Almarai Co.

Result Flash Note Q2-21

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

AlMarai posted net income of SAR 482.0mn (SAR 0.48 EPS), below AJC and market estimates of SAR 607mn and SAR 619mn; respectively. The deviation mainly came due to lower-than- expected gross margin, impacted by structural adjustments related to subsidy reduction, higher feed cost as all alfalfa consumed is on 100% imported basis. The revenues decline of 1.9% was impacted mainly by the base year effect of COVID-19 and VAT rate change related purchases last year. Lower subsidy and higher input cost led to gross margin contraction to 33.8% from 37.6% in Q2-20. Almarai's gross margin is expected to remain under pressure during FY21 on lower subsidy. We remain "Neutral" on Almarai with a TP of SAR 52.0/share.

- Almarai posted net income of SAR 482mn, indicating a fall of 25.1% Y/Y and a growth of 24.9% Q/Q. Q2-21 net profit came below AJC estimates and market estimates of SAR 607mn and SAR 619mn; respectively. The Y/Y decline in net profit is mainly attributed to i) subsidy reduction, higher feed cost, and adverse sales channel mix, ii) adverse channel mix which was driven by more sales in food service vs retail channel. However, decline in finance expenses by SAR 63mn and strong cost control initiatives have mitigated the impact on bottom line. The deviation mainly came due to higher-than-expected gross margin, impacted by subsidy removal on corn and soyabean and higher commodity cost.
- Revenue for Q2-21 declined 1.9%Y/Y to SAR 4,005.6mn due to above normal purchases in Q2-20 due to COVID-19, which came in-line with our estimate of 4,012mn. The company's largest segment dairy & Juice registered a revenue decline of 2% due to weaker food sales and continued weakness in Juice segment. Other key segments registered weaker performance, where Bakery registered a 5%Y/Y decline in revenue as school closure continued. Poultry segment continued to post decline of 8% to SAR 566mn, as compared to SAR 615mn in Q2-20, due to strong performance through retail channel last year. However, the company's market share in HORECA sales (food services), and catering services improved by 58%. On a geographical basis, Saudi Arabia and other GCC countries witnessed a decline of 8% and 4% respectively, while Jordan and Egypt posted increase of 40% and 37%, respectively.
- Almarai reported 11.7%Y/Y decline in gross profit to SAR 1,355.7mn, below AJC expectation of SAR 1,456mn due to higher-than-expected GOGS, impacted by subsidy removal on corn and soyabean, fully imported alfalfa and higher commodity cost. Accordingly, gross margin in Q2-21 contracted by 380 bps Y/Y to 33.8%. Poultry margins may remain weak in FY21 compared to last year due to a shift towards lower margin frozen category with the recovery in the food service sector.
- Operating profit stood at SAR 601.6mn, depicting a decline of 20.8%Y/Y, due to lower top line and margins. However, operating expenses recorded 2.8%Y/Y decline to SAR 754mn Vs. SAR 776mn in Q2-20, in-line with our estimates of SAR 751mn due to strong cost control.

AJC view: Almarai showed lower-than-expected financial performance, due to general market weakness in GCC countries and lower subsidies. However, we believe that the company would be able to mitigate the impact by improving its presence in trade channel like food services and other product categories. Although the company was able to gain market shares in some categories; gross margin in FY21/22 is expected to remain under pressure due to increased cost of imported alfalfa and lower/no subsidy on non-green fodder. Furthermore, the company's ability to continue focusing on cost and gaining market share are key areas for future performance. Consequently, We expect the company's poultry profits in H2-21 to remain softer compared to last year as more sales are shifted toward the lower margin frozen category with the ongoing recovery in the foodservice sector. Bakery segment sales and profit may start improving as schools reopen. Demand in export market remained strong as the company increased its sales volume and prices in Egypt, while gaining market share in juice and UTH milk segment in Jordan. Lower funding costs may continue to support bottom line, as funding cost declined by SAR 63.1mn due to lower interest rate and reduced debt levels. We maintain our "**Neutral**" recommendation on Almarai, with a TP of **SAR 52.0/share**. Almarai trades at an estimated forward PE multiple of 28.9x for FY22, compared to the current TTM PE of 31.4x.

Results Summary

SARmn	Q2-20	Q1-21	Q2-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**4,081.8**	**3,645**	**4,005.6**	-1.9%	9.9%	-0.2%
Gross Profit	1,535.2	1,235.1	1,355.7	-11.7%	9.8%	-7.0%
Gross Margin	*37.6%*	*33.9%*	*33.8%*	-	-	-
EBIT	759.1	502.4	601.6	-20.8%	19.7%	-14.9%
Net Profit	**643.9**	**385.9**	**482.0**	-25.1%	24.9%	-20.6%
EPS	0.64	0.34	0.48	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	**52.0**
Upside / (Downside)*	**-8.4%**

Source: Tadawul *prices as of 5th of August 2021

Key Financials

	FY18	FY19	FY20	FY21E
Revenue	13,723	14,353	15,357	15,427
Growth %	-1.5%	4.6%	7.0%	0.5%
Net Income	2,007	1,811.8	1,984.0	1,804
Growth %	-7.7%	-9.8%	9.6%	-9.1%
EPS	2.01	1.81	1.98	1.80

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	39.7%	37.4%	36.0%	34.1%
Net Margin	14.7%	12.6%	12.9%	11.7%
P/E	23.84	27.31	24.95	31.48
P/B	3.42	3.38	3.16	3.42
EV/EBITDA (x)	13.56	14.57	14.19	16.36
Dividend Yield	1.5%	1.7%	2.0%	1.8%

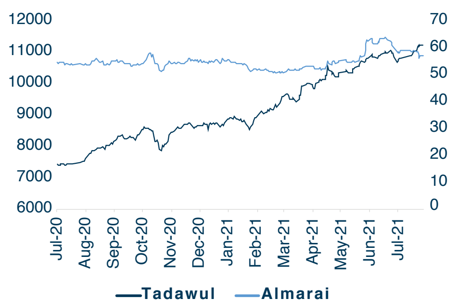
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	57.2
YTD %	3.8%
52 week (High)/(Low)	63.70/50.70
Shares Outstanding (mn)	1000.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

Analyst
Faisal Alsuwelimy
+966 11 2256115
F.alsuweilmy@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

Head of Securities
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

Head of Sales and Distribution
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

Head of International and Institutions
Ahmad Salman, CFA
+966 11 2256201
a.salman@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. 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.
3. 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.
4. 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.

Disclaimer