

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

## ALMARAI COMPANY

4Q2018 First Look

### Expected Total Return

Price as on Jan- 20, 2019	SAR 52.60
Upside to Target Price	2.7%
Expected Dividend Yield	1.6%
Expected Total Return	4.3%

### Market Data

52 Week H/L	SAR 62.8/40.8
Market Capitalization	SAR 52,600 million
Shares Outstanding	1,000 million
Free Float	21.07%
12-Month ADTV	489,917
Bloomberg Code	ALMARAI AB

### 1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC Est.	Actuals
Sales	3,385	3,389
Gross Profit	1,320	1,235
Net Income	525	370
EPS (SAR)	0.52	0.37

## Extraordinary Items Plunge Earnings

Almarai posted subdued 4Q earnings of SAR 370 million (-42% Q/Q, -28% Y/Y), much below our forecast of SAR 525 million and market consensus of SAR 523 million due to higher cost of sales as well as extraordinary expenses. The Company took a one off charge for discontinuation of local alfalfa operations as well as asset write-offs in Jordan and other GCC countries, although an exchange gain partly offset this. Stress in the core dairy and juice category on higher costs and adverse market conditions is a cause for concern. At the same time, topline of SAR 3.4 billion was in line with our forecast. Revenues have decreased by -1% Y/Y but grown by +1% Q/Q. Dairy segment is the most affected this quarter on 100% import of alfalfa. Gross margins shrunk to 36% this quarter versus 39% last year. Revenues from Saudi and GCC have decreased by -3.4% and -0.5% respectively but risen by +17.1% from other countries on quarterly basis. The stock is trading at a 2019E P/E of 25.7x, we maintain our Neutral stance with a target price of SAR 54.00.

### Revenues in-line with expectations

Topline has come down by -1% Y/Y to SAR 3.4 billion, matching our forecast. Increase in promotions and market contraction has contributed to this decline. The dairy segment, mainstay for Almarai, experienced stress with profits falling -24% Y/Y on higher costs of alfalfa imports as well as discounting and promotions particularly in the long-life milk segment. Write-off of assets in Jordan (SAR 23 million) and in other GCC countries (SAR 27 million) has been an additional burden. Substantial marketing expenses resulted in a decline in profits by -35% for the bakery segment. The poultry segment continues to be the star with a massive +194% rise in profits on higher sales, better efficiency and low bird mortality rates.

### Higher operating expenses

Gross margins have dropped to 36% from 39% last year as higher alfalfa costs and depreciation made an impact. Gross profits decreased by -8% Y/Y to SAR 1.2 billion. Rise in other expenses to the tune of SAR 89 million due to provisions for discontinuation of alfalfa operations has pushed up operating expenses resulting in a fall in operating profit by -22%.

### First full year net income drop in 5 years

Bottom-line of SAR 370 million (-28% Y/Y) is much below market expectations. A full year net income of SAR 2.0 billion (-8% Y/Y) marks the first full year drop in net profit for five years. Net margins have also shrunk to 11% versus 16% last year. Trading at 2019E P/E of 25.7x, we maintain our Neutral stance with a target price of SAR 54.00.

### Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018A	2019E
Sales	13,936	13,723	14,408
EBITDA	4,453	3,869	4,360
Net Profit	2,182	2,009	2,043
EPS (SAR)	2.13	1.97	2.04
DPS (SAR)	0.75	0.85	0.85

### Key Financial Ratios

FY Dec31	2017A	2018A	2019E
BVPS (SAR)	14.48	14.52	17.03
ROAE	15.9%	13.8%	12.8%
ROAA	7.2%	6.2%	5.0%
EV/EBITDA	14.0x	14.4x	14.5x
P/E	24.1x	25.7x	25.7x

## 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

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