Almarai Company
Food-Diversified – Industrial
ALMARAI AB: Saudi Arabia
24 April 2017

الراجحي المالية
Al Rajhi Capital

US$15.35bn	36%	US$4.908mn
Market cap	Free float	Avg. daily volume

Target price	61.0	-16.6% over current
Current price	73.2	as at 23/4/2017

Existing rating

Underweight | Neutral | Overweight

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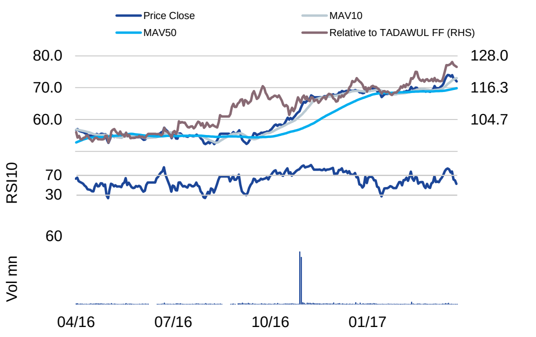
Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/14A	12/15A	12/16A	12/17E
Revenue (mn)	12,606	13,795	14,699	15,742
Revenue growth	12.4%	9.4%	6.6%	7.1%
EBITDA (mn)	3,452	3,850	4,337	4,564
EBITDA growth	10.4%	11.5%	12.6%	5.2%
EPS	2.1	2.4	2.6	2.8
EPS growth	11.5%	14.4%	8.6%	8.7%

Source: Company data, Al Rajhi Capital

Almarai
Q1: Tepid revenue growth continues

Almarai's y-o-y revenue growth, which slowed considerably in the last 2 quarters to approx. 1.0 - 2.5% (partly due to EGP devaluation), slowed further to just 0.3% y-o-y in Q1 2017 due to sustained weakness in the flagship Dairy and Juice segment (down 3.2% y-o-y) and slowing growth in Bakery segment (up 3.7% y-o-y). Apart from tepid revenue growth, gross margin benefits are declining as the raw materials costs, though still declining, may bottom out in the next few quarters. Gross profit grew 4.4% y-o-y (our estimate: 7.4%) on the back of 140 bps margin expansion y-o-y, lower than our estimate of 200 bps. The cycle of lower commodity prices has already played out for the last 8 quarters and hence we are conservative in our gross margin assumptions going forward, which may face pressure in 2HFY17 due to an already low commodity cost base and increasing alfalfa costs. Almarai's valuations are stretched in our view – single digit earnings profile and approx. 15-16% RoE is being rewarded with 26x forward P/E, in an environment of slowing revenue growth and increasing margin risks. We re-iterate our Underweight rating on the stock with a target price of SAR61.0 per share (16.6% downside from current price). Poultry turnaround (breakeven in 2018) is already built into our estimates and hence is not a stock trigger, nor is the reversal of allowances cut which mainly benefits discretionary consumption. The major trigger for the stock (and which can justify the current valuations) is increase in prices of fresh dairy going forward, if permitted by authorities.

- **Poultry segment shows signs of turnaround:** In-line with management guidance, poultry segment's performance is inching towards breakeven, with Q1 recording the lowest ever quarterly loss since 2013 on the back of improved operational efficiency and lower mortality rates. The segment also clocked healthy revenue growth of 11% y-o-y.

- **High operating efficiency/ cost control:** The company demonstrated impressive cost control and operating efficiency, with SG&A costs at just SAR716mn i.e. 21.2% of revenue, 260 bps lower than our estimate of 23.8%.

- **Net profit:** While operating profit at SAR462mn was in-line with our estimate of SAR468mn, net profit coming in SAR33mn lower than our estimate is mainly attributable to other expenses being SAR31mn higher than our estimate (due to lower selling price of bull calves).

- **Valuation and rating:** We continue to maintain SAR61/ share target price on Almarai and re-iterate our Underweight rating on the company.

Figure 1 Almarai: Summary of Q1 2017 results

	Q1 2016	Q4 2016	Q1 2017	% chg y-o-y	% chg q-o-q	ARC est
Revenue	3,373.8	3,509.9	3,383.5	0.3%	-3.6%	3,547
Gross profit	1,127.5	1,396.4	1,177.4	4.4%	-15.7%	1,312
Gross profit margin (%)	33.4%	39.8%	34.8%			37.0%
Operating profit	372.0	642.7	421.1	13.2%	-34.5%	468
Net profit	288.7	544.3	328.3	13.7%	-39.7%	361

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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