Almarai Co.

Result Flash Note Q3-21

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

AlMarai posted net income of SAR 409.1mn (SAR 0.41 EPS), missing AJC and market estimates of SAR 492.5mn and SAR 519mn; respectively. The deviation mainly came due to lower-than- expected gross margin, impacted by structural adjustments related to subsidy reduction, higher feed cost as all alfalfa consumed is on 100% imported basis. Lower subsidy and higher input cost led to gross margin contraction to 32.4% from 39.2% in Q3-20. Almarai's gross margin is expected to remain under pressure on lower subsidy. Growth in Egypt, Jordan and growth in food services is offsetting the decline in core categories in GCC countries. We remain "**Neutral**" on AlMarai with a TP of **SAR 52.0/share**.

- Almarai posted net income of SAR 409.1mn, indicating a fall of 34.2%Y/Y and 15.1%Q/Q. The Y/Y decline in net profit is mainly attributed to subsidy reduction, higher feed cost and adverse sales channel mix, which was driven by higher sales in food service vs. retail channel. However, decline in finance expenses by SAR 33mn and strong cost control initiatives have mitigated the impact on bottom line. The deviation mainly came due to lower-than-expected gross margin, impacted by subsidy removal on corn and soyabean and higher commodity cost.
- Revenue for Q3-21 increased 2.0%Y/Y to SAR 3,941.7mn, in-line with our estimate of 3,882mn, as growth in Egypt, Jordan and growth in food services offset the decline in core categories in GCC countries. The company's largest segment (dairy & Juice) registered a revenue decline of 1.8% due to weaker food sales after one-off purchase made in this category last year. Other key segments registered stronger performance, where Bakery registered a 11.5%Y/Y growth in revenue due to partial opening of educational institutions. Poultry segment returned to post growth of 3.2% to SAR 541.6mn, as compared to SAR 524.8mn in Q3-20, due to improvement in food services segment.
- Almarai reported 15.8%Y/Y decline in gross profit to SAR 1,275.7mn, below AJC expectation of SAR 1,357mn due to higher-than-expected GOGS, impacted by subsidy removal on corn and soyabean and fully imported alfalfa and higher commodity cost. Accordingly, gross margin in Q3-21 contracted by 680 bps Y/Y to 32.4%. Poultry margins may remain weak compared to last year due to cost increase for corn and soya and a shift towards lower margin frozen category with the recovery in the food service sector.
- Operating profit stood at SAR 518.6mn, depicting a decline of 30.9%Y/Y due to lower top line and margins. However, operating expenses recorded a marginal 1%Y/Y decline to SAR 757mn vs. SAR 765mn in Q3-20, in-line with our estimates of SAR 756mn due to strong cost control.

AJC view: Almarai's financial performance was lower-than-expected due to general market weakness in GCC countries and lower subsidies. However, we believe that the company would be able to partially mitigate the impact by improving its presence in trade channel like food services and other product categories. Although the company was able to gain market shares in some categories; gross margin in FY21/22 is expected to remain under pressure due to increased cost of imported alfalfa and lower/no subsidy on non-green fodder. Furthermore, the company's ability to continue its expansion plan, focusing on cost and gaining market share are key areas for enhancing future performance. Consequently, the company's poultry profits are expected to remain softer compared to last year as more sales are shifted toward the lower margin frozen category and cost increase; while Bakery segment sales and profit may start improving as schools reopen. Demand in export market remained strong as the company increased its sales volume and prices in Egypt, while gaining market share in juice and UTH milk segment in Jordan. Almarai trades at an estimated forward PE multiple of 29.8x for FY22, compared to the current TTM PE of 33.5x. We maintain our "**Neutral**" recommendation on Almarai, with a TP of **SAR 52.0/share**.

Results Summary

SARmn	Q3-20	Q2-21	Q3-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**3,863.10**	**4,005.60**	**3,941.70**	2.00%	-1.60%	1.60%
Gross Profit	1,514.70	1,355.70	1,275.70	-15.80%	-5.90%	-6.00%
Gross Margin	*39.20%*	*33.80%*	*32.40%*	-	-	-
EBIT	788.74	601.6	518.6	-30.90%	-13.80%	-13.80%
Net Profit	**621.5**	**482**	**409.1**	-34.20%	-15.10%	-16.90%
EPS	0.62	0.48	0.41	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	**52.0**
Upside / (Downside)*	**2.5%**

Source: Tadawul *prices as of 10th of August 2021

Key Financials

(in SAR mn, unless specified)	FY18	FY19	FY20	FY21E
Revenue	13,723	14,353	15,357	15,524
Growth %	-1.5%	4.6%	7.0%	1.1%
Net Income	2,007	1,811.8	1,984.0	1,644
Growth %	-7.7%	-9.8%	9.6%	-17.2%
EPS	2.01	1.81	1.98	1.64

Source: Company reports, Aljazira Capital

Key Ratios

	FY18	FY19	FY20	FY21E
Gross Margin	39.7%	37.4%	36.0%	32.9%
Net Margin	14.7%	12.6%	12.9%	10.6%
P/E (x)	23.8	27.3	24.9	32.4
P/B (x)	3.4	3.4	3.2	3.2
EV/EBITDA (x)	13.6	14.6	14.2	16.1
Dividend Yield	1.5%	1.7%	2.0%	1.9%

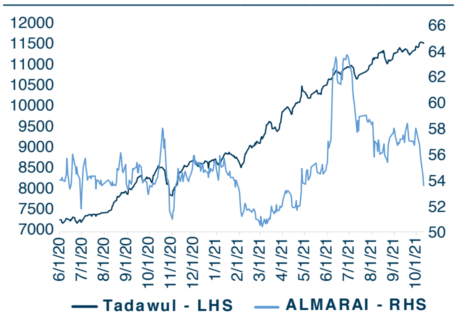
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	53.50
YTD %	-0.9%
52 week (High)/(Low)	64.90/50.0
Shares Outstanding (mn)	1000.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Analyst

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer