

US\$15.2bn Market Cap. 24.6% Free Float US\$12.6mn Avg. Daily Value traded

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Almarai Co.

Maintaining a Neutral Rating

Neutral

Price Target (SAR): 58.0

Current: 57.10
Upside/Downside: 1.6% above current

Valuation Multiples	23	24E	25E
P/E (x)	27.2	26.5	23.2
EV/EBITDA (x)	12.7	12.5	11.7

Major Shareholders	% Ownership
Savola Group Company	34.52
Sultan Holding Company	23.70
Saudi Agricultural Investment and Animal Production Company	16.32

Price Performance	1M	3M	YTD
Absolute	1.6%	1.2%	2.3%
Relative to TASI	1.1%	-12.5%	2.2%

Earnings

(SARmn)	2023	2024E	2025E
Revenue	19,576	21,090	22,655
Revenue growth	4.6%	7.7%	7.4%
Gross profit	6,051	6,561	7,136
Gross margin	30.9%	31.1%	31.5%
Operating profit	2,694	2,874	3,145
Op. margin	13.8%	13.6%	13.9%
Net profit	2,052	2,156	2,458
Net margin	10.5%	10.2%	10.8%
EPS	2.0	2.2	2.5
DPS	1.0	1.0	1.6
Payout ratio	48.8%	46.4%	65.0%
P/E	27.2x	26.5x	23.2x
EV/EBITDA	12.7x	12.5x	11.7x
RoE	11.8%	11.7%	12.7%

Source: Company data, Al Rajhi Capital

We are retaining our Neutral rating on Almarai with a Fair Value of SAR58/sh. The company currently trades at a forward EV/EBITDA of 12.5x (vs. the last 5-year average of 13.5x) and offers a dividend yield of 1.8%. As against the last 4 years (between 2020 and 2023) when the company's bottom line grew at a CAGR of just 2.0% (on account of elevated commodity prices that eroded the company's gross margins by 513bps and rising interest rates) we expect Almarai's net income to register a 3-year CAGR of 12.0% (between 2023 and 2026). Our expectation of improvement in the bottom line is based on 1) a topline CAGR of 7.0% led by the poultry segment as the company capitalizes on its expansion in the poultry segment, 2) 109bps improvement in gross margins amid commodity costs stabilization and improvement in product mix (as the company's revenue tilt more towards higher margin products such as poultry), and 3) decline in interest rates. However, in our opinion, the above-mentioned positives are already priced in the current market prices.

Focus to be on Volumes: In its recent earnings call the management highlighted that going forward company's focus would be on volume-driven growth and doesn't expect significant pricing actions as was seen in the last few years. Furthermore, the management expects to achieve growth in its bottom line despite the recent increase in diesel prices (that is expected to have an annualized impact of ~SAR100mn).

Additionally, during the earnings call management shared that the changes in the UHT milk recipe have received positive responses in selective markets. However, it would take 2-3 quarters to fully roll out the new UHT milk recipe. We opine that it would take the next two years for the company to effectively compete (roll out + regain its market share) with the well-entrenched long-life milk brands such as Saudia that already have wider customer acceptance.

Furthermore, two additional sources of topline growth for the company in the next few years can be from entrance into the red meat segment and expansion in the recently entered market of Qatar where the company is currently selling its bakery products. The management is optimistic about increasing its presence in the Qatar market given the strong recognition of Almarai's brand.

Recommendation & Valuation: We maintain a neutral rating on the stock with a Fair Value of SAR58/sh as the above-mentioned positives and risks surrounding the company are priced in the stock price. We value the company through the Discounted cashflow method and EV/EBITDA multiple. For DCF Valuation, we use a WACC of 9.9% and a terminal growth rate of 3.0%. Furthermore, we use forward EV/EBITDA multiple of 13.5x, equivalent to the last 5-year average.

Figure 1 Valuation table

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
DCF Valuation	58	50.0%	29	2.3%
EV/EBITDA	58	50.0%	29	1.9%
Target price			58	
CMP			57.1	
Upside/(Downside)			1.6%	
Dividend yield			1.8%	
Total returns			3.3%	

Source: Company data, Al Rajhi Capital

Key Risks:

- Government grants accounted for 18.8%/18.7% of Almarai's earnings in 2022/2023. While the management is of the opinion that it would continue to receive subsidies on Alfalfa imports and in its poultry segment, any adverse changes can have a negative impact on the company's bottom-line.
- A number of players are entering/expanding their presence in the poultry business (including Almarai) and any margin compression on account of heightened competition can negatively impact the company's bottom line.
- Egypt accounted for 7% of the company's 2023 topline, hence devaluation of the Egyptian Pound can be expected to negatively impact the company's financial performance.

Financials

Figure 2 Income Statement

SAR mn	2023	2024E	2025E
Revenue	19,576	21,090	22,655
<i>y-o-y growth</i>	4.6%	7.7%	7.4%
Cost of Sales	13,524	14,529	15,519
Gross Profit	6,051	6,561	7,136
<i>y-o-y growth</i>	7.6%	8.4%	8.8%
<i>margins</i>	30.9%	31.1%	31.5%
Selling expenses	2,790	3,121	3,353
Admin expenses	469	476	544
Other expenses	64	60	65
Impairment	34	30	30
Operating Profit	2,694	2,874	3,145
<i>y-o-y growth</i>	18.3%	6.7%	9.4%
<i>margins</i>	13.8%	13.6%	13.9%
Finance Cost, net	527	605	558
Share of Asso. and JV	-1	1	1
Pre-Tax Income	2,166	2,270	2,587
Zakat	114	113	129
Net Income	2,052	2,156	2,458
<i>y-o-y growth</i>	15.4%	5.1%	14.0%
<i>margins</i>	10.5%	10.2%	10.8%
EPS	2.0	2.2	2.5

Source: Al Rajhi Capital estimates

Figure 4 Ratios and Multiples

Key Ratios/multiples	2023	2024E	2025E
Days Receivable (Days)	48	51	50
Days Inventory (Days)	166	162	160
Days Payables (Days)	115	115	110
Cash Conversion Cycle (Days)	99	98	100
ROE (%)	12%	12%	13%
P/E (x)	27.2	26.5	23.2
D/Y (%)	1.8%	1.8%	2.8%
EV/EBITDA (x)	12.7	12.5	11.7

Source: Al Rajhi Capital estimates

Figure 3 Balance sheet

Balance Sheet (SAR mn)	2023	2024E	2025E
Cash & deposit	2,592	901	872
A/c Receivables	2,565	2,920	3,103
Inventories	6,148	6,426	6,803
Biological Assets	135	151	151
Others	15	15	15
Current Assets	11,455	10,413	10,944
PPE & Intangible	21,932	23,522	23,997
Biological Assets	1,742	1,741	1,737
RoU asset	474	466	464
Long-Term Prepayments	525	498	471
Others	67	67	67
Total Assets	36,194	36,706	37,678
Short-Term Loans & Bank OD	3,530	1,578	1,578
Lease Liabilities	81	80	79
Trade and Other Payables	4,246	4,561	4,677
Others	330	330	330
Current Liabilities	8,187	6,548	6,664
Long-Term Loans	8,499	9,500	9,500
Lease Liabilities	369	363	361
Others	1,330	1,330	1,330
Total Liabilities	18,385	17,741	17,856
Share Capital	10,000	10,000	10,000
Retained Earnings	6,403	7,559	8,417
Reserves & Others	1,406	1,406	1,406
Total Equity	17,809	18,965	19,823

Source: Al Rajhi Capital estimates

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