



RESULT ANALYSIS

Lowest gross margin on record

Almarai reported a weaker than expected set of Q4 20 results. Although net income increased +7.7% yoy (-46.0% qoq) to SAR336mn, it came lower than the NCBC and consensus estimates of SAR375mn and SAR381mn, respectively. The variance is due to lower gross margins along with higher financing and zakat expenses. Almarai gross margin stood at 32.3%, the lowest on record and compared to our estimates of 34.8%.

- Revenues increased +3.1% yoy to SAR3.82bn in Q4 20, in-line with our estimates. The revenue growth was led by long-life dairy (+c12.5% yoy), fresh dairy (+c3.2% yoy) and juices (+6.3% yoy). Bakery sales declined -8.6% yoy mainly due to lower sales of single serve items on lower demand from schools. Poultry sales were down for the 1st time since Q3 16 (-2.0% yoy), which we believe is due to adverse channel mix and higher Q4 19 base. Revenues from Saudi and other GCC declined -1.0% yoy and -3.1% yoy in Q4 20, which was offset by +41.5% yoy growth in other non-GCC countries.
- Gross margins contracted by -266bps yoy to 32.3%, significantly below our estimates of 34.8% and Q4 19 levels of 34.9%. This is the lowest quarterly gross margins on record (quarterly data available since 2009). We believe the margin contraction is due to 1) higher cost of imported alfalfa 2) lower subsidies on non-alfalfa input feed and 3) higher than expected discounts which we believe signals a consolidation in the sector.
- Opex efficiencies were the key positives of the results. Opex in absolute terms decreased -7.9% yoy to SAR732mn and came below our estimates of SAR812mn. S&D declined by -4.7% yoy driven by sales optimization and one-off marketing expenses recorded in Q4 19. Opex-to-sales stood at 19.2% vs Q4 19 levels of 21.5% and our estimates of 21.2%.
- Financing and zakat expenses declined by -14% yoy and -40% yoy to SAR133mn and SAR34mn, respectively, but were higher than our estimates of SAR123mn and SAR24mn.
- Net income of all major categories except "Other Items" declined in Q4 20. The decline in net profit of Bakery (-22.4% yoy) and Poultry (-8.1% yoy) were mainly driven by lower revenues. Dairy & Juices also recorded a -2.0% decline in net profits, despite the top-line growth, mainly due to lower gross margins.
- We are currently Neutral on Almarai, with at PT of SAR51.8. We believe lower sales Saudi and the contraction of gross margins are key concerns, while opex efficiency is a positive. The stock trades at a 2021f PE of 26.4x.

Q4 20 Results Summary

SAR mn	Q4 20	Q4 19	%yoy	Q4 20f	%Var^	% qoq
Revenues	3,820	3,704	3.1%	3,821	(0.0)%	(1.1)%
Gross income	1,232	1,294	(4.7)%	1,330	(7.4)%	(18.6)%
Gross margin (%)	32.3%	34.9%	(266)bps	34.8%	(256)bps	(694)bps
EBIT	500.2	498.3	0.4%	518.9	(3.6)%	(33.3)%
EBIT Margin (%)	13.1%	13.5%	(36)bps	13.6%	(49)bps	(632)bps
Net income	335.9	311.9	7.7%	374.5	(10.3)%	(46.0)%
Net Margin (%)	8.8%	8.4%	37bps	9.8%	(101)bps	(729)bps
EPS (SAR)	0.34	0.31	7.7%	0.37	(10.3)%	(46.0)%

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

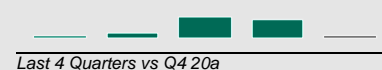
NEUTRAL

Price target (SR) 51.8

Current price (SR) 54.2

*TP last updated in June 2020

NET INCOME



Last 4 Quarters vs Q4 20a

STOCK DETAILS

M52-week range H/L (SAR)	58/37
Market cap (\$mn)	14,453
Shares outstanding (mn)	1,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.0	(4.1)	11.1
Rel. to market	(4.0)	(8.5)	6.0

Avg daily turnover (mn)	SR	US\$
3m	30.8	8.2
12m	33.8	9.0

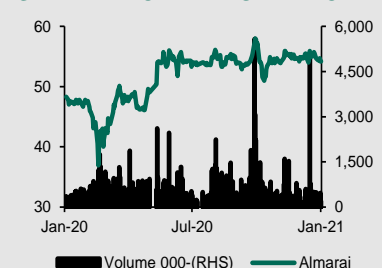
Reuters code	2280.SE
Bloomberg code	ALMARAI AB
	www.almarai.com

VALUATION MULTIPLES

	19a	20f	21f
P/E (x)	30.2	26.8*	26.4
P/B (x)	3.7	3.5*	3.3
EV/EBITDA (x)	14.1	15.4	14.5
Div Yield (%)	1.6	1.8*	2.0

Source: NCBC Research estimates, *:Actual

SHARE PRICE PERFORMANCE



Source: Tadawul

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NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
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