الراجحي المالية
Al Rajhi Capital

US$12.49bn	36%	US$9.60mn
Market cap	Free float	Avg. daily volume

Target price	51.0	+9.4% over current
Current price	46.6	as at 13/10/2019

Research Department
Abdulmalik Alsalem
Tel +966 11 836 5465, AlsalemA@alrajhi-capital.com

Existing rating

Underweight	Neutral	Overweight

Almarai

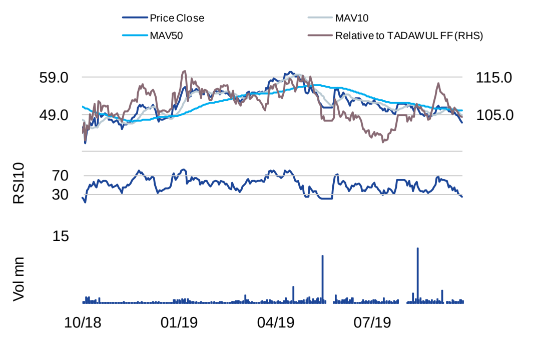
Q3: Earnings broadly in-line

Almarai's earnings continued in a declining trajectory and dropped 8.4% y-o-y to SAR581mn (largely in-line with our estimate of SAR566mn) as the Dairy and Juice segments remained under pressure during the quarter due to higher input costs of alfalfa, increased labour and finance costs. However, the Poultry segment maintained its strong performance with a net profit growth of ~15% y-o-y, mainly supported by HORECA sales, while a significant improvement in the Bakery segment was witnessed with profit growth of ~29% y-o-y. We believe that the company's earnings performance will improve in the coming periods, given its diversified product base, and increased penetration in high profit margin segments like bakery (Q3 2019: 17% vs. Q3 2018: 14%) and poultry (Q3 2019: 12% vs. Q3 2018: 11%). However, the Dairy and Juice segments are expected to remain under pressure, due to unfavourable market conditions, higher input costs and stiff competition. Post largely in-line Q3 results, we maintain our target price at SAR51.0 per share and remain Neutral on the stock.

Q3 2019 Results: Top-line grew 7.7% y-o-y to SAR3,573mn (marginally higher than our estimate of SAR3,456mn), primarily driven by increased revenues across the segments. The Dairy & Juice segment (~71% of total revenue) increased 6% y-o-y, likely due to recovery in market share in the milk segment. However, general weakness in Juice market continued in 2019. The poultry segment continued to improve by 7.7% y-o-y, mainly through HORECA channel, while the bakery segment posted a rise of 10% y-o-y. Despite higher top-line, gross margin contracted 180bps to 40.4% in Q3 2019, impacted by higher cost of Alfalfa, and labour cost. Further, operating margin lowered by 194bps to 20.9%, due to higher selling and marketing expenses. In addition, the company witnessed an increase in interest by SAR30.3mn, mainly due to higher interest-bearing debt and higher average rate as compared to Q3 2018. Consequently, net income dropped to SAR581mn (-8.4% y-o-y), although it was higher than our expectation, mainly due to top-line beat.

Segment wise profits: The Dairy and Juice segment's bottom-line declined 14.2% y-o-y due to continued weakness in the juice market, coupled with higher alfalfa cost, and increased financial costs. The Bakery segment's profit increased sharply by 29% to reach SAR76mn – recording the highest level since Q2 2017. The Poultry segment's earnings also improved ~15% y-o-y, aided by higher top-line along with cost optimization efforts and lower mortality rate.

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/17A	12/18A	12/19E	12/20E
Revenue (mn)	13,936	13,723	14,237	14,903
Revenue growth	*-2.8%*	*-1.5%*	*3.7%*	*4.7%*
EBIT (mn)	2,583	2,461	2,582	2,624
EBIT growth	*2.6%*	*-4.7%*	*4.9%*	*1.6%*
EPS	2.18	2.01	1.96	2.01
EPS growth	*-18.7%*	*-7.9%*	*-2.6%*	*2.7%*

Source: Company data, Al Rajhi Capital

Figure 1 Almarai Q3 results

	Q3 2018	Q2 2019	Q3 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	3,317	3,767	3,573	7.7%	-5.2%	3,456
Gross profit	1,399	1,467	1,444	3.2%	-1.6%	1,417
Gross profit margin (%)	42.2%	38.9%	40.4%			41.0%
Operating profit	757	739	746	-1.5%	1.0%	728
Net profit	635	583	581	-8.4%	-0.2%	566

Source: Company data, Al Rajhi Capital

Valuation: We continue to value Almarai on equal weights for DCF (3.0% terminal growth, 36% debt in capital structure and 7.3% WACC) and relative valuation (26x FY19 EPS), yielding the target price of SAR51 per share, implying 8.9% upside from current price. The stock is currently trading at a P/E of 23.9x and 23.3x, based on our 2019 and 2020 expected EPS, near to its 3-year average forward P/E of 23.9x. We remain neutral on the stock, given the challenging market environment amid weak consumer spending and material costs pressure. However, this would be partially offset by growing Poultry and Bakery segments. Meanwhile, the management's strategy of improving sales operations efficiency and cost savings program should aide the profitability, in our view.

Risks: Downside risks include (a) increase in raw material prices, and (b) significant decline in market size amid expat levy and stagnant population. Upside risks include (a) gains in market size despite increase in product prices, (b) increase in export revenues amid economic recovery in GCC countries, and (c) significant improvement in the consumer sentiments amid various reforms in the Kingdom.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not ‘beneficially own,’ as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company (“Al Rajhi Capital”) of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital’s clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi
Head of Research
Tel : +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.