



**US\$14.19bn** Market cap  
**36%** Free float  
**US\$7.81mn** Avg. daily volume

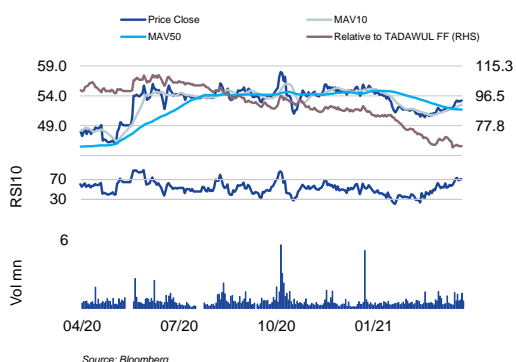
Target price **55.00** +6% over current  
 Current price **52.00** as at 18/4/2021

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**Performance**



**Earnings**

Period (SARmn)	12/20A	12/21E	12/22E
Revenue	15,357	15,647	16,606
Revenue growth	7%	2%	6%
EBITDA(Mn)	3,916	4,588	4,846
EBITDA growth	-6%	17%	6%
Net Profit	1,984	2,112	2,241
Net Profit margin	12.9%	13.5%	13.5%
EPS	1.98	2.11	2.24
EPS growth	10%	6%	6%
DPS	1.00	0.96	1.02
Payout Ratio	50%	46%	46%
ROE	12%	12%	12%
P/E	26.81	25.18	23.74

Source: Company data, Al Rajhi Capital

# Almarai

## Deleveraging to improve net margins; Remain Neutral

Almarai's Q1 FY2021 top-line was in-line with our expectations driven mainly by growth in Egypt and Jordan. The company announced in its disclosures that profit margins in export markets have improved due to higher sales. Despite lower GPM due to removal of Subsidy the company managed to deliver a healthy operating margins led by operating efficiencies. The SG&A reduced by SAR10mn and impairment of financial assets reduced by SAR28.4mn as there were no additional provisions required compared to Q1 FY2020. Almarai managed to post a marginal y-o-y growth in bottom-line and thereby beat our estimate of SAR315mn significantly. This was mainly attributable to lower financing expense which reduced by SAR36.1mn as a result of lower SAIBOR and lower debt levels due to ongoing deleveraging program. We expect expat exodus, reduced pocket size of Saudi consumers due to higher VAT and delay in school re-opening to affect the KSA segment growth, however export markets specially Egypt and Jordan should continue to deliver strong growth. We maintain our tp of SAR55/sh on Almarai with a "neutral" rating.

**Summary of Q1 2021:** Top-line increased 1.5% y-o-y to SAR3.645bn driven mainly by 31%/43% y-o-y growth in Egypt/Jordan. The KSA revenue declined 2% y-o-y while Oman and UAE declined 12% y-o-y each. In terms of revenue breakdown by key categories; the long life dairy witnessed the strongest growth of 10% y-o-y especially in Egypt, Jordan and other export markets. The fresh dairy segment witnessed a growth of 3% y-o-y while food/poultry/bakery segment reported a negative growth of -1%/-1%/-10% y-o-y. Operating profit declined 2% y-o-y to SAR502mn led by an increase in other expenses. The company reduced the debt by SAR2.2bn which led to a reduction in overall interest expense by SAR36mn and consequently aided a 1% y-o-y increase in net income to SAR386mn in Q1 2021.

**Figure 1 Almarai Q1 2020 results**

(SAR mn)	1Q 2021	1Q 2020	Y-o-Y	4Q 2020	Q-o-Q	ARC est	vs ARC
Revenue	3,645	3,592	1%	3,820	-5%	3,652	0%
Gross profit	1,235	1,253	-1%	1,232	0%	1,205	2%
Gross margin	34%	35%		32%		33%	
Operating profit	502	513	-2%	500	0%	457	10%
Operating margin	14%	14%		13%		13%	
Net profit	386	383	1%	336	15%	315	23%
Net margin	11%	11%		9%		9%	

Source: Company data, Al Rajhi Capital

**Valuation and Key Risks:** Post Q1 2021 earnings we revised our forecast for capex, interest cost and working capital requirements, which did not have any material impact on our DCF valuation. We value Almarai with equal weightage given to DCF and PE based relative valuation. Our DCF tp based on 2% terminal growth and 8.23% WACC is SAR58/sh while relative valuation tp based on 26x FY2021e EPS stands at SAR52/sh. Thus equal weighted tp stands at SAR55/sh (same as earlier) which implies 6% upside from cmp of SAR52/sh. We maintain "Neutral" rating on Almarai.



**Key downside risks to our valuation:** The dairy industry is facing the problem of over supply due to de-population driven by expat exodus. If further expats leave the kingdom post re-opening of flights in May 2021, the problem of excess supply is likely to persist and may lead to price discounting and erosion of gross margin. This could have a downside risk to our valuation.

**Key upside risks to our valuation:** If Almarai manages to increase market share amid tough market conditions then it will improve its overall revenue and profit which could pose an upside 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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