

## Almarai Company

Resilient financial performance despite COVID-19

### 1Q21 profit higher than our estimate

Almarai Net Profit has increased by 0.8%, from SAR383 mm in 4Q20 to SAR386 mm in 1Q21. However, it beats our estimate of SAR353 mm in 1Q21, due to persistent COVID-19 situations that affected the recovery of bakery product sales, given that schools are still closed.

### P&L highlights

The Revenue for 1Q21 had increased to SAR3,645 mm from SAR3,592 mm in 1Q20. Dairy and Juice products had increased in revenue. Despite COVID-19 crisis, there was a year-on-year growth in revenue by 1.5% in 1Q21. 67% of revenues were from KSA, where there was a decrease in revenue by 2% on a year-on-year basis. The highest growth on revenue was recorded in Egypt and Jordan at 31% and 43%, respectively, compared to last year's same period. Food service and traditional trade channel growths were key highlights for the quarter, witnessing an increase of 1% and 8%, respectively as compared to first quarter 2020. Cost of sales increased by 3%, reaching SAR2,410 mm as compared to SAR2,339 mm in 1Q20. Net income in 1Q21 increased to SAR386 mm by 0.8% as compared to SAR383 mm in 1Q20, mainly due to the lower funding cost driven by lower debt and lower funding rate. On the other hand, Operating profit decreased by 1.5% on a year-on-year comparison reaching SAR534 mm despite the strong cost control resulting in a decrease in overheads consisted of one-off restructuring cost in Egypt in the first half of 2020 along with a one-off expense related to COVID-19 pandemic in the first half of 2020 as well. Selling & distribution expenses are down by 1.4% from SAR612 mm to SAR604 mm. General and administrative expenses decreased as well by 3% from SAR100 mm to SAR97 mm. Finance cost declined by almost 29%, reaching SAR89 mm as compared to SAR125 mm in the first quarter 2020. Impairment cost was minimal in the first quarter 2021 compared to negative SAR29 mm same period in 2020.

### Balance sheet highlights

Total assets have increased by 1.23% from SAR32.34 bn in 1Q20 to SAR32.74 bn in 1Q21. Total liabilities have remained constant on a year-on-year basis at SAR16.11 bn. Equity increased by 2.4%, in 1Q21 to SAR16.62 bn from SAR16.23 bn in 1Q20.

**Rating : HOLD**

### First Look Note – 1Q21

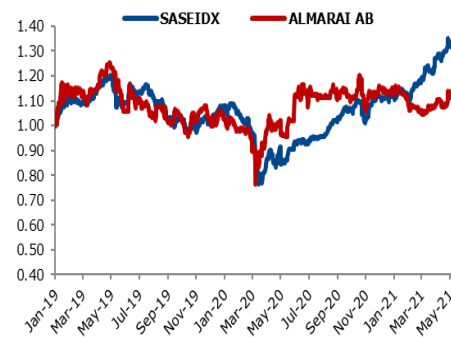
Sector: Food & Beverage

#### Recommendation

Current Price (05-May)	54.80
Target Price	56.00
Upside/Downside (%)	2.2%

#### Stock Information

Market Cap (mm)	54,800.00
Paid Up Capital (mm)	10,000.00
52 Week High	58.40
52 Week Low	42.10
3M Avg. daily value (SAR)	38,887,260



#### Financial Ratios

Dividend Yield (12m)	1.82
Dividend Pay-out (%)	50.39
Price-Earnings Ratio (x)	27.10
Price-to-Book Ratio (x)	3.41
Book Value (SAR)	16.07
Return-on Equity (%)	12.91
Earning Per Share (SAR)	2.02
Beta	0.78

#### Stock Performance

5 Days	-0.18%
1 Months	3.40%
3 Months	7.03%
6 Months	2.62%
1 Year	18.36%
Month to Date (MTD)	1.86%
Quarter to Date (QTD)	5.38%
Year to Date (YTD)	-0.18%

## Target price and rating

We assign a HOLD rating on Almarai Company, with a target price of SAR56. Almarai achieved a resilient financial performance up until the first quarter 2021 despite the global situation due to COVID-19 pandemic. The company has specifically achieved strong accomplishments in Jordan and Egypt in all its segments, whereas it showed some weaknesses in GCC given the second wave of COVID-19. Net income remained almost stable, increasing slightly by 1%, reaching SAR386 mm as compared to SAR383 mm during first quarter 2020 this is mainly driven by the lower funding costs and the improved performance in Egypt and Jordan, resulting in higher non-controlling interest shareholders. The group has previously adopted a strategy to minimize costs, and it is reflected in the decrease in CAPEX to SAR217 mm from SAR273 mm in the first quarter 2020. The highest revenue-generating products were mainly Dairy & Juice products with an increase in revenue attributable to this specific segment of 2% and a profit margin increase of 6% on a year-on-year comparison. The worst performing product was bakery as Revenue and Net profit margins decreased compared to first quarter 2020 by 10% and 36% respectively as schools remained closed. Other products had a revenue increase in first-quarter 2021. To improve the poultry segment and double its market share, AlMarai will be investing SAR 6.6 Billion over a 5 year strategic expansion plan that will be financed internally. Free Cash Flow to the Firm (FCFF) increases in first-quarter 2021 to SAR 567 as compared to SAR 39 in 2020, which is a very good indication that the company has free cash flow left after settling its expenses, a positive indicator on which investors place high importance. Net Debt to EBITDA has decreased to reach 2.6x within the required range 2.5x – 2.7x; this is consistent with the continuous effort to decrease the net debt reflected over the past three years. The current ratio increased further, reaching 1.59 as compared to 1.56 as at end of 2020 indicating the company is maintaining a healthy liquidity status. Based on the above, we assign a HOLD rating on the stock.

### Almarai - Relative Valuation

(at CMP)	2016	2017	2018	2019	2020F
PER (x)	30.8	24.3	26.2	28.3	25.6
P/BV (x)	4.0	3.6	3.7	3.5	3.2
Dividend yield	1.4%	1.5%	1.6%	1.6%	1.9%

FABs Estimate & Co Data

### Almarai - P&L

SAR mm	1Q20	4Q20	1Q21	1Q21F	Var	YOY ch	QOQ ch	2020	2021F	YOY Ch
Sales	3592.4	3819.6	3645.0	3628.4	0.5%	1.5%	-4.6%	15,357	15,609	1.6%
Cost of Sales	-2339.2	-2587.2	-2409.9	-2431.0	-0.9%	3.0%	-6.9%	-9,821	-10,066	2.5%
<b>Gross profit</b>	<b>1253.2</b>	<b>1232.4</b>	<b>1235.1</b>	<b>1197.4</b>	<b>3.2%</b>	<b>-1.4%</b>	<b>0.2%</b>	<b>5,536</b>	<b>5,543</b>	<b>0.1%</b>
Selling & overhead expenses	-711.4	-734.8	-701.4	-703.3	-0.3%	-1.4%	-4.6%	-2,910	-2,859	-1.8%
<b>EBITDA</b>	<b>1058.7</b>	<b>1406.4</b>	<b>1083.2</b>	<b>1026.4</b>	<b>5.5%</b>	<b>2.3%</b>	<b>-23.0%</b>	<b>4,575</b>	<b>4,863</b>	<b>6.3%</b>
Depreciation & amortisation	516.9	908.8	549.5	532.4	3.2%	6.3%	-39.5%	1,950	2,179	11.8%
<b>Operating profit</b>	<b>541.8</b>	<b>497.6</b>	<b>533.7</b>	<b>494.0</b>	<b>8.0%</b>	<b>-1.5%</b>	<b>7.3%</b>	<b>2,625</b>	<b>2,684</b>	<b>2.2%</b>
Investment & other income	-2.1	-7.4	-32.5	-18.9	71.8%	1457%	340.1%	-77	-99	28.9%
Financial costs (net)	-124.9	-132.9	-88.8	-94.3	-5.8%	-28.9%	-33.2%	-496	-377	-24.0%
Impairment	-28.5	9.8	-0.2	-4.8	-96.3%	-99.4%	-101.8%	-24	-16	-35.9%
<b>Profit before zakat</b>	<b>386.3</b>	<b>367.1</b>	<b>412.3</b>	<b>376.0</b>	<b>9.6%</b>	<b>6.7%</b>	<b>12.3%</b>	<b>2,028</b>	<b>2,192</b>	<b>8.1%</b>
Zakat	-18.9	-34.0	-23.6	-25.6	-7.8%	24.7%	-30.7%	-92	-132	43.5%
<b>Profit before N-C interests</b>	<b>367.4</b>	<b>333.1</b>	<b>388.7</b>	<b>350.5</b>	<b>10.9%</b>	<b>5.8%</b>	<b>16.7%</b>	<b>1,936</b>	<b>2,060</b>	<b>6.4%</b>
Non-controlling interests	15.6	2.8	-2.8	2.4	-214.7%	-117.6%	-197.7%	49	10	-79.5%
<b>Profit attributable</b>	<b>383</b>	<b>336</b>	<b>386</b>	<b>353</b>	<b>9.4%</b>	<b>0.8%</b>	<b>14.9%</b>	<b>1,984</b>	<b>2,070</b>	<b>4.3%</b>

FABs estimate & Co Data

Margins	1Q20	4Q20	1Q21	1Q21F	VAR	YOY ch	QOQ ch	2020	2021F	YOY Ch
Gross margin	34.9%	32.3%	33.9%	33.0%	2.7%	-100	162	36.0%	35.5%	-53
EBITDA margin	29.5%	36.8%	29.7%	28.3%	5.1%	25	(710)	29.8%	31.2%	137
Operating margin	15.1%	13.0%	14.6%	13.6%	7.5%	-44	162	17.1%	17.2%	10
Net margin	10.7%	8.8%	10.6%	9.7%	8.9%	-7	179	12.9%	13.3%	34

FABs estimate & Co Data

### Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

### FAB Securities Contacts:

#### Research Analysts

Ahmad Banihani	+971-2-6161629	<a href="mailto:ahmad.banihani@Bankfab.com">ahmad.banihani@Bankfab.com</a>
Shiv Prakash	+971-2-6161628	<a href="mailto:shiv.prakash@Bankfab.com">shiv.prakash@Bankfab.com</a>

#### Sales & Execution

Abu Dhabi Head Office		
Trading Desk	+971-2-6161700/1 +971-2-6161777	<a href="#">Online Trading Link</a>
Institutional Desk	+971-4-4245765	
Sales and Marketing	+971-2-6161703	

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