Almarai Company

Higher Cost of sales reduce the profitability

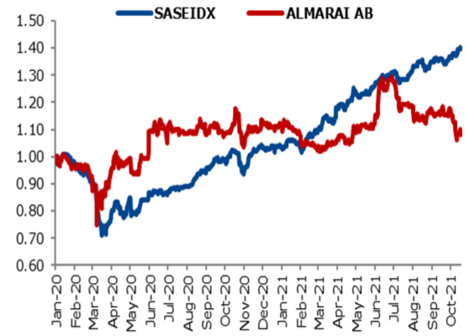
Rating : HOLD

First Look Note – 3Q21

Sector: Food & Beverage

Recommendation	
Current Price (19-Oct)	53.30
Target Price	56.00
Upside/Downside (%)	5.1%

Stock Information	
Market Cap (mm)	53,300.00
Paid Up Capital (mm)	10,000.00
52 Week High	64.90
52 Week Low	50.00
3M Avg. daily value (SAR)	24,096,210



Financial Ratios	
Dividend Yield (12m)	1.88
Dividend Pay-out (%)	50.39
Price-Earnings Ratio (x)	32.45
Price-to-Book Ratio (x)	3.36
Book Value (SAR)	15.86
Return-on Equity (%)	10.34
Earning Per Share (SAR)	1.64
Beta	0.75

Stock Performance	
5 Days	1.52%
1 Months	-8.73%
3 Months	-9.51%
6 Months	2.50%
1 Year	-8.10%
Month to Date (MTD)	-8.10%
Quarter to Date (QTD)	-8.10%
Year to Date (YTD)	-2.91%

3Q21 profit lower than our estimate

Almarai Net Profit has decreased by 34.2% YOY to SAR409 Mn in 3Q21 from SAR622 Mn in 3Q20, missing our estimate by 17.8%, This decrease is due to higher Cost of sales.

P&L highlights

The Revenue for 3Q21 has increased slightly by 2% YOY to SAR3,942 Mn from SAR3,863 Mn in 3Q20. While the Cost of Sales increased by 13.5% YOY reaching SAR2,666 Mn in 3Q21, as compared to SAR2,348 Mn in 3Q20. Resultantly, the Gross Profit declined by 15.8% YOY to SAR1,276 Mn in 3Q21 from SAR1,515 Mn in 3Q20. While the Selling & Distribution Expenses increased slightly by 0.8% YOY to SAR732 Mn in 3Q21 from SAR726 Mn in 3Q20. Depreciation has decreased by 2.3% YOY to SAR527 Mn in 3Q21 from SAR539 Mn in 3Q20. Therefore, the EBITDA has declined by 19.3% YOY to SAR1,071 Mn from SAR1,328 Mn in 3Q20, with an EBITDA margin equal to 27.2% in 3Q21 compared to 34.4% in 3Q20. Thus, the Operating Profit has decreased by 31% YOY to SAR544 mm, as compared to SAR789 Mn in 3Q20, with an OPM equal to 13.8% in 3Q21 from 20.4% in 3Q20. Investment & Other Income declined by 48.7% YOY to SAR20 Mn in 3Q21. Whereas the Finance Cost declined by 28.1% reaching SAR85 Mn as compared to SAR118 Mn in 3Q20. Impairment Cost recorded SAR6 Mn in 3Q21 as compared to a positive SAR1 Mn in 3Q20.

Balance sheet highlights

Total Assets have decreased by 4.7% YOY to SAR31.99 Bn in 3Q21 from SAR33.55 Bn in 3Q20. Total Liabilities have declined by 11.6% YOY to SAR15.6 Bn in 3Q21 compared to SAR17.67 Bn in 3Q20. Equity increased by 3% YOY to SAR16.37 Bn from SAR14.59 Bn in 2Q20.

Target price and rating

We assign a HOLD rating on Almarai Company, with a target price of SAR56.00. Almarai has carefully strategized to minimize disruption during the COVID-19 era. The Company has formulated steps to ensure it can optimize its strategy. During 2021, the Company managed to maintain its market share in KSA with no. 1 position in all of its products such as Laban, Fresh Milk etc. This a demonstration of the resilience of the Company. The Net Profit has witnessed a decline of 34.2% YOY to SAR409 Mn in 3Q21, down from SAR622 Mn in 3Q20. It was mainly due to increase in Cost of Sales and overheads. The Total Revenue grew by 2% YOY to SAR3,942 Mn in 3Q21, up from SAR3,863 Mn in 3Q20. The Volume decreased by 1% YOY and the Prices of products increased by 2% YOY. As a result, it had an offsetting effect and contributed positively to the Revenue growth. The Company mainly generates revenue from KSA, Other GCC and Others. However, KSA accounts for 63% of the total Revenue, followed by Other GCC with 19% and Others by 18% of the total Revenue. The GCC segment witnessed challenges, however, the Egypt, Jordon and Alfalfa segment recorded double digit growth that helped overcome the low GCC numbers. As per products, the highest contributor to total Revenue is Fresh Dairy with 35% contribution, followed by Poultry at 14%, Bakery at 12% etc. The Bakery segment grew by 11% in 3Q21, as compared to 3Q20. The Life Long Dairy segment grew by 10%. The Fresh Milk and Food segments however declined by 2% and 12% respectively, pressuring the growth rate. However, the increase in Bakery growth due to schools reopening offset the decline in other food category. The Traditional trade channel amounts for 56% of the total Revenue, followed by Modern Trade at 21%, Food service at 13% and lastly Other/Exports at 10%. The significant growth in Food Service segment outweighed the losses from Traditional Trade and Modern Trade segments. The Cost of Sales increased by 13.5% YOY to SAR2,666 Mn in 3Q21, up from SAR2,348 Mn in 3Q20. As a result, the Gross Profit was negatively pressured by 15.8% YOY to SAR1,276 Mn in 3Q21, down from SAR1,515 Mn in 3Q20. The Gross Profit Margin declined significantly to 32.4% in 3Q21, down from 39.2% in 3Q20. The Operating Profit declined by 31% YOY to SAR544 Mn in 3Q21, down from SAR789 Mn in 3Q20. It was mainly driven by lower subsidies in 2021. Furthermore, higher feed costs and commodity costs negatively impacted the Operating Profit in 3Q21. As a result, the Operating Profit Margin declined to 13.8% in 3Q21, down from 20.4% in 3Q20. The Finance costs declined by 28.1% YOY mainly due to lower funding rate and decline in debt level. The NCI contribution was due to Egypt and Jordon's improved performance that was attributable to the shareholders of Almarai Co. As a result, the Net Income declined by 34.2% YOY to SAR409 Mn in 3Q21, down from SAR622 Mn in 3Q20. The Net Profit was impacted by Market trends and Economical and External factors. The Market trends include the decline in Volume and sales mix that negatively impacted the Net Profit. The Company increased its profits via its Prices. The Economical and External Factor include reduction in subsidy and increase in commodity prices and Alfalfa. These attributes mainly impacted the profitability levels in 3Q21, with a decline of SAR46 Mn and SAR130 Mn, respectively. The Working capital increased by 1.1% YOY to SAR3,088 Mn in 3Q21, up from SAR3,053 Mn in 3Q20. Almarai has demonstrated stable Working capital flow over the years. As of 3Q21, the Working capital as a % of sales is 20%. The Company is investing in its operations and has increased its CAPEX 74.9% YOY to SAR292 Mn in 3Q21, up from SAR167 Mn in 3Q20. The CAPEX as a % of Net sales stood at 7%, slightly higher than 2020. The CAPEX cash has declined over the years as per the Company's 5-year plan and available capacity footprint. The additional CAPEX is mainly related to utilities, production lines and vehicles. The Company has announced SAR6.6 Bn as Expansionary CAPEX for its Poultry segment, that is expected to commence soon. The Free Cash Flow has increased by 3.3% YOY to SAR815 Mn in 3Q21, up from SAR789 Mn in 3Q20. The FCF to Sales ratio stood at 21% in 3Q21, higher than previous levels at 18%. The Operating Cash flow increased by SAR4.7 Bn in 3Q21, at the backdrop of improved Working Capital management. The Net Debt has declined to SAR9,773 Mn in 3Q21. The Net Debt to EBITDA stood at 2.6x in 3Q21, down from 2.7x in 2020. The Net debt to Equity ratio has declined to 61% in 3Q21, down from 66% in 2020. In April, around SAR1 Bn were approved as dividends to be paid, that amounts to SAR 1 per share. By the end of April, SAR978.1 Mn were distrusted. The excess cash of SAR2.4 Bn were used to lower the debt level. This is in line with Almarai's target to reduce the Net Debt to EBITDA below 2.5x by 2021. Therefore, we assign a HOLD rating on the stock.

Almarai - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
PER (x)	25.1	27.0	29.2	26.5	30.3
P/BV (x)	3.7	3.9	3.7	3.4	3.1
Dividend yield	1.4%	1.6%	1.6%	1.9%	1.9%

FABs Estimate & Co Data

Almarai - P&L

SAR mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	YOY ch
Sales	3,863	4,006	3,942	4,055	-2.8%	2.0%	-1.6%	15,357	15,512	1.0%
Cost of Sales	-2,348	-2,650	-2,666	-2,669	-0.1%	13.5%	0.6%	-9,821	-10,336	5.2%
Gross profit	**1,515**	**1,356**	**1,276**	**1,387**	**-8.0%**	**-15.8%**	**-5.9%**	**5,536**	**5,176**	**-6.5%**
Selling & overhead expenses	-726	-740	-732	-740	-1.1%	0.8%	-1.1%	-2,910	-2,882	-1.0%
EBITDA	1,328	1,132	1,071	1,167	-8.2%	-19.3%	-5.4%	4,575	4,429	-3.2%
Depreciation & Amortization	**539**	**516**	**527**	**520**	**1.3%**	**-2.3%**	**2.2%**	**1,950**	**2,135**	**9.5%**
Operating profit	789	616	544	647	-15.9%	-31.0%	-11.7%	2,625	2,294	-12.6%
Investment & other income	-39	-20	-20	-25	-20.8%	-48.7%	-1.5%	-77	-89	16.1%
Financial costs (net)	-118	-93	-85	-91	-7.0%	-28.1%	-9.3%	-496	-350	-29.5%
Impairment	1	6	-6	-3	109.7%	NM	-212.4%	-24	10	-141.4%
Profit before zakat	**633**	**508**	**433**	**528**	**-17.9%**	**-31.6%**	**-14.7%**	**2,028**	**1,865**	**-8.0%**
Zakat	-18	-18	-23	-24	-4.8%	24.4%	24.9%	-92	-87	-5.9%
Profit before N-C interests	**615**	**490**	**411**	**504**	**-18.6%**	**-33.2%**	**-16.2%**	**1,936**	**1,778**	**-8.1%**
Non-controlling interests	6	-8	-2	-7	-74.8%	NM	-78.1%	49	-14	-129.3%
Profit attributable	**622**	**482**	**409**	**497**	**-17.8%**	**-34.2%**	**-15.1%**	**1,984**	**1,764**	**-11.1%**

FABS estimate & Co Data

Almarai - Margins	**3Q20**	**2Q21**	**3Q21**	**YOY Ch**	**QOQ Ch**	**2020**	**2021F**	**Change**
Gross margin	39%	34%	32%	-685	-148	36%	33%	-268
Operating margin	34%	28%	27%	-720	-108	30%	29%	-124
Net margin	20%	15%	14%	-661	-157	17%	15%	-231

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

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