



**US\$15.38bn** Market cap  
**36%** Free float  
**US\$14.32mn** Avg. daily volume

Target price **55.00** -7% over current  
 Current price **59.00** as at 13/7/2021

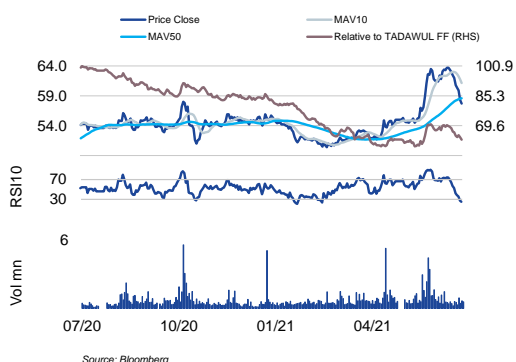
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Existing rating

**Underweight** **Neutral** **Overweight**

Performance



Earnings

Period (SARmn)	12/20A	12/21E	12/22E
Revenue	15,357	15,389	16,258
Revenue growth	7%	0%	6%
EBITDA(Mn)	3,916	4,281	4,659
EBITDA growth	-6%	9%	9%
Net Profit	1,984	1,818	2,070
Net Profit margin	12.9%	11.8%	12.7%
EPS	1.98	1.82	2.07
EPS growth	10%	-8%	14%
DPS	1.00	0.83	0.94
Payout Ratio	50%	46%	46%
ROE	12%	10%	11%
P/E	26.86	32.24	28.31

Source: Company data, Al Rajhi Capital

## Almarai

### Missed Estimates; Remain Neutral

Almarai's Q2 2021 earnings missed our (SAR621mn) and consensus estimate (SAR619mn) by ~22%. The key reason for this miss was gross margin dilution by 376bps (33.85% in Q2 2021 V/s 37.61% in Q2 2020), the reason for gross margin erosion was structural adjustments to subsidy reduction, higher feed cost due to rising soya and corn prices and adverse channel mix. SG&A increased marginally by SAR2mn y-o-y mainly an outcome of cost control initiatives undertaken by the company. Regarding sales channel mix, the food service recorded a 50% gain as the restaurants continued to operate normally during the quarter, on the other side the retail channel was adversely impacted as it reported a double-digit decline from a large base last year. Deleveraging and lower interest environment lowered the interest expense by SAR27mn thereby supporting the net margins. The silver lining however was continued growth in Egypt and Jordan which continued its strong growth in Q2 2021.

**Summary of Q2 2021:** Top-line declined 2% y-o-y to SAR4.006bn driven mainly due to 8%/4%/4%/9% decline in KSA/UAE/Kuwait/Oman while Egypt/Jordan grew 37%/40% y-o-y. In terms of revenue breakdown by key categories; the juice segment witnessed the strongest growth of 8% y-o-y, long life dairy segment witnessed a growth of 6% y-o-y while food/poultry/bakery segment reported a negative growth of -25%/-8%/-5% y-o-y. Operating profit declined 21% y-o-y to SAR602mn led by gross margin dilution. The company reduced the debt by SAR2bn which led to a reduction in overall interest expense by SAR27mn, consequently the overall net income declined 25% y-o-y to SAR482mn in Q2 2021.

Figure 1 Almarai 2Q 2021 earnings summary

(SAR mn)	2Q 2021	2Q 2020	Y-o-Y	1Q 2021	Q-o-Q	ARC est	vs ARC
Revenue	4,006	4,082	-2%	3,645	10%	4,112	-3%
Gross profit	1,356	1,535	-12%	1,235	10%	1,480	-8%
Gross margin	34%	38%		34%		36%	
Operating profit	602	759	-21%	502	20%	724	-17%
Operating margin	15%	19%		14%		18%	
Net profit	482*	644	-25%	386	25%	621	-22%
Net margin	12%	16%		11%		15%	

Source: Company data, Al Rajhi Capital, (Including one-off gains of ~SAR6mn)

**Valuation and Key Risks:** Post Q2 2021 earnings we revise our forecast as we expect current level of gross margins to be the new normal for Almarai. We value Almarai with equal weightage given to DCF and PE based relative valuation. Our DCF tp based on 2% terminal growth and 7.83% WACC is SAR61/sh while relative valuation tp based on 26x FY 2021e EPS stands at SAR48/sh. Thus, equal weighted tp stands at SAR55/sh (same as earlier) which implies 7% downside from cmp of SAR58.60. We maintain "Neutral" rating on Almarai.



**Key downside risks to our valuation:** The dairy industry is facing the problem of over supply currently; apart from the rising agro-commodity prices are increasing the input costs which in turn is impacting gross margins adversely. If these prices continue to rise then it will further erode the margins and affect our valuations negatively.

**Key upside risks to our valuation:** If Almarai manages to increase market share amid tough market conditions then it will improve its overall revenue and profit, this could pose an upside risk to our valuation.



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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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