

Rating **Neutral**
 12- Month Target Price **SAR 54.00**

ALMARAI COMPANY

1Q2018 Preview

Cost Pressures

We expect a minor -1% Y/Y decline in revenues for Almarai to SAR 3.35 billion in the first quarter as consumers have been helped by the government's cost of living allowance. However, GCC sales would be down because of Qatar. VAT may hurt some discretionary spending impacting sales in the juice and cheese segments. We expect gross margins to be slightly lower Y/Y to 34.7%. Cost pressures are likely to persist at Almarai with the introduction of expat fees as well as higher energy costs. We estimate a net income of SAR 317 million (EPS SAR 0.32), -3% lower Y/Y. Poultry segment is likely to continue to do well, it is now leading the market in fresh poultry. The stock continues to trade at a rich 2018E P/E of 25.3x. Thus, stock price has not responded as aggressively as the recent rally in the market. With a target price of SAR 54.00, we have a Neutral rating.

Minor revenue fall likely Y/Y

We believe revenues of Almarai would decline -1% Y/Y to SAR 3.35 billion. This would mark the fourth sequential Y/Y decrease in topline in as many quarters as the Company has been impacted by a slowdown in the economy. For 2017, the Company reported -5% lower revenues following an accelerated decrease in the juices and cheese segments. Even fresh dairy and bakery segments were down -4% Y/Y. On the flip side, poultry grew by +10% Y/Y as lower mortality and better market conditions helped. Similar trends can be expected for 1Q as well. With Egypt's portion of sales down due to devaluation and sales to Qatar suspended, KSA portion of revenues reached 67% in 2017 versus 63% in 2016.

Gross profit at SAR 1.2 bln

We expect gross margins to be 10bps lower Y/Y to 34.7% in 1Q leading to a gross profit of SAR 1.16 billion, -1% lower Y/Y. While Almarai has done a commendable job in controlling costs, higher energy prices and expat fees beginning from 2018 would move the cost structure upwards. Thus, it would be reasonable to expect further cost pressures going forward.

Poultry targeting a profit in 2018

Almarai has now become a market leader in the fresh poultry segment and is working towards making its mark in the frozen segment as well. Pricing has also become much more stable after a period of aggressive discounts led by the market situation with fresh chicken currently retailing for around SAR 15/kg. We expect the segment to post a net profit in 2018, barring any unforeseen circumstances as EBIT breakeven has been achieved. The bakery segment has been under pressure and sales have dropped -4% Y/Y in 2017. We believe performance here is linked more to economic conditions.

EPS to decline -3% Y/Y

We expect a net income of SAR 317 million (EPS SAR 0.32) in 1Q2018, -3% lower than SAR 328 million posted in 1Q2017. Net margins may be weaker by 20bps to 9.5%. The stock trades at a 2017E P/E of 25.3x, at a premium to TASI's P/E of 14.7x. We continue with a Neutral stance and a target price of SAR 54.00.

Expected Total Return

Price as on Apr-01, 2018	SAR 52.89
Upside to Target Price	-2.1%
Expected Dividend Yield	1.5%
Expected Total Return	-3.6%

Market Data

52 Week H/L	SAR 50/78.6
Market Capitalization	SAR 52,890 million
Shares Outstanding	100 million
Free Float	21.9%
12-Month ADTV	637,906
Bloomberg Code	ALMARAI AB

1-Year Price Performance



Source: Bloomberg



1Q2018E	SAR mln
Revenue	3,350
Gross Margin	34.7%
Operating Income	415
Net Income	317
EPS (SAR)	0.32

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	13,936	14,911	16,104
EBITDA	4,453	4,336	4,561
Net Profit	2,182	2,216	2,435
EPS (SAR)	2.18	2.22	2.43
DPS (SAR)	0.75	0.80	0.80

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
BVPS (SAR)	14.48	15.83	17.46
ROAE	15.9%	14.6%	14.6%
ROAA	7.2%	6.1%	5.8%
EV/EBITDA	14.8x	15.2x	14.4x
P/E	25.7x	25.3x	23.0x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.