ALMARAI

NEUTRAL
CURRENT PRICE SAR52.9

UPSIDE +0.5%
TARGET PRICE SAR53.2

EVENT FLASH

Poultry segment supports overall performance

Almarai reported a broadly in-line set of Q2 19 results, with net income declining -11.9% yoy to SAR583mn. This compares to NCBC and consensus estimates of SAR623mn and SAR629mn, respectively. We believe the decline in earnings is due to higher than expected non-operating expenses. Poultry growth supported the overall revenue growth of +2.6% yoy for Almarai, mainly due to HORECA channels. The stock trades at a 2019f PE of 24.0x.

- **NCBC view on the results:** Almarai reported a broadly in-line set of Q2 19 results, with net income declining -11.9% yoy to SAR583mn. This compares to the NCBC and consensus estimates of SAR623mn and SAR629mn, respectively. We believe the yoy decline is mainly due to higher than expected non-operating expenses, due to higher financing expenses, lower FX gains and losses from the sale of its dairy herd. Poultry continues to be the key driver of top-line growth, supported by its sale for the HORECA channels.
- Revenues increased 2.6% yoy to SAR3.77bn, coming broadly in line with our estimates of SAR3.85bn. The yoy revenue growth was mainly driven by a +20.2% yoy growth in the revenues of the poultry segment, supported by the HORECA channels. Gross margins contracted by 50bps yoy to 38.9%, driven by higher cost of imported alfalfa. Opex increased 6.5% yoy to SAR729mn, mainly driven by a +5.1% yoy increase in S&D expenses.
- Non-operating expenses increased 51.9% yoy to SAR156mn, mainly due to 1) SAR41mn yoy increase in finance costs due to higher interest rates, 2) lower FX gains of SAR0.8mn in Q1 19 vs SAR26.2mn in Q1 18 and 3) SAR11mn increase in other expenses due to losses from the sale of dairy herd.
- The Poultry segment continues its strong performance with a +24.2% yoy growth earnings, driven by a +20.2% yoy growth in top-line. The segment's performance was supported by consistent improvement in mortality rates and cost efficiencies. The top-line growth was supported further expansions into the HORECA channels and the acquisition of Premier Foods in May 2019.
- We are currently Neutral on Almarai, with at PT of SAR53.2. We believe continued strong performance of the poultry segment, driven by the HORECA channels is a key positive. Meanwhile, the weakness in dairy and juice segments remains a key concern. Almarai trades at a 2019f PE of 24.0x.

Q2 19 Results Summary

SAR mn	Q219a	Q2 18a	% yoy	Q2 19f	%Var^	% qoq
Revenues	3,767	3,672**	2.6%	3,848	(2.1)%	13.9%
Gross income	1,467	1,448.5**	1.3%	1,491.3	(1.6)%	26.2%
Gross margin (%)	*38.9%*	*39.4%*	*(50)bps*	*38.8%*	*19bps*	*380bps*
EBIT	738.5	764.1**	(3.4)%	729.0	1.3%	53.6%
EBIT Margin (%)	*19.6%*	*20.8%*	*(120)bps*	*18.9%*	*66bps*	*506bps*
Net income	582.5	661.4**	(11.9)%	622.7	(6.4)%	73.3%
Net margin (%)	*15.5%*	*18.0%*	*(255)bps*	*16.2%*	*(72)bps*	*530bps*
EPS (SAR)	0.58	0.66	(11.9)%	0.62	(6.4)%	73.3%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

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STOCK DETAILS

M52-week range H/L (SAR)	61/41
Market cap ($mn)	14,126
Shares outstanding (mn)	1,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.7	(5.9)	(9.6)
Rel. to market	(0.1)	(3.5)	(16.8)

Avg daily turnover (mn)	SAR	US$
3M	47.0	12.5
12M	24.8	6.6

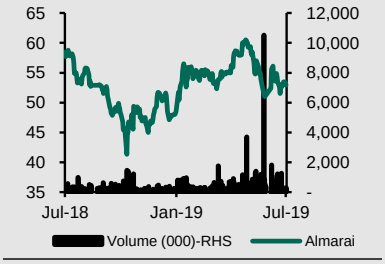
Reuters code	2280.SE
Bloomberg code	ALMARAI AB
	www.almarai.com

VALUATION MULTIPLES

	18a	19f	20f
PE (x)	26.3	24.0	20.9
PB (x)	3.8	3.2	2.9
EV/EBITDA (x)	14.1	13.6	12.1
Div Yield (%)	1.4	1.6	1.8

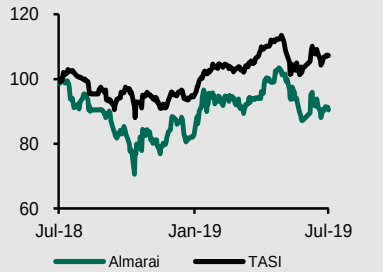
Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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