Almarai Co.

Result Flash Note 1Q-2017 April 2017

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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Almarai: Q1-2017 earnings below our estimate due to higher than expected impact on Dairy & Juice Sales; however, Production efficiencies and improving inputs costs in 1Q2017 supported gross margin with 140 bps increase. Higher other expenses and higher funding cost contributed negatively to the bottom line. The company's ability to achieve higher control on inputs costs contributes positively to margins and improves our future outlook on the company. Strong recovery in poultry segment to support the company's outlook. 'Neutral' recommendation is reiterated.

- 1Q-2017 net profit came below our expectation and showed a deviation of 8.4% from our estimates and 5.1% from the market consensus of SAR 345.9mn. Almarai Company posted net income of SAR 328.3mn; indicating an increase of 13.7%YoY and a fall of 39.7%QoQ. The company attributed the YoY growth to i) Lower cost of sales due to better cost management, lower commodity costs and enhanced production efficiencies. ii) Decline in Poultry losses by 72.1% to SAR 29.1mn compared to last year corresponding quarter losses of SAR 104.3mn iii) Decline in OPEX by SAR 28.0mn driven by higher cost control iv) an increase in Foreign Exchange gain by SAR 13.8mn. On the other hand, the deviation of 1Q2017 earnings with our estimates is attributed mainly to the impact of i) the implementation of IFRS accounting policies ii) higher funding cost of SAR 27.2mn due to higher SAIBOR rate. iii) Higher other expenses by SAR 29.3mn due to lower selling price of bull calves. iv) 3.2%YoY decline in Dairy & Juice sales which could be ascribed to the change in individual spending habits with the current purchasing power.
- The company reported a 0.28%YoY increase in revenue for 1Q2017 to SAR 3,383.5mn, which is below AJC estimate of 3,742mn. We believe the sales growth of Bakery and Poultry were offset by 3.2% decline in its largest segment (dairy & Juice) due to lower selling prices and devaluation of the Egyptian pound. Its other key segments registered significant growth in net profit, where Bakery led with a 19.6%YoY rise, followed by decline in poultry losses from SAR 104.3mn to losses of SAR2 29.1mn down 72.1%YoY. On the other hand, the implementation of 20% custom fees on imported poultry will make the local producer more competitive.
- The company's gross margin expanded 140 bps YoY to 34.8% despite lower costs in the comparison period. Almarai company reported a 4.4%YoY rise in gross profit for 1Q2017 to SAR 1.18bn. This is due to lower cost of sales, lower commodity costs and despite the higher alfalfa cost to support its dairy business, which resulted in higher costs by SAR 160mn in FY2016 according to the company. On the other hand, operating expenses increased by 0.1%YoY, driven by cost control and operational efficiencies.

AJC view: We believe that the company will continue to focus on business efficiency and cost optimization to mitigate the impact of future high fuel/electricity costs. In addition, the company would be able to phase out local consumption of Alfalfa production by 2019 and importing all of its animal fodder needs without any major impact on margins due to the company's higher control on inputs cost. The Company in 1Q2017 managed to reduce operating losses in the poultry segments by 72.1%; indicating higher operating efficiency and a sign of recovery in the near future. We reiterate our "**Neutral**" recommendation on Almarai with a PT of SAR 68.30/share indicating a potential downside of 5.3%. Based on our estimates, Almarai trades at forward PE and PB multiples of 24.9x and 4.3x, respectively, for FY17E, and the expected dividend yield for FY2017 is 1.3% (SAR 0.90 DPS).

Results Summary

SARmn (unless specified)	Q1-2016	Q4-2016	Q1-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Revenue	3,373.8	3,510.0	3,383.5	0.28%	-3.6%	-9.6%
Gross Profit	1,127.5	1,396.4	1,177.4	4.4%	-15.7%	-12.6%
Gross Margin	*33.4%*	*38.9%*	*34.8%*	-	-	-
EBIT	372.0	642.7	421.1	13.2%	-34.5%	-11.3%
Net Profit	288.7	544.3	328.3	13.7%	-39.7%	-8.4%
EPS	**0.34**	**0.68**	**0.39**			

Source: Company reports, Aljazira Capital

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Recommendation	**'Neutral'**
Current Price* (SAR)	71.95
Target Price (SAR)	**68.30**
Upside / (Downside)	**-5.3%**

*prices as of 20th of April 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E*
Revenue	13,795	14,699	14,351
Growth %	9.4%	6.6%	-2.4%
Net Income	1,916	2,080	2,185
Growth %	15.9%	8.6%	5.0%
EPS	2.39	2.60	2.75

Source: Company reports, Aljazira Capital *Based on IFRS accounting standards

Key Market Data

Market Cap (bn)	57.56
YTD %	3.3%
Shares Outstanding (mn)	800.0
52 Week (High)	74.00
52 Week (Low)	51.50

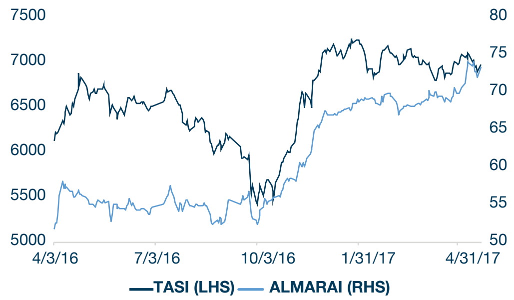
Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E*
Gross Margin	38.3%	39.7%	39.6%
Net Margin	13.9%	14.2%	15.2%
P/E	24.50x	26.53x	24.9x
P/B	4.53x	4.73x	4.30x
EV/EBITDA (x)	14.62x	15.01x	15.01x
Dividend Yield	1.3%	1.3%	1.3%

Source: Company reports, Aljazira Capital *Based on IFRS accounting standards

Price Performance



Source: Bloomberg, Aljazira Capital

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer