ALMARAI

CHANGE IN PRICE TARGET

Outlook remains intact, valuation full

Almarai's solid growth outlook remains intact with the poultry and infant milk business lines to play an increasing role in 2011. However, concerns over high global sugar and feed prices could pressure margins. We raise our PT to SR107/share and maintain our Neutral rating. At the current market price, the implied 2011 P/E is at 16.7x, a 30% premium to peers which we believe is fair.

- **Growth momentum to continue in 4Q10:** Off the back of investment in the Fruit Juice and Bakery businesses, we expect these lines to be the main supporters of the 17% YoY revenue growth expected in 4Q10 to SR1.8bn. The core dairy businesses are expected to continue recording double-digit sales growth, although this is expected to trend down in the coming quarters.
- **Focus shifting to food and Infant Milk:** Over the coming 6–12 months, Almarai's main focus is expected to be on its new Infant Milk line and ramping up scale in its poultry business. Additionally, we believe the focus for the company will increasingly move towards food in general (Poultry and Bakery) against the traditional dairy lines (Fresh Dairy, Cheese & Butter) due to higher growth prospects in the former.
- **Pressure on margins a concern – price increase in Juice a potential:** Higher sugar and feed costs have the potential to put pressure on Almarai margins in the coming few quarters. In 3Q10, net margins declined by 34 bps YoY to 23.2%, due to an increase in feedstock costs. The Fruit Juice line seems to be the most exposed to the increase in global sugar prices, although Almarai could increase product prices to counteract this.
- **PT up on peer valuation; maintain Neutral call:** Off the back of an increase of the target peer P/E, as well as other valuation parameters, our PT increases to SR107. We maintain our Neutral rating.

Financial summary

SR mn	2009A	2010E	2011E	2012E	2013E	CAGR (%)
Sales	5,869	6,944	7,893	8,876	9,855	13.8
Gross income	2,366	2,762	3,168	3,524	3,891	13.2
Gross margin (%)	40.3	39.8	40.1	39.7	39.5	
Operating income	1,279	1,491	1,725	1,932	2,144	13.8
Operating margin (%)	21.8	21.5	21.9	21.8	21.8	
Net income	1,097	1,308	1,555	1,768	1,975	15.8
Net margin (%)	18.7	18.8	19.7	19.9	20.0	
EPS (SR)	4.77*	5.69	6.76	7.69	8.59	15.8

Source: Company, NCBC Research estimates
*Based on 230 mn outstanding shares

NEUTRAL

Target price	**107**
Current price (SR)	**112.8**

STOCK DETAILS

M52-week range H/L (SR)	114/82
Market cap ($mn)	6,925
Shares outstanding (mn)	230
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	5.4	8.4	34.0
Rel. to market	3.6	6.1	27.7

Avg daily turnover (mn)	SR	US$
3M	23.2	6.2
12M	13.6	3.6

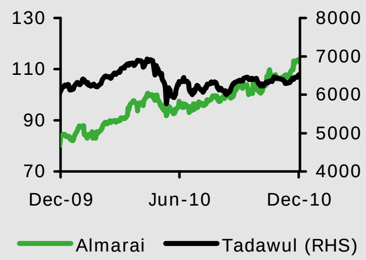
Reuters code	2280.SE
Bloomberg code	ALMARAI AB
	www.almarai.com

VALUATION MULTIPLES

	09A	10E	11E
Reported P/E (x)	23.6	19.8	16.7
Adjusted P/E (x)	23.3	19.6	16.5
P/B (x)	4.8	4.2	3.6
EV/EBITDA (x)	18.1	15.8	13.8
Div Yield (%)	1.8	2.0	2.4

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

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Key highlights from the analyst results call

Almarai continued with its market-leading levels of transparency by hosting its fourth post result conference call after the 3Q10 results. Following are the key findings from the call.

Core business

- A new bakery plant commissioned before Ramadan is currently under utilized therefore bakery net income was down in 3Q10. The new plant is expected to reach full capacity, going forward as Almarai intends to expand to other countries in the GCC region.
- Growth in revenue and net income is expected to be higher in 4Q10 YoY.
- EBIT margin is projected to expand in 4Q10; 2010 figure is expected to be in line with that in 2009.
- Long-Life, Fresh Dairy and Cheese & Butter businesses posted good growth in 3Q10 due to continued focus on enhancing distribution as there are certain areas in KSA where Almarai does not have an exposure. Also, better waste management helped the segments to grow. However, sales of dairy products, as a percentage of total sales, are declining due to higher sales of poultry.
- Prices of dairy feedstock are increasing and expected to be higher in 2011. However, management expects to pass this on to consumers.
- Expanded capacity at the Juice division is likely to cater to demand over the next 2–3 years.
- Almarai is looking at consolidating its operations as well as new acquisitions in 2010–11; aim remains to double its 2009 business by the end of 2015.

New businesses

- Poultry capacity is estimated to reach 20mn at the end of 2010 and increase to 28mn by the end of 2011. Thereafter, capacity is expected to be around 55mn by mid-2012 and 100mn by the end of 2013.
- Under the infant milk segment, Almarai targets to sell products in mid-2011. As of date, the company is constructing a state of the art facility for infant milk in KSA.
- The company has set up a joint venture (JV) with PepsiCo. Through this JV, dairy products would be sold under the Almarai brand. Juices would be sold under the brand name of Tropicana. Teeba and Beyti brands are likely to be eliminated, going forward.

Capex investments

- The company reiterated its capex spending of SR2bn, of which SR1.5bn has been incurred as of 9M10. Total capex is estimated to around SR8bn during 2010-14

Changes to our numbers

Estimates for 2010/11 fall slightly

With 3Q10 figures being slightly below our estimate, our estimates for 2010 and 2011 have also fallen marginally, largely on lower margins as a result of higher costs. On the top line, we have kept our numbers level with Bakery and Fruit Juice set to be the key growth drivers.

Exhibit 1: Changes to estimates

		Old 2010E	New 2010E	% Chg	% Gr	Old 2011E	New 2011E	% Chg	% Gr
Revenue	SR mn	6,935	6,944	0.1	18.3	7,893	7,893	0.0	13.7
Gross profits	SR mn	2,784	2,762	(0.8)	16.8	3,182	3,168	(0.4)	14.7
Net profit	SR mn	1,330	1,308	(1.6)	19.3	1,569	1,555	(0.8)	18.9
Target price	SR					100.0	107.0	7.0	N/A

Source: Company, NCBC Research estimates

Valuation

Price target increases due to higher peer multiple, valuation parameters

Our price target has increased by 7% to SR107 off the back of a higher price target when using a P/E based peer multiple for 2011 and adding the 30% premium to this which we believe Almarai deserves (this equates to 16.7x), as well as changes in various DCF valuation parameters. We maintain our Neutral call on the stock.

Financials

Exhibit 1: Income statement

In SR millions, unless otherwise stated

	2008	2009	2010E	2011E	2012E	2013E	2014E
Net sales	**5,030**	**5,869**	**6,944**	**7,893**	**8,876**	**9,855**	**10,784**
% change	33.4	16.7	18.3	13.7	12.4	11.0	9.4
Gross income	1,999	2,366	2,762	3,168	3,524	3,891	4,244
Gross margin (%)	39.7	40.3	39.8	40.1	39.7	39.5	39.4
Operating expenses	3,969	4,590	5,452	6,169	6,945	7,711	8,449
Operating profit	**1,061**	**1,279**	**1,491**	**1,725**	**1,932**	**2,144**	**2,335**
Operating margin	21.1	21.8	21.5	21.9	21.8	21.8	21.7
EBITDA	1,331	1,642	1,925	2,230	2,519	2,782	3,026
% change	32.0	23.4	17.2	15.9	12.9	10.5	8.8
Dep. & Amortization	270	363	433	505	587	638	691
Interest Income, net	(125)	(148)	(127)	(133)	(131)	(139)	(116)
Pre-tax profit	935	1,129	1,361	1,618	1,839	2,055	2,275
Tax (Zakat)	25	29	29	42	48	53	59
Net income	**910**	**1,097**	**1,308**	**1,555**	**1,768**	**1,975**	**2,187**
% change	36.4	20.5	19.3	18.9	13.7	11.7	10.7
EPS (SR)	**3.96***	**4.77***	**5.69**	**6.76**	**7.69**	**8.59**	**9.51**

Source: NCBC Research estimates * Based on 230mn shares

Exhibit 2: Balance Sheet

In SR millions, unless otherwise stated

	2008	2009	2010E	2011E	2012E	2013E	2014E
Cash & bank balances	247	508	318	298	246	299	569
Other current assets	1,553	1,706	1,876	2,053	2,237	2,404	2,565
Total current assets	1,800	2,213	2,194	2,352	2,483	2,703	3,135
Investments	489	963	957	982	1,018	1,065	1,117
Net fixed assets	5,343	6,282	7,661	8,880	9,621	10,112	10,357
Other assets	549	1,528	1,628	1,703	1,761	1,807	1,835
Total assets	**8,181**	**10,987**	**12,439**	**13,916**	**14,882**	**15,687**	**16,444**
Short-term loans	511	396	441	468	441	386	314
Other current liabilities	778	1,045	1,134	1,244	1,345	1,490	1,627
Current liabilities	1,289	1,440	1,575	1,712	1,786	1,876	1,941
Long-term loans	3,133	3,981	4,436	4,709	4,436	3,890	3,163
Other liabilities	128	166	156	168	183	197	214
Total liabilities	**3,261**	**4,147**	**4,592**	**4,877**	**4,619**	**4,087**	**3,376**
Share capital	1,090	1,150	2,300	2,300	2,300	2,300	2,300
Reserves & surplus	2,527	4,233	3,931	4,976	6,117	7,351	8,742
Shareholders' funds	3,617	5,383	6,231	7,276	8,417	9,651	11,042
Total equity & liab	**8,181**	**10,987**	**12,439**	**13,916**	**14,882**	**15,687**	**16,444**

Source: NCBC Research estimates

Exhibit 3: Cash flow statement

In SR millions, unless otherwise stated

	2008	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from op. (a)	1,016	1,802	1,805	2,134	2,406	2,723	2,963
Cash flow from inv.(b)	(1,572)	(1,711)	(1,908)	(1,799)	(1,386)	(1,175)	(965)
NOPLAT	1,033	1,246	1,460	1,680	1,882	2,089	2,275
WC	(313)	163	(80)	(68)	(82)	(23)	(24)
Capex	(1,656)	(1,335)	(2,000)	(1,900)	(1,500)	(1,300)	(1,100)
Depreciation	270	363	433	505	587	638	691
Free cash flow	(666)	437	(187)	218	886	1,404	1,842
Cash flow from fin.(c)	665	170	(87)	(355)	(1,071)	(1,495)	(1,728)
Debt	1,052	690	500	300	(300)	(600)	(800)
Net chg. in cash (a+b+c)	109	261	(190)	(19)	(52)	53	270
Cash at start of the year	138	247	508	318	298	246	299
Cash at end of the year	247	508	318	298	246	299	569

Source: NCBC Research estimates

Exhibit 4: Key Ratios

Per share, unless otherwise stated

	2008*	2009*	2010E	2011E	2012E	2013E	2014E
EPS	4.0	4.8	5.7	6.8	7.7	8.6	9.5
FCF per share	(2.9)	1.9	(0.8)	0.9	3.9	6.1	8.0
Div per share	1.7	2.0	2.2	2.7	3.2	3.5	3.7
Book value per share	15.7	23.4	27.1	31.6	36.6	42.0	48.0
Valuation ratios (x)							
P/E	28.5	23.6	19.8	16.7	14.7	13.1	11.9
Adjusted P/E	28.1	23.3	19.6	16.5	14.5	13.0	11.7
P/FCF	(38.9)	59.3	(138.6)	119.2	29.3	18.5	14.1
P/BV	7.1	4.8	4.1	3.5	3.0	2.7	2.3
EV/sales	5.8	5.1	4.4	3.9	3.4	3.0	2.7
EV/EBITDA	22.0	18.1	15.8	13.8	12.1	10.8	9.5
Div yield (%)	1.5	1.8	2.0	2.4	2.9	3.1	3.3
Profitability ratios (%)							
Gross margins	39.7	40.3	39.8	40.1	39.7	39.5	39.4
Operating margin	21.1	21.8	21.5	21.9	21.8	21.8	21.7
EBITDA margins	26.5	28.0	27.7	28.3	28.4	28.2	28.1
Net profit margins	18.1	18.7	18.8	19.7	19.9	20.0	20.3
ROE (%)	27.3	24.4	22.5	23.0	22.5	21.9	21.1
ROA (%)	12.5	11.4	11.2	11.8	12.3	12.9	13.6
Liquidity ratios							
Current ratio	2.3	1.8	1.8	1.8	1.8	1.7	1.7
Quick Ratio	0.7	0.5	0.5	0.5	0.5	0.5	0.4
Operating ratios (days)							
Inventory	132	127	119	116	112	108	106
Receivables outstanding	23	23	23	22	21	20	19
Payables outstanding	48	49	44	40	36	36	36
Operating cycle	156	150	142	138	133	128	125
Cash cycle	108	101	98	98	97	92	89

Source: NCBC Research estimates * Based on 230mn shares

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PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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