January 23, 2018

الرياض المالية
riyad capital

Rating	Neutral
12- Month Target Price	SAR 54.00

Almarai Company
4Q2017 First Look

Expected Total Return	
Price as on Jan 22, 2018	SAR 53.31
Upside to Target Price	1.3%
Expected Dividend Yield	1.5%
Expected Total Return	2.8%

Market Data	
52 Week H/L	SAR 78.6/51.8
Market Capitalization	SAR 53,310 million
Shares Outstanding	1,000 million
Free Float	21.09%
12-Month ADTV	532,325
Bloomberg Code	ALMARAI AB

1-Year Price Performance

Source: Bloomberg

Fig in SAR mln	RC Est.	Actuals
Sales	3,524	3,419
Gross Profit	1,405	1,335
Net Income	544	513
EPS (SAR)	0.54	0.51

Subdued Revenues

Almarai missed consensus bottomline expectations reporting a net income of SAR 513 million as compared to market consensus of SAR 549 million and our SAR 544 million forecast. At first look, we believe the deviation was primarily a result of lower than forecasted revenues as the topline shrunk by -3% Y/Y to SAR 3.4 billion. Almarai has been impacted by lower export sales to GCC countries. In addition, dairy and juice segment was affected due to market conditions while the poultry segment continues to prosper. Interestingly, alfalfa costs have escalated as commodity prices rebounded. Gross margins ended the quarter at 39.1%, 40bps below last years' and much below a record 45.0% in 3Q2017. Operating expenses are trending down in 4Q as well, on a Y/Y basis. Valuations are still pricey at 24.1x 2018E earnings. We recommend a Neutral as the stock trades close to our SAR 54.00 target price.

Weakness in fresh milk and laban moderate sales

Y/Y sequential decline in revenues continued in 4Q as well with a drop of -3% Y/Y to SAR 3.4 billion. For the full year, Almarai revenues were -5% lower Y/Y reflecting an overall weakening in the KSA food market. Looking at the segments, fresh milk and laban market has been declining while juices and cheese segments are in an accelerated decline situation. In 2017, fresh dairy and bakery sales were down -4% Y/Y and fruit juice was off -15% Y/Y. Poultry has done well, growing by +10% Y/Y. With sales to GCC impacted, KSA now constitutes 67% of Almarai's sales versus 63% in 2016. Egypt's portion has also suffered, coming down from 7% in 2016 to 5% in 2017.

Gross margins dip to 39%

As compared to record gross margins of 45.0% in 3Q, the Company reported just 39.1% in 4Q, down 40bps Y/Y. We believe higher alfalfa costs are likely to be blamed for contracting margins. Cost efficiency initiatives taken by the Company have yielded results as both selling as well as G&A expense is down -4% and -7% Y/Y respectively in 4Q. However, higher interest rates have contributed to a +18% Y/Y increase in finance costs to SAR 105 million.

Poultry posts a profit

The poultry segment, which has been going from strength to strength in 2017, managed to report a small profit of SAR 13 million for the fourth quarter. As we have stated earlier, lower mortality and better sales (+10% Y/Y in 2017) have helped the segment grow. The bakery segment continues to be under pressure with sales dropping by -4% Y/Y in the outgoing year while dairy and juice has also lost -4% in sales Y/Y.

Net income below expectations

Net income of SAR 513 million (-4% Y/Y, -23% Q/Q) came in below both our SAR 544 million forecast and SAR 549 million consensus on lower sales and shrinking margins. However, net margins are 20 bps better Y/Y at 15.0%. We are in the process of updating our assumptions and model. For now, trading at a 2018E P/E of 24.1x (versus TASI at 13.7x), we recommend a Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Sales	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	14.48	15.83	17.46
ROAE	15.9%	14.6%	14.6%
ROAA	7.2%	6.1%	5.8%
EV/EBITDA	14.2x	14.6x	13.8x
P/E	24.4x	24.1x	21.9x

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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

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