

AlMarai reported broadly in-line Q3-19 earnings with AJC estimates and consensus. Net income came at SAR 581.2mn (SAR 0.58 EPS) against our estimates of SAR 557mn. Relatively minor deviation came due to higher than expected revenue. Higher alfalfa cost and labor costs led to gross margin contraction by 177 bps Y/Y to 40.41% from 42.18%. The continued improvement in macroeconomic sentiments, the company's market share and strong recovery in bakery & poultry segments has mitigated the impact on the company's COGS. We remain **"Neutral"** on Almarai with a revised TP of **SAR 53.0/share**.

- Q3-19 net profit came broadly in-line with AJC and the market consensus estimates of SAR 557mn and SAR 592mn. Almarai posted net income of SAR 581.3mn; indicating a fall of 8.5%Y/Y and 0.2%Q/Q. The Y/Y decline in net profit is mainly attributed to (i) higher GOGS, driven by higher alfalfa cost and labor cost. (ii) an increase in finance expenses by SAR 30.3mn due to higher interest-bearing debt after repayment of perpetual sukuk last year and higher SIBOR rate. The deviation of Q3-19 earnings from our estimates is mainly attributed to higher than expected top line; despite higher than expected COGS.
- The company reported a 7.7%Y/Y increase in revenue for Q3-19 at SAR 3,573.3mn, which came above our estimate of 3,447.6mn. The company's largest segment dairy registered a revenue growth of 5.0% due to improved market share and a decline in discounts and promotions. Other key segments registered improved performance, where Bakery registered a 4.4%Y/Y increase in revenue as a result of higher volumetric sales. Poultry segment continued to post growth, of 7.7% to SAR 489mn, as compared to SAR 456mn in Q3-18, due to an increase in the company's market share in HORECA sales (frozen poultry) and catering services growth.
- Almarai reported 3.2%Y/Y increase in gross profit to SAR 1,443.8mn, above AJC expectation of SAR 1,399mn due to higher than expected top line. Accordingly, gross margin in Q3-19 contracted by 177 bps Y/Y to 40.41% from 42.18% due to higher input costs, mainly Alfalfa, labor costs and adverse product mix.
- Operating profit stood at SAR 746.1mn, depicting a fall of 1.5%Y/Y, due to SAR 55mn increase in selling and distribution expenses, and trade support. OPEX rose 8.9% Y/Y to SAR 673.6mn from SAR 618.8mn in Q3-18.

**AJC view:** We believe, that the continued improvement in poultry segment and strong recovery in bakery has mitigated the impact of the company's overall COGS during Q3-19. Although the company was able to gain market shares in some categories; margins in FY20/21 may be under pressure due to additional utilization of imported alfalfa. However the company's ability to continue focusing on cost and gaining market share, are the key support for future performance. The fresh milk production in Saudi Arabia started to get balance due to favorable market growth and change in macroeconomic sentiments. This we believe would ease the competitive landscape of the segment and pricing pressure. Moreover, continued performance improvement in the poultry segment, food services and recovering bakery segment are the key support for higher operating efficiency. We maintain our **"Neutral"** recommendation on Almarai, with TP of **SAR 53.0/share**. Almarai currently trades at an estimated forward PE multiple of 24.0x compared to a historical 3-year average TTM PE of 25.0x.

### Results Summary

SARmn	Q3-FY18	Q2-FY19	Q3-FY19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	3,317.4	3,767.4	3,573.3	7.7%	-5.2%	3.7%
Gross Profit	1,399.2	1,467.2	1,443.8	3.2%	-1.6%	3.2%
Gross Margin	42.18%	38.94%	40.41%	-	-	-
EBIT	757.4	738.5	746.1	-1.5%	1.0%	6.3%
Net Profit	634.5	582.5	581.2	-8.5%	-0.2%	4.4%
EPS	0.63	0.58	0.58	-	-	-

Source: Company Reports, Aljazira Capital

## Neutral

Target Price (SAR) **53.00**

Upside / (Downside)\* **12.5%**

Source: Tadawul \*prices as of 10<sup>th</sup> of October 2019

### Key Financials

	FY17	FY18	FY19E	FY20E
Revenue	13,936	13,723	14,251	14,707
Growth %	-2.8%	-1.5%	3.9%	3.2%
Net Income	2,182	2,007	1,924	2,005
Growth %	1.6%	-7.7%	-4.1%	4.2%
EPS	2.18	2.01	1.92	2.01

Source: Company reports, Aljazira Capital

### Key Ratios

	FY17	FY18	FY19E	FY20E
Gross Margin	40.1%	39.7%	38.5%	37.9%
Net Margin	15.7%	14.7%	13.5%	13.6%
P/E	24.63x	23.84x	24.04x	23.06x
P/B	4.20x	3.42x	3.07x	2.85x
EV/EBITDA (x)	15.49x	13.56x	13.93x	13.08x
Dividend Yield	1.3%	1.5%	1.8%	1.8%

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	46.85
YTD %	-2.4%
52 week (High)/(Low)	61.0/40.80
Shares Outstanding (mn)	1000.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Bloomberg, Aljazira Capital

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- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
- Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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