



US\$14.6bn Market cap
41% Free float
US\$4.7mn Avg. daily volume

Target price **53.0** 3.1% below current
Current price **54.7** as at 13/10/2022

Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

Period (SARmn)	FY21	FY22E	FY23E
Revenue	15,850	18,564	19,111
Revenue growth	3%	17%	3%
EBITDA (Mn)	3,465	4,024	4,295
EBITDA growth	-13%	16%	7%
Net Profit	1,564	1,912	2,009
Net Profit margin	9.9%	10.3%	10.5%
EPS	1.56	1.91	2.01
EPS growth	-18%	22%	5%
DPS	1	1	1
Payout Ratio	64%	52%	50%
ROE	10%	11%	11%
P/E	33.07	27.03	25.73

Source: Company data, Al Rajhi Capital

Research Department
Sultan Alhudaif

Tel +966 11 836 5464, AlhudaifS@alrajhi-capital.com

Almarai

Slight Deviation in estimates; Raise TP to SAR53/sh but remain Neutral

Almarai reported very strong revenue numbers with a growth of 21% y-o-y, as inflation pressure increased leading to 62% of the growth coming from pricing, which in turn offset the cost pressure. The gross margin for 3Q22 fell to 31.2% compared to 32.4% last year and 31.9% for 2Q22. The decline was mainly due to the increase in commodity prices which impacted Almarai in 3Q22 to the extent of SAR -408mn. Profit for 3Q22 reached SAR475mn which was lower than our estimates of SAR517mn. The reason was a one-time charge of SAR83mn. Adjusted for the one-time charge the net income for the quarter would have been SAR558mn. The bottom-line growth was 15.6% Y-o-Y but a decline of 9.7% Q-o-Q (an increase of 6% over adjusted income).

Figure1: Almarai 3Q 2022 Result Summary.

(SAR mn)	3Q 2022	3Q 2021	Y-o-Y	2Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	4,769	3,942	21%	4,610	3%	4,429	8%
Gross profit	1,489	1,276	17%	1,470	1%	1,446	3%
Gross margin	31%	32%		32%		33%	
Operating profit	579	519	12%	646	-10%	665	-13%
Operating margin	12%	13%		14%		15%	
Net profit	463	411	13%	526	-12%	517	-10%
Net margin	10%	10%		11%		12%	

Source: Company data, Al Rajhi Capital

Growth drivers.

We believe that there are three growth drivers for the future. 1) Poultry expansion, with investments reaching SAR6.6bn to double existing capacity and reach roughly 450mn birds annually. 2) Expansion to the seafood segment which could provide the company with further opportunities. 3) Exploring the branded beef segment. Despite the potential growth in the company, we think most of it is already priced in. As such, we revise our target price from SAR50/sh to SAR53/sh compared to the CMP of SAR54.7/sh (3.1% lower).

Performance overview:

Third-quarter revenue surged by 21% (Y-o-Y) and 3.4% (Q-o-Q). Revenue from bakery and poultry continued delivering a strong growth of 32% and 43% y-o-y respectively (most of the growth came from pricing). Fresh dairy sales recorded a 16% growth rate. Long-life dairy also witnessed a strong growth of 26%. In terms of profitability, the bakery recorded the highest growth in profits of 46.5% y-o-y, hitting SAR110mn. The poultry segment grew by 173% to reach SAR97bn, reaching 12.5% NPM up from 7% last year, while dairy & juices rose by 12%, with an NPM of 12% and a SAR373mn profit. Total profit increased by 15.6% y-o-y and NPM stood at 10% at the end of 3Q 2022.

Figure2: Almarai 3Q 2022 earnings breakdown.

(SAR mn)	Dairy &	Y-o-Y	Poultry	Y-o-Y	Bakery	Y-o-Y
3Q22	373.0	12%	97.0	173%	110.0	47%
2Q22	364.6	-8%	79.5	15%	79.3	127%
1Q21	308.7	7%	60.9	9%	68.3	63%
4Q21	207.1	-3%	56.2	-23%	70.7	4%

Source: Company data, Al Rajhi Capital



Geographical overview:

Over the last four quarters, the majority of the countries showed strong growth as the inflation effect hit every country. Revenue mostly comes from Saudi, representing 63%, Egypt 9%, UAE 8%, and other markets 20%.

Figure 3: recent geographical growth trends

(SAR mn)	KSA	UAE	EGYPT	KUWAIT	OMAN	JORDAN	BAHRAIN	OTHERS	TOTAL
3Q22	22%	20%	15%	15%	15%	27%	7%	29%	21%
2Q22	16%	20%	8%	9%	6%	26%	12%	17%	15%
1Q21	23%	33%	34%	16%	18%	31%	18%	11%	24%
4Q21	10%	16%	18%	2%	6%	28%	-1%	21%	11%

Source: Company data, Al Rajhi Capital

Valuation and Key Risks:

We expect strong growth in 2022e for Almarai, as the reopening of economic activities, the reopening of schools, and price hikes will boost the top-line for the company's products. However, an increase in financing expenses, as interest rates are rising, will put pressure on the overall bottom line. We revise our forecasts for 2022e and increase our revenue growth forecast to 16% y-o-y and net profit growth to 38% y-o-y. We value Almarai at SAR53/sh with an equal weightage given to DCF (2.5% terminal growth, WACC 8%) and EV/EBITDA (16X FY2022 EBITDA, slightly higher than the five years average because of higher growth expected) based relative valuation. We remain Neutral on "Almarai".

Key downside risks to our valuation include:

1) If the commodity prices increase more than our expectations then it will dilute the gross margins and will have a negative impact on our valuations. 2) If we witness a significant expat exodus then the revenue and margins will be adversely impacted and will have a negative impact on our target price. 3) higher than expected capex which could affect our estimate of the fair value.



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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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Contact us

Mazen AlSudairi, CFA
Head of Research
Tel: +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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