

Almarai Co.

Strong growth, yet considerable risks ahead

Almarai reported strong top-line and bottom-line performance in Q1 2020 thanks to increased demand on food, long-life dairy, and poultry segments. Revenue growth recorded 8.6% Y-o-Y while net income picked up by 14.0%. We expect Almarai to benefit from the current lockdown situation, reflecting in higher revenues from modern and traditional channels. However, lower demand from HORECA sales channel and a potential slowdown in juice spending are expected to weigh down on revenue growth in Q2 2020. We maintain our Neutral recommendation for Almarai with a target price of SAR46.0/share.

Almarai's revenues grew by 8.6% Y-o-Y driven by cheese & butter (+20% Y-o-Y), long life dairy (+18% Y-o-Y), and poultry (+12% Y-o-Y) segments. It is worth mentioning that the juice segment reported positive growth (+5% Y-o-Y) for the first time in 3 years. Revenue growth was supported by the strong growth in modern trade and food services channels, which delivered 16% sales growth each. Growth in modern trade was largely volume-led growth as Almarai witnessed rise in demand in the last 2-3 weeks of Q1 2020 amid increased consumer demand on groceries, while food services channel growth was also supported by higher pricing during the quarter.

Almarai's gross profit stood at 34.9% (same as Q4 2019), yet considerably below historical averages as higher alfalfa costs, labor costs, and higher input costs continue to weigh down on margins. Operating profit recorded SAR513mn during Q1 2020, up from SAR486mn in Q1 2019 (+5.4% Y-o-Y). EBIT growth came in below revenue growth due to higher input and labor costs coupled with the recognition of higher bad debt provision, given the current uncertain situation. Net income hiked by 14.0% Y-o-Y and 22.8% Q-o-Q (a 3-year high in terms of growth) thanks to lower funding costs and high operating leverage.

Almarai is strongly positioned to benefit from the current lockdown as eating from home increases, which is expected to reflect positively on modern and traditional trade sales channels. However, the company is facing considerable risks arising from COVID-19, which is expected to be most evidently reflected in the food services sales channel (HORECA) sales; Revenue from HORECA accounted for 13% of Almarai's revenue and contributed around 23% to top-line growth in Q1 2020. We expect revenue from HORECA to be slashed by more than 50% in Q2 2020 on the back of lower restaurants and hotels activity. This is particularly set to impede the fast growth of the poultry segment, which generates almost half its revenue from the food services channel. Juice revenues might also slowdown as consumers currently cut discretionary spending. We expect cost pressures to continue through 2020, coupled with slower Y-o-Y revenue growth due to lower HORECA revenues. We maintain our Neutral recommendation for Almarai with a target price of SAR46.0/share.

14 April 2020

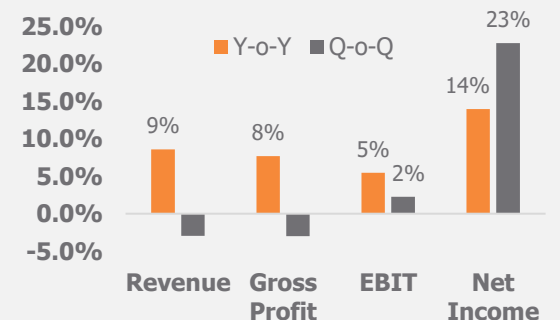
Recommendation **Neutral**

Previous Recommendation	Neutral
Current Price (13-04-2020)	SAR47.3
Target Price (52 Weeks)	SAR46.0
Upside/ (Downside)	(2.7%)
Shariah Compliance	Pass

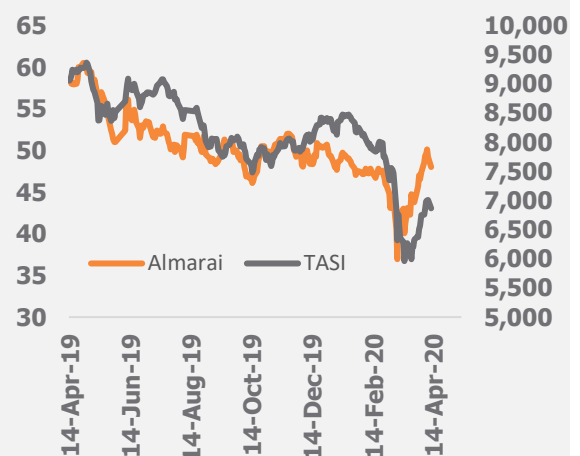
Key Financial Ratios

Ratio	Q1 2020	Q4 2019	Q1 2019
Revenue Growth	8.6%	11.0%	2.4%
Gross Margin	34.9%	34.9%	35.2%
EBIT Margin	14.3%	13.5%	14.7%
Net Margin	10.2%	7.8%	10.2%

Key Financial Results (Q1 2020)



Share Price Performance



Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

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