Saudi Dairy & Foodstuff Co
Food-Diversified – Industrial
SADAFCO AB: Saudi Arabia
29 August 2022

الراجحي المالية
Al Rajhi Capital

US$1.542bn	48%	US$0.838mn
Market cap	Free float	Avg. daily volume

Target price	202	+3.1% over current
Current price	196	as at 29/8/2022

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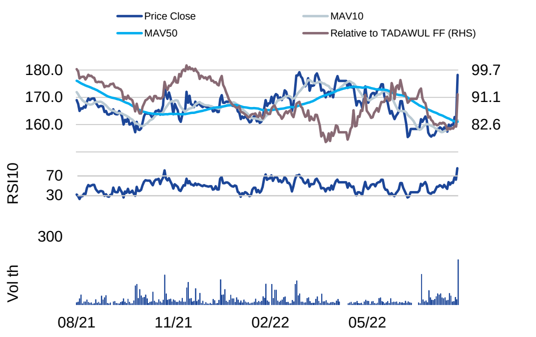
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SAR)	2022A	2023E	2024E
Revenue (mn)	2170	2538	2573
Revenue growth	3%	17%	1%
Gross Profit	657	822	833
Gross Profit Margin	30%	32%	32%
EBITDA (mn)	342	471	463
EBITDA growth	-12%	38%	-2%
EBITDA Margin	16%	19%	18%
Net Profit	209	305	324
Net Profit Margin	10%	12%	13%
DPS	6.0	7.0	7.0
EPS	6.5	9.5	10.1
P/E	30.0	20.6	19.3
EV/EBITDA	17.4	12.6	12.8
Dividend Yield	3.1%	3.6%	3.6%

Source: Company data, Al Rajhi Capital

Saudi Dairy & Foodstuff Co

Surging bottom line, rising TP to SAR202/sh.

The company reported weak numbers in 4Q22 due to rising cost and intense competition which led to offer deep discounts, SADAFCO aimed to defend its market share and gave deep discounts which is reflected in its 4Q22 gross margin of 29%. However, in the 1Q23, SADAFCO reported solid results and we believe the main reason was the relief in the deep discounts in UHT milk which represents a big part of the total revenue (66.4%) excluding Mlekoma sales. SADAFCO witnessed a 117% (adjusted for the one-time charge) growth y-o-y in bottom line with the Mlekoma subsidiary contributing nearly SAR8.2mn to net profit compared to losses in the last year. Thus, we revised our FY 2023 earnings estimate to SAR9.5/sh EPS a 46% growth y-o-y and a 17% growth in top line. Going forward, we expect top-line to grow at a 4 to 5% during the forecast horizon slightly higher than average historical growth.

Growth Drivers: *We believe going forward the growth will mainly come from: 1) The new ice cream factory 2) Expansion in the current segment and new products (we expect the expansion to happen in the Mlekoma subsidiary to secure higher amount of raw material from its subsidiary and might explore any opportunity. It is worth noting that the subsidiary has achieved an estimated net profit SAR8.2mn in 1Q23 which we think mostly attributed to inflation) The subsidiary has shown both growth in top and bottom line.*

Was it an overreaction? *After 4Q22 results, the market reacted negatively and the stock price fell to SAR155/sh. Thereafter, the stock recovered before the announcement of the 1Q23 results to reach SAR162/sh. After the 1Q23 results, the stock has added nearly 18%. Currently the stock trades at 25.1 Adjusted P/E (adjusted for the one-time charge) and a 20.6 forward adjusted PE (the stock's average 3 years P/E is around 21). When it comes to dividend yield, the stock traded at an average of 3.55% over the last two years, while currently trades at 3%. We expect the company to raise dividend to SAR7 DPS (supported by the high cash balance and higher earnings for the current year) which further strengthen the sentiment (assuming a 75% pay-out which is the three-year average) which leads to a 3.57% yield. Given all of this, we change our target price form SAR170/sh to SAR202/sh with a neutral rating. That leads to 3.1% upside from the CMP of SAR196/sh.*

1Q Results Summary:

SADAFCO 1Q23 revenue was above our expectations by 5% on higher volume and lower discounts while we expected volume to slightly fall after Ramadan season. It looks like that Ramadan season this year was reflected in both 4Q22 and 1Q23. While raw material cost is flying, we expected margins to slightly improve as the company raised prices for main SKUs. Also, we believe the deep discounts have stopped and thus improving the gross margin. Although net income was SAR56mn (8.9% NPM), there was a one-time charge of SAR26mn, adjusted NI equals SAR82mn (34% higher than the quarterly average of the last three years).

Figure 1: SADAFCO's 1Q23 Results

(SAR mn)	1Q 2023	1Q 2022	*Y-o-Y*	4Q 2022	*Q-o-Q*	ARC est	*vs ARC*
Revenue	631	492	*28%*	628	*1%*	603	*5%*
Gross profit	202	151	*34%*	185	*10%*	183	*10%*
Gross margin	32%	31%		29%		30%	
Operating profit	90	44	*104%*	72	*25%*	74	*22%*
Operating margin	14%	9%		11%		12%	
Net profit	56	38	*48%*	63	*-10%*	66	*-14%*
Net margin	9%	8%		10%		11%	

Source: Company data, Al Rajhi Capital

Valuation: We arrived at our 12m forward-looking target price for the company using an equal mix of DCF and P/E. The DCF target price is based on a 2.5% terminal growth and a WACC of 8.5% reaching to SAR204/share. The P/E is based on 22x and FY 2023E earnings gives a TP of SAR200/share. Overall, we change our target price to SAR202/share. Based on our TP, we have a neutral rating. Upside risks to our valuation are, better than expected improvement in gross margin, lower than expected capex spending, better than expected improvement in margins, higher growth than anticipated.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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