

Almarai Company

Higher revenue supported the bottom line

Rating : ACCUMULATE

First Look Note – 2Q22

Sector: Food & Beverage

2Q22 Net Profit in line with estimate

Almarai net profit rose 7.9% YOY to SAR 520.4 Mn in 2Q22, in line with our estimate of SAR 523 Mn. The increase is mainly due to an increase in the top line of the Poultry and Bakery Segment amid better economic outlook, resumption of schools, and rise in local tourism partially offset by increase in commodity cost.

P&L highlights

Sales increased 15.1% YOY to SAR 4,610 Mn in 2Q22 driven increase across all the segments especially, Poultry and Bakery Segment. Positive growth was visible in all categories due to a better economic prospect, resumption of educational institutions, and rise in local tourism. All regions contributed positively to the company's top line, while revenue from KSA and UAE rose 16% and 20% YOY, respectively in 2Q22. Cost of sales increased 18.5% YOY to SAR 3,141 Mn in 2Q22 due to higher input costs, led by increase in price of grain, soy, and dairy products, particularly butter and alfalfa. Resultantly, the gross profit rose 8.4% YOY to SAR 1,469 Mn in 2Q22 with a gross margin (GPM) of 31.9% in 2Q22 compared to 33.8% in 2Q21. Decline in gross margin is led by increase in commodity costs. Selling & Distribution expenses increased 5.0% YOY to SAR 788 Mn in 2Q22 in line with volume growth. Thus, the operating profit grew 12.4% YOY to SAR 696 Mn, but the operating profit margin fell to 15.0% in 2Q22 from 15.4% in 2Q21. Investment & other Income rose 64.3% YOY to SAR 33 Mn in 2Q22. Finance cost increased 3.9% YOY to SAR 97 Mn in 2Q22 due to increase in benchmark interest rates. Recorded impairment expense of SAR 13 Mn in 2Q22 compared to a reversal of SAR 6 Mn in 2Q21. Zakat grew from SAR 18 Mn in 2Q21 to SAR 24 Mn in 2Q22 due to higher profit.

Balance Sheet highlights

Working capital as percentage of total revenue stood at 21% amounted to SAR 3,641 Mn in 2Q22 compared to SAR 2,609 Mn in 2021 due to increase in inventory of key commodities and higher inventory valuation. Free cash flow decreased 63.4% YOY to SAR 378 Mn in 2Q22 due to inventory build-up and impact of the recent acquisitions. Net debt increased to SAR 10.30 Bn in 2Q22 from 9.56 Bn in the 1Q22 with a net debt to EBITDA ratio of 2.9x in 2Q22.

Target price and rating

We revised our rating to ACCUMULATE on Almarai company with a target price of SAR 56.00. Almarai maintained its market leadership in all the segments except, UHT milk throughout 2Q22. KSA accounts for 65% of overall revenue, other GCC countries account for 20% and remaining from other countries. The boost in volume was fueled by excellent performance throughout Ramadan coupled with improved economic prospects, resumption of educational institutions, and rise in local tourism positively impacted growth across all categories. The profit of bakery segment grew significantly 124.6% YOY to SAR 79 Mn in 2Q22 due to increase in demand of single-

Recommendation

Current Price (19-July-22)	50.40
Target Price	56.00
Upside/Downside (%)	+11%

Stock Information

Market Cap (mm)	50,400.00
Paid Up Capital (mm)	10,000.00
52 Week High	59.90
52 Week Low	46.25
3M Avg. daily value (AED)	30,651,010



Financial Ratios

Dividend Yield (12m)	1.98
Dividend Pay-out (%)	63.96
Price-Earnings Ratio (x)	30.15
Price-to-Book Ratio (x)	3.18
Book Value (AED)	15.84
Return-on Equity (%)	10.46
Earning Per Share (AED)	1.67
Beta	0.68

Stock Performance

5 Days	0.40%
1 Months	-4.00%
3 Months	-1.18%
6 Months	0.80%
1 Year	-14.43%
Month to Date (MTD)	-3.82%
Quarter to Date (QTD)	-3.82%
Year to Date (YTD)	3.38%

serve products owing to resumption of schools. Dairy and Juice category profit fell 7.1% to SAR 359 Mn in 2Q22 due to cost inflation in dairy commodities. Poultry segment is expected to benefit from increase in capacity which will aid the volume growth end of 2022. Over the years, the company intends to minimize its capex and boost free cash flow. Recently, the key concern for Almarai is the rising costs for dairy and feed prices. Although the current trend is normalizing and even reversing for some of the commodity prices. Considering all these factors, we assign an ACCUMULATE rating on the stock.

Almarai - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	25.4	28.2	25.7	32.6	28.7
PB(X)	3.7	3.5	3.3	3.2	3.2
EV/EBITDA	12.9	12.8	13.2	13.4	12.8
Dividend yield	1.7%	1.7%	2.0%	2.0%	2.0%

FABS Estimates & Co Data

Almarai - P&L

SAR mm	2Q21	1Q22	2Q22A	2Q22F	Var	YOY Ch	QOQ Ch	2021	2022F	Ch
Sales	4,006	4,503	4,610	4,632	-0.5%	15.1%	2.4%	15,850	17,037	7.5%
Cost of Sales	-2,650	-3,172	-3,141	-3,149	-0.2%	18.5%	-1.0%	-10,790	-11,585	7.4%
Gross profit	1,356	1,332	1,469	1,484	-1.0%	8.4%	10.3%	5,059	5,452	7.8%
Selling & overhead expenses	-740	-752	-777	-788	-1.3%	5.0%	3.3%	-2,947	-3,108	5.5%
Operating profit	616	580	692	696	-0.5%	12.4%	19.4%	2,112	2,344	11.0%
Investment & other income	-20	-23	-33	-23	41.2%	64.3%	40.7%	-87	-99	15.0%
Financial costs (net)	-93	-90	-97	-110	-12.0%	3.9%	8.3%	-346	-348	0.4%
Impairment	6	-10	-13	-5	139.8%	-325.3%	24.0%	-12	-10	-14.3%
Profit before zakat	508	457	550	557	-1.3%	8.2%	20.4%	1,668	1,887	13.1%
Zakat	-18	-34	-24	-29	-17.5%	32.5%	-29.4%	-88	-92	4.2%
Profit before N-C interests	490	423	526	528	-0.4%	7.3%	24.4%	1,579	1,795	13.6%
Non-controlling interests	-8	-2	-6	-5	15.7%	-25.5%	189.0%	-16	-18	14.4%
Profit to shareholders	482	420	520	523	-0.6%	7.9%	23.6%	1,564	1,776	13.6%

FABS Estimates & Co Data

Almarai - Margins

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Gross margin	33.8%	29.6%	31.9%	-197	230	31.9%	32.0%	8
Operating margin	15.4%	12.9%	15.0%	-36	215	13.3%	13.8%	43
Net margin	12.0%	9.3%	11.3%	-76	194	9.9%	10.4%	56

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"