

January 10, 2018

Rating
12-Month Target Price

Neutral
SAR 54.00

ALMARAI COMPANY

4Q2017 Preview

Expected Total Return

Price as on Jan-09, 2018	SAR 52.89
Upside to Target Price	2.1%
Expected Dividend Yield	1.4%
Expected Total Return	3.5%

Market Data

52 Week H/L	SAR 78.6/51.8
Market Capitalization	SAR 52,890 million
Shares Outstanding	1,000 million
Free Float	21.9%
12-Month ADTV	526,236
Bloomberg Code	ALMARAI AB

1-Year Price Performance



Source: Bloomberg

Y/Y Decline in Net Income Expected

With suspension of sales in Qatar continuing and economic conditions remaining weak in 4Q2017, we find it reasonable to expect a -7.5% Y/Y decline in revenues for Almarai to SAR 3.5 billion in the fourth quarter. However, in keeping with the sequential trend this year, we expect gross margins to improve on a Y/Y basis from 39.5% to 40.5%. Cost pressures remain at the Company particularly at the start of the New Year as VAT is imposed, expat fees are levied and energy costs have gone up. At the same time, the recent Government announcements are likely to significantly mitigate decline in disposable income. We have a net income forecast of SAR 544 million (EPS SAR 0.54), -4% lower Y/Y. Poultry segment can be expected to do well in the outgoing quarter while segments such as cheese and juice will find the environment challenging. Trading at a 2017E P/E of 24.0x, stock price has moderated somewhat and now trades in the vicinity of our SAR 54.00 target. We maintain a Neutral stance.

Revenues likely to decrease -8% Y/Y

Revenues of the Company have come down Y/Y in 2Q and 3Q and this is expected to be repeated in the fourth quarter as well with a -7.5% Y/Y decrease to SAR 3.5 billion. Fresh dairy, which is the largest contributor to sales, declined by -3% Y/Y while Juice is particularly being impacted and witnessed a decline of -17% Y/Y in 3Q. Broadly speaking, these trends are likely to persist in 4Q as well. Sales to Qatar remain suspended, impacting exports.

Gross margins to expand Y/Y

We forecast gross profits to also dip by -5% Y/Y to SAR 1.4 billion. Gross margins are anticipated at 40.5% for the quarter, higher than 39.5% in 4Q2016 as the focus on cost control and higher efficiency reaps some dividends. With the fresh hike in gasoline prices coupled with higher electricity tariffs combined with expat fees beginning from 2018, it is reasonable to expect a higher cost for Almarai going forward.

Poultry has been the star

With two consecutive quarters of EBIT breakeven, the poultry segment has turned around smartly for the Company this year, which was much-needed. 4Q should also see an EBIT breakeven and hopefully a segment net profit in 2018. Bakery has been suffering in the last 2 quarters despite a greater array of products, likely due to softer economic conditions. However, with innovations and cost efficiency drive, we hope to see better numbers for this segment in 4Q.

Valuations have come-off

We forecast a net income of SAR 544 million for the outgoing quarter, -4% lower Y/Y as declining topline flows through to the bottom. However, net margins are expected to expand Y/Y, growing from 14.8% in 4Q2016 to 15.4% in 4Q2017. Stock price has not been subdued in the fourth quarter. Almarai trades at a 2017E P/E of 24.0x, still much higher than the market P/E of 13.2x, but the stock has always commanded a premium in the market. We continue with our SAR 54.00 target price and Neutral recommendation.

4Q2017

SAR mln

Revenue	4,014
Gross Margin	40.5%
Operating Income	658
Net Income	544
EPS (SAR)	0.54

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	14,699	14,048	14,931
EBITDA	4,441	3,831	4,293
Net Profit	2,081	2,197	2,211
EPS (SAR)	2.08	2.20	2.20
DPS (SAR)	0.72	0.75	0.80

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
BVPS (SAR)	13.04	14.66	16.10
ROAE	16.6%	15.9%	14.3%
ROAA	7.4%	6.7%	5.8%
EV/EBITDA	14.1x	16.3x	16.0x
P/E	25.3x	24.0x	23.9x

Muhammad Faisal Potrik

muhammed.faisal@riyadcapital.com

+966-11-203-6807

Shaykhah A AlDosari

shaykhah.a.aldosari@riyadcapital.com

+966-11-203-6812

Riyad Capital is licensed by the Saudi Arabia Capital Market Authority (No. 07070-37)

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.



إدارة الثروات - إدارة الأصول - الوساطة - المصرفية الاستثمارية

920012299

riyadcapital.com

شركة الرياض المالية تعمل بموجب ترخيص من هيئة السوق المالية برقم 07070-37 وسجل تجاري رقم 1010239234
الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712