



EVENT FLASH

Record high 1Q profit on margin expansions

Almarai reported a broadly in-line set of 1Q17 results, with net income increasing by 13.7% YoY (-39.7% QoQ) to SR328.3mn. This is the highest 1Q net income on record. This compares with the NCBC estimates of SR348mn. The growth was mainly driven by gross margin expansions due to lower commodity costs and higher efficiencies, despite flat YoY sales.

- NCBC view on the results:** Almarai announced a broadly in-line set of results, with net income increasing 13.7% YoY (-39.7% QoQ) to SR328.3mn. This compares to the NCBC and consensus estimates of SR348mn and SR337mn, respectively. This is the highest 1Q net income on record. With sales increasing 0.3% YoY, we believe the growth came mainly from gross margin expansions due to lower commodity costs and higher efficiencies.
- Sales remained flat YoY at SR3,384mn (+0.7% YoY), 6.0% lower than the NCBC estimates of SR3,601mn. We believe sales were mainly impacted by the weakening Egyptian Pound and lower exports. Revenue from Saudi and GCC countries increased by +4.7% YoY and +2.1% YoY, respectively, while other countries declined -33.8% YoY.
- Poultry sales continued to increase in 1Q17 by +10.6% YoY to c. SR355mn. Moreover, losses declined to SR29.1mn in 1Q17 from SR104.3mn in 1Q16, supported by better market conditions and lower mortality rates. We believe the increase in custom duties in 1Q17 on imported poultry to 20% vs 5% previously and banning Brazilian poultry imports supported the market conditions for the company. Almarai's poultry segment is expected to breakeven in 2017, with a target breakeven volume of 120mn birds.
- Gross margins of Almarai expanded +138bps YoY to 34.8%, lower than our estimates of 36.8%. The expansion in margins is attributed to favourable commodity prices, along with effective cost management. As a result of this, gross profits increased +4.4% YoY to SR1,177mn. Opex remained flat at SR756.3mn, growing at a marginally slower rate than sales growth. This led to an EBIT margin expansion of +142bps YoY to 12.4% in 1Q17, in-line with our expectations. EBIT increased +13.2% YoY to SR421mn.
- Bakery reported the highest growth in net profit of +19.6% YoY, supported by cost optimization and market conditions. Dairy and Juice net income declined -11.1% YoY, as the segment continues to be impacted by 1) higher alfalfa costs, 2) weakening market conditions from lower allowances and higher competition and 3) weakness in the Egyptian Pound.

1Q17 Results Summary

SR mn	1Q17A	1Q17E	1Q16A	4Q16A	% YoY	Var*(%)	% QoQ
Revenues	3,384	3,601	3,374**	3510^	0.3	(6.0)	(3.6)
Gross income	1,177	1,323	1,128**	1396**	4.4	(11.0)	(15.7)
Gross margin (%)	34.8%	36.8%	33.4%	39.8%	1.38	(1.95)	(4.99)
EBIT	421	445	372**	643**	13.2	(5.3)	(34.5)
Net income	328	349	289**	544**	13.7	(5.9)	(39.7)
Net margin (%)	9.7%	9.7%	8.6%	15.5%	1.15	0.02	(5.80)
EPS (SR)	0.41	0.44	0.36	0.68	13.7	(5.9)	(39.7)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts ; **Restated; ^calculated using 3.6% decline

NEUTRAL

Target price (SR)	52.7
Current price (SR)	72.0
Upside/Downside (%)	(26.8)

STOCK DETAILS

M52-week range H/L (SR)	74/52
Market cap (\$mn)	15,370
Shares outstanding (mn)	800
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.5	5.1	28.4
Rel. to market	3.8	4.7	22.4

Avg daily turnover (mn)	SR	US\$
3M	18.2	4.9
12M	42.5	11.3

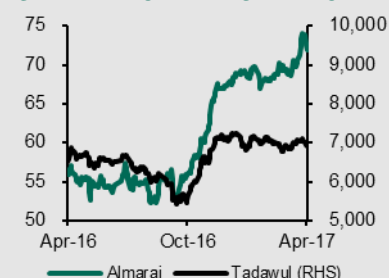
Reuters code	2280.SE
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VALUATION MULTIPLES

	16A	17E	18E
Reported P/E (x)	27.7	27.6	24.4
Adjusted P/E (x)	26.5	27.1	24.0
P/B (x)	4.4	3.4	3.1
EV/EBITDA (x)	15.5	17.5	15.9
Div Yield (%)	1.3	1.4	1.6

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
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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