1,517	1,859	2,160
Share capital	3,016	3,016	3,016
Retained earnings	344	813	1,322
Others	233	234	234
Total equity	3,593	4,064	4,573

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.

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