

Saudi Dairy & Foodstuff Co

Food-Diversified – Industrial

SADAFCO AB: Saudi Arabia

24 January 2021

الراجحي المالية
Al Rajhi Capital



US\$1.415bn Market cap
58% Free float
US\$2.792mn Avg. daily volume

Target price **177.0** +9% over current
Current price **163.0** as at 24/1/2021

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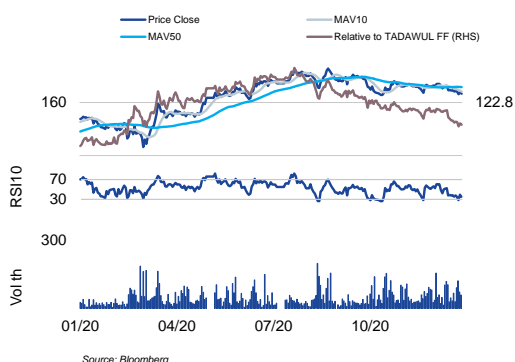
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR mn)	12/20A	12/21E	12/22e
Revenue	2,056	2,118	2,250
Revenue growth	13%	3%	6%
Gross Profit	689	714	743
Gross Profit Margi	34%	34%	33%
EBIT	276	294	312
EBIT growth	25%	7%	6%
EBIT Margin	13%	14%	14%
Net Profit	265	280	296
Net Profit Margin	13%	13%	13%
EPS	8.32	8.75	9.25

Source: Company data, Al Rajhi Capital

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Missed Estimates; Remain Neutral

SADAFCO'S top-line came at SAR482mn in Q3 FY21, declining 1.3% y-o-y and 4% below our estimates of SAR501mn. The revenue growth was mainly impacted by 8.1% y-o-y drop in milk segment sales which was impacted by significant discounting by the competitors. The ice-cream sales grew ~18% y-o-y while tomato paste grew ~4% y-o-y. The gross margins diluted ~270bps in Q3 2021 mainly due to discounting induced by competitors. The operating expense reduced by ~SAR11mn mainly due to lower A&P spending. As a result of lower revenue and gross margins the net profit dropped 6% y-o-y which was 10% below our expectations of SAR71mn.

Outlook: The tripling of VAT has increased the basket cost and has impacted consumption. We revise our forecast for 2022e and expect a rebound in milk segment sales as we believe that companies would adjust the oversupply of milk and discounting would rationalize. For ice-cream segment once the company starts production in new factory the revenue should pick up significantly on the back of market share gains. We however expect the gross margins to dilute further in FY 2022e due to rising commodity prices globally. As per the recent data, over 257,000 expat workers exited the workforce this indicates a declining expat population and if this trend continues it might impact the overall revenue in near future. We remain "Neutral" on SADAFCO with a tp of SAR177/sh which implies 9% upside from CMP of SAR163/sh.

Figure 1 Summary of Q3 2021 Results

(SAR mn)	Q3 2021	Q3 2020	Y-o-Y	Q2 2021	Q-o-Q	ARC est	vs ARC
Revenue	482	488	-1%	535	-10%	501	-4%
Gross profit	161	176	-9%	177	-9%	178	-10%
Gross margin	33%	36%		33%		36%	
Operating profit	68	73	-6%	74	-8%	76	-11%
Operating margin	14%	15%		14%		15%	
Net profit	64	68	-6%	70	-9%	71	-10%
Net margin	13%	14%		13%		14%	

Source: Company data, Al Rajhi Capital

Valuation and Key Risks: We value SADAFCO using equal mix given to DCF and PE based relative valuation. Our DCF based target price based on 2% terminal growth and WACC of 8.3% is SAR171/sh and PE based relative valuation based on 22x FY2022e EPS is SAR183/sh. Thus equal weighted tp stands at SAR177/Sh implying ~+9% upside from CMP of SAR163/sh. We remain "Neutral" on SADAFCO.

Key upside risks to our valuation: If the raw material prices didn't increase as we expect then it will improve the margins and will have an upside risk to our valuations.

Key downside risks to our valuation: If the expat exodus is significant then it will have a negative impact on valuations.

Significant increase in raw material cost, inability to pass the VAT to consumers will impact the margins and poses a downside risk to our valuation.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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