

Rating **Neutral**  
 12- Month Target Price **SAR 61.00**

## ALMARAI COMPANY

1Q2017 First Look

### Topline Stress Concerning

Almarai reported lackluster 1Q results as both topline and bottomline missed our and market estimates. Revenues increased by just +0.3% Y/Y to SAR 3.4 billion. 1Q results have seen reclassification of some accounting heads to bring them in line with IFRS reporting standards. The dairy & juice segment is suffering (-3.2% Y/Y) similar to 4Q, attributed mainly to weakness from the Egyptian market while the Saudi market is intact. Both gross and net margins have expanded leading to a +4% Y/Y and +13% Y/Y rise in gross and net profits respectively. Better efficiencies and lower commodity prices have come into play but their effects may not be significant going forward. Net income at SAR 322 million missed our SAR 351 million forecasts as well as street consensus. We believe the stock rally at the Tadawul is now overdone. Although we continue with our Neutral recommendation for now with a SAR 61.00 target, any further upside without any change in fundamentals may force us to downgrade.

#### Revenues inch up +0.3% Y/Y

Apathetic revenue growth in the recent past is becoming a cause for concern. Dairy and juice segment has shown further weakness with sales down -3.2% Y/Y. While the Saudi market is largely unharmed, Egypt has taken a beating with the Pound devaluation impacting revenues. Fresh juice sub-segment is down -18% Y/Y, which also reflects lower discretionary consumer spending. Bakery, poultry and the others segment have posted decent Y/Y sales growth at +4%, +11% and +175% respectively. Resultantly, total revenues grew by a meager +0.3% Y/Y to SAR 3.4 billion. While KSA sales have advanced +5% Y/Y; Egypt is down -39% Y/Y.

#### Margins grow, outlook uncertain

Gross margins expanded by 140 bps in the quarter to 34.8% while operating margins also increased similarly. Lower commodity costs continue to benefit the Company coupled with better production efficiencies. Alfalfa costs have started to rise and the lag benefit of lower commodity prices may be nearing completion soon. Thus, gross margin expansion going forward is likely to be limited over the next few quarters. Gross profit is up +5% Y/Y to SAR 1.2 billion. Selling, distribution and other admin expenses have declined by SAR 29 million Y/Y on the back of cost control and improved efficiencies. Operating profit at SAR 421 million is up +13% Y/Y. Rising SAIBOR Y/Y caused SAR 27 million higher funding costs.

#### Bakery and poultry segments perform well

Regulatory measures by the government on poultry to prevent dumping have aided Almarai in terms of both volumes and pricing. Losses from the segment are down -72% to SAR (29) million, moving towards eventual break even. Bakery segment benefits from better cost management and availability of new capacity driving sales.

#### Valuations too rich to justify

+13% Y/Y net income growth to SAR 322 million is good but missed both our and market forecasts. Net margins are up 110 bps Y/Y to 9.5%. Trading at 27.3x 2017E earnings with a meager dividend yield, we believe the stock rally is overdone. Continue to recommend Neutral with a heightened downgrade risk.

#### Expected Total Return

Price as on April-24, 2017	SAR 72.75
Upside to Target Price	-16.2%
Expected Dividend Yield	1.4%
Expected Total Return	-14.8%

#### Market Data

52 Week H/L	SAR 74.50/51.50
Market Capitalization	SAR 58,200 million
Shares Outstanding	800 million
Free Float	36.29%
12-Month ADTV	682,629
Bloomberg Code	ALMARAI AB

#### 1-Year Price Performance



Source: Bloomberg

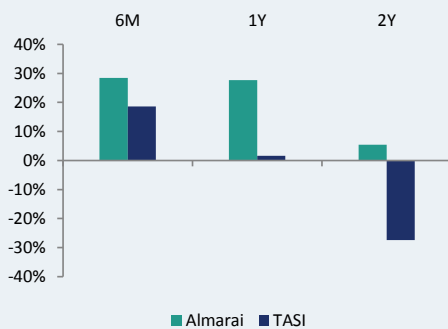


Fig in SAR mln	RC Est.	Actuals
Sales	3,668	3,383
Gross Profit	1,311	1,177
Net Income	351	322
EPS (SAR)	0.44	0.40

#### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Sales	14,699	15,650	16,793
EBITDA	4,441	4,242	4,424
Net Profit	2,081	2,120	2,097
EPS (SAR)	2.60	2.65	2.62
DPS (SAR)	0.90	1.00	1.00

#### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS	16.29	18.03	19.64
ROAE	16.6%	15.4%	13.9%
ROAA	7.4%	6.4%	5.6%
EV/EBITDA	15.2x	16.0x	15.3x
P/E	27.8x	27.3x	27.6x

## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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